



Launch of the 2010/11 Annual Report of the Land Bank

Address by Finance Minister Pravin Gordhan

18 August 2011

The launch of the 2010/11 annual report of the Land Bank marks a significant milestone in the revitalisation of the Land Bank. It also marks the beginning of a new period of dynamic and constructive contribution of an important development finance institution in a vital area of our economy – agriculture.

The last few years of the Land Bank represent a gallant effort of the leadership and staff of the Bank to restore the integrity, financial stability and relevance of the Bank, both to the small farming community and to commercial farmers. The credibility of the bank in the financial sector has been restored. Within government we have been able to demonstrate in practice how co-operative governance can work where there is the appropriate political will. For this I am grateful to my cabinet colleagues Minister Nkwinti and Minister Joemat-Pettersen. We need a solid coordination capability if we are to match the kind of challenges we have as a country and accomplish the delivery of government priorities identified.

Agriculture is an important part of our economy. Within the context of the New Growth Path, agriculture and mining have been identified as two important job

creators, given the level of skills within the economy and the location of the unemployed within our economy.

Agriculture contributes about 2.5 per cent to the South African GDP, with agro-processing also contributing significantly. The overall value of agriculture is at more than R130 billion. The sector currently employs in a formal capacity some 650 000 people. In the next few years, we would like to see this number multiplied to a significant extent. The estimated number of commercial farmers is around 40 000, with about 200 000 emerging farmers; we also need to look at how we increase that number.

Agriculture also provides a source of livelihood to some four million rural households in the former homelands. There is much that can be done, together with NGOs and other community organisations, to encourage households in urban and rural areas to become more self-reliant and learn agricultural skills to enable them to enjoy some level of food security.

The value of the Land Bank as a key development finance institution (DFI) in agriculture puts this institution in a special position. We will hopefully now see a Land Bank that is contributing significantly to the economy of this country through developing a whole new generation of farmers. This is the only way we can achieve transformation of agriculture in this country and create a cadre of successful farmers from all sections of our community and a flourishing agricultural sector.

The Bank was able to successfully launch a domestic medium-term note and secured additional loan capital of R1.2bn. This was raised in bonds that were over-subscribed by private investors. That is a healthy sign and a vote of confidence in the Land Bank. It enabled the Bank to continue to diversify its funding base and to get longer dated debt instruments, further enhancing the Bank's financial stability. Over the period under review, the bank was able to

grow its loan book by 15 per cent. The Land Bank continues to improve the quality of its loan book by reducing non-performing loans and growing its loan book. The Bank's market share has improved to about 28 per cent of total farming debt.

We expect that the Bank will contain the costs of the process and keep a reasonable cost-to-income ratio in the medium term. As the bank's liquidity stabilises, it should be in a position to embark on the next phase of its development plan. The Bank will continue the efforts to assist distressed farmers and bring them back into the mainstream of the economy.

Last year, Cabinet approved two new proposals suggested by the Land Bank. The first was a proposal on how to help distressed farmers restore their financial and organisational sustainability. The second was a value chain financing model which will see the Bank financing businesses involved in the production, manufacturing and marketing of food. My colleagues and I will continue to explore other innovative ways for improving the sector.

We need to tackle food insecurity, poverty and other issues that continue to challenge us. As the vagaries of the market continue to put a squeeze on our farmers, we need to ensure that agriculture becomes fully integrated throughout the value chain and that government increasingly plays an important supportive role.

The Land Bank, above all, together with its various partners, must contribute to job creation and poverty reduction. It must help to identify the bottlenecks and provide appropriate solutions. It must support emerging farmers who are facing challenges such as skills, access to finance and access to markets.

In that sense we have many structural difficulties in South Africa. Let us also confess that as government and as the agricultural sector we haven't done it all

right in the last ten or fifteen years. But we have important opportunities ahead of us, to learn from the past and ensure we chart a new way forward.

One of the glaring problems entrenched in the agriculture and rural development sector is the lack of youth participation. This is despite agriculture being identified as a key potential sector in terms of solving the unemployment challenge, especially for rural youth. The average age of a typical farmer in South Africa ranges from 56 to 62 years, threatening the sustainability of the sector.

Several government programs are directed at ensuring that we change this situation and in particular ensure that we attract rural youth to agriculture and rural development more generally. In the February budget, government set aside R1.1 billion so the Department of Rural Development could expand the National Rural Youth Services Corps. Up to now, some nine thousand youth have been incorporated into this programme, and we are going to look for more funding to accelerate the expansion of this programme. It is a practical example, of not just talking about tackling youth unemployment, but looking concretely at our context and with a sharp sense of organisation to see what can be done with the limited resources we have.

I want to commend this programme to all of you, and ask what it is that you could do, together with the Department of Rural Development, to help us multiply the number of young people who can participate in this programme. The purpose of the programme is to ensure that the youth in rural communities are absorbed into the mainstream of the country's economy through acquiring skills. The interest of the youth is demonstrated by the high number of applicants for this and other related programmes, which runs into thousands.

What the country needs more than anything else at the moment is a refusal to work within the tight constraints of the old ways of doing things. We have to find

new, innovative ways of doing things, using our own creative energies within our own contexts. How do government and the private sector collaborate to crack the problem of youth unemployment in this country? No one has a monopoly over the solution, which is why we have extended an open invitation for all to collaborate and develop ideas.

This is the spirit in which government established the R9 billion Jobs Fund. In a very short period of time, we have had some 2 200 applications for funding from the Fund. Of these, almost half want to start or expand a business. Others are work-seekers, or those that want to build institutional capacity, and yet others want to start infrastructure projects. The Jobs Fund is an exciting example of how government can provide the funding, have a partnership approach, and invite anyone to come up with ideas relevant to its objectives, in this case job creation. The next few months are likely to demonstrate that South Africans are very capable of creative ideas; we are sure to learn interesting lessons.

DFIs are considered a crucial component of the exercise of job creation and rural development. DFIs are expected to assist the government to coordinate the implementation of its initiatives. DFIs are expected to assist government in coordinating economic development initiatives and ensure focused implementation. They are expected to support the development of new industries and new value chains. In addition, these institutions also have a crucial responsibility to support public and private investment. They should serve as vibrant catalysts for economic growth and sustained development.

They must ensure alignment between the programmes of their institutions and government's development agenda. The impact that DFIs make on the lives of ordinary South Africans must be observable through sustained improvements in incomes and standards of living as a result of access to DFI funding, projects, facilities, and infrastructure investments.

It is in this sense that I must make an appeal to all partners and investors in the Land Bank, and urge them to collaborate even more formidably with the Land Bank and build its capacity to advance agricultural development, emerging with benefits both for yourselves and for the jobless in the country.

Having spent time on the enhancement of its development policy in the previous year, we hope visible products are beginning to emerge from the Bank's effort. The new banking division aimed at emerging farmers provides further traction to the bank's development effort. This initiative, coupled with the Land Bank's gearing towards spending over R1 billion in the next two years on emerging farmers, are commendable steps. As government, we want to see an increased development impact from a growing and sustainable institution.

We hope that the Bank will now focus its resources on fulfilling its development mandate as outlined in the Land and Agricultural Development Bank Act, while maintaining financial sustainability. Next year, we want to hear more about the outcomes of the initiatives that the Land Bank has put in place.

Before concluding, it is worthwhile to also note the current situation of the world we live in. News about Europe, the United States and Japan feature regularly in the news; inflation in India and China feature. The prospects for global growth seem dimmer all the time. This kind of uncertain outlook creates a hesitant climate, even for South African investors and business people. In an interesting way however, we have fascinating opportunities open to both government institutions and in particular small and large business in South Africa - to see the opportunities of this situation; not be paralysed by it. We should ask ourselves, where can a breakthrough be made, even in this gloomy outlook?

One of the requirements for this is that we think outside of the normal paradigms, that we find the opportunities outside the traditional spaces we have found opportunities in before. Again, government and the private sector, together with

all other sectors in society, will need to collaborate to find this new space, to find these new opportunities, which will ensure that we can indeed grow faster; that we can increase trade between South Africa and perhaps not Europe, but the rest of Africa; that we can invest in infrastructure to raise the potential level of growth in this country. It is crucial that all of us as South Africans realise that within the fast changing world – where the traditional sources of growth are unlikely to remain the key sources of growth and where the new sources of growth, the big emerging markets, have their own challenges in growth cycles at the moment – we must put our heads together to restructure and reposition the South African economy. Once again, I want to repeat – now is not the time for hesitation. Now is the time to work together to find concrete alternatives where we can create opportunities for our society to increase our growth level, increase job creation in South Africa, and have positive spill-over effects from South Africa's initiatives into the rest of Africa.

In addition to changing paradigms, this also requires that we address more sincerely and more frankly issues of inequality and of joblessness. We cannot have a situation where a small group of people accrue all of the benefits of economic growth and a large number of people are, in actual terms, on the margins of the benefits of economic growth. That is not a sustainable formula for the future. As South Africans, we have to start confronting these issues, but in the spirit of constructive dialogue, not of acrimony. We need to ask ourselves how we can move away from this unsustainable path and create greater equity in our society.

Finally let me congratulate Dr. Ngubane and the Board on their sterling management and governance, the CEO and staff of the Land Bank on their continued efforts to improve the position of the Bank and to venture into new and exciting territory, and also thank the many partners and investors of the Bank for your confidence and trust in the Bank; we hope you will continue to work with the Bank to meet our collective objectives as we move forward. I look forward to

even more significant progress this year as we confront the challenges of expanding the agricultural sector, promoting rural development and contributing to job creation and poverty reduction.

As the Rugby World Cup kicks off in a few days, let us all support the Springboks as they carry our flag!

Thank you.