



**Centre for
Microfinance**

Rural and Small Farmer Finance - Africa and South Africa

Gerhard Coetzee

Centre for Microfinance, University of Pretoria and
Head of ABSA Micro Enterprise Finance

Presentation to the Procasur Study Group 2008



University of Pretoria

Outline

- **Rural and agricultural finance**
- **South African reality**
- **Results of recent research**

Rural finance reality in Africa

- Unfavourable environment (infrastructure, macro economics, property rights and contract enforcement, poor governance, political differences, climatic conditions)
- Still dominated by agriculture
- High costs of service provision (USA, Argentina, India, Brazil, W Europe, China)
- Policy environment
- Rigid legal and regulatory frameworks or nothing
- Human resources and MIS (management, governance)
- Funding constraints
- Underdeveloped industry infrastructure – meso level
- Lack of diversity of institutions, although improving
- Too much or too little competition

Problems with Lending to Smallholders

- Small loans - high administration and transaction costs
- Dispersion of borrowers
- Lack of collateral
- Contract enforcement problems
- Few records of income, assets etc
- Seasonality of income flows
- Simultaneous demands and repayments
- Savings withdrawn when credit required
- General riskiness and covariant risk
- Strategic default

Institutions and Products

- **Savings: Widespread need for services**
- **Insurance: Interest in index based**
- **Transmission and remittances**
- **Credit: Informal and non-agriculture (?)**
- **Credit: Linked contracts/Interlocking**
- **Credit: Most default to supply-led**
- **Term Lending: FAO study**
- **Member based approaches**

Conditions for success (Meyer 2000)

- Freedom to select clients, set interest rates
- Deposit mobilisation
- Information systems
- Staff training and incentives
- Product development
- Repayment incentives

Elements of success

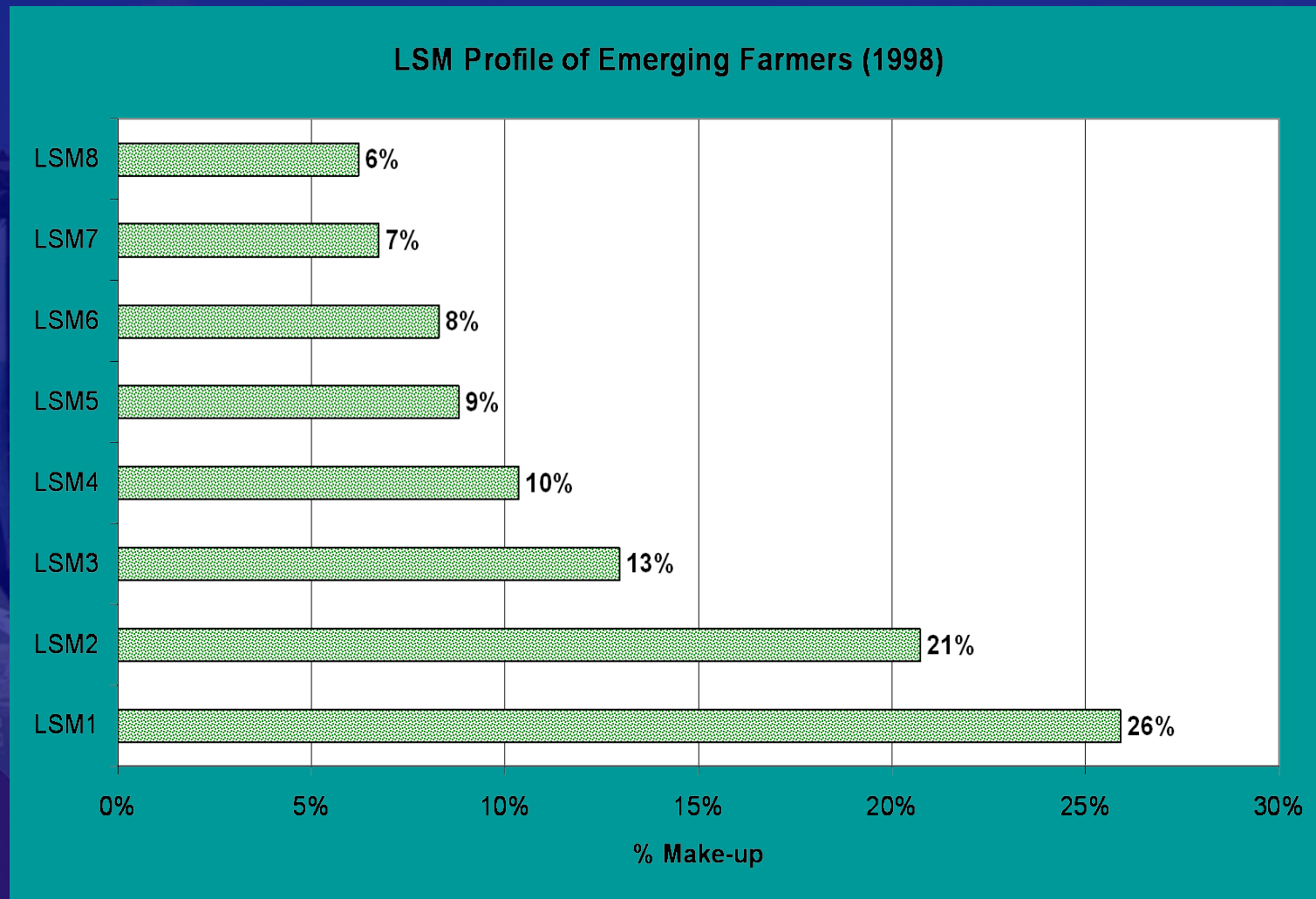
(Navajas and Gonzalez-Vega 2000)

