Improving financial oversight of Development Finance Institutions

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ABSTRACT

Effective financial oversight is an integral part in ensuring that Development Finance Institutions deliver on their mandate and also to hold the executive to account for the use of public funds and resources. This article investigates the use of supervision tools by the National Treasury of South Africa in its oversight of the Land and Agricultural Bank of South Africa (Land Bank). Of the variety of tools in use globally, it identifies the CAMELS assessment framework as well as the Subsidy Dependence Index (SDI) and explores their benefits and drawbacks in the South African context. In addition, the article gains the perception regarding financial oversight by means of interviews from National Treasury and Land Bank stakeholders. Taking the financial information from the Land Bank audit report and performing a quantitative analysis of the bank's performance, as well as measuring the social cost of the subsidies, the findings show that the adoption of the CAMELS rating could assist the Land Bank in determining a bank's overall condition and identifying its strengths and weaknesses in terms of finances, operations and management.

INTRODUCTION

Traditionally Development Finance Institutions (DFIs) provide development finance to address market failures and so complement both government resources and market financing. However, DFIs are now generally expected to address broader development policy objectives (not only limited to addressing market failures), such as private sector development, employment creation, income redistribution, import substitution, the development of poor groups or regions, as well as developing new industrial sectors or boosting weak ones (UN 2005).

Given the significant role of DFIs in developing and promoting the identified strategic sectors of the economy, it is important for DFIs to be strong, effective and efficient in performing their mandated roles better. Initiatives taken towards achieving these objectives include strengthening the regulatory and supervisory framework, building capacity and capability, as well as enhancing the operational efficiency of these institutions.

Due to governmental priorities such as the above, it is customary for governments to recapitalise DFIs in order for the DFIs to achieve their development mandate while pushing for financial sustainability. As a result of this funding of DFIs, governments expect to perform an oversight role on the finances of DFIs.

RESEARCH METHODOLOGY

This study uses a mixed method approach whereby current South African legislation and policy in terms of the oversight role of the National Treasury are compared to oversight tools implemented elsewhere internationally. The financial information from the Land Bank audit report were used to perform a quantitative analysis of the bank's performance as well as measuring the social cost of the subsidies by applying the tools reviewed. To assist in understanding and assessing the perception regarding the financial oversight of the Land Bank by the National Treasury, interviews were conducted and qualitatively analysed. The judgemental sample comprised five Land Bank and four National Treasury officials who were selected in terms of their involvement with the National Treasury oversight of the Land Bank.

NEED FOR OVERSIGHT AND ITS CURRENT APPLICATION/FRAMEWORK

Although the DFIs substantively comply with the requirements of the Public Finance Management Act, 1999 (PFMA) by submitting financial information to the National Treasury, a more accurate and timely anticipation and evaluation of DFIs, such as the Land and Agricultural Bank of South Africa's (Land Bank) financial assistance, is of paramount importance to the National Treasury. Failure to do so may result in the National Treasury being unable to plan and budget for funding requests in the national budget. By virtue of the important role of the DFIs in contributing to the economic development of the country, it could be impossible for government to decline their funding requests.

This situation could pose contingent liability risks to the state if not properly managed. These risks can emanate from poorly structured debt and maturity profiles not supported by

sustainable cash flows. Others may come from currencies or interest rate compositions, and large and unfunded contingent liabilities in the form of explicit guarantees.

According to Ratnovski and Narain (2007), there may be arguments in favour of either lesser or more stringent oversight. Arguments for lesser oversight include a low emphasis on profit, and high risk exposure of DFIs. In addition, DFIs enjoy more stable and longer-term financing sources and have a commitment of government support in the case of financial distress.

The financial distress of DFIs may have severe implications, particularly when such institutions are large and have systemic importance. They provide financial services that are missing on the market, and their failure may leave target industries (such as agriculture) without financing, or even result in an economy-wide credit crunch (as for housing finance). The failures of DFIs also carry significant fiscal risks – with high costs of necessary additional taxation.

The authors support the argument by Ratnovski and Narain (2007) for adoption of more stringent financial oversight which could

- enable the National Treasury to enhance transparency of and accountability for financial performance of DFIs;
- assist in recognising the opportunity cost associated with the Government's equity investments; and
- allow for an appropriate level of return on equity as per shareholder compact agreement.

