**Report of the Standing Committee on Finance on the Oversight Visit to the** **Land and Agricultural Development Bank of South Africa (Land Bank), dated 01 June 2022**

1. **INTRODUCTION**
   1. The Standing Committee on Finance (the Committee) undertook an oversight visit to the Land and Agricultural Development Bank of South Africa (Land Bank) on the 21 April 2022 in Gauteng.
   2. The main purpose of the visit to the Land Bank was to get an u**pdate on the status of the annual report and corporate plan, highlighting the challenges and steps being taken for redress,** key developments and challenges faced by the Land Bank and liability solution (resolution of the liquidity challenges), audit outcome and remediation plan, the Land Bank’s intermediary model and to meet staff/union representatives to discuss labour related issues.

1. **DELEGATION**

*Parliamentary Delegation*

* 1. The Committee delegation comprised of the following members: Mr MJ Maswanganyi (Chairperson of the Committee, ANC), Ms P Abraham (ANC), Ms D Mabiletsa (ANC), Mr G Skosana (ANC), Ms Z Nkomo (ANC), Mr IK Morolong (ANC), Dr D George (DA), Mr F Shivambu (EFF) and Inkosi E Buthelezi (IFP). The delegation was accompanied by the following parliamentary officials: Mr A Wicomb (Committee Secretary), Mr T Bottoman (Committee Assistant) and Dr Z Hlophe (Content Advisor).

*Land Bank Delegation*

* 1. The Land Bank delegation comprised of: Ms T Nkosi (Chairperson of the Board), Ms M Makgatho (Chair of the Credit and Investment Committee), Ms K Mukhari (CFO), Ms M Pillay (Chair of the Audit and Finance Committee), Mr F Stiglingh (Executive Manager: Post Investment Management), Mr D Van Der Westhuizen (Member of the Human Resources Committee), Ms M Dlamini (Executive Manager: Human Capital), Mr M Mzaidume (Company Secretary), Mr A Memela (Head of Audit), Mr A Rakgalakane (Managing Director: Insurance), Mr S Soundy (Executive Manager: Strategy and Communications), Mr A Kekana (CEO), Mr S Diza (Chief Risk Officer), Mr S Sebueng (Executive Manager: Legal), Mr L Makupula (Acting Executive Manager: Business), Mr G Maritz (Acting Executive Manager: Agri-Economics), Dr M Tom (Chair of the Human Resources Committee) and Ms T Mushondo (Non-Executive Director)

1. **OVERVIEW OF THE LAND BANK**
   1. The Land Bank has been experiencing liquidity and funding challenges, which resulted in a default on its debt on 01 April 2020. It has not yet finalised the Liability Solution that seeks to cure it of its default status. The delay in finalising a Liability Solution poses significant uncertainty regarding its going concern status.
   2. In the audit report of the annual financial statements (AFS) for 2019/20 financial year (FY), the Auditor-General of South Africa (AGSA) recommended that oversight and monitoring be strengthened to ensure that the turnaround strategies of the Land Bank are implemented and the Liability Solution is finalised in order to mitigate the related financial and fiscal risks associated with the Land Bank.
   3. On the 08 February 2022, in a meeting with the Committee, the Land Bank indicated it is taking steps to address the audit findings. Amongst others, the Bank stated the following:
      1. The Land Bank received a qualified audit outcome from the AGSA for the year ended 31 March 2021;
      2. The above-mentioned is a significant improvement from the disclaimed audit outcome received by the Land Bank for the FY2020 audit;
      3. The Land Bank is taking steps to address internal control deficiencies that led to the audit outcome and has re-instituted the remedial programme to address same issues, as well as overall enhancement of the internal control environment with regard to the management of the loan book;
      4. The majority of the loan book previously managed by intermediaries has now been insourced and managed internally. This further allows the Land Bank to implement required controls on this portion of the book as well; and
      5. The Land Bank is committed to addressing the challenges experienced regarding the internal control deficiencies and also committed to finding a solution to cure the event of default.
2. **UPDATE ON THE STATUS OF THE ANNUAL REPORT AND CORPORATE PLAN, HIGHLIGHTING THE CHALLENGES AND STEPS BEING TAKEN FOR REDRESS**
   1. The Corporate Plan for 2021/22 was submitted to National Treasury on 31 March 2021. In light of the event of default and dependency on conclusion of the Liability Solution, the Land Bank was however exempted from tabling the Corporate Plan until its debt default has been cured. The event of default has not yet been cured.