- **Financiera Calpia (El Salvador)**
- **Household perspective - emphasis on repayment capacity (rather than loan utilisation)**
- **Diversification (within + across branches)**
- **Emphasis on borrower-lender relationships**
- **Decision making by loan officers**
- **Emphasis on loan recovery (incl. asset seizure)**
- **Large loan sizes, relatively wealthy clients**

Farmers in SA (Eskom 1998)

Type	Number
Commercial	55,000
Emerging	144,000
Subsistence	1,956,000
Total	2,155,000

Small and Emerging Farmer LSM Profile



Rural Finance South Africa

- Demand and Supply side
- Demise in services post-apartheid
- Overall lack in support to small farmers
- Part function of two level government
- Strauss Commission - ?
- Lack of emphasis on rural finance
- Limited outreach by all institutions
- Charter and commercial banks

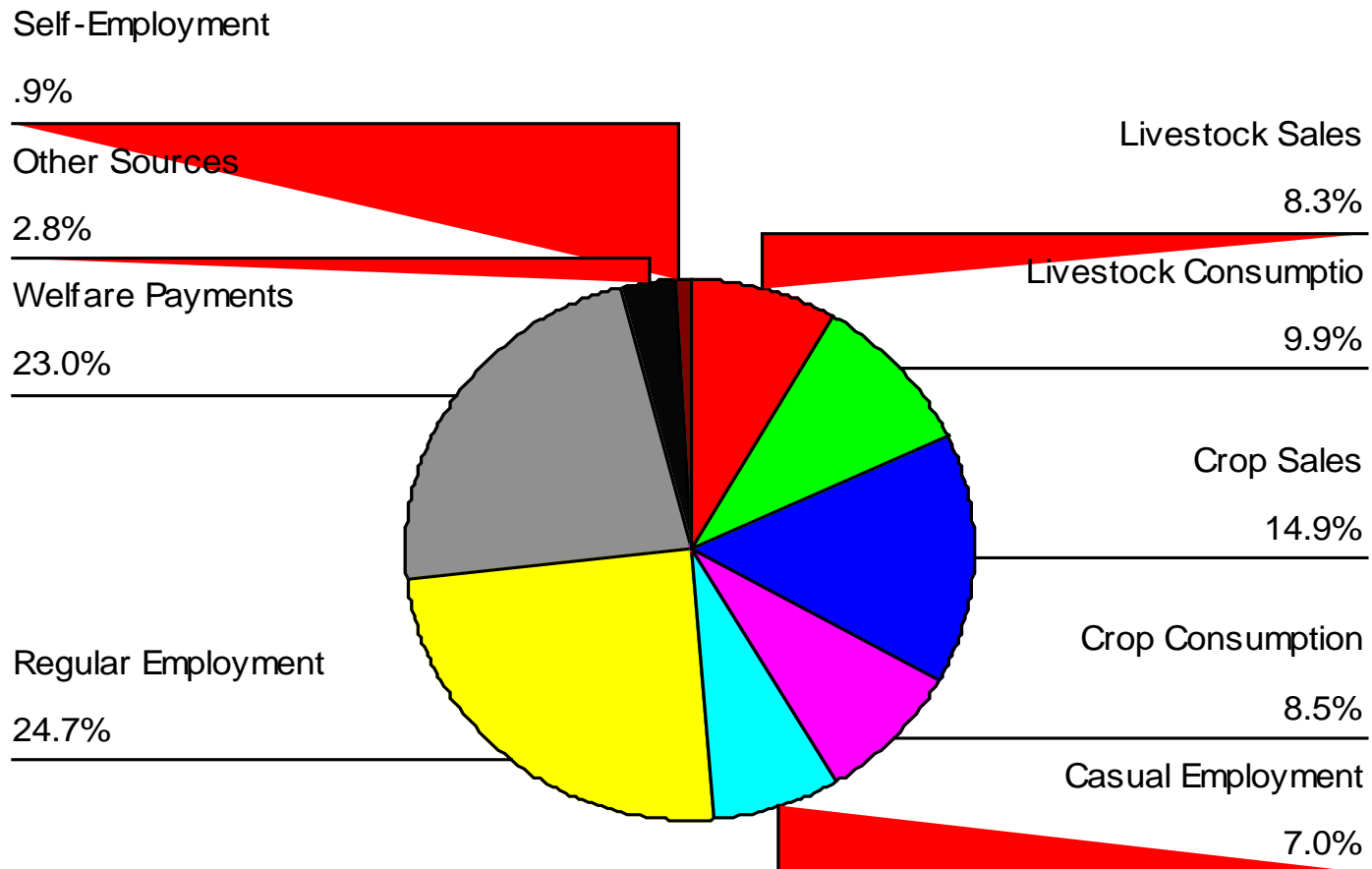
Recent study on small farmer finance in South Africa

