

# LAND BANK:

Input to DAFF on submission to  
Standing Committee on Appropriations

6 September 2018



# Delivering on the Bank's Mandate: Development Impact Financing

- **Dual Mandate:** Support to both the **Established Commercial & Emerging / Developmental** farmers/agri-enterprises
- A Strategy for driving **Transformative Finance** approved by the Board
  - ✓ Mainly focused on High Value, Joint-Venture based transactions
  - ✓ Emerging farmers / agri-businesses
- A programme initiated during the year for greater **Inclusion of Women & Youth** in the sector

## 2017/18 Financial Year Highlights:

**R5.4 billion** of gross loan book classified as Transformational  
(2015: R2.3 bil)

**R1.55 billion** disbursed to Transformational projects

R74 million in interest rate subsidies provided

R334 million in drought relief approved

131 Farmers under the age of 35 supported through direct channels

248 Female farmers supported through direct channels

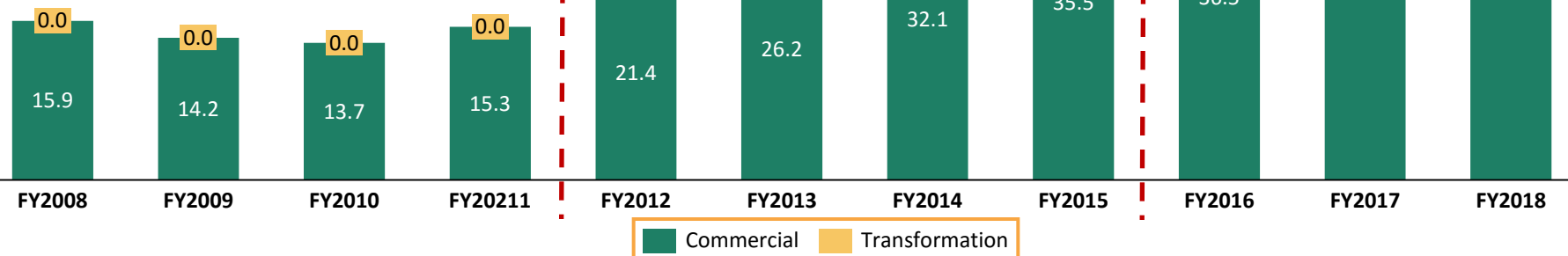
Approx. 1500 Black farmers supported through direct channels

# Taking stock: Development loans

## Development impact – increased investments in agricultural transformation

The Bank broadly defines “Development” as loans to HDI’s, commercial/ corporate operations where “Black Ownership” is > 50%, and/ or BBBEE Level 4 or better contributors.

In addition to the financing through the REM Unit, further loans and investments were undertaken through other Divisions within the Bank.



The Bank has made progress to transform the loan book. The loan book grew steeply from FY2012, while the transformational component of the loan book grew by 430% from a very low base in FY2012 compared to the remainder of the loan book which grew by 81% over the same period.

Projected growth would increase the % of loan book devoted to development / transformation assets from 11.8% to approximately 30% over the next 3 – 5 years. *However this requires aggressive acceleration in a **risk-responsible manner**.*

# Development Impact



*For every R100m invested across the country and across all agricultural sub-industries the following development impact can be achieved*

Key performance indicator	Impact R100m Invested
Variable cost per hectare	R6,104
Number of hectares planted	2,150
Gross revenue	R24,966,501
Gross revenue per effective hectare	R11,610
Total tons produces	6,451
Total tons per hectare	3
Direct number of permanent jobs	10,556
Direct number of seasonal jobs	3,561
<b>Total direct employment</b>	<b>14,117</b>

*Development impact is based on Land Bank's Development Impact Assessment Model ("DIAM" which is widely applied across the agricultural industry)*

# Funding Matters

## Strong credit rating supports funding profile

- Limited sources of capital
- Heavily reliant on volatile capital and debt markets
- Land Bank procures funding for two distinct business purposes:
  - ✓ Commercial Operations
  - ✓ Development Operations

### Credit Rating:

- Land Bank is rated by Moody's
- GSIR: Baa3 (linked to Sovereign rating)
- NSIR: Aa1.za

### Development Finance Institutions

Rating	Land Bank	DBSA	IDC
GSIR	Baa3	Baa3	Baa3
NSIR	Aa1.za	Aa1.za	-

### Commercial Banks

Rating	ABSA	First Rand	Investec	Nedbank	SBSA
GSIR	Baa3	Baa3	Baa3	Baa3	Baa3
NSIR	Aa1.za	Aaa.za	Aa1.za	Aa1.za	Aa1.za

### Commercial Funding:

- Funding is raised from Institutional Investors and Commercial Banks from the local Debt and Capital Markets.
- Funding is generally unguaranteed
- Funding is applied for:
  - Corporate / Wholesale on-lending
  - Corporate and Commercial Agribusiness
  - Financing “primary” agriculture
  - Financing “secondary” agriculture through the value chain
  - General working capital