Thus, stringent oversight may ensure that tax money is efficiently and economically utilised and may result in mitigating the risk of a growing burden on the South African fiscus. In addition, the *Constitution of the Republic of South Africa*, 1996 (Chapter 13) mandates the National Treasury to ensure transparency, accountability and sound financial controls in the management of public finances. Thus, the Asset and Liability Management Division within the National Treasury is responsible for the prudent management of Government's financial assets and liabilities by ensuring prudent cash management, asset restructuring, financial management and optimal management of government's domestic and foreign debt portfolio (National Treasury Annual Report 2010).

In executing the financial oversight role, the formal accountancy procedures are not the only means by which managers can improve the information on which they base their actions. Of the variety of tools in use globally to deal with this matter, there are especially two – the CAMELS (Capital adequacy, asset quality, management, earning, liquidity, and sensitivity model) analysis technique and Subsidy Dependence Index (SDI) – which are the most widely used and already successfully implemented as oversight mechanisms in other countries. Thus, it seems to make sense to examine whether the National Treasury should consider its adoption as planning and monitoring tools to assess a DFIs financial condition.

CAMELS SYSTEM AND ITS USE IN BANKING SUPERVISION

The CAMELS system has proven to be an effective internal supervisory tool for evaluating the financial soundness of the DFIs, on the basis of identifying those institutions requiring special attention or concern (Uniform Financial Institutions Rating System 1997:1). The CAMELS

model has successfully been used by many researchers to evaluate the financial performance of banks. One of the latest studies was conducted by Sangmi and Nazir (2010). They used the CAMELS parameters to highlight the position of banks in Northern India after evaluating their capital adequacy, asset quality, management capability and liquidity. Talwar (1999:17), who was the deputy governor of the Reserve Bank of India, asserts that the main instrument of supervision in India is the periodical on-site inspection of banks that is supplemented by off-site monitoring and surveillance. Since 1995, on-site inspections have been based on the CAMELS system.

In order to gain detailed insight into the CAMELS rating, each category will be discussed separately.

C–Capital adequacy

Capital adequacy is the capital expected to maintain balance with the risks exposure of the financial institution, such as credit risk, market risk and operational risk, in order to absorb the potential losses and protect the financial institution's debt holder. "Meeting statutory minimum capital requirement is the key factor in deciding the capital adequacy, and maintaining an adequate level of capital is a critical element" (Uniform Financial Institutions Rating System 1997:4).

A–Asset quality

Loan loss provisions/total loans: This ratio evaluates the proportion of bad loans over total loans. A high ratio is supposed to mean a bad quality of assets, but in fact it depends on whether information on *bad loans* is correctly revealed. The Japanese case tends to show that systematic underestimation of *bad loans* has been used by distressed banks as a strategy to avoid loss of confidence. Consequently the ratio may be blurred or underestimated (Bou-Said & Saucier 2003:6).

M–Management quality

Management quality is basically the capability of the board of directors and management, to identify, measure, and control the risks of an institution's activities and to ensure the safe, sound, and efficient operation in compliance with applicable laws and regulations (Uniform Financial Institutions Rating System, 1997:6). Grier (2007:197) also suggests that management is considered to be the single most important element in the CAMELS rating system because it plays a substantial role in a bank's success; however, it is subject to measurement during the asset quality examination.

E – Earnings

The earnings rating reflects not only the quantity and trend in earnings, but also the factors that may affect its sustainability. Inadequate management may result in loan losses and, in return, require higher loan allowances or pose a high level of market risks. The future performance in earnings should be given equal or greater value than past and present

performance (*cf.* Uniform Financial Institutions Rating System 1997:7). Actually, from an investment and business valuation point of view, they determine the value of a company, not the past or existing assets.

L – Liquidity

There should be adequate liquidity sources compared to present and future needs, and availability of assets readily convertible to cash without undue loss in order to ensure a financially healthy bank. The fund management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner; and capable of quickly liquidating assets with minimal loss (Uniform Financial Institutions Rating System 1997:8). However, too much liquidity restricts possible profits (Matschke, Hering & Klingelhöfer 2002:1). Therefore, it is necessary to find the right measure, as little liquidity as possible, but still enough to cover the mentioned liquidity risks and to prevent illiquidity.

S–Sensitivity to market risks

A bank should have a good sound process for identifying, measuring, monitoring and controlling the exposure to market risk according to business volume and its complexity. These aspects cover the capital accumulations available for covering adverse movement of interest rate, exchange rate, the implementation of market risk management and effectiveness in the implementation of internal control (Muljawan 1997:313).