   2. A Stabilisation Plan was developed and implemented to guide the performance activities of the Land Bank for the FY2022. A Strategic Plan is in the process of development and will be implemented in the FY2023.
   3. A Shareholder Compact for 2022 was approved by the board and submitted to the Minister of Finance, although the process was significantly delayed. A Strategy and Performance Scorecard for 2023 is underway, with a target to submit to National Treasury by the end May 2022.
   4. The 2021 financial year Integrated Annual Report & Annual Financial Statements was submitted to National Treasury on 31 March 2022, and subsequently tabled in Parliament during May 2022. Work is currently underway to complete the IAR and AFS for FY 2022.
3. **KEY DEVELOPMENTS AND CHALLENGES FACED BY THE LAND BANK AND LIABILITY SOLUTION (RESOLUTION OF THE LIQUIDITY CHALLENGES)**
   1. Since the Land Bank’s last briefing to the Committee, the following developments and key challenges are notable:
      1. The Land Bank remains in default on its liabilities since April 2020;
      2. Negotiations to conclude the Liability Solution have not yet yielded an agreement with lenders;
      3. A Disclaimer of Opinion Audit Outcome for 2019/20 was issued by the Auditor General of SA;
      4. The 2020/21 audit resulted in a Qualification as AGSA was unable to find audit evidence related to the loan book managed by an external party;
      5. The Integrated Annual Report for the year ending 31 March 2021 has been submitted to the Minister of Finance on 31 March 2022;
   2. The following concerning trends have been experienced since 2018/19: (a) significant reduction in the loan book; (b) reduced interest margins and income; (c) increasing non- performing loans; (d) significantly reduced support to the agricultural sector; and (e) high staff turnover.
   3. The above-mentioned trends pose a risk of an unsustainable Land Bank and continued need for State support in a constrained fiscal environment.
   4. The Land Bank Insurance Company has done well over the period, posting profits in 2020/21 and a clean audit outcome.
   5. The funding structure of the Land Bank has been a fundamental challenge. Even before the start of the Bank’s credit downgrade and liquidity challenges that resulted into the default, the Land Bank’s funding structure has posed fundamental problems. There was a dependency on commercial funding sources from the capital markets at borrowing rates that are relatively more expensive than the repo rate.
   6. These borrowings are not suited to a Development Finance Institution (DFI) that is meant to close the financial market gap and provide finance to clients, especially development farmers, at affordable rates. Dependency on short term funding led to a liability and loan book tenure mismatch, with loans made up of significant long term facilities.
   7. The Land Bank has been significantly reliant on roll-over of short term funding facilities to maintain liquidity. Although progress was made to reduce short term funding, the risk still remained, and was realised when significant roll-overs could not be made by funders post the credit downgrade.
   8. The recommendations of the Strauss Commission (the Commission of Inquiry into the Provision of Rural Financial Services, 1996) on state support for the Land Bank were not fully implemented. The Land Bank has remained with a weaker capital structure and various attempts to address the capital structure of the Bank were made but have not yet yielded successful outcomes.
   9. In April 2020, the Land Bank defaulted on certain payment obligations and this triggered a cross-default on substantially all of the Land Bank’s borrowings. The Bank suspended the payment of interest and capital across all of its facilities.
   10. Since the default the Land Bank has been in a *de facto* standstill with all its lenders (except for one lender who has since been settled due to a court order). All lenders have not called on the Land Bank to settle its debts and have thus far ensured that the Bank does not have to liquidate its assets to settle them.
   11. During May 2020, the Bank appointed a Corporate Finance Advisor to design and implement a Liability Solution and cure the event of default. Three versions of the Liability Solution have been considered since then with all three being rejected by lenders.
   12. In June 2020, R3b equity injection by the State was announced and received in September 2020. This was intended to provide a degree of financial stability to the Land Bank in order to be able to sustain its disbursements to existing customers and resume the payment of interest to lenders.
   13. During August 2020 the Bank paid arrear interest and resumed normal interest payments. A request for recapitalisation of the Land Bank was submitted into the Medium Term Budget process, and a R7b recapitalization was subsequently approved in the 2021 National Budget.