### Development Funding:

- Funding is raised from Multilateral Institutions
- Funding often requires Government Guarantees
- **Capital Allocations/Grants from the state will assist to enable affordable financing for Transformational purposes**
- Funding is applied for:
  - Agricultural “Sector Growth”
  - Sector transformation in terms of ownership
  - Emerging farmers

***Development funding is ring-fenced and have strict disbursement conditions and reporting requirements.***

## Loan Asset Pricing and Cost of Funding

- The Land Bank uses a Internal Risk Based ratings model to assess its Credit Risk across 24 risk rating bands
- Loan asset pricing is determined by the following formula:

Loan Asset Pricing	
Pricing Component	Notes
Cost of Funding	COF determined based on the cost of raising funds from lenders / investors.
+ Liquidity Premium	As loan tenor increases so does the Liquidity Premium, as longer dated monies are more expensive than short-dated.
+ Risk Premium	Credit Risk premium in relation to 24 grade risk rating model. The higher the Risk Grade the higher the rate.
+ Operating Expense Recovery	Charge for OPEX recovery based on actual underlying loan service costs.
<b>= Break-even</b>	
+ Cost of Equity	Charge for expected return on capital
<b>= Sustainable Break-even</b>	
+ Profit Margin	Profit margin
<b>= Loan Asset Price</b>	

- Land Bank's cost of funding ("COF") is influenced by (including but not limited to) point in time macro-economic factors; investor appetite and yield expectations; political environment; and policy related matters.
- The following is a summary of the Land Bank's average COF over the last 5 years:

Cost of Funding Trends (Last 5 years)					
	FY2014	FY2015	FY2016	FY2017	FY2018
<b>Average COF rate</b>	5.79%	6.75%	7.35%	8.46%	8.72%

# Funding Matters: Illustration of the constraint to provide affordable financing



## Loan Asset Pricing and Cost of Funding

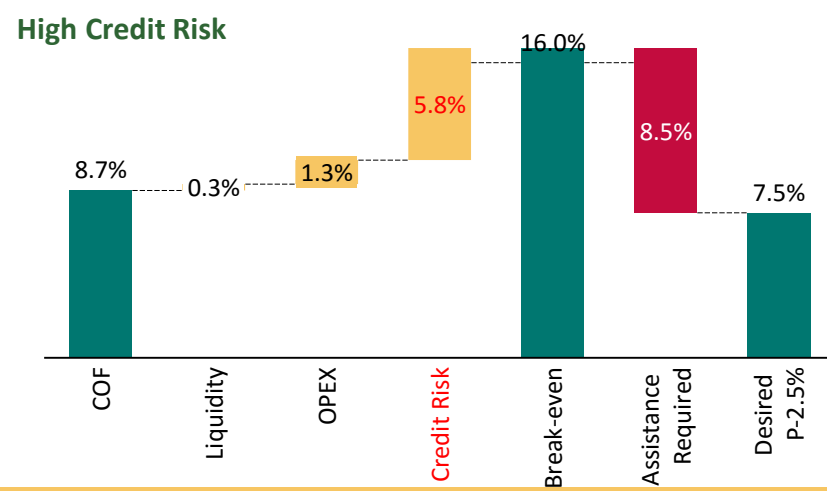
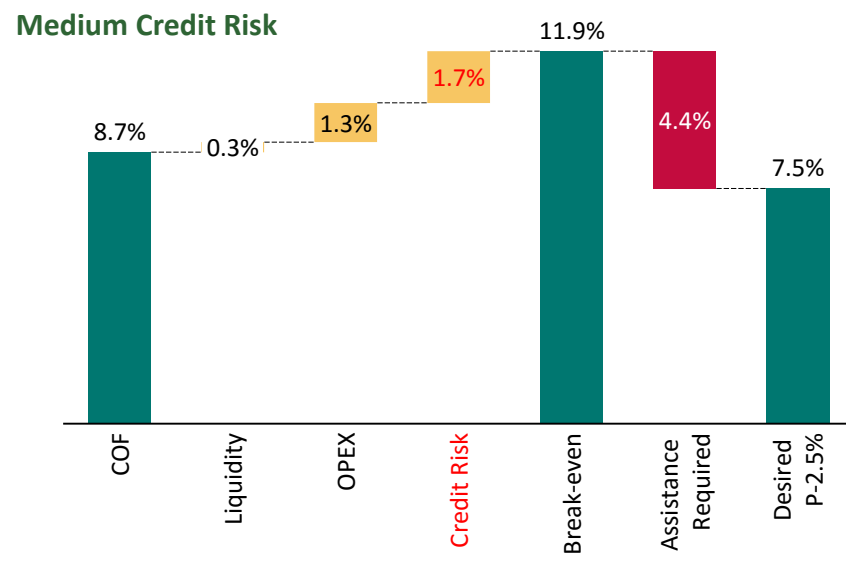
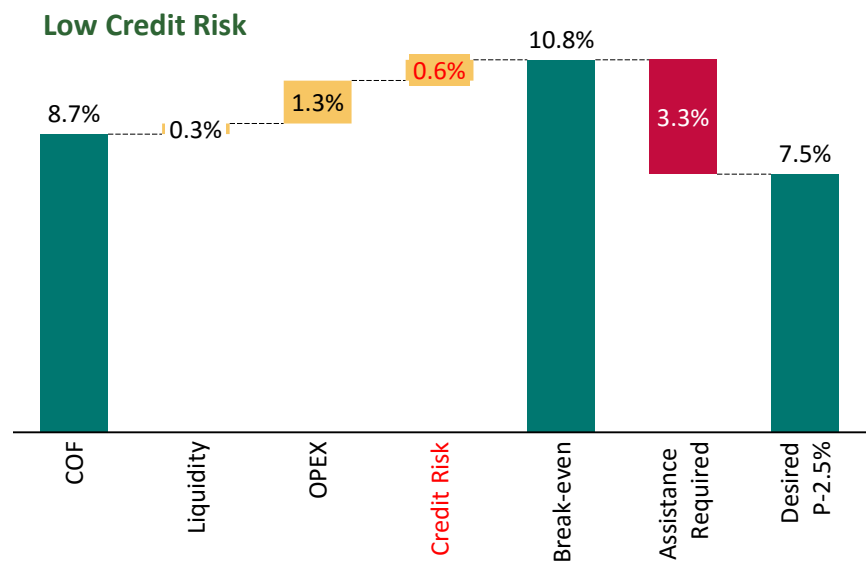
- The following analysis demonstrates what is required to continue lending at lower interest rates to emerging farmers:



# Funding Matters: A case for a subsidy interest allocation to the Bank



What a R500m Interest Subsidy Reserve can achieve, assuming pricing at Prime minus 2.5%:



The subsidy impact was modelled across **Low, Medium** and **High** risk emerging farmer profiles to demonstrate the amount of support required to make loans affordable to a price of **Prime – 2.5%**.

*For a total R500m interest subsidy the Land Bank can carry approximately R3.3 billion development/ transformational loans over 5 years.*



# Blended Financing: Tripartite support arrangements with DAFF and DRDLR



## DAFF Responsibilities:

- Providing the Grant Funding Facility to Land Bank in the amount of R370 000 000 (three hundred and seventy million Rand) which will be used as co-funding to de-risk Black Commercial Producers loan applications, provide technical support, insurance and related products; which amount shall be provided as follows:
  - R100 000 000 (one hundred million Rand) of the Grant Funding Facility to Land Bank for the 2018/19 financial year;
  - R120 000 000 (one hundred and twenty million Rand) of the Grant Funding Facility to Land Bank for the 2019/20 financial year; and a further allocation after the mid-term budget review as would be determined by National Treasury; and
  - R150 000 000 (one hundred and fifty million Rand) of the Grant Funding to the Land Bank for the 2020/21 financial year.

## DRDLR Responsibilities:

- Providing the Grant Funding Facility to Land Bank in the amount of R2 682 432 000 (two billion six hundred and eighty two million four hundred and thirty two thousand Rand) which will be used as co-funding to de-risk Black Commercial Producers loan applications for land acquisitions, production in restitution projects, insurance which amount shall be provided as follows:
  - R800 000 000 (eight hundred million Rand) of the Grant Funding Facility to Land Bank for the 2018/19 financial year; provided that, of this amount, R500 000 000 (five hundred million rand) is ring-fenced for support towards restitution projects, while R300 000 000 (three hundred million rand) will be utilised for land acquisition and development support of other land reform farms;
  - R910 153 000 (nine hundred and ten million one hundred and fifty three Rand) of the Grant Funding Facility to Land Bank for the 2019/20 financial year; and
  - R972 279 000 (nine hundred and seventy two million two hundred and seventy nine Rand) of the Grant Funding Facility to Land Bank for the 2020/2021 financial year.

# Blended Financing: Tripartite support arrangements with DAFF and DRDLR



## Progress to date:

- Draft tripartite agreement in process of finalization amongst the three parties.
  - Legal matters across the whole process have not been assessed by DRDLR and DAFF legal and compliance units.
- The Fund's governance framework, operating manual, process maps, and artefacts/forms have been completed.
- Joint Marketing and Communication around Blended Finance have not been agreed yet.
- Agreement between DAFF/DRDLR and participating financial institutions still to be concluded.
- Term & Conditions of the BPCP BF facility between producers and DAFF / DRDLR not signed yet.
- Funding forum is not in place yet so deals cannot be submitted yet.
- DAFF & DRDLR Provincial processes and agreements to support the farmers have not been defined and could result in loans being rejected due to lack of technical capability, market access, etc.
  - Training needs also be given to DAFF & DRDLR Provinces.

**Speed in finalization of outstanding items for the implementation to kick-off is required.**

# THANK YOU!

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[www.landbank.co.za](http://www.landbank.co.za)