SUBSIDY DEPENDENCE INDEX (SDI) AS TOOL FOR MEASURING THE PERFORMANCE OF DFIS

Coetzee (2002:56) emphasises that the SDI aims to provide an objective assessment and measurement of a specialised credit institution's financial performance. Sharing this view, Feijo (2001:11) additionally states that the SDI also provides a starting point for comparing the cost of alternatives for public intervention. It further serves as a long-term planning and monitoring tool for government to track a specific DFI's progress towards self-sustainability over time.

According to Yaron (1992), it measures subsidy dependence by aggregating all subsidies (S) received and comparing it to the total loan revenues, being the product of the bank's on-lending interest rate (i) and the average loan portfolio (LP). This is mathematically expressed as:

$$SDI = \frac{S}{LP.i}$$

Thus, the index expresses how much the average lending interest rate would have to be increased to compensate for complete and immediate subsidy elimination. For instance, a SDI of 100 percent indicates that a doubling of the yield obtained on the outstanding loan

portfolio (OLP) is required if subsidies are to be eliminated. Similarly, an SDI of 200 percent indicates that a threefold increase in the yield obtained on the OLP is needed to compensate for the subsidy elimination.

A lower SDI indicates that the institution becomes more sustainable. Once the SDI reaches zero, the DFI has achieved full self-sustainability. If the SDI becomes negative, then the DFI has not only fully achieved self-sustainability, but its annual profits minus its capital (equity) charged at the approximate market interest rate, exceed the total annual value of subsidies (if subsidies were received). A negative SDI also implies that the DFI could have lowered its average lending interest rate while simultaneously eliminating any subsidies received in the same year (Yaron 2004:39).

The objective of the SDI methodology is to provide a comprehensive method of assessing and measuring the overall financial costs involved in operating a DFI and quantifying its subsidy dependence. The SDI methodology suggests moving away from over-reliance on the financial profitability ratios used in conventional accounting procedures for the financial analysis of DFIs. It provides a public interest analysis of DFI financial performance and its subsidy dependence. Although this type of analysis does not take into account the full social benefits, it tries to involve the overall social costs entailed in operations, including the full value of all subsidies received by the institution (Yaron 2004:37).

Using a measurement method such as SDI could assist the National Treasury in monitoring financial efficiency of the DFIs as an effective oversight. It is of critical importance to ensure continuing efficiency and viability of DFIs. The SDI may additionally assist the National Treasury in demonstrating efficiency and social responsibility of the DFIs and the commitment of the DFIs to achieve financial sustainability that goes beyond financial self-sufficiently.

The SDI method has the following advantages (Yaron 1992):
- it reveals whether or not a DFI is financially self-sustaining;
- if not self-sustaining, the cost of keeping it afloat is quantified; and
- past trends and future projections can be calculated, providing management and policy makers with a valuable planning and evaluation indicator.

Nevertheless, the method also has a number of limitations (Yaron 1992):
- The SDI does not discount flows of funds. This is not a problem over short time frames (such as one year), and in low inflation environments. However, for longer time frames one might consider using the net present values of the payments (or in ex-post views, their terminal values).
- A subsidy dependent DFI need not be sustainable. Government or other agencies may be willing and able to subsidise it indefinitely. In particular, this is true if they use DFIs to implement political targets.
- Positive SDI values provide no clear guidance as to whether the subsidies should be removed, because the SDI measures the costs but not the benefits generated by a DFI.
- SDI indicates subsidy independence but not self-sustainability. A subsidy independent DFI could pay the opportunity cost to society of its funds and still show a profit, and a self-sustainable DFI can meet its goals now and in the long term. Subsidy independence may not guarantee self-sustainability.

THE CAMELS APPROACH ON BANK ANALYSIS TO THE LAND BANK

To analyse the Land Bank's overall performance on capital, asset, management, earnings, liquidity and sensitivity to the market from 2005/6 to 2010/11, and to find the strengths and weaknesses of the method, at first the CAMELS model will be investigated.

- **Capital adequacy analysis**

  Upon the transfer of the oversight role over the Land Bank from the Department of Agriculture, Fisheries and Forestry to the National Treasury (thus effectively reporting directly to the Minister of Finance), the Land Bank was granted government guarantees in the amount of in total R35 billion from 2008/9 to 2012/13 (The Land Bank Annual Report 2009/10:5), leading to capital injections of R2,7 billion according to Table 1 and resulting in improved earnings. This boosted the Land Bank's financial position when it recorded increases in the Capital Adequacy Ratio (CAR; calculated by summing up the total equity and then dividing the result by the total liabilities) moving from 21% in 2008/9 to 24% in 2012/13, so that it is currently well above the required benchmark of 20%.

