

Agri finance in a time of uncertainty and risk

Farm debt is now in the region of R160bn and near an all-time high. Financiers and clients need to approach the coming season with realism and care, says Dr John Purchase, CEO of Agbiz. “As we approach the new season in the summer rainfall region of South Africa, and a new cycle of production finance, it is opportune to take stock of the past season, as well as to consider the coming season.”



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“While the Agbiz/IDC Agribusiness Confidence Index remains in positive territory for GDP (Agriculture) growth, South Africa’s economic and political woes are creating an environment of uncertainty and risk. Depressed local and international grain and oilseed commodity prices, also coupled to expected large carryover stocks of white maize, will result in marginal production areas having to consider alternatives, or abstaining from planting and leaving lands fallow if production is realistically deemed not to be profitable. Solid business and cash flow plans are essential if producers wish to access production finance for the coming season.

From a macroeconomic perspective, pending investment downgrades by the international rating agencies and depressed consumer spending will further weigh on the agro-food market. In addition, considerable political uncertainty will characterise the investment environment in the run-up to the ANC’s Elective Conference in December, as the outcome may very well be indicative of where the country is headed over the next decade.

Purchase added that the past production year has seen record maize and soybean crops being realised, and this has been a boon for all involved in the agro-food value chain, and especially also for the consumer as food inflation has already decelerated, especially with regard to staple foods.

Financiers took on extra risk to see farmers through drought

At the start of the season, the industry was still in the throes of the worst drought in a century, and many farmers could not settle their debts. The industry however committed, within the ambit of the National Credit Act, to extend credit and finance to farmers, despite major production risks present at the time. In many cases, penalty interest rates were also waived as financiers bent over backwards to assist farmers to remain in production.

“Agbiz thanks and applauds the agribusiness sector, especially financiers and insurers, that took on additional risk to ensure that farmers remained in production and that record yields could be achieved. Yes, the excellent rainfall in the latter part of the season played a major role, but without the financiers taking on additional risk and the agribusiness sector showing faith in the farmers, the record crops would not have been possible,” said Purchase.

“While agriculture is often a leap of faith, good solid planning together with the financier and/or agribusiness is of paramount importance for the farmer to achieve success,” Purchase concluded.

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