- **Linking of livelihood strategies with product and delivery design**
- **Following the trends in micro-finance**
- **Renewed emphasis on small farmer finance**
- **Joint effort**
 - Imperial College at Wye
 - University of Pretoria
 - Agricultural financiers
 - DFID funded

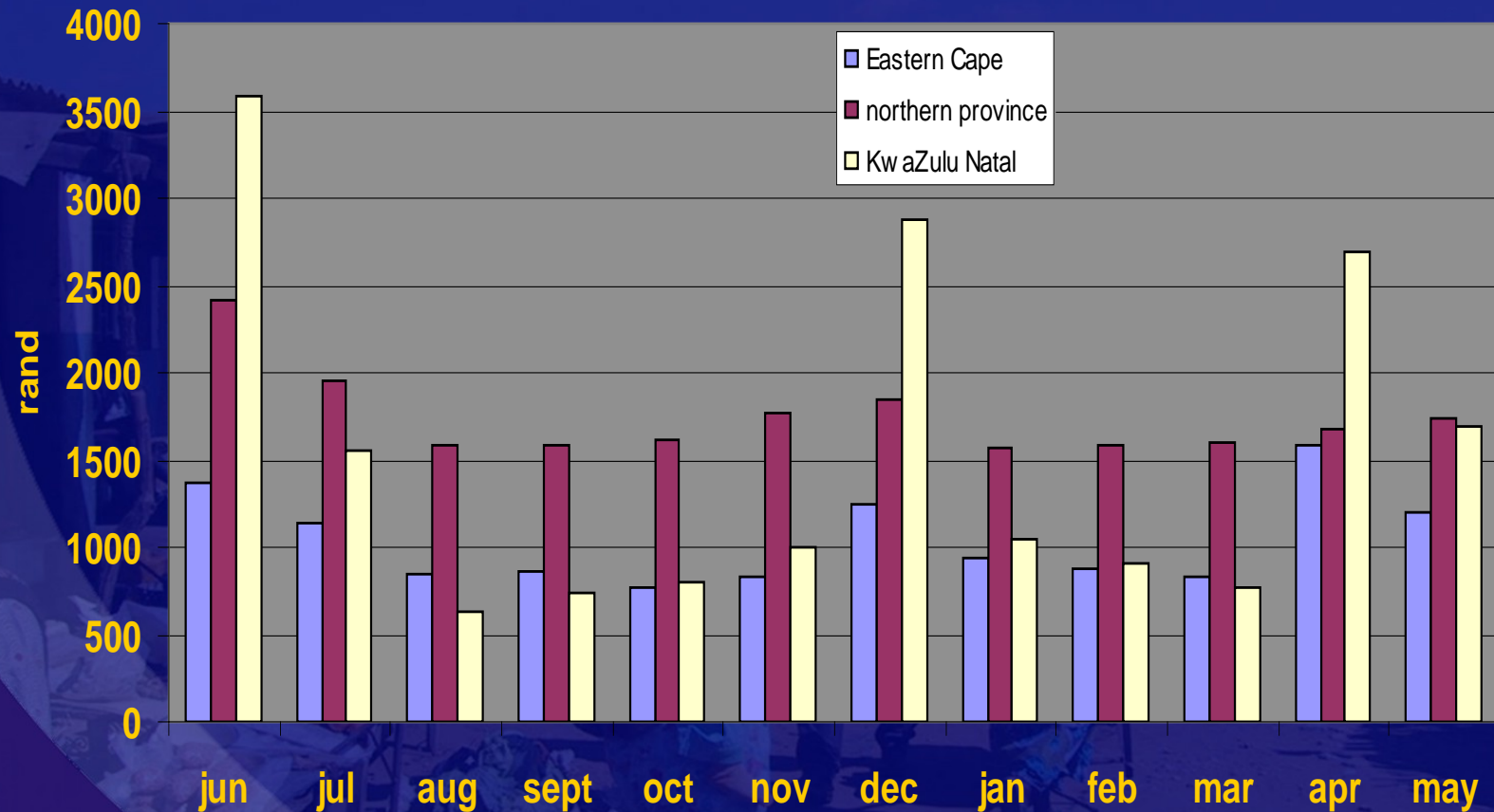
Comparison of Sampled Households Across Provinces

