

The Status of Agricultural and Rural Finance in Southern Africa

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Outline



- ❑ Agricultural and rural development challenges
- ❑ Rural finance theme
- ❑ Research team
- ❑ Study objectives
- ❑ Methods and procedures
- ❑ Main findings
- ❑ Recommendations
- ❑ Initial outputs and influences
- ❑ Way forward



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Challenges



- ❑ SADC characterised by poverty – 40% live in absolute poverty.
- ❑ Given that 70% of the population is rural, poverty is largely rural
- ❑ Increasing agricultural growth necessary for economic growth, poverty reduction and food security
- ❑ Hence, CAADP's recommendation to increase annual growth rate by 6%
- ❑ Need to enhance the contribution of agriculture to achieve the MDG 1 (halving hunger and poverty in the region by 2015)
- ❑ Access to finance real challenge



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Rural finance theme



- ❑ The reality of the continent, with most activity in rural areas and largely agriculturally based poses a challenge for access to financial services
- ❑ Gain understanding of the current reality of rural and agricultural finance in Southern Africa and building analytical frameworks in support of making these markets work for the poor
- ❑ Support processes to improve access to financial services for agricultural and rural populations, thereby contributing to the improvement of rural incomes and general economic development
- ❑ Working towards inclusive rural finance markets with policy and strategic input (at macro, meso, micro, client levels) that will improve access to financial services for small farmers and rural people in SADC



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Research team



□ University of Pretoria

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- Mannex
Mwabumba

□ Zimbabwe

- Godfrey Mudimu



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Study objectives (phase 1)



- ❑ Examine current status of agricultural and rural finance
- ❑ Focus on demand, supply and access issues
- ❑ Identify factors enabling and disabling access to agricultural and rural finance
- ❑ Start a thematic approach focusing on dissemination



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Methods and procedures



- ❑ Teams per country
- ❑ Reviewed existing literature on the topic
- ❑ Analysis of available information/data
- ❑ Only in cases where information/data on specific projects were gathered did we use primary sources
- ❑ Study countries: Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe



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Main findings : Demand



- ❑ Dearth of quantitative data on facets of demand that will bring thorough understanding of challenges
- ❑ FinScope type data per country closed part of the gap
- ❑ Use of number/proportion of people using financial services
- ❑ Demand for all components of finance significant, with exception of insurance



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Main findings : Supply



- ❑ Supply limited, especially for small farmers
- ❑ Formal suppliers of agricultural and rural finance dominated by commercial banks
- ❑ Services from commercial banks oriented towards urban areas and better-off
- ❑ Rural people largely dependent on informal sources
- ❑ Limited competition among commercial banks, resulting in higher cost of obtaining finance
- ❑ Formal suppliers mandated to serve rural areas exist in most countries, but limited impact on access
- ❑ Supply of long-term finance and insurance for smallholder farmers almost non-existent



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Main findings : Access



- ❑ Access varies across countries, but overall there's limited access to formal finance
- ❑ Most smallholder farmers find it difficult to access formal finance
- ❑ Access to loans and insurance seems to be most difficult for smallholder farmers.
- ❑ Loans from informal sources less difficult to access but more expensive and inadequate

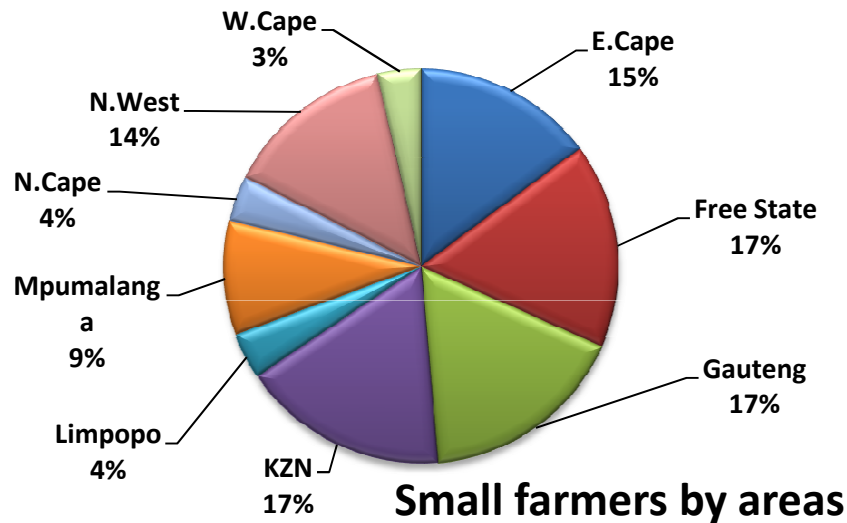
Country	% Banked	% Unbanked
Botswana (2009)	52	48
Mozambique (2009)	12	78
South Africa (2010)	63	37
Zambia (2007)	58	42
Zimbabwe	no data	



