



**SPEECH BY FINANCE MINISTER PRAVIN GORDHAN AT THE
LAUNCH OF THE LAND BANK'S ANNUAL REPORT
19 AUGUST 2010**

Minister of Rural Development and Land Reform Gugile Nkwinti,
Deputy Minister of Finance Nhlanhla Nene,
Chairperson of the board of directors of the Land Bank Dr Ben Ngubane, and
members of the board,
The CEO of the Land Bank and his management team,
The clients, partners and investors in the Land Bank,
Honoured guests, ladies and gentlemen, and representatives of the media.

The World Cup has certainly left South Africa a fantastic legacy, a legacy which says: "Yes, we can do it." In this instance, "Yes, we have done it." Yesterday, Mr Nkwinti and I were in the National Assembly where President Jacob Zuma led a two-hour debate on the achievements of the World Cup and most importantly, the achievements of all of us as South Africans.

We can truly be proud that we delivered at a world-class level in every respect as far as the World Cup is concerned. And today, I am sure that those of you who travel around the world, when you say I am South African, 90 percent of the time you get acknowledgment for the wonderful World Cup that we hosted in this country.

The Land Bank, on a much smaller scale, is in a similar class. Two years ago, it was in a disastrous state. Through the efforts of the new board, the new CEO and his team, we can certainly say that the Land Bank has reached a new milestone.

The turnaround is over. The Land Bank must now ask itself very important questions about the state of agriculture in this country and what its contribution must be, both in its own right and in partnership with various stakeholders. The Land Bank has to ask itself what, in the next five years, it is going to put on the ground. It has to ask itself how it will play the developmental role that we expect of it, whilst at the same time ensuring that it remains a financially sustainable institution. It has got to ask itself how it's going to play its role differently and a lot more energetically in order that small farmers, in particular, but indeed the farming and agricultural community as a whole, can make a difference to the South African economy.

A year ago at the launch of the 2008/09 annual report of the Land Bank, we were in the middle of a recession and we were talking about green shoots.

The green shoots did materialize, but we still live in a very uncertain world. China's growth is slowing down, but it is still 10 percent; the US is sending mixed signals and, apart from Germany, the Eurozone (our big trading partner) will probably be mired in low growth for some time to come. In its latest update of the global economic outlook, the IMF revised its growth forecast for 2010 upwards to 4.6%. That's a good sign, but a lot of that 4.6% will come from emerging markets. There's a fundamental rebalancing that's happening in the global economy. The drivers of growth for the last 10 years are not going to be the drivers of growth for the next 10 years. The important thing South Africans, including the agricultural community, must ask themselves is: what does this mean for us; what does it mean for those of us who export to the rest of the world; what is it that we need to do differently in order to cope with the new circumstances?

Risks to growth have risen sharply as a result of considerable volatility in monthly economic data, both in South Africa and in the rest of the world, and the increased turbulence in financial markets.

The South African economy is well into modest recovery. Economic growth came in at 4.6% during the first quarter of this year, and growth for the second quarter is expected to be at least 3 percent. We will give you a final figure on October 27, the date of the Medium Term Budget Policy Statement.

Economic growth is essential. But what is crucial in South Africa is inclusive economic growth – growth which creates jobs, growth which reduces poverty and creates opportunities, particularly for young people in South Africa.

Growth also generates the taxes with which we pay for public services such as education, health, and security. It is therefore important that we remain focused on getting South Africa's economy on a higher and much more sustainable growth trajectory.

If we are to grow faster, we must create an environment that is favourable to domestic and foreign investment. We are all aware that we must cut red tape; we must lower the cost of doing business in South Africa, and deliver quality public services for our citizens. We must increase competition between firms – a serious challenge in South Africa; lower barriers to entry in the economy; support innovation and above all, increase exports.

The big challenge for South Africa is that if we want a very different, more prosperous and a more sustainable future for all South Africans, then we must set our ambition for growth at 7% a year over the next 20-30 year period. All we've achieved is about 5%. How do we grow this economy at 7% over the next 20 to 30 years is a crucial challenge all of us face for the next year or so. How to

create the energy, the passion and partnerships that are necessary in order to generate this level of growth, which in turn must deliver jobs and reduce poverty and the gap between the rich and poor, is a challenge we need to have more conversation about.

It also requires that if, as leaders and representatives, we set ourselves that goal, we must also develop new ways of thinking about economic growth, and the role of the agricultural sector in economic growth, and the willingness to do things differently.

The South African agricultural sector has deep structural challenges. Unless all of us, whether we are from the advanced, developing or emerging agricultural sector, it's very important that we have an honest and frank assessment of the structural divides that we have in our society more broadly, but particularly within the agricultural sector.

The agricultural sector makes up a relatively small share of overall GDP, but this must change. Agriculture is a crucial site for job creation, for food security, and for driving exports at a much higher level than we have been able to do in recent years. In many ways, the welfare of our country depends on having a thriving and well-functioning agriculture sector. Agriculture employs 650 000 workers directly, but millions of people in other industries rely on farmers and farm workers. In 2009, agriculture and food exports were R46 billion in value, nearly 10 per cent of total exports. Also, about half of the unemployed live in rural areas, so agriculture will play a key role in solving our unemployment problem. We need to grow and expand our production of food and agro-processing industries to support higher and more inclusive growth in South Africa.

Development finance institutions (DFIs) such as the Land Bank can play a crucial role in helping South Africa onto a faster and more sustainable growth trajectory.

But the efforts of the DFIs must be better coordinated and, indeed, redirected to genuine developmental activity and orientation.

In this regard, proposals from the review of development financial institutions are extremely instructive. Drawing on global best practice, they point to the fact that DFIs can promote broader patterns of economic development, but only if they are well-run. Their mandates must be aligned with government policy. And this is clearly an area where we still have a deficit in South Africa. We talk of a developmental state, we talk of a necessity for developmental policies, but our institutions are not necessarily aligned with those goals.