	Eastern Cape	Limpopo	Kwa-Zulu Natal
Number of Households	153	121	108
Mean Annual Income (Rand)	21187	32451	23964
Mean Number in Household	7.9	7.4	8.9
% of Female Household Heads	24%	26%	36%
Mean Age of Household Head	56	60	51
Land Per Adult Equivalent (ha)	3.9	2.8	1.3
Value of Livestock Holding (Rand)	19766	7984	17205

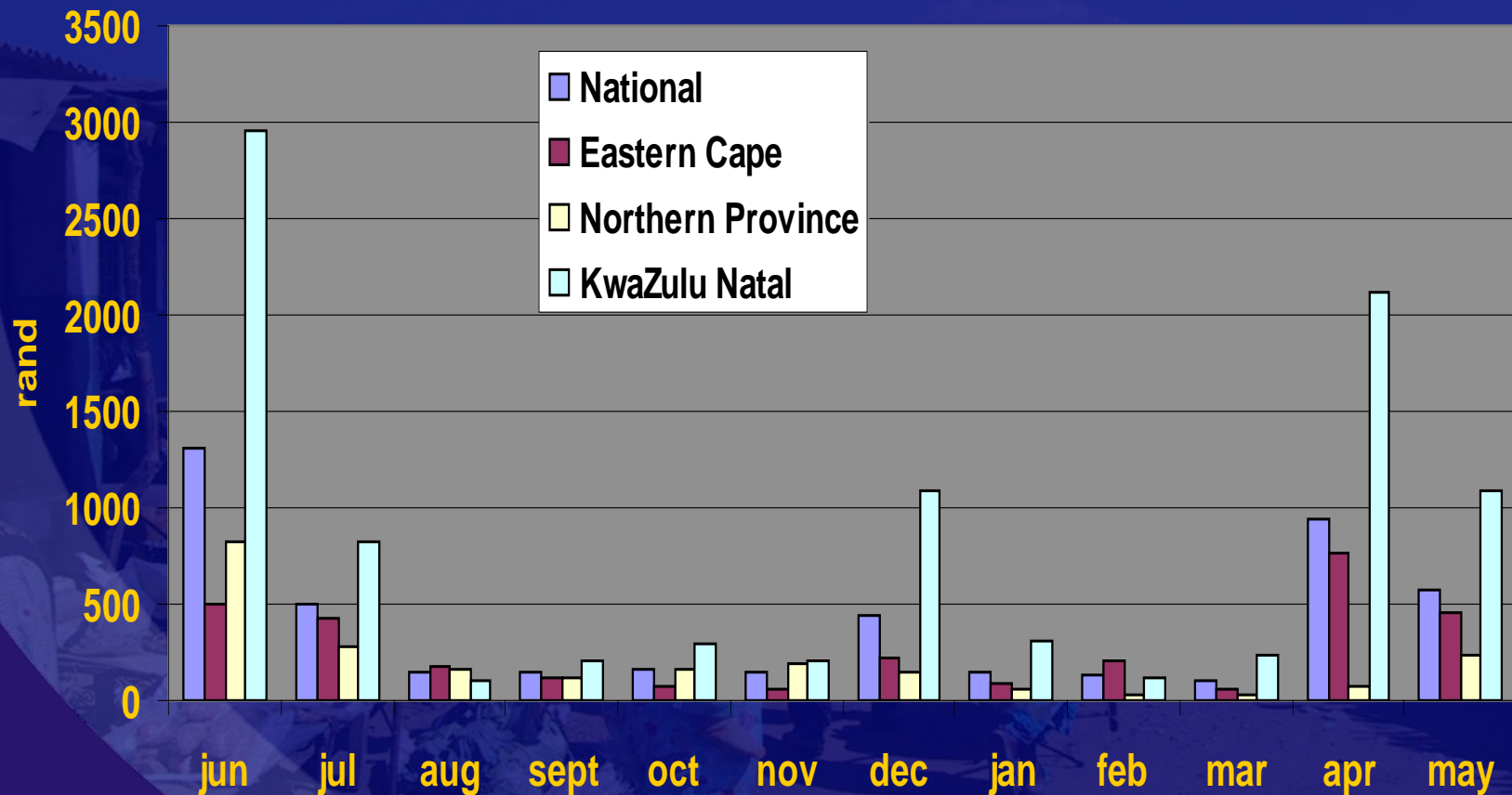
Mean Income Share by Activity - EC



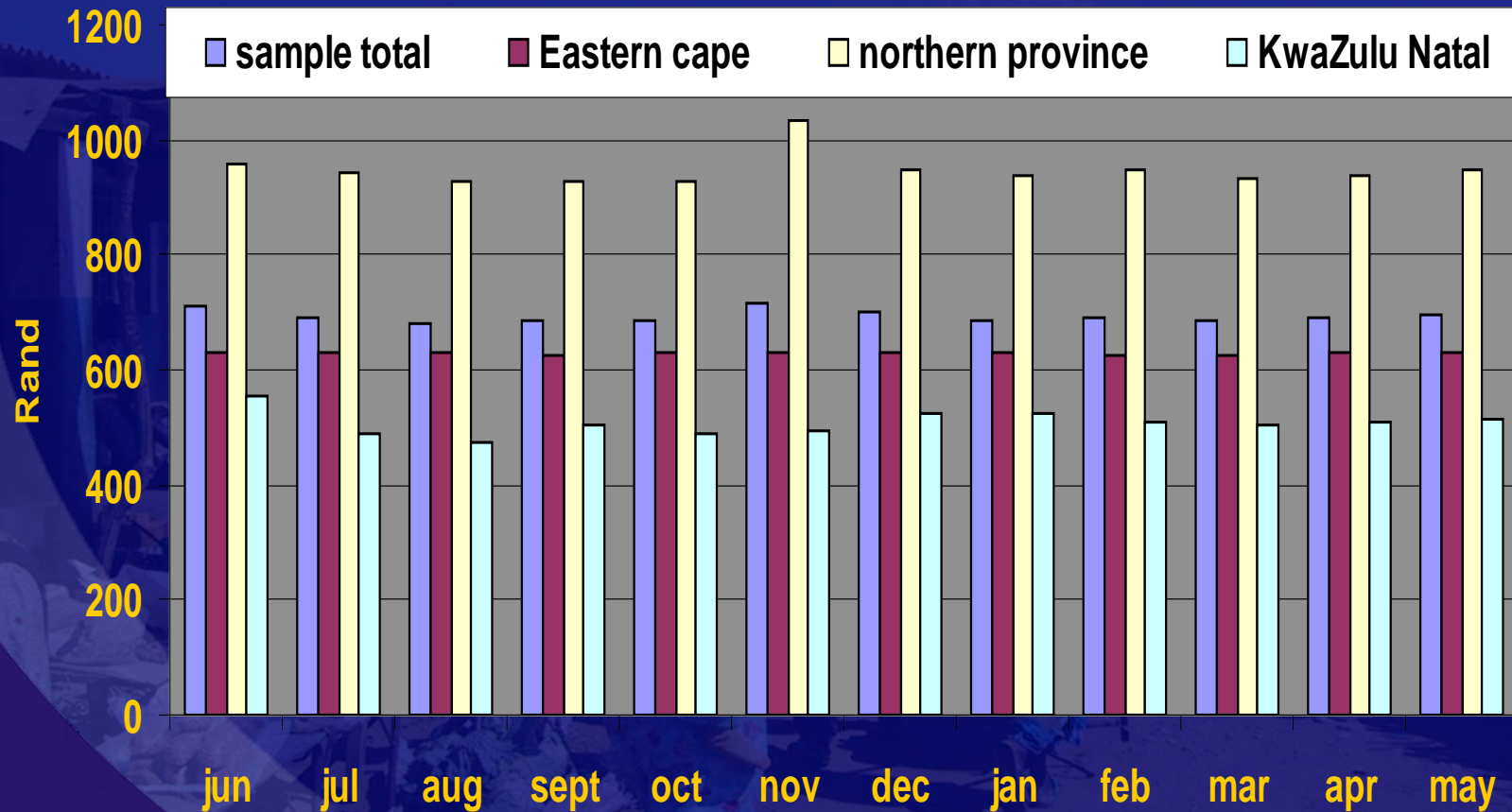