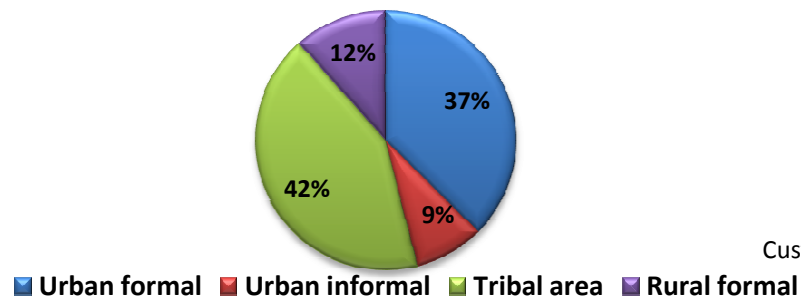
South Africa – Demand



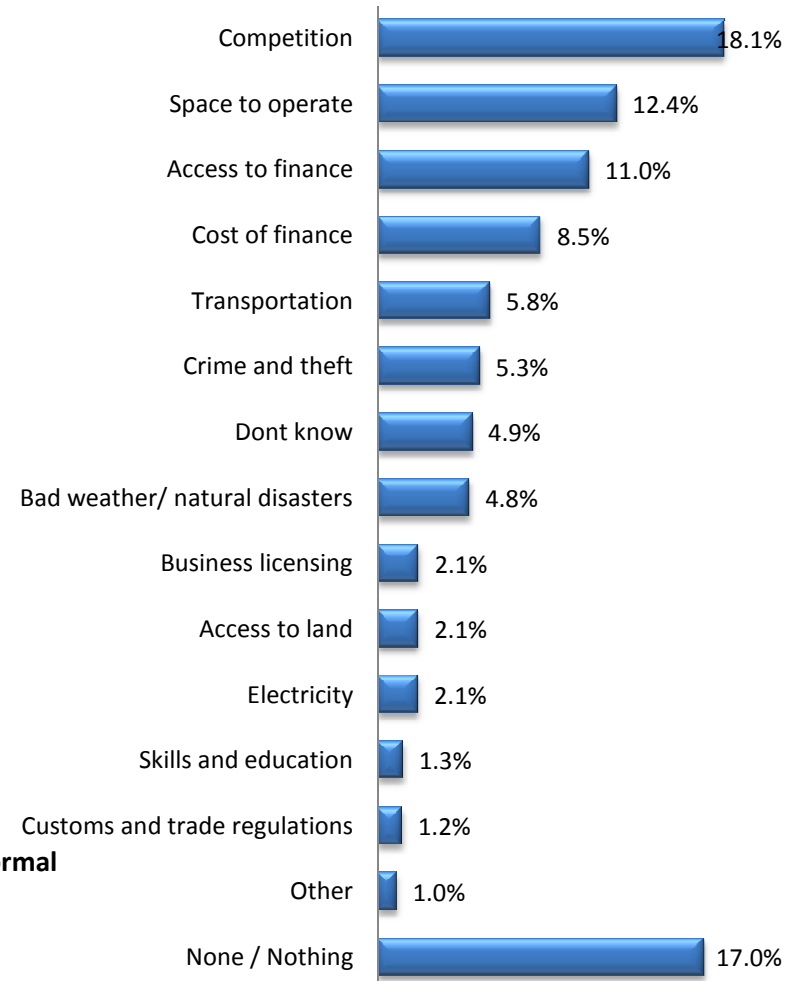
Geographical distribution of small farmers