  Without the government guarantee and/or cash injection facility, the Land Bank would have recorded a CAR change from 13% in 2008/9 to 29% in 2010/11, from where it started to fall again until 21% in 2012/13. This means that the Land Bank failed to comply with the CAR requirements of not less than 20% in 2008/9, but could fulfil them since then. The Land Bank is required to maintain a CAR of not less than 20%, even after taking into account the support provided by government. However, the declining trend over the last years again indicates that the Land Bank is highly

Table 1: The Land Bank Financial Summary: 2008/09-2012/13

Details	2008/9	2009/10	2010/11	2011/12	2012/13
	R'000	R'000	R'000	R'000	R'000
Capital injections		1,000,000	750,000	750,000	200,000
Revenue	1,949,921	1,754,394	1,305,020	1,498,791	2,047,842
Net profit	168,135	379,089	265,008	161,356	304,591
Net profit margin	9%	22%	20%	11%	15%
Net Equity	2,327,867	3,707,756	4,719,464	5,626,474	6,131,063
Total Debt	15,236,057	12,248,257	13,579,390	19,724,932	24,650,943
Debt to equity	565%	290%	255%	319%	374%
CAR	21%	42%	43%	30%	24%
CAR (excluding guarantees)	13%	22%	29%	25%	21%
Current Ratio	0.8	0.9	0.8	0.8	0.8
Cash balance	4,023,284	1,934,823	2,087,520	1,941,406	1,891,383

Source: Land Bank annual reports: 2008/09 – 2012/13 (Land Bank 2008/09 – 2012/13)

dependent on government support, and without this support the Land Bank's financial sustainability could be detrimentally impacted.

- **Asset quality analysis**

  By 31 March 2013, the Land Bank's total assets reached R31 billion, of which 88% were loans to customers, and 6% in cash and cash equivalents. The Land Bank realised positive impairments when it produced asset quality percentages of 16% in 2008/9 and 30% in 2009/10. This was driven purely by the implementation of a turnaround strategy, which also brought about recoveries from its previously non-performing loans and the reversal of interests that were wrongfully suspended. The Land Bank's asset quality continues to improve as evidenced by a decrease in non-performing loans by 3,7% to R1,4 billion in 2012/13. This is in line with the decrease in the impairment charge of R75 million in 2012/13. This was achieved through collection and restructuring initiatives.

- **Management analysis**

  The appointment of the full complement of the executive team was completed during the 2009/10 reporting period and has brought stability and a culture of accountability back to the Land Bank. To this end, policies were approved by the executive management to formalise guidance in a number of operational areas, specifically those areas where the Land Bank was exposed to operational and credit risks. The Bank has incurred penalties and interest of R0,4 million during quarter 2 of the 2009/10 for the late payment of Pay as You Earn (PAYE) to South African Revenue Services (SARS) when the Bank's executive appointments and improved payment processes were not fully operational (The Land Bank Annual Report 2009/10:76).

- **Earnings analysis**

  The Land Bank's income statement produced a net profit margin of 1% during 2007/8 financial periods (Land Bank 2007/08:50). At the time, the Land Bank's income statement suffered predominantly from negative high loan impairments, higher operating costs and poor income generation. Between the 2008/9 and 2012/13 financial periods, due to the implementation of the turnaround strategy, the net profit margin started to improve, recording 9% in 2008/9 and 20% in 2010/11 before softening to 11% in 2011/12 (see Table 2). The turnaround strategy prioritised cost containment and income maximisation, which contributed to this improvement. Attention is drawn to the fact that the Land Bank has converted most of its revenue into profits, especially when it produced a higher-than-projected net profit margin of 15% for the 2012/13 financial period.

- **Liquidity analysis**

  The Land Bank shows an unstable trend, staying at below a 1 for times coverage for four of the five years analysed (see Table 1). This decreasing trend is attributable to the fact that the Land Bank's total current assets have been decreasing faster than its total current liabilities. This means that the Land Bank has, on average, cash balances 0,80 times greater than its current liabilities, which is insufficient to cover the current liabilities.