Mean Monthly Income by Province



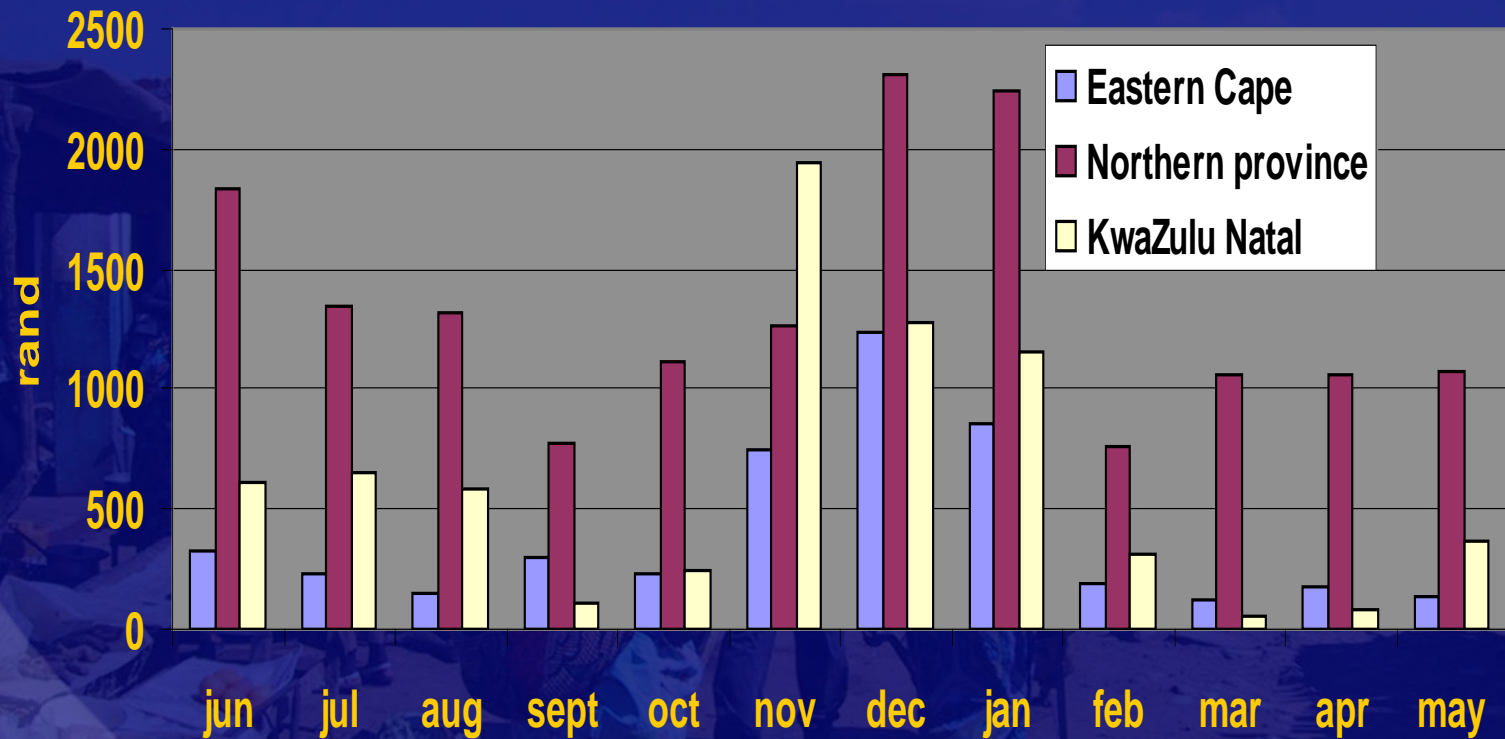
Agricultural Income Flows



Non-Farm Income Flows



Major Expenditures by Province



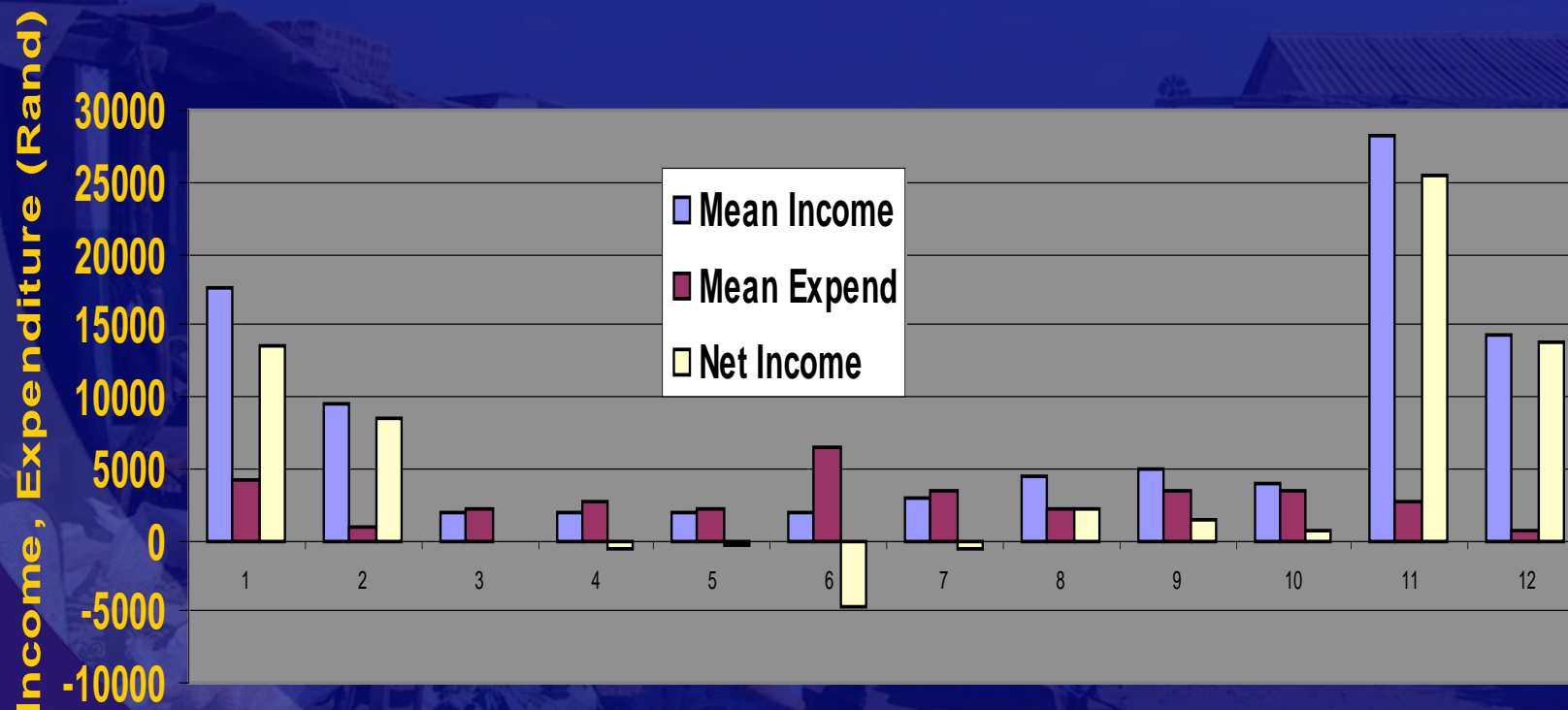
Cluster Characteristics (Eastern Cape)