The Land Bank is the only primary development finance institution working in agriculture and rural development, and therefore has a crucial role to play. It was with this understanding that my predecessor, Minister Manuel approved the Land Bank's turnaround strategy, which is a sound plan with quantifiable targets and is aligned with government priorities.

The Land Bank's 2009/10 annual report presents an excellent picture of the progress made by the bank over this past financial year. Over the next year, I would like to see the Land Bank making an even bigger contribution towards making our rural areas viable economic units, reducing unemployment in rural areas, reducing income inequality and reducing economic vulnerability in rural areas.

We are all aware of the challenges that the Land Bank was beset with when the new CEO took over: a parasitic and unethical leadership, lack of control systems, lack of accountability, poor business direction, poor corporate governance leading to corruption and mismanagement, and lack of proper risk and credit policies.

These legacy issues are yet another reminder of the high price of poor corporate governance and mismanagement. Poor governance and mismanagement in state-owned enterprises have real costs, and it is often the poor who bear a disproportionate burden of this cost. It is precisely for this reason that rent seeking and opportunistic people who have no hesitation in hijacking resources and institutions of the state must be challenged and stopped.

The Land Bank is living proof of the billions of rands that can be lost and the damage that can be done both to the institution and its capacity to assist those most in need. There's a cultural change that is developing in South Africa. There are people who want to feed off an institution like the Land Bank, a public institution funded with taxpayers' money for the benefit of citizens, particularly the poor citizens of South Africa.

The history of the Land Bank over the past few years shows how people who are only interested in themselves, only interested in their own pockets and who have an opportunistic approach, can destroy these institutions. This is a culture that must be fought. This is a culture that must be stopped. Otherwise all public institutions that should serve the poor will be captured by the small elites in order to serve their purposes. That is unacceptable.

But the Land Bank is also a wonderful example of what leaders and public servants with integrity and loyalty to the Bank's developmental role in the agricultural sector, can do to turn around such an important institution, both in real and potential terms, and setting in on a new and exciting strategic path. We need more leaders like Dr Ngubane and Phakami Hadebe (Land Bank CEO), who are dedicated to public service. We need leaders who are humble, with modest goals, but imbued with a burning passion to make a difference, to make the lives of the poor and marginalised people better, and build the agricultural sector.

As the 2009/10 annual report will attest, the Land Bank is poised to become a strategic and sustainable development finance institution. It is due to these developments that my colleagues (the Minister of Agriculture, Forestry and Fisheries, and the Minister of Rural Development and Land Reform) and I have been working with Land Bank's management team to realign the Bank and ensure that socio-economic development and food security are core to its business.

Key to the development focus of the Land Bank is ensuring that it contributes to government priorities by paying particular attention to emerging farmers. This does not mean the neglect of commercial farmers. Emerging farmers and commercial farmers are the two sides of the same coin.

What the World Cup, and the rugby matches played in Soweto, show is that if South Africans can create synergies amongst themselves, if they recognise their differences but also the commonness of their destiny in this country, they can produce magic in this country. We have produced it, you have seen it during the World Cup. This can be done in agricultural sector. I hope that the Land Bank together with the two departments concerned with the agricultural sector will act as a pivot around which this dialogue can take place, so that emerging farmers and commercial farmers can reach new thresholds in terms of their relationship.

My colleagues and I will soon go to Cabinet to present two proposals on the Land Bank. The first is a proposal on how the bank intends to help distressed farmers restore their financial and organisational sustainability. The second is a value-chain financing model which will see the Bank financing businesses involved in the production, manufacturing and marketing of food.

I think the Land Bank and government departments have a critical role to play. We don't have sufficient appreciation, as South Africans outside of the agricultural sector (and perhaps within the agricultural sector), of the tremendous

constraints and historical legacies that black farmers in South Africa face. These include access to reasonably costed finance, access to markets, and simple organisational things that don't exist in parts of South Africa, and also the level of skills, experience and the resilience that is required to make a success of an enterprise in the agricultural sector. We can do a lot more together to understand those difficulties and create the right partnerships between government, the private sector and the DFIs to make a real difference on the ground.

This past financial year the National Treasury approved R3.5 billion of guarantees in support of the Land Bank's turnaround. Of this amount, R1 billion has already been converted into a cash injection into the bank's capital. This support has strengthened the Bank's balance sheet and will ensure that it lives up to its mandate to promote economic development in the rural areas.

In conclusion, ladies and gentlemen, the Land Bank should position itself not only in relation to South Africa, but more broadly with the rest of the African continent. It must do this slowly, not too fast.

World food production, according to UN projections, will have to increase by 70% over the next 40 years to feed a growing world population. Africa could, and should, play a big role in meeting this demand. The continent has 600 million hectares of land that is currently not under cultivation. Moreover, Africa has significant space to improve on its crop yields, which are well below global average.

Africa has the potential to be one of pillars of the "green revolution", in which the production of food and other agriculture commodities will increase significantly through the use of new technologies and the availability of better infrastructure. The Land Bank can contribute toward this goal, and drive the growth of South Africa and, indeed, the rest of the African continent. The irony is that the rest of the world is slowly recognising the potential of the African continent.

The more important and exciting opportunity for us today is the talk by political and economic leaders of the necessity to rebalance the global economy, to change patterns of consumption and production, to change the patterns of demand and growth. We as Africans need to position ourselves within that debate and say to the world: we have 1 billion consumers and producers on this continent, that we have this potential, particularly in the agricultural sector. We must make sure that the natural resources of this continent are not used only for the benefit of other continents, but also for the benefit of Africans themselves.

Thank you very much.