RESTRUCTURING OF RURAL/AGRICULTURAL FINANCING IN SOUTH AFRICA

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INTRODUCTION

As in the case of all areas of policy and servicing, agricultural financing (the use and offer of credit and investments) has been subject to change for more than a decade. This process is continuing and if the government's statements regarding land reform and the Strauss Commission's recommendations regarding rural financial services are in any way indicative of the road ahead, farmers and co-operatives can still expect many painful and challenging adjustments in future.

WHAT IS THE PICTURE IN FIGURES FOR THE PAST EIGHT YEARS?

The following general deductions can be made from Table 1:

(1) The Land Bank's direct share tends to be gradually upwards (21,9% to 25,1%).

(2) Commercial banks' direct share has increased significantly (26,0% to 33,0%).

(3) The share of co-operatives (25,5% to 19,7%), and especially that of other financial institutions (9,7% to 2,6%) have declined significantly. The former reached unnatural levels during the tenure of carry-over debt schemes.

(4) The share of the ACB (6,8% to 6,6%) increased at first but declined slightly thereafter, while other debt (such as with general traders) increased relatively sharply from a low base (3,0% to 4,6%).

(5) The upward trend in the debt ratio of agricul-

Table 1: Debt burden relative share of financiers and debt ratio of agriculture

	31 December 1988		31 December 1996	
	R million	% Share	R million	% Share
Land Bank	2923,5	21,9	5086,3	25,1
Commercial Banks	3477,7	26,0	6673,7	33,0
Co-operatives	3411,7	25,5	3994,9	19,7
ACB	920,7	6,8	1330,7	6,6
Private persons	924,8	6,9	1702,5	8,4
Other financial institutions	1295,0	9,7	533,2	2,6
Other debt	407,5	3,0	928,2	4,6
Total debt	13360,9	100	20249,5	100
Debt on 31 Dec as % of capital assets as on 31 Dec	22,2		24,9	
Short term debt as % of total	52,0		52,7	

Table 2:

Year	Co-op Turnover Trade and Services R billion	Land Bank Cash Credit Loans R billion	Ratio - Cash Credit: Turnover %
1990	4,55	2,36	51,8
1991	4,98	2,50	50,2
1992	5,51	2,78	50,4
1993	5,82	2,20	37,8
1994	6,71	1,70	25,3
1995	7,27	1,73	23,8

ture is indicative of financial problems on the part of a growing number of farmers, especially in cases where the "critical debt ratio" (15 - 20%) is substantially exceeded.

(6) The share of short term debt remains high but relatively stable.

The ratio of co-operatives' total use of Land Bank Cash Credit Loans (crop financing excluded) to their total turnover in respect of trade and services was as follows since 1990 (Table 2).

It is clear that, especially since the 1992/93 financial year, co-operatives' total and proportionate use of cash credit loans has declined sharply. This can probably be attributed to an improved own funds situation as well as a shift in favour of commercial bank credit and instruments, such as bills, and the termination of carry-over debt schemes.

The following general deductions can be made from Table 3:

(1) The discount for Land Bank funds compared to the prime rate did not manifest a clear trend but amounted to an average of 1,96 percentage points for long term loans and 2,09% for cash credit loans.

(2) It is very clear that Land Bank rates constantly (with a delay) follow the market trend and that the

Table 3: Interest rate movements (weighted average annual rate %)

Year	Land Bank			BA Rate	Clearing Change Banks in CPI	Change in CPI
	Cash Credit		Long Term		Prime Overdrive Rate	
1986	14,02		13,88	8,80	14,71	18,5
1987	11,75		13,50	9,50	12,25	16,2
1988	13,50		13,70	15,65	15,20	12,7
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1989	17,05	17,34	15,44	18,40	19,63	14,7
1990	18,25	17,75	17,00	17,70	21,00	11,4
1991	18,25	17,75	17,00	14,40	20,31	15,3
1992	17,42	17,25	16,74	12,40	19,01	13,9
1993	15,00	14,00	15,07	10,15	16,22	9,7
1994	13,30	11,83	14,21	12,45	15,51	9,0
1995	15,15	14,45	16,20	14,60	17,80	8,7
1996	16,08	15,71	16,81	15,71	19,39	7,4
Acc average	15,62	14,94	15,41	13,61	17,37	12,5

rates of both the Land Bank and Clearing Banks have since 1988 moved above the annual inflation rate (annual increase in CPI) while both remained very strong in real terms during recent years.

(3) Although not indicated in the Table, it is known that the Agricultural Credit Board also increased its lending rate on new loans as well as on outstanding accounts to 14,0% during November 1995 while certain debt is still carried at 8%.

POLICY CHANGES

The following policy changes have already influenced or will to an increasing extent influence the planning and management of the commercial farmers (established and emerging).

Interest rates

(1) The price of money is in the final instance determined by supply and demand which, in turn, are closely related to economic growth cycles.

The government's monetary policy (as largely "executed" by the Reserve Bank) as well as its fiscal policy (especially deficit before loans as a percentage of GDP) and its development policy (inter alia the availability and cost of money derived from state controlled development financing institutions such as the NDC, DBSA, Land Bank, ACB, housing trust, KUHLA, etc), determine in practice what existing and new entrepreneurs must from time to time pay for borrowed capital.