   14. Since the inception of the event of default in April 2020, the Land Bank has worked to restore and catch up all interest due on all funding and in addition has made the following three capital reduction payments to lenders: February 2021: 12% (R4.9 billion) of capital outstanding; June 2021: 10% (R3.4 billion) of the then capital outstanding; and October 2021: 10% (R3.1 billion) of the then capital outstanding. Although this adds up to 32% it represents a 28.7% (R11.4 billion) reduction of the original amount outstanding to lenders.
   15. A new Board was appointed during December 2021. On 09 February, the Board convened a workshop with all the local lenders to consider all the burning issues raised by the lenders about the proposed Liability Solution. The lenders requested for reasonable time to work through the proposals, and have provided an indicative date of 30 September 2022 as a realistic time to finalise an acceptable Liability Solution.
   16. In the meantime, the Board has obtained the in-principle support of the lenders to resume lending activities by setting aside R500m of its cash resources to originate a new portfolio of development clients, whilst continuing to support existing clients with their production and seasonal loan financing requirements.
   17. The lack of liquidity continues to hamper support for the sector. The default status has disabled the Land Bank from sourcing new funding, thus restricting it from fully supporting the loan requirements of its clients. Since the default, the Bank has been reliant on collections of instalments / repayments it receives from its clients to service interest and partial capital redemption of its debts, as well as to cover its operating cost. Disbursements to existing creditworthy clients have further been limited to 50 per cent of collections.
   18. The Land Bank cannot fully commence with its developmental and transformation initiatives if it is not cured from the default, and get its funding structure resolved for a financially sustainable business model. Work is in progress between the Land Bank, lenders and the shareholder to develop a Liability Solution that will be acceptable to all stakeholders in order to cure the Bank’s default. The solution will take cognisance of the conditions of the capital injection that were outlined by the Minister of Finance following the appropriation of R7 billions of equity injection.
4. **LAND BANK AUDIT OUTCOMES AND REMEDIATION PLANS**
   1. The Land Bank received a qualified audit outcome for 2020/21. The remediation work that was undertaken by the Bank since the disclaimer of audit in 2019/20 led to an improved audit outcome for 2020/21. The reason for the qualified audit outcome was as a result of Unigro, one of the intermediary partners of the Land Bank, refusing to provide information required to verify disbursements and repayments on the loan book. The loan book that was previously managed by Unigro has since been insourced, from 01 October 2021, and is now managed in-house.
   2. All the 2021 audit findings (besides the outstanding information from Unigro) were successfully addressed as part of the audit process. In order to prevent a recurrence in the 2022 audit, the Land Bank, through its lawyers, had engaged Unigro to ensure all information regarding the loan book is handed over to the Land Bank.
   3. Following the insourcing of the Unigro portfolio, it became apparent that the Land Bank requires certain information to enable it, inter alia, to respond to AG queries. Request for information was submitted to Unigro and there was resistance from Unigro’s side. Unigro indicated that given that the Service Agreement (SA) and Service Level Agreement (SLA) had been terminated they were under no obligation to provide any assistance to the Land Bank, but would be willing to do it at a fee.
   4. In the Land Bank’s view Unigro’s stance is contrary to the provisions as set out in the terminated SA, SLA and Transitional Agreement. In order to find an amicable solution, a meeting was held between the Land Bank and Unigro’s Holding Company (AFGRI), pursuant to which an agreement was reached that there is no need for a legal process but rather to find a solution between the parties. As a result, Unigro was requested to make a proposal, in respect to fees payable, for Land Bank’s consideration. The proposal has since been received and considered by the Executive Committee of the Bank which has subsequently made a recommendation to the Board Committees.
   5. The Land Bank received a qualified audit outcome for the year ended 31 March 2021. This is a significant improvement from the disclaimed audit outcome received by the Land Bank for the 2019/20 audit. The Land Bank is taking steps to address internal control deficiencies that led to the audit outcome and has re-instituted the remedial programme to address same, as well as overall enhancement of the internal control environment as regards management of the loan book.
   6. The majority of the loan book (60%) previously managed by intermediaries has now been insourced and managed internally. This further allows the Land Bank to implement required controls on this portion of the book, as well. The Land Bank is committed to addressing the challenges experienced regarding the internal control deficiencies and also committed to finding a solution to cure the event of default.
