Preparing for the next drought





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Setting the Scene



Challenges and Opportunities in the Agricultural Sector...

GLOBAL

- Growing Populations: Growing Global Demand; Change in Consumption Mix
- Massive Price Swings: Volatility in inputs & outputs
- Productivity Imperative given the constraints
- **Big Data:** Increased access



DOMESTIC

- **Junk Status:** Weakening exchange rate; declining oil prices etc.
- Rising Interest Rate cycle
- Tighter Macro-Economic conditions: Slow growth
- Climate Change: Changing climate patterns



Setting the Scene



The South African Agricultural Sector: A Snapshot

Total Land (Millions ha)	122.32	Source: Stats SA - Census 2011 Agric Households
Agriculture	100.67	82.30% of Total Land
Natural Grazing	83.93	83.37% of Agricultural Land
Arable Land	16.74	16.63% of Agricultural Land
Under Irrigation	1.29	7.71% of Arable Land
MPCI	1	6% of Arable Land



39,966 Commercial Farmers providing 90% of SA's Food

- Expanding production will require innovation and value addition
- Given competing uses, limited land available for new farmers
- Inclusivity a challenge
- Evolving policy uncertainties

*DAFF Statistics (2007)

Categorisation of Farmers in SA



Commercial Farmers:

Produce for market, hold title to land and practise mostly rain-fed with some irrigation

Smallholder/Semi-commercial:

Produce for commercial market and consume surplus, most do not hold title to land and practise rain-fed agriculture

Subsistence producers:

Produce for consumption only, most operate in communal land and practise rain-fed and backyard farming.

Safety net (Social intervention)

Land Bank and Land Bank Insurance Company



- Land Bank is South Africa's only specialist agricultural bank 105 years old
- Mandate to facilitate **DEVELOPMEN**T in the agricultural sector by driving transformation, inclusivity, job creation and food security.
- Land Bank Insurance Company SOC Ltd (LBIC) and Land Bank Life Insurance Company
 SOC Ltd (LIBLIC) are wholly owned subsidiaries of Land Bank mandated to provide insurance
 and risk management solutions respectively regarding crop, asset and life insurance to the agricultural community.
- LBIC and LBLIC align themselves with the objectives of Land Bank to be sustainable specialist insurers of agricultural risks, in support of the objectives of the Land Bank.



Land Bank Response to the Drought



- Drought Relief Fund introduced in 2016
 - Intended for 2015/16 maize crop
- Administered in conjunction with IDC to farmers in impacted areas
- Over R100-million in loans already disbursed to-date
- Fund availability has just been extended for farmers in the Western Cape and Eastern Cape due to continued drought conditions





We Stand By You!

Categorisation of Risk in SA



de ductible

Natural risks

- hail/storm/fire
- drought/flood
- frost/heat
- disease/pests/wild animals

Social risks

- man-made fire/burglary/theft
- strike/roit/vandalism
- war/terrorism

Economic risks

- input/output price fluctuation
- depreciation
- interest rate, currency changes

Catastrophe insurance coverage with state h severity, frequency Risk transfer Catastrophe risks support, reinsurance, financial market solutions Insurance industry Risks difficult to Risk transfer coverage, with manage on farm reinsurance support Risks managed On-farm risk management; Risk retention through risk severity, investment in risk reduction management technologies and practices

high frequency

on farm

Impact of Drought on Insurance Funding



- Consolidated insurance loss results over the past 13 years
- o 114% LR average
- o 397% in 2006
- o 256% in 2012
- o 161% in 2015
- Market Structure: Oligopolistic
- less than 40% retention
- dependent on Foreign Capacity (Limited capacity)
- Total h.a's cover by MPCI reduced from RIm in 2010 R531k in 2015.
- Current effect on funding







Impact of Drought on Insurance Funding



Big Question: Are we prepared for the next drought?

What are the imperative underlying questions that we need to address in order to answer this big question?

Underlying Questions to be Asked:

- What is the future of Crop insurance & production finance?
- How will financial institutions prepare the next drought?
- How can the risk to smallholder farmers be managed?
- What possible solutions can be offered?
 - Short-term
 - Medium-term
 - Long-term

Key Point

For a successful realisation of a sustainable crop insurance sector, what can the private sector do together with the state to address these challenges caused by drought?



THANK YOU!