(2) While the RSA in real terms experienced negative "market rates" during the seventies and sometimes even during the eighties, the policy package since 1988 has constantly ensured positive interest rates in real terms.

(3) As mentioned earlier, the Land Bank by ± 1982 also started to follow the route of marketed-related rates and since 1988 has moved even closer to these levels.

(4) More recently (1995) the Agricultural Credit Board introduced drastic changes and will probably continue on this road during its phasing out process.

Recommendations of the Strauss Commission

The final report of the Commission of Inquiry into Rural Financial Services (RFSC) has been largely accepted by the government as is being implemented systematically. The following aspects in the report are of great significance and commercial farmers will have to make provision for possible changes as a result thereof:

(1) The Land Bank will probably retain its present client base but with an extended brief and in time a drastic shift in emphasis in favour of services to emerging farmers and those who benefit from Land Reform where other forms of land ownership and collateral security emerge.

If the said shift in emphasis is managed correctly it could play a very positive role in rural development with no major effect - at least in the short to medium term - on the business ties that exist between the Land Bank and the commercial farmers and their co-operatives. However, if "transformation" is taken too far, the Land Bank will soon disappear from the commercial scene and become a highly subsidised political instrument.

(2) The Agricultural Credit Board in its current form should disappear, with the Land Bank taking over its "book". The latter is only possible over a period of time and subject to certain guarantees or discounts, and could entail considerable pain and disruption for both the government and a large number of ACB clients who are commercially "unfinanceable".

(3) The Department of Agriculture will continue to fulfil an important development task but should not have a credit instrument at its disposal. However, it will be able to operate schemes and so-called "sunrise subsidies" via the Land Bank and other institutions. (This, however, will be accompanied by considerable protest.)

(4) A "Development Council" has been proposed which must play a co-ordinating role between development financing institutions and, more importantly, devise an effective rural development policy and strategies. The government still has to make an announcement in this regard.

(5) An important recommendation entails a drastically reformed post office network with the post office becoming a "community service centre" - especially in remote rural areas. Besides providing portal services, such a centre could also register births and deaths, disburse pensions (preferably into postal bank accounts) and offer

savings opportunities.

(6) Farmers (especially those with a large labour component) as well as co-operatives can look forward to financial services which in future will be rendered on behalf of the New Land Bank on local level in the form of agencies and new structures.

Disaster and emergency aid

(1) The present government is apparently convinced that the effects of disasters and particularly drought related disasters must be largely borne by the farmers themselves.

(2) Any aid forthcoming will probably be of an humanitarian nature.

(3) A major rethink will probably only occur after a major drought, leading to food shortages.

Development aid and services

(1) The Department of Agriculture's total focus has changed and already too little attention is given to the interests of commercial farmers who are responsible for national food security, exports and economic growth.

(2) Even the ARC (and its funding) could in the event of further transformation be compelled to neglect its commercial clients.

Land reform

(1) The process of restitution claims has progressed well and should be completed without excessive disruption for the agricultural sector.

(2) Schemes and programmes aimed at redistribution (such as pilot projects and R15 000 donations) could, however, give rise to considerable friction and will hopefully be approached with increasing circumspection and the full involvement of the commercial sector.

(3) Encouraging rumours abound regarding landownership reform, including a movement away from communal ownership. This approach should be encouraged.

(4) Recent efforts to grant farm labourers (other than labour tenants) a form of ownership, are cause for concern. Everything possible must be done to handle problems experienced by unfairly evicted persons correctly so that the state's attempts to consider alternative solutions do not destroy job opportunities or distort the land market.

Deregulation of marketing

(1) The deregulation which has already taken place in respect of the marketing of most commodities has been accompanied by increased price uncertainty and risk relating to financing of stocks with Land Bank funds (especially grains).

(2) With the implementation of the new Marketing Act, this trend will continue and probably lead to minimum intervention.

(3) The acquisition of capital to fund added value, exports and product development will present a particular challenge for individuals as well as co-operatives and other business forms.

Organisational financing

Termination of statutory levy financing in its current form for both the SAAU and commodity organisations has now become a reality. This will necessitate certain rationalisation of structure and will also mean that the farmer must again find the funds required for his organisations on a more direct basis.

GENERAL REMARKS AND CONCLUSIONS

- In the years ahead the commercial farmers will have to seek prosperity in greater financial independence. Little or no support can be expected from the government or any of its development financial institutions for ordinary production purposes.

- The retention of an adapted agricultural financing institution such as the Land Bank, which will also serve commercial agriculture, seems a possibility in the foreseeable future. However, market-relatedness and a relatively small interest discount will be the norm and organised agriculture's input during the transformation process could be a determining factor.

- The role of commercial banks in production financing will probably increase, while co-operatives (and the companies derived from many such co-operatives) will play a smaller role.

- Involvement in development actions and the establishment of new farmers will be a prerequisite for any form of government assistance.

- Interest rates will probably continue to be of a real nature (above inflation) but could decrease in general should the government continue to apply its long term economic strategy (GEAR) consistently while controlling inflation.

- The realities of available funds and actual demand for the establishment of new farmers will hopefully limit land reform to meaningful and sustainable plans. If the government fails to kerb this potentially wild horse, the outcome could be a chaotic land market with catastrophic results for agriculture as a whole and the rural community as well as the general economy. I believe, however, that realism will triumph and that more lessons will be learnt from success stories in South East Asia.