   7. In a prudent approach to ensure that residual internal control deficiencies in the management of the loan book are fully addressed, the Land Bank has again initiated a Remediation Programmeto address audit findings coming out of the 2022 audit. The Audit and Finance Committee of the Board has oversight on the remedial process and meets every second week.
   8. Management has constituted a National Task Team (NTT) with representation from all areas of the Bank, including the provinces. The NTT meets weekly to assess progress on the work of the different work streams. Work streams have been formed along the lines of areas that are responsible for the gaps that have been identified through the external audit process. These work streams report on progress weekly to the NTT. Any remaining challenges experienced with the remedial plan are addressed at the NTT and solutions provided. The Auditor General team is invited to the NTT sessions to observe the process.
5. **LAND BANK INTERMEDIARY MODEL**
   1. Because SLA Partners manage the end-to-end credit function from origination right through to collections (including Legal Recoveries), they are compensated by way of an administration fee – to cover operating costs. SLA Partners are further incentivised through a margin (profit) share mechanism, which is underpinned by actual lending rates achieved and Land Bank’s actual cost of funding.
   2. Shortcomings of the existing SLA Finance Model causes asset and liability tenor matching, which brings about sub-optimal loan asset pricing relative to the Land Bank’s cost of funding. Loan asset mix might not be optimal, potentially leading to loss of margin and SLA’s not being competitive. The lack of “risk based” rating and pricing tools, which results in the fact that loan assets aren’t appropriately priced for assumed risks.
   3. SLA partners earn large fixed fees through the admin fee structure (as a percentage of the loan book), and a smaller variable fee through the Margin (Profit) Share structure. Treatment of legal fees is not clearly defined in SLA agreements, which results in the following:
      1. Uncertainty around who is liable for legal fees in the recovery process, i.e. Land Bank or SLA Partner?
      2. Legal fees are capitalised to client’s loan accounts, resulting in SLA Partners earning inflated admin fees and potentially benefitting from Margin (Profit) Share thereon.
   4. The partnerships with SLA partners saw the loan book grow from R12bn in 2010 to R46bn in 2020 (271%), with most of the growth being achieved through the SLA model. During the 10-year tenor, at an aggregate level, there had been a gradual increase in non-performing loans (NPL) as the SLA portfolios began to mature over the years from 0,1% in 2013 to 7% in 2018. The NPL peaked at 10.4% in 2016 as the effects of drought conditions across the country began to translate to loan book deterioration and increased NPLs.
   5. Despite the increase, the NPL were still in line with Land Banks NPL covenant of 10% contracted with the lenders. However, the Bank remained concerned with NPL of certain SLAs, namely Suidwes and Vincemus as these SLA operated in severely affected areas where farmers were struggling to recover from the effects of drought.
   6. As a result of the increased poor performance of the SLA book, backed by internal audit work and recommendations emanating from a deep-dive into one of the SLA partners that was undertaken through an external audit firm (Mazars), and a pointed need to improve the commercial terms of the SLA agreements, an SLA improvement plan was developed in 2018 and approved in January 2019 by the Land Bank Board.
   7. As the Bank initiated negotiations with the SLA partners to implement the improvement plan, it became apparent that certain SLA partners were not willing to agree to revised and improved terms, thus the Bank made a decision to terminate certain SLAs, starting with Suidwes, as the credit management environment and NPL for the said portfolios were not showing signs of improvement. The insourcing was intended to give the Land Bank full control of the loan book and thus protect the Bank’s interests and long term financial sustainability.
6. **LAND BANK STAFF, UNION AND LABOUR ISSUES**
   1. The Bank has had leadership instability for a while. For a period between December 2018 to February 2020 there were Acting CEO’s and CFO’s. Stability at this level was established in February and March 2020 with the appointment of the CFO and CEO, respectively. The CEO has since resigned and will be leaving at the end of April 2022. A recruitment process has been initiated.
   2. The uncertainties caused by the Bank’s financial challenges have led to a high level of turnover (attrition), particularly for critical skills. The Land Bank has been unable to offer salary adjustments for the last two financial years (2020/21 and 2021/22).