Small farmers by areas



Obstacles to growth



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South Africa – Demand

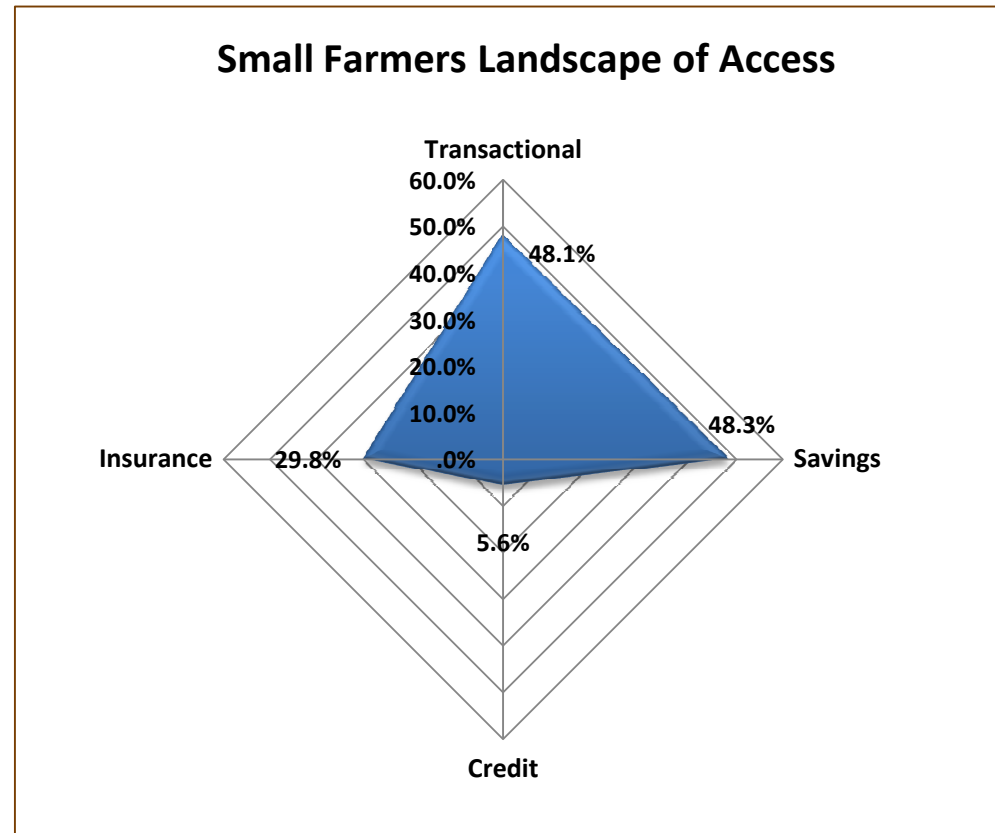


Small farmers Access Strand 2010



- Source of start up funding
 - Own money sources (37.4%)
 - Loans/money from others (23.6%)
- Minimum with loans for the business