- **Sensitivity to the market**

  The objective of the sensitivity analysis is to demonstrate the effect on the policyholders' liability for changes in key assumptions underlying the valuation of

liabilities (Land Bank 2013/14:211). The Land Bank's 2009/10 annual report shows that simulation techniques such as interest rate increase sensitivity analysis were already being employed as a tool to measure interest rate risk in relation to financial instruments. These simulation techniques involve detailed assessments of the potential effects of changes in interest rates on earnings and economic values by simulating the future path of interest rates and the impact thereof on cash flows. The simulation techniques are based on projected changes in the interest rate environment. In static simulations, the cash flows arising from current positions are assessed.

The sensitivity analysis has been carried out based on the Land Bank's exposure to interest rates for derivatives and other financial liabilities and assets at the balance sheet date. The effect on the Land Bank's profits of a 100 basis point increase or decrease in the interest rate, representing management's assessment of a reasonably possible change in interest rates, is used when assessing interest rate risk. Thus, these techniques already contribute to a quality review of the sensitivity to the market component of CAMELS, in that the information would be readily available and disclosed in the audited annual report of the Land Bank.

BENEFITS AND DRAWBACKS IN IMPLEMENTING THE CAMELS SYSTEM AS A TOOL FOR FINANCIAL OVERSIGHT OF DFI's SUCH AS THE LAND BANK

The analysis of the Land Bank is an outstanding example to discover how well the CAMELS rating system works. Dang (2011:36) identifies a number of advantages and disadvantages that are discussed from the perspective of implementing it as a tool for financial oversight of the Land Bank in the following:

Advantages

- In regard to the flexible use of the CAMELS, this model can be applied as an off-site examination which makes it possible to use historical financial and accounting data to achieve a good assessment. The flexibility of the CAMELS system may encourage the National Treasury to also explore an on-site examination whereby the oversight officials would be afforded opportunities to visit DFIs premises on a regular basis in order to understand the value chain of the DFIs, and it could further improve the working relationship between the DFI and the National Treasury.
- It is the main framework to evaluate a bank's overall performance that assists the decision of investment in DFIs (Dang 2011:36). The CAMELS model will assist the National Treasury to assess and monitor, among others, DFI profitability, efficiency, cash flows and capital structure.

Disadvantages

- The current CAMELS approach to bank analysis is designed to strictly follow the U.S.A's banking law and regulations (Dang 2011:36). Thus, it requires flexibility to

adapt to the South African market. Notwithstanding the fact that the CAMEL rating system follows U.S banking law and regulations, it should be noted that a total of 48 scheduled commercial banks, including nine foreign banks in Bangladesh, were assessed according to CAMELS. Other countries that have adopted the CAMELS rating system include India and Pakistan, to mention a few, indicating that the system has been successfully implemented in other countries.

- The CAMELS framework overlooks or ignores the interaction with the top management of investigated banks due to the cost-efficient policies (Dang 2011:36). The comprehensive analysis on management may reveal the effectiveness of the board of directors and management, which is a significant factor in identifying the soundness of the bank's finances. In interacting with DFIs there is always a risk that management may not be accessible at a time suitable to the National Treasury and this is not unique to this system. Access to management and business information is a general problem that is experienced by both the private and public sector analysts.

SDI APPROACH ON BANK ANALYSIS TO THE LAND BANK

In measuring the magnitude of subsidy dependence for the Land Bank, this study uses the measurement method, the SDI, as developed by Yaron (1992).

Table 2 shows that the Land Bank's SDI is up from a breakeven point 2008/9 to a high of 57% in 2010/11, before steadily decreasing to a low of 10% in 2012/13. This means that currently for every R1 earned in the market place, R0,10 is received as subsidies. The Land Bank's SDI has been on a decreasing trend over the past two years but, although the financial performance of the Land Bank has improved during 2012/13, the SDI of 10% suggests that the Land Bank's on-lending rate would have to be increased by the factor 1, 10 to compensate for full subsidy elimination. Since even such a small increase sounds unrealistic, there is still need for government support in order to ensure that the Land Bank remains financially sustainable.

A negative SDI would indicate that the DFI would achieve full self-sustainability and that its annual profits would exceed the total annual value of any subsidies received by the DFI.