   3. The Bank’s insourcing of the loan portfolios of SLA Intermediary partners has led to additional work and need for complementing the appropriate portfolio management skills with fixed term contract workers. Some of the critical staff that have been retained thus far have been overworked as they close the gaps left by exited staff. The Bank’s culture climate survey has indicated an employee base that is demotivated. The performance and consequence management of staff – inclusive of rewards and punitive interventions, as appropriate, needs significant improvement.
   4. As at 31 March 2022 Land Bank had 399 active employees. Of the 399, there are 271 employees in the bargaining unit. The Bank’s recognised union (South African Society for Banking Officials “SASBO”) has 181 members across all level (from Top Management to Unskilled level). There are 166 employees who are union members within the bargaining unit, (61.25%).
   5. Salary negotiations for 2020/21 commenced in October 2020. Due to the financial state of the Bank a 0% increase was accepted by the union, in February 2022. The union registered its unhappiness about the rejection of the Accrual Salary Increase system. The parties are in the process of signing the agreement to conclude the 2020/2021 salary negotiations.
   6. Salary negotiations for 2021/22 commenced on 2 March 2022. Prior to commencing the negotiations, the Land Bank indicated that from now henceforth negotiations for Land Bank and Land Bank Insurance will be separated as both entities are legally separate entities and should be treated as such.
   7. SASBO, the recognised Finance Union at Land Bank, was not in support of separating the two entities despite the rationale provided that legally the two entities are separate. After engagements between the parties, SASBO provided a revised demand of 5% increase, whilst the Bank offered no increase (i.e. a zero percent (0%) increase). On 11 March SASBO declared a dispute. On 25 March attempts were made to resolve the dispute. This was, however, not successful as the Land Bank would not improve its offer. A referral of the dispute to the CCMA was served on Land Bank on 11 April 2022. The Committee was informed that Land Bank’s financial performance does not justify an increase in the operating costs of the Land Bank, including increases in staff costs. Despite the Bank’s state of default and reduced loan book, staff numbers have remained relatively unchanged and all benefits continue to be paid to all employees.
   8. Representatives of SASBO briefed the Committee and expressed their unhappiness with the state of affairs as it currently stands. They highlighted low staff morale and employees having to take on extra responsibility, resulting in burnout. They further explained to the Committee that the lack of increase has had a detrimental impact on employees’ mental wellbeing and that of their families.
7. **COMMITTEE OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee notes that the Land Bank is still in default on its liabilities since the event of default in March/April 2020, which is exactly two years now. Since then, the Land Bank has been negotiating with lenders and developing a Liability Solution that is aimed at curing its default status. The Land Bank was exempted from submitting its Corporate Plan until it cures it default position. The Committee notes however that a Stabilisation Plan was developed and is being implemented.
   2. The Committee welcomes the appointment of the new Board by the Minister of Finance in December 2021. The Committee believes that this Board should expedite the implementation of the Stabilisation Plan and urgently finalise the Liability Solution.
   3. The event of default at the Land Bank followed after a downgrade of its credit rating in January 2020. This, followed by a mandatory redemption of its R1,1 billion credit facility from one of the asset management companies, led to the current cross-default situation. The Committee notes that although there has been this default standstill, all lenders have not called the Land Bank to settle its debts and thus have to liquidate its assets in order to settle them. This has enabled the bank to service its interest payments and reduce its debt by 28% (R11.4bn) since the event of default.
   4. The Committee notes that as of 14 April 2022, R13,4bn outstanding debt had matured although the total of debt stood at R28.9 bn debt as a result of the cross-default clauses. Only R1.5 bn of this debt was guaranteed by government.
   5. The Land Bank received an equity injection of R3 billion in September 2020 to deal with its debt crisis. The Land Bank used this to pay its debts. It received a further recapitalisation of R7 billion during the MTBPS of 2020 (R5bn in FY22, R1 in FY23 and further R1bn in FY24). The Committee believes that these equity and capital injections will enable the Land Bank to finalise the Liability Solution and to resume its lending activities to the agricultural sector for the current planting season.
   6. The Committee believes that the current negotiations on the Liability Solution should be finalised during this financial year in order to enable the Land Bank to resume with its lending activities during the current financial year. The Bank has not been supporting its clients’ funding needs as there has been no loans disbursed since the event of default.
