



The State of Rural and Agricultural Finance in SADC*: Some initial findings

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Outline



- Rural and Agricultural Finance Theme
- The Team
- Timeline and deliverables
- South Africa
- Botswana
- Zambia
- Focus Projects
- Initial views and findings



Rural Finance Theme



- The reality of the continent, with most activity in rural areas and largely agriculturally based pose the challenge
- Theme focus on improving access to Rural and Agricultural Finance in selected countries, with primary focus on southern Africa
 - Understanding the challenge
 - Dissemination including networking
 - Working towards inclusive rural finance markets (Macro, Meso, Micro)



Team



- **University of Pretoria**
 - Charles Machethe
 - Vuyo Mahlati
 - Thinah Moyo
 - Nontobeko Qwabe
 - Bokang Tlali
 - Menzi Dlamini
 - Gerhard Coetzee
- **University of Stellenbosch**
 - Nick Vink
- **Zambia**
 - David Musona
- **Botswana**
 - Howard Sigwele
- **Mozambique**
 - Tatiana Mata
- **Malawi**
 - Mannex Mwabumba
- **Zimbabwe**
 - Godfrey Mudimu



Timelines



- Phase 1: March 2010 –March 2011
- Phase 1 countries: Botswana, Mozambique, Malawi, South Africa, Tanzania, Zambia and Zimbabwe.
- Part 1 of Phase 1: March 2010 – October 2010, Botswana, South Africa and Mozambique
- Part 2 of Phase 1: Malawi, Mozambique, Tanzania and Zimbabwe
- Phase 2 to Phase 5



Deliverables



- Country reports for first three countries: Botswana, South Africa and Zambia - October 2010
- Country reports for remaining four countries: Malawi, Mozambique, Tanzania and Zimbabwe - February 2011
- Regional report, covering all countries – March 2011

South Africa





Enabling environment



- **Political commitment** exists to improve financial inclusion; promote employment creation; promote proper functioning of input and output markets; and promote participation of poor people in production and marketing activities.
- **Freer trade** – removal of trade restrictions, trade agreements, etc.
- **National Credit Act** -- key objective to promote access to the poor and further developmental credit
- **Public sector institutions** in place (e.g. Land Bank).
- Greater commitment to **rural development** (Comprehensive Rural Development Programme)



Disabling environment



- **Infrastructure:** Poor physical infrastructure remains a major constraint in rural areas affecting access to finance
- **Ineffective programmes:** Programmes such as Comprehensive Agricultural Support Programme have achieved limited success
- **Property rights:** Rural people still experience problems in accessing finance due to lack of property rights or unclear definition thereof
- **Public sector capacity:** Poor service delivery in most rural areas is the norm resulting in severe consequences for access to finance in these areas



Supply



- Formal financial sector is 'well developed and provides adequate financial services that can compare very well with counterparts in the developed world' (Archer, 2008).
- Sector heavily dominated by the private sector (the large four commercial banks).
- Focuses primarily on the households that are at the upper end of the income distribution.
- In rural areas, there are a range of informal financial service providers (e.g. self-help groups, stokvels, burial societies, women's associations, etc.).
- Small farmers, rural entrepreneurs and households face the challenge of gaining access to finance from the formal sector.
- State-owned institutions: Land Bank, MAFISA, SAMAF
- NGOs (e.g. SEF, WDB, Marang, Tiisha)



Finance by province



Province	Programme – Scheme – State Institution
Eastern Cape	CASP and MAFISA & Eastern Cape Rural Development Corporation, UVIMBA
Free State	CASP and MAFISA
Gauteng	CASP and MAFISA
KwaZulu-Natal	CASP and MAFISA, Ithala
Limpopo	CASP and Letsema, Limpopo Agribusiness Development Corporation, and Limpopo Economic Development Enterprise (LIMDEV)
Mpumalanga	CASP, Masibuyele Emasimini, and Mpumalanga Economic Growth Agency (MEGA)
North West	CASP and MAFISA
Northern Cape	CASP and MAFISA
Western Cape	CASP, MAFISA, and Casidra, the rural development agency