	No. in Cluster	Mean Inc. (R p.a.)	Important Income Sources	Key Household Characteristics
4	14	3085	Livestock (h)	Little land, younger head, asset poor, close to town / road
6	7	3926	Crop Consumption (h), Livestock (m)	Asset poor, low housing
8	9	8389	Casual Employment (h), Livestock (m)	Mainly female-headed, younger head, remote
1	20	9934	Casual Employment (h), Crop Sales (m)	Most land per capita, high education, few livestock, remote, low housing
2	41	10155	Welfare (h)	Little land, older head, low housing, close to town / road
5	4	10803	“Other” income (h)	Low education, most housing, remote
9	33	18013	Regular employment (h)	Little land, asset poor, close to town / road
3	21	37718	Regular employment (h), some welfare + casual employment	Little land, asset rich, many livestock, close to town / road
7	4	97635	Crop Consumption and Sales (h), Self-Employment (h)	All male, medium land, high education, younger head, close to town / road
Total	153	16873		

Seasonality of Income by Cluster – Eastern Cape

	Seasonality Index	
Cluster	Mean (3)	Median (3)
4	10.28	-
6	31.50	-
8	2.14	1.61
1	5.07	infinity
2	1.52	1.00
5	1.55	1.00
9	1.23	1.23
3	1.43	1.23
7	13.16	10.94

Income and Expenditure Flows for EC Cluster 7



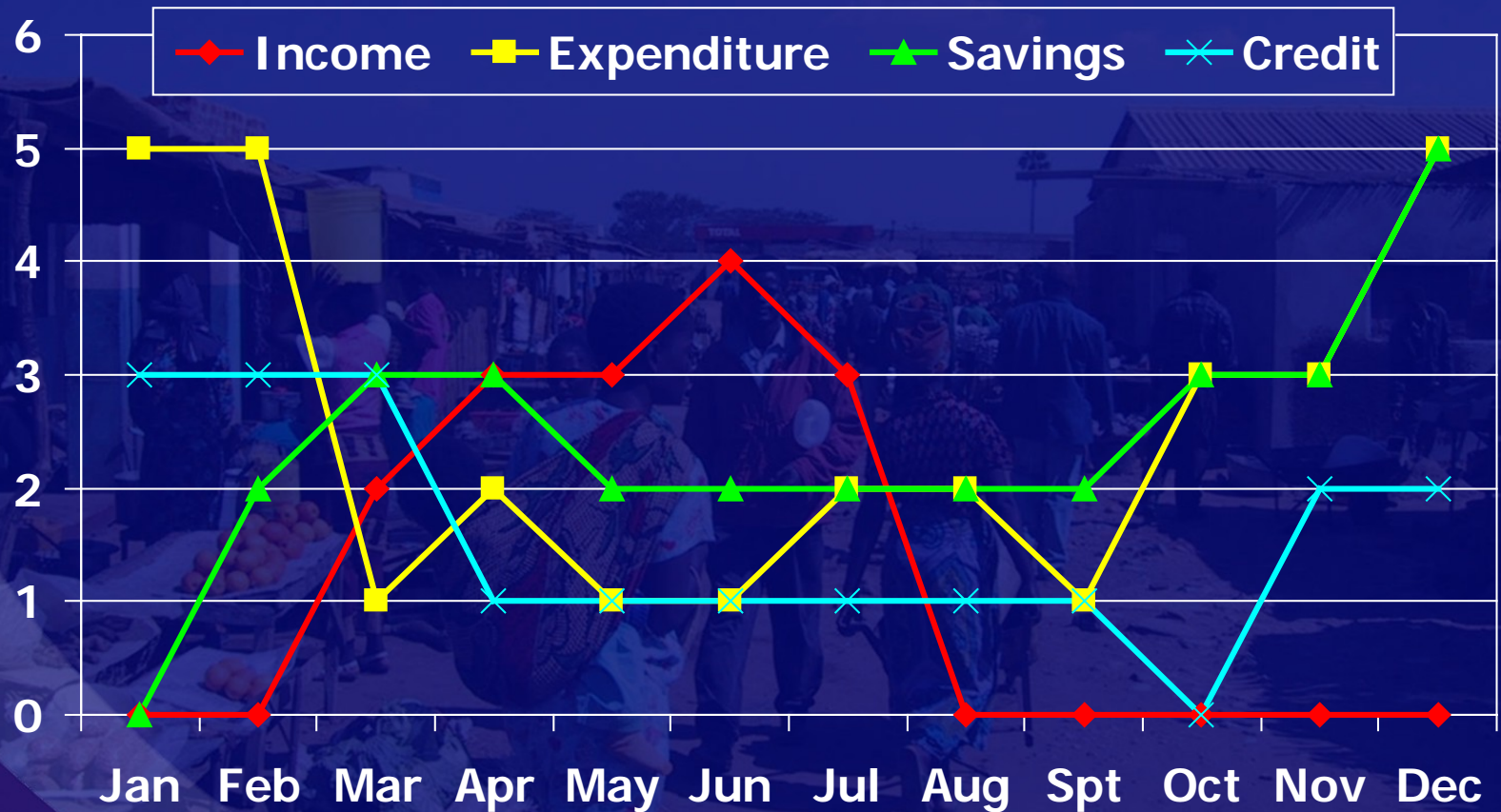
Diversification or specialisation?

