Land Bank implosion, Moody's downgrade sparks setback for SA agriculture

Land Bank is evident of an unhealthy state of affairs at governance and management level within the bank, says Agri SA - and it is a setback for growth and transformation of the agricultural sector.

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Moody's downgrade holds direct implications for the agricultural sector with broader spill-over economic impacts, adds the agriculture association. The Land Bank's long-term sustainability and ability to execute its core mandate are now viewed as "riskier". It, therefore, makes access to finance more challenging and expensive for the bank.

Agriculture is cyclical in nature, and as a result, many farmers do not have a fixed or regular income. They earn the bulk of their income in a short period of time (varies based on commodity) when their produce is sold.

Access to credit, from amongst others the Land Bank, is essential to meet cash flow needs, i.e. paying for inputs and labour, throughout the year. Farmers will typically settle their debt when their produce is harvested. However, climate change and corresponding drought conditions have placed many farmers under pressure.

EC farmers apply for government aid as 'worst drought in living memory' takes its toll

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The Land Bank's increased costs are passed on to farmers borrowing from the bank, increasing their cost of credit. Many agri-businesses have also sold their loan books to the Land Bank, increasing the Land Bank's role in the agricultural credit system; this could mean higher input costs for farmers accessing production credit through these agribusinesses. This places further pressure on farmers' finances and sustainability, with associated risks to the rest of the value chain and the end consumer. Consumers could end up paying higher prices in a constrained environment.

Along with the downgrade, Moody's changed the bank's outlook to Negative from Rating Under Review. The Land Bank was placed on review for a downgrade in November 2019. **Moody's highlighted three risks leading to the review**:

1. An increase in non-performing loans (agriculture under pressure / challenging operating conditions);
2. Environmental risks; and
3. Expropriation without compensation (policy uncertainty).

The broad concerns highlighted the bank's high exposure to environmental risks such as climate change, drought, changing and unusual patterns of hail and heightened biosecurity/disease risks.

Following this, Moody's report exposes the government's continued fiscal challenges and its inability to support state-owned enterprises, specifically in case of need. This is also illustrated by the negative outlook assigned to South Africa's sovereign rating.

Other challenges include the inability by the Land Bank to appoint a permanent CEO and other operating factors which impact negatively on its financial performance and on investor confidence.

Agri SA, therefore, calls on the board and management team at the Land Bank to act decisively and to implement a turn-around strategy to reverse the implosion of this institution.