Small Farmers Landscape of Access



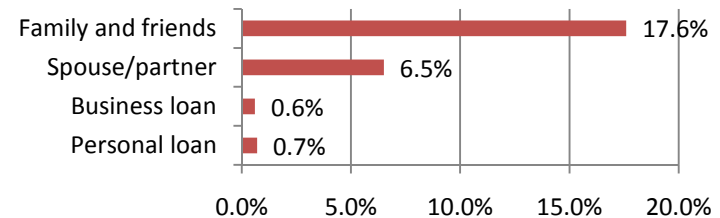
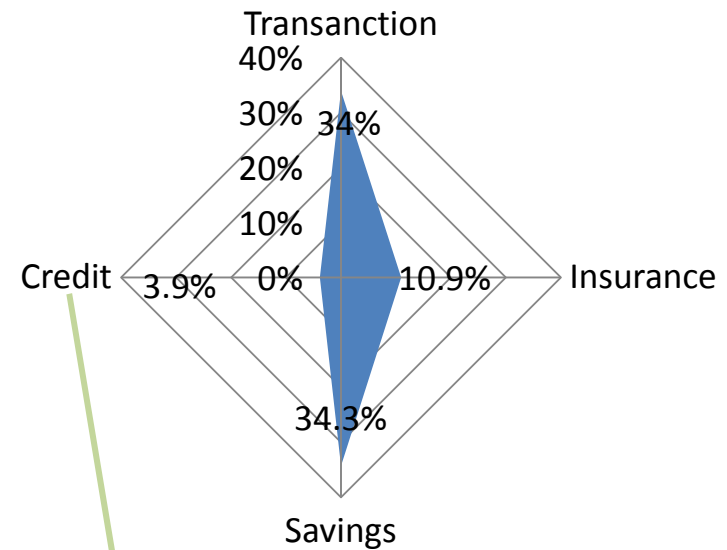
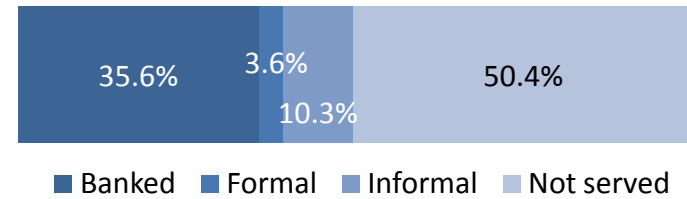
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Overall rural finance in SA



- Mostly women (60%)
- Females are more likely to be small business owners than males but males are more likely to be banked
- Obstacles to Growth
 - Space to operate (15.2%)
 - Access to finance (17.7%)
 - Competition (8.1%)
- Family and friends and savings are the most likely sources for start-up
- Formal loans near to non-existent
- 41% did not complete high school
- Free State has the most financially excluded population of 59.2%
- Northern Cape has the highest banked - 58%



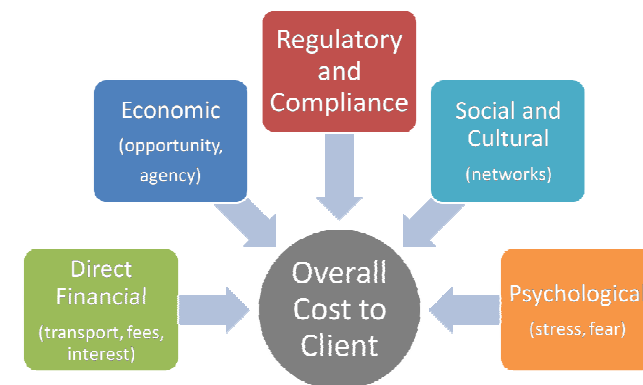
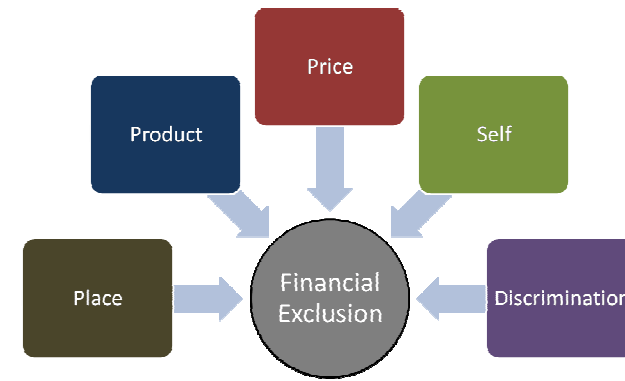
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Main findings: Enablers & disablers



- ❑ Range of enablers and disablers: societal, supply and demand
- ❑ Enablers and disablers at client, meso, micro and macro levels
- ❑ Significance of disablers varies across countries
- ❑ Societal factors seem to be most limiting, including financial policies, infrastructure, and land tenure systems
- ❑ Important demand and supply related disablers include cost of finance or cost-to-client and low level of financial literacy