Proportion of Total Income From	Cluster							
	1	2	3	4	5	6	7	8
Casual Employment	.01	.02	.04	.00	.05	.00	<u>.62</u>	.00
Regular Employment	.00	.01	<u>.67</u>	.00	.00	.00	.02	.00
Welfare Payments	.00	<u>.69</u>	.09	.00	.02	.00	.03	.02
“Other” Sources	.00	.00	.02	<u>.87</u>	.00	.00	.00	.00
Crop Sales	.09	.06	.03	.02	<u>.72</u>	<u>.78</u>	.13	.15
Crops consumed	<u>.73</u>	.05	.04	.03	.10	.11	.03	.16
Livestock Sales	.05	.06	.05	.06	.05	.01	.07	<u>.31</u>
Livestock consumed	.11	.08	.06	.03	.04	.00	.11	<u>.35</u>
Micro-enterprises	.00	.02	.00	.00	.00	.09	.00	.01
Number in Cluster	5	42	55	4	16	3	11	17
Mean Annual Inc (R)	4636	13477	34717	11740	9213	114236	11083	4942
Herfindahl Index	0.73	0.59	0.57	0.82	0.74	0.82	0.53	0.58

Product attribute ranking - EC

Attribute	Rank	Comment
Other inputs	1	Affects yield, thus impact on ability to repay
Repayment period	2	Link to production cycle
Disbursement	3	Impact on group when one member defaults
“Input type”	4	Forced to take specific fertilizer
“Transport”	5	Must supply support?

Seasonality analysis - EC



Financial sector trend analysis

Service	This year	Last year	5 years ago	Reasons
Com banks: Savings accounts	***	**		Only savings accounts, more employed, do not give loans
Postbank: Savings accounts	*****	****	***	Most people, near, our language, more people employed
Stokvels	**	**	***	Mismanagement, leaders steal money
Moneylenders	*	*		Unpopular due to reputation
Burial society	*****	*****	*****	Poor, thus need this for decent burial, R30-50 per month
Family & friends	****	****	***	No interest, popular, small loans R20-50

Findings

- **Client profile**
- **Delivery issues**
- **Product design issues**
- **How was the products designed?**
- **What is the internal experience:**
 - Default and arrears, other
- **Next step to look at design process**

Tailoring Lending to Household Types

Income Level	Dependence on Agricultural Activity	Core Lending Product to Consider	Assessment Approach for Lending
High	High	Agricultural loans	Activity based
Medium	Low	General purpose loans	Household based
Low	High	Agricultural loans?	a) Interlocking b) Group

Implications for Rural Financial Institutions (in South Africa)

- **Range of products, including savings**
- **Focus on transaction costs of all players**
- **Develop a lending portfolio including agriculture**
 - Greater outreach (spread overheads)
 - Spread risks (esp. with non-agricultural drivers)
- **This will enhance long term viability of agricultural lending activity, and in African context the rural finance activity**

Concluding Remarks

- **Small farmer finance important as part of rural finance and part of portfolio**
- **Context better understood – also non-financial issues**
- **Clients better understood**
- **Product and delivery systems designed based on client and market research**
- **Portfolio profile and management**