   7. The Committee believes that the outsourcing of work that the Land Bank can perform through its employees should be reviewed and curtailed. This talks specifically to issues of its SLA partnerships where the Land Bank has outsourced its loan book to intermediaries, which then expose the Land Bank to what can been viewed as duplicate fees. In this regard, the Committee notes that some SLAs have been cancelled or not renewed and the work insourced. The Committee strongly believes that the Bank should not outsource its primary activities to intermediaries, as this exposes it to a number of risks, including credit (i.e. non-performing loans) and concentration risks.
   8. The Land Bank received a Disclaimer of Audit in 2019/20 and a Qualified Audit outcome in 2020/21. The latter was as a result of the refusal of an SLA Intermediary Partner to provide information required for the verification of disbursement and repayments on the loan book of about R31 billion. This is a cause for concern for the Committee. The Committee urges the Board and the Minister to ensure that such instances do not recur and that the audit action plans are implemented. The Committee will continue to exercise closer scrutiny on the implementation of audit action plans across the finance portfolio, including at the Land Bank.
   9. The Committee calls upon the Minister of Finance and National Treasury to ensure that the business/funding model of the Land Bank is reviewed in order to ensure its sustainability. Among others, the Committee will request to be briefed by the Land Bank and National Treasury on the implementation of the recommendations of the Strauss Commission of Inquiry into the Provision of Rural Financial Services Report (1996). The Committee believes that the development and transformation mandate of the Land Bank needs some blended financing strategy which will be favourable to up-and-coming farmers. This financing should include grants, rather than expensive funding sourced from the capital markets.
   10. The development and transformation mandate of the Land Bank is very crucial in ensuring that there is transformation and development of black farmers and that there is food security. In this regard, the Committee requires the Land Bank to supply it plans to support transformation and development of upcoming black farmers.
   11. The Committee is therefore concerned that the loan book of the Land Bank is not representative of the demographics of South Africa. Women and youth constitute less than 17 per cent of the Banks’ loan book and Africans are not adequately and reflectively represented. This means that the larger number of the Land Bank’s loan recipients remains white males. This is a cause for concern and calls for a loan book that is reflective of the demographics of South Africa.
   12. The Committee, in consultation or liaison with the leadership of the Land Bank, the National Treasury and the Ministry and Department of Agriculture, Land Reform and Rural Development, will consider the legislative re-construction of the Land Bank in order to position it as a development finance institution that will play a leading and meaningful role in the financing and support of small scale farmers, developmental agriculture and food production. The Committee believes that this will help realise some of the objectives of the Land Bank, which according to the Land and Agricultural Development Bank Act include (a) promotion, facilitation and support of equitable ownership of agricultural land, in particular the increase of ownership of agricultural land by historically disadvantaged persons; (b) agrarian reform, land redistribution or development programmes aimed at historically disadvantaged persons or groups of such persons for the development of farming enterprises and agricultural purposes; (c) the removal of the legacy of past racial and gender discrimination in the agricultural sector; (d) programmes that contribute to agricultural aspects of rural development and job creation; and (e) food security.
   13. The legislative reconstruction of the Land Bank should, among other options, include its repositioning into a development finance institution which will equitably provide agricultural finance and grants to all people in a manner that is representative of South Africa’s racial, gender and age demographics. It should also necessarily include an alteration of the Land Bank’s financing model in a manner that will make it not wholly dependent on capital markets, but additionally on the National Revenue Fund to finance, support, harness and enhance inclusive agricultural development for all the people of South Africa and in all areas.
   14. The Committee notes that between December 2018 to February 2020, there were acting CEOs and CFOs at the Land Bank. The Land Bank CEO resigned in April 2022 and this will again result in another acting stint in that critical portfolio as the recruitment processes often delay. The Committee once against call upon the Board and the Minister of Finance to ensure that critical positions at the Bank are filled expeditiously in order to ensure stability.
   15. The Committee engaged with SASBO, the recognised union of the employees of the Land Bank. The Committee notes the concerns raised by the union on issues of staff morale, lack of salary increases and incentives and the dispute that the union has referred to the CCMA. The Committee believes that the SASBO, the Board and Executive Management of the Land Bank need to find each other and seek to resolve disputes amicably before resorting to the Courts. With demoralised employees, the Land Bank is unlikely to implement an effective and efficient turn-around strategy.

**Report to be considered**

The DA reserved its position.