Disablers



Societal /Environmental factors	Botswana	Malawi	Mozambique	South Africa	Zambia	Zimbabwe
Fiscal and monetary policy		X	X	X	X	X
Credit act/regulation		X	X	X		
Exchange rate policy						
Property rights		X	X	X		X
Public sector capacity		X	X	X		
Financial assistance policy	X					
Market liberalization				X	X	
Road infrastructure	X	X	X	X	X	X
Communication infrastructure	X	X		X		X
Electricity infrastructure	X	X	X	X	X	X
Financial sector infrastructure	X		X			
Supply factors						
Risk assessment procedures	X		X	X	X	X
Product design (terms and conditions)	X	X	X	X	X	X
Price			X	X	X	X
Service delivery (Internet, telecoms)	X			X	X	X
Type of product	X		X	X	X	X
Demand factors						
Concern about costs		X	X	X	X	X
Preference for alternative providers	X	X		X	X	X
Fear of being rejected	X	X	X	X		X
Ignorance	X	X	X	X		X
Opposition to use			X	X		



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Main findings: Disablers



- ❑ Land tenure – traditional tenure systems with land rights non-transferable
- ❑ Public sector capacity – capacity to deliver services at retail level weak
- ❑ Product type and design – mismatch between product design and potential clients' needs
- ❑ Price – High transaction costs leading to high prices
- ❑ Road and other infrastructure – poor quality in areas where smallholder farmers located



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Enablers



Societal /Environmental factors	Botswana	Malawi	Mozambique	South Africa	Zambia	Zimbabwe
Fiscal and monetary policy	X			X		
Credit act/regulation				X		
Exchange rate policy	X					
Property rights					X	
Public sector capacity						
Political commitment to rural development		X	X	X	X	
Financial assistance policy	X					
National development plan	X		X			
Market liberalization	X		X	X		
Public sector finance institutions	X	X	X	X	X	
Rural finance support institutions	X	X	X	X		X
Road infrastructure				X		
Communication infrastructure	X		X	X	X	X
Electricity infrastructure	X			X	X	X
Financial sector infrastructure	X					
Supply factors						
Service delivery (Internet, telecoms)	X			X		X
Type of product	X					
Demand factors						
Concern about costs	X				X	



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Main findings : Enablers



- ❑ Political commitment to rural development
- ❑ Macroeconomic policy – no uniformity in all six countries – range from favourable in Botswana and South Africa to extremely unfavourable in Zimbabwe.
- ❑ Public sector finance institutions – exist in most countries but focus on lending and largely weak
- ❑ Social grants – South Africa, Mozambique and Zambia introduced these – promoting access, how to move from G2P to financial inclusion
- ❑ Communication infrastructure – private-sector led and spread at remarkable rate (check real coverage)
- ❑ Electricity infrastructure – varying degrees of development



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Recommendations



- ❑ Better quantification of demand and supply
- ❑ Address land tenure systems to enable use of land as collateral – or alternative due to the reality of slow changes
- ❑ Greater attention to improving quality and quantity of infrastructure
- ❑ Encourage competition among formal suppliers to lower cost of finance through support and information flows
- ❑ Demand-related disablers should be accorded higher priority
- ❑ Increase efforts to improve access to long-term finance and insurance for smallholder farmers
- ❑ Emphasize full banking services and not only agricultural loans
- ❑ Consider branchless banking in value chain approach to further access specific for small farmers



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Initial outputs and influences



- ❑ SADC RAP
- ❑ MFMW4A
- ❑ Financial Inclusion in SADC – modelling project, completed
- ❑ Branchless Banking in SADC – Introduction, overview in SADC and analysing and modelling for South Africa
- ❑ Inputs into phase 2 focus areas
- ❑ Engaging with DAFF, South Africa on Development Finance Policy



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SADC RAP Process (e.g.)



