



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
LAND BANK FINANCIAL INTERMEDIATION PROJECT
APPROVED ON JANUARY 23, 2017
TO
LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA



ABBREVIATIONS AND ACRONYMS

ESMS	Environmental and Safeguard Management System
FIL	Financial Intermediary Loan
IP	Implementation Progress
MTR	Mid-term Review
PDO	Project Development Objective
WB	World Bank
ZAR	South African Rand

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BASIC DATA

Product Information

Project ID P150008	Financing Instrument Investment Project Financing
Original EA Category Financial Intermediary Assessment (F)	Current EA Category Financial Intermediary Assessment (F)
Approval Date 23-Jan-2017	Current Closing Date 01-Apr-2022

Organizations

Borrower Land and Agricultural Development Bank of South Africa	Responsible Agency Land and Agriculture Development Bank of South Africa
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Project Development Objective (PDO)

Original PDO

The project's development objective is to sustainably scale up Land Bank's financing, specifically to benefit emerging farmers.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IBRD-86860	23-Jan-2017	10-Apr-2017	29-Sep-2017	01-Apr-2022	93.00	26.88	66.12

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

- 1. The Land Bank Financial Intermediation Project was approved on January 23, 2017, became effective on September 27, 2017, and is scheduled to close on April 1, 2022.** The project is a financial intermediary loan (FIL) and has one component: a Line of Credit (LOC) for agricultural financing valued at US\$93 million. The loan is extended to Land Bank as the borrower and implementing agency, with a guarantee of the Republic of South Africa. The project provides both wholesale finance to participating financial intermediaries for on-lending to commercial and emerging farmers (historically disadvantaged small and medium scale farmers) (Window 1) as well as direct financing to support the integration of emerging farmers (historically disadvantaged small and medium scale farmers) in established value chains (Window 2).
- 2. The project implementation has encountered significant delays.** Only US\$26.88 million¹ (converted at disbursement to ZAR 390 million), amounting to 28.9 percent of the approved loan amount, has been disbursed. The first disbursement of US\$6.6 million was made in June 2018 and was fully utilized by December 2019. The second disbursement of US\$20.3 million was made in February 2020 but only US\$2.2 million has been utilized. The first drawdown and utilization was delayed due to the delays in the rolling out of the updated Environmental and Social Safeguard Management System (ESMS) that met World Bank requirements and slower than expected pace of origination of loans that met the eligibility criteria. The utilization of the second disbursement was put on hold following the Land Bank going into default status with its commercial lenders in April 2020.
- 3. The project Implementation progress (IP) as well as progress towards achievement of the PDO are rated Unsatisfactory.** Due to initial delays in disbursements the PDO and IP ratings were downgraded to “Moderately Unsatisfactory” from ‘Moderately Satisfactory’ in September 2019. These ratings were further downgraded to ‘Unsatisfactory’ in December 2020 due to lack of implementation progress resulting from Land Bank’s default status. The project risk rating was also increased to ‘High’ in December 2020. Project implementation continued to be on hold in 2021 and hence all the ratings have remained unchanged.
- 4. The project task team, with the support of the Country management and Global Practice management, has been closely engaged with the efforts of the Land Bank and the National Treasury to resolve Land Bank’s default status.** These contributions have been made through the team’s participation in biweekly meetings of the Development Finance Institution lenders convened by the Land Bank, and review inputs on the various documents – strategy and credit presentations, credit models, and audit information that have been shared with lenders. The Country Management has also regularly engaged the National Treasury directly – both through periodic meetings with the leadership of the National Treasury and through written briefs.
- 5. A virtual Implementation Support Mission was undertaken from May 17 to June 14, 2021 and the management letter and mission aide memoire were issued on June 28, 2021.** The mission reiterated the importance of curing of Land Bank’s default status at the earliest, National Treasury clarifying Land Bank’s mandate and funding plan to achieve this mandate, Land Bank developing a viable business model for this mandate, and strengthening of Land Bank’s systems and processes, particularly those related to estimation of Expected Credit Losses, institutional Grievance Redressal Mechanism, corporate governance, and financial supervision. The mission also communicated that the World Bank could consider a restructuring of the project to extend the project closing date to allow for full utilization of the project funds and achievement of the project’s development objective if: (i) default status is cured,

¹ Under this project, Land Bank has opted for automatic conversion to local currency at disbursement. The pricing is based on a variable spread over a floating Jibar 3-month rate with interest rate to be paid on quarterly basis.