Table 2: Calculation of the Land Bank's SDI

Details	2009	2010	2011	2012	2013
	R'000	R'000	R'000	R'000	R'000
Revenue from lending	1,949,921	1,754,394	1,305,020	1,498,791	2,047,842
Subsidy					
Guarantee	1,500,000	2,500,000	1,750,000	1,000,000	803,000
Capital injection		1,000,000	750,000	750,000	200,000
SDI in % on capital injection[1]	0%	57%	57%	50%	10%

Source: Land Bank Annual report 2008/9 to 2012/13

However, according to Land Bank (2013/14:23), all indications are that the Land Bank is not expected to report a negative SDI in the next three years (2015–2018). Instead, also in 2013/14 the Land Bank received R300 million cash injection from the National Treasury (Land Bank 2013/14:23). On this basis and taking into account R2,5 billion revenues from lending, the SDI is anticipated to remain positive at an average of 12% for 2013/14, and – with R503 million to be converted into cash, then – also in the 2014/15 financial year. After that, the Land Bank will have a remaining guarantee of R1,5 billion, which is non-convertible (The Land Bank 2013/14:23).

Thus, not being able to increase its lending rate, eliminate all subsidies and remain self-sustainable, the Land Bank cannot compensate society for its opportunity costs (such as financial resources for other priorities such as health, education, salaries and credit repayments). The adoption of SDI will assist in measuring the Land Bank's level of subsidy dependence by showing the total social cost involved in operating the Land Bank.

INTERVIEW DATA ANALYSIS

The findings of the interview analysis indicate that under the current system, the National Treasury relies primarily on information provided by the Land Bank, without comparing or interrogating it against any data generated through a scientific financial model. An analytical tool, such as the CAMELS model, can be employed as an early warning system to detect DFIs that require close monitoring due to (immanent) financial distress. This would allow the National Treasury to take early remedial action where there are signs of financial distress.

All participants state clearly that the PFMA is relevant as a regulatory tool; however, they identify a serious need for the National Treasury to adopt additional oversight practices in order to strengthen its monitoring and evaluation processes. They further state that the National Treasury should consider adopting internationally recognised oversight tools, such as SDI and CAMELS (for detailed analyses compare Teka 2014:176-197).

RECOMMENDATIONS

Based upon the findings of this study, the following recommendations can be made:

- The National Treasury should implement the SDI tool, which will provide a comprehensive method for performing economic analyses on the overall financial cost of operating the Land Bank and quantifying its dependence on subsidies. This tool will also provide a public interest analysis of the Land Bank's performance and subsidy dependence.
- The National Treasury should consider adopting CAMELS. This tool would contribute immensely to improving the overall quality of financial analysis conducted by the National Treasury. The CAMELS model can be employed as an early warning system to detect DFIs that require close monitoring due to financial distress. This would allow the National Treasury to take early remedial action where there are signs of financial distress.

CONCLUSION

Based on the findings of this study, the following conclusion may be reached. The adoption of financial supervisory oversight tools could assist the National Treasury in performing its financial oversight role. The SDI tool will quantify subsidies and show the extent of the Land Bank's subsidy dependence. Its use can bring about a disciplined approach to the judgement of costs for society in terms of the public support for the Land Bank. Since the data needed to perform such analysis should be easily extracted from the financial statement, the SDI can also help to detect weaknesses in accounting systems.

The findings revealed that the CAMELS rating system can also be an important tool for financial oversight of DFIs such as the Land Bank. Its approach may be beneficial as it is an internationally standardised rating system and provides flexibility between on-site and off-site oversight; hence, it is the model most used internationally in assessing a bank's performance (Dang 2011:39). However, it has drawbacks, such as the fact that it ignores the interaction with bank's top management. This can be mitigated using the good stakeholder relationship the National Treasury could establish with the Land Bank.

The CAMELS rating system should be used together with SDI in order to ensure effective financial oversight of the Land Bank, accurate measurement of social costs, and to enlighten public debate on the use of scarce public funds. Without an SDI indicator, the public would be continuously presented with information that is confined to partial DFI performance indicators, such as profit, which is the residual value of the subsidy received, and the amount associated with recapitalisations whenever they occur, thereby missing the full picture of the social costs associated with maintaining the Land Bank.

Adoption of a risk-based oversight protocol approach would ensure a proactive and efficient oversight process, which would enable the National Treasury to prioritise and focus efforts and resources on areas within the Land Bank that have high-risk profiles. It entails a shift from a rigid rules/compliance-based oversight approach to a more risk-sensitive one, which seeks to encourage the Land Bank to develop, and continuously update its internal risk management system, to ensure that it is commensurate with the scope and complexity of its operations.

NOTE

1   Calculating the SDI, only used the cash injection was used since this is the actual money transferred to the Land Bank, while the guarantee can be granted but not utilised by the bank.

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