

Standard Bank South Africa and Stanbic creating synergies to support farmers expanding

Blurb: *Innovative solutions to unique problems*

Highlight: **“I believe Africa is a continent of opportunities when it comes to agriculture but farmers must be prepared to ride the roller coaster that comes as part of the package”**

The local muscle of the “Big Four” banks in South Africa is well known to banking customers. What is less familiar is their reach and expertise beyond our borders. In the context of world globalisation, agriculture has become part of the global market. As a result, banks have had to change how they operate in the agricultural sector. In meeting this challenge and adapting to world globalisation Standard Bank is now the largest African bank (by assets) with 40 000 employees in Africa and over 48 000 worldwide.

Our African footprint

As a result of our broad geographical footprint we have extensive expertise in the agricultural sector that operates across borders and across the value chain. Agricultural experts have specialised knowledge of the area in which they work and testimonies to our expertise throughout Africa abound. “We have many successful commercial farmers and community projects on our books, often achieved with innovative structuring of finance,” says Jacques Taylor, Director of Agricultural Banking, Standard Bank Africa. “It’s important for customers to understand that we do not offer only straight funding but that we are able to be creative and flexible in meeting their needs. For example although agriculture is a long term business, financial institutions in Zambia were only offering three to five year term loans which immediately placed farmer’s cash flow under severe pressure. Buying a farm or acquiring additional land by repaying it over a three to five years, makes land purchase and land expansions almost impossible, other than where large amounts of cash are readily available. After speaking to customers and establishing their needs, Stanbic Bank Zambia now offers the agricultural market loans of up to 10 years which allows farmers to spread costs over a longer period of time, in line with the long term nature of the business and the assets acquired.

Taylor says that an awareness of our reach outside of South Africa is important as “some South African farmers have agricultural investments in other parts of Africa”. He adds, “For these farmers, accessing finance outside of South Africa’s borders should not be fraught with problems when they have access to the same expertise that exists within South Africa.” Our branch infrastructure in Africa is in key locations across 17 countries with over 700 branches in South Africa and over 300 branches in the rest of Africa.

Making farming work beyond South Africa’s borders

Ray Letcher, general manager of MGM Farms in Zambia is an example of a South African producer now farming outside our borders. In late 2004 the directors of MGM Farms Limited approached Letcher to take over management of its operation in Zambia. With 54 years of farming experience, Letcher, an established sugar cane farmer in KwaZulu-Natal, embraced the opportunity. “I wasn’t ready to retire from farming and decided it was time to gain more experience and take on a new challenge.”

MGM Farms is a large-scale farming operation of 2 800 hectares. The main crop is irrigated sugar cane of which production has increased from 560 hectares in 2005 to the 1 400 hectares at present. The operation also includes 220 hectares of wheat and soya beans (double cropping) as well as 175 heads of cattle.

Letcher is very positive about being based in Zambia and says that “Farming in Zambia can offer good returns but these are ever-changing, especially in light of the excessive input costs that agricultural businesses are facing”. Letcher says his key learning throughout the process has been to respect your peers in the farming sector and to learn all that you can from them.

MGM farms is in the province of Masabuka and is one of about 80 farms of which 16 are sugar cane farms with the remainder being cattle, game, maize, wheat or soya. The entire farm is irrigated, made possible by the 2.5km of the Kafue River that flows through the property and is then pumped for 7km across the farm. “Water is plentiful across Zambia but due to the country’s dependence on hydroelectric power, water is highly valued and respected.”

Letcher feels that there is much underused, highly productive land available in Zambia and says that South Africans are able to get a 99-year lease if they want to farm. “Labour is abundant and governed by similar labour laws to South Africa,” says Letcher.

A Citizens Economic Empowerment law was promulgated in 2007 and gives businesses until 2017 to comply. “The requirements are similar to South Africa’s BEE laws with points given for building facilities such as schools and clinics, number of female staff and supervisors.”

After five years in Zambia, Letcher says the plan is to farm exclusively with sugar cane. “We have found the input and marketing costs for grain crops prohibitive and make it difficult to continue with our current crop mix.” MGM farms is one of the largest private growers of sugar cane for sugar producer Zambia Sugar PLC (Zamsugar), which is part of the Illovo Group. Sugar production is controlled by Zambia Sugar through the issuing of sugar quotas whereby growers can establish a fixed area of sugar cane and the factory guarantees to crush a volume based on the average for the farm’s past five years’ performance. “This means we can deliver our entire crop irrespective of yield outcome,” says Letcher. If the farm exceeds the average, the mill will try and fit the balance into its crush plan, but is not obligated to do so.

Why farm abroad?

According to research done by the World Bank, global food production will need to double in the next 30 years to sustain population growth. With over 70% of potentially arable land reserves located in South America and sub-Saharan Africa, the latter is in a great position to expand production and benefit from increased investment. However, to do this, innovative financial solutions must be available. “We are looking forward to building relationships with our customers in Africa and being able to add real value to agricultural businesses,” says Jacques Taylor.

Letcher says that he has been involved with Standard Bank for five years and enjoys the personal service he gets. He adds that he believes “Standard Bank is head and shoulders above the competition in terms of its willingness to take risks and think outside

the box”. Agriculture, with its vulnerability to weather, global markets and fluctuating prices, can be a tough industry to be in but it seems that the financial side doesn’t need to be.

“I believe Africa is a continent of opportunities when it comes to agriculture but farmers must be prepared to ride the roller coaster that comes as part of the package,” says Letcher, adding that the biggest concern associated with farming in Africa is the potential for political instability. When asked if there is anything he would have done differently in the process of moving to farm in Zambia, Letcher laughs saying, “Yes, I should have come earlier.”