- ❑ Most interventions for national/local institutions at country level
- ❑ Scope for regional intervention through a non-bank institution:
 - collaborating with regional bodies, e.g. AFRACA
 - research, gathering, disseminating info regarding best practices
 - promoting, supporting financial consumer data collection, dissemination
 - helping central banks educate financial Intermediaries, clients,
 - researching, helping experimentation re non-land collateral
 - facilitating financial services innovations with cross-border potential, e.g. branchless banking via mobile phone, regional commodity exchange
 - assisting countries in eliminating gender-based constraints to access
- ❑ Scope for regional intervention through banking institution:
 - Mobilising and managing external funding for country level financial services development programmes
 - part-guarantor for country level intermediary lending programmes



MFMW4A Kampala principles



- ❑ Financial inclusion is a key to achieving MDGs and Africa's development. While Agricultural Finance is a part financial system of a country, the financial services needs of Agriculture Sectors in Africa are pressing, and demand special attention.
 - Establish a **specific high-level coordination body** and by recognising a single entity as the advocate for Agricultural Finance
 - **Strengthen farmers' organizations** so that the production end of agricultural value chains becomes an effective influence on agricultural finance policy making
 - **Focus public sector policy on a value chain/commodity approach**, with clustering of smaller farmers to facilitate economies of scale in input purchase, value addition, marketing and advisory services.
 - Ensure **legislation is in place and is implemented to foster innovation** and to **remove barriers** to financing the business of agriculture, through measures such as, but not limited to: asset-backed products, warehouse receipts, contract farming, credit reference bureaux (and better client identification), consolidation of small but viable rural financial institutions and other support to the informal financial sector.
 - In accordance with CAADP Principles, and in encouragement of private sector investment, **increase public sector expenditure in areas** such as, but not limited to: crop and livestock research and extension, water for irrigated crop production and livestock farming, infrastructure for crop insurance, rural energy supply, communications and roads.



MFMW4A Kampala principles



- Support transformation of the agricultural sector through encouragement of **longer term productivity-enhancing, on-farm investments** such as water supply/irrigation, fencing and farm buildings, through consensual approaches to land tenure issues.
- Enable financial institutions to meet the **demand for longer term financing** by developing financial markets so that lenders can gain access to the term liabilities required.
- Encourage the **commercialisation of agriculture and of farming as a business**, whether by consolidation of small holdings or through involvement of the private sector (domestic and foreign); in both cases ensure that social, cultural and environmental concerns are met and , in the latter case, that appropriate controls are in place to prevent undesirable exploitation.
- Develop and implement concrete actions **to improve financial literacy, consumer protection and farmer business education, with a special focus on gender and youth issues.**
- **Drive research, training and dissemination of knowledge** to foster private sector investment in developing and marketing added-value agricultural products and services.
- **Ensure a sustainable flow of information is available** in areas such as, but not limited to: markets, output prices, costs of inputs and cost and conditions of financial products and services.



Outputs/Interactions



- ❑ 6 country reports – working docs, on website (CIBA)
- ❑ 1 regional report – working doc, on website (CIBA)
- ❑ 1 summary regional report – FMT publication, available middle August '12
- ❑ This presentation, available on FMT website by 28/07
- ❑ August '11 – FMT Rural Finance website – material, database, events
- ❑ August '11 – finalisation of arrangements at project level to support selected in the field projects
- ❑ September '11 – paper and workshop at the African Microfinance Conference (19 to 22 September, Addis Ababa)
- ❑ October '11 – Symposium on Policy and Strategy to further access to agricultural and rural finance (20 to 21 October, University of Pretoria)
- ❑ March '12 – Report on best practices and country level strategy in regional context to improve access to agricultural and rural finance



Way forward



- ❑ Research component divided into phases
- ❑ Results reported here are for phase 1
- ❑ Phase 2 (research) will focus on review and analysis of experiences with implementation of successful programmes/projects and designing a strategic framework within regional context at country level
- ❑ Phase 2 (thematic) will focus on dissemination, engagement and supporting interventions on a selective basis, towards the theme objective
- ❑ We invite your input and engagement



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