



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**DEPUTY MINISTER OF FINANCE, DR DAVID MASONDO, SPEAKING NOTES AT
THE STANDING COMMITTEE ON FINANCE**

DATE: 19 OCTOBER 2022

Introduction

- The last three years have been challenging for both government and the Land Bank.
- It is important that the current situation at the Land Bank is remedied and the Bank returns to full operations as soon as possible.

Purpose of the presentation

- The purpose of today's presentation is to respond to your call for the National Treasury to brief the committee on the policy direction for the Land Bank as well as to request the Committee to support the amendment of Section 45 of the Land Bank Act as presented previously by the National Treasury.
- We would also like to provide an update on the recent improvements in the performance of the Land Bank under the leadership of the new board.

What does government want out of the Land Bank?

- We want the Land Bank to make a positive contribution to the transformation of the agriculture sector.
- The restructuring of the Land Bank is crucial if we want to re-establish the Land Bank as an effective and efficient development finance institution.
- The Land Bank needs to prioritise its developmental impact and improve its support of development or emerging farmers, most importantly, the marginalised individuals in the agriculture sector.
- It is important for the Land Bank to work closely with the Department of Agriculture, Land Reform and Rural Development to ensure that transformation in the agricultural sector is feasible, and to ensure that the Land Bank prioritises the provision of assistance to small and emerging farmers.

Update on Liability Solution

- The Land Bank experienced liquidity challenges and defaulted on its debt obligations on 01 April 2020. Through a series of cross-default provisions, this meant that all of the Land Bank's debt became payable at that point.
- To remedy the situation, the Land Bank started the process of negotiations with its lenders to restructure outstanding debt and craft a workable repayment plan. This process of debt restructuring is what we refer to as the Liability Solution.
- Over the past three years, Land Bank and its lenders have worked on a number of possible solutions. However, given the complexity of Land Bank's debt structure and

the large number of lenders involved, the Bank has to date, not been able to find a solution that enjoys the consensus support of its lenders.

- The National Treasury continues to support the Land Bank in its debt restructuring process and is working with the entity to ensure that it continues to play its vital role in the agricultural sector while work on the Liability Solution continues.
- We have also provided fiscal support to the Land Bank. Since the default, we have recapitalised the Land Bank with a total of R10 billion. The R3 billion of this recapitalisation was transferred in 2020 which assisted the Land Bank to:
 - Continue paying interest on all outstanding debt;
 - Start paying down capital on its outstanding debt; and
 - Undertake limited disbursement to performing clients.
- It is important to also inform the Committee that the remaining R7 billion is still available to be transferred to the Land Bank, subject to the Land Bank concluding the Liability Solution, which will cure the default position of the bank.

Why the Amendment of the Land Bank Section 45 is necessary for government

- In terms of High Court Rule 45(12), creditors of the Bank may institute proceedings to obtain a judgment against the Land Bank and execute against its assets, including its debtor's book, through the usual execution process set out in the Rules of Court.
- This process may lead to unstructured liquidation or disorderly wind down of the Land Bank. Although the process would be extremely cumbersome, time consuming and expensive for the lenders to invoke, there are no guarantees that the lenders may not resort and invoke it.
- The National Treasury and the Government view the Land Bank as an important institution given its role in protecting food security and providing vital financial assistance to developing farmers. The Bank should therefore be protected from an unorderly wind down or any litigations by limiting the ability of third-party lenders from placing the Bank in liquidation.
- It is against this background that the National Treasury and the Minister request your support to amend Section 45 of the Land Bank Act. The amendments proposed provide an important safety net for Land Bank and will ensure that the entity receives the protections afforded by the Companies' Act.

Update on recent improvements in the performance of the Land Bank

- While the Bank remains in default, it has managed to repay 43% of the debt that was outstanding in 2020 and only R1,5bn of guaranteed debt remains. A further reduction of debt is expected in the current financial year.
- The Bank has also significantly improved its governance, financial reporting and internal control mechanisms. This resulted in the Bank achieving a clean audit from the AG in the past financial year, against a qualified audit in the 2021 financial year and a disclaimer in the 2020 financial year.
- Financial performance has also improved. The Bank is in a healthy liquidity and solvency position and reported a net profit of R1,4bn in the most recent financial year against a net loss of R711m in the 2021 financial year. At the operating level, Land Bank reported a profit of R11,7m.
- While recovery efforts continue, we are encouraged by the Bank's efforts to close its mandate gaps and are working closely with the Land Bank team in the implementation of its new developmental finance programme.

Chair, this brings me to the end of my introductory remarks. We will now have a presentation by the National Treasury officials to provide further detail, as requested by this committee. We also have the Land Bank Chair and CEO on the line, who with your permission, would be available to take the committee through a few updates on their side.

Thank you.