(ii) clean audits are made available, and (iii) such restructuring is part of a medium-term strategy that is supported by a viable business model. However, these pre-conditions have not yet been met.

6. **Audits and governance.** The Entity is not fully in compliance with the financial management requirements relating to the submission of the Interim Financial Reports (IFR) and audits. The IFR for the quarter ending June 2021 was submitted but that for the quarter ending September 2021 is overdue. The audit report for FY2021, due by end September 2021, is also overdue. The borrower received a Disclaimed Audit Opinion for FY 2020.

7. **Legal covenants.** The project has no legal covenants.

8. **Payments:** The borrower was late in making the interest payment that was due on July 1, 2020 and the World Bank requested the Government of South Africa to make this payment in its role as the guarantor. This payment was received before the end of July 2020. The borrower has paid all interest and commitment fee payments that have since fallen due on time. The first principal payment on the loan is due on October 1, 2022.

B. Restructuring rationale

9. **The borrower requested the cancellation of the undisbursed balance on November 29, 2021.** The borrower re-confirmed the request on December 8, 2021 following discussions with the National Treasury. The task team also assesses that it is prudent to cancel the undisbursed balance since the Land Bank has not been able to meet the pre-conditions for an extension of closing date that was set out following the Implementation Support Mission in June 2021.

10. **Notwithstanding continued efforts by the Land Bank and the National Treasury, Land Bank's default status remains unresolved.** Land Bank, with the support of its corporate finance and legal advisors, has put forward multiple versions of 'liability solutions' as proposals to restructure its commercial debt. The latest version of the solution was shared with lenders in March 2021, and further enhancements were offered in June 2021. Following a R3 billion capital injection in 2020, the National Treasury has committed to making an additional capital injection (R5 billion in FY2021 and R1 billion in each in FY2022 and FY2023) if creditors accept the latest version of the liability solution. The National Treasury has also issued the pre-conditions that need to be met before the capital injection is made and the use conditions that would govern the use of the capital. Land Bank is continuing its discussion with lenders with the objective of getting an agreement with all lenders before January 2022. This would allow sufficient time for National Treasury to make the capital injection before end of the financial year on March 31, 2022.

11. **The default status has significantly impacted Land Bank's operational and financial performance.** Customer loan disbursements decreased by over 75 percent in the financial year 2021 (April 2020 to March 2021) compared to the previous financial year. The reduction in disbursement to the development and transformation segment is estimated to be over 90 percent. No new clients were financed during the year. Land Bank's non-performing loans have also deteriorated steeply, increasing from 11.4 percent in March 2020 to 30.1 percent in June 2021. While the audited financial report for the financial year 2021 is awaited, the Land Bank is expected to make a significant loss in FY2021. This follows a R2.4 billion loss in FY2020 and a loss of R942 million (restated following the FY2020 audit).²

² As a group, including its insurance subsidiary, losses were higher in FY2020 at R2.8 billion and lower in FY2019 at R902 million.



II. DESCRIPTION OF PROPOSED CHANGES

12. This restructuring paper introduces four changes: (a) cancellation of the undisbursed balance of \$ 66,124,638.88, (b) revisions to the disbursement estimates, (c) changes in disbursement categories, and (d) changes to components and costs, of which the latter three changes are related to cancellation of funds. The full amount of the undisbursed amount is proposed to be cancelled. The revised disbursement estimates indicate that there will be no further disbursements.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Components and Cost	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Loan Closing Date(s)		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓



Environmental Analysis		✓
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IV. DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Line of Credit for Agricultural Financing	93.00	Revised	Line of Credit for Agricultural Financing	26.87
TOTAL	93.00			26.87

CANCELLATIONS

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IBRD-86860-001	Disbursing	USD	93,000,000.00	66,124,638.88	29-Nov-2021	26,875,361.12	BORROWER'S REQUEST FOR COUNTRY REASONS
IBRD-86860-002	Disbursing	USD	0.00	0.00		0.00	

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IBRD-86860-001 Currency: USD				
iLap Category Sequence No: 1	Current Expenditure Category: Line Credit under the Project			
93,000,000.00	8,022,249.52	26,875,361.12	100.00	100.00



Total	93,000,000.00	8,022,249.52	26,875,361.12
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DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2017	18,600,000.00	0.00
2018	27,900,000.00	6,598,240.47
2019	18,600,000.00	0.00
2020	18,600,000.00	20,277,120.65
2021	9,300,000.00	0.00
2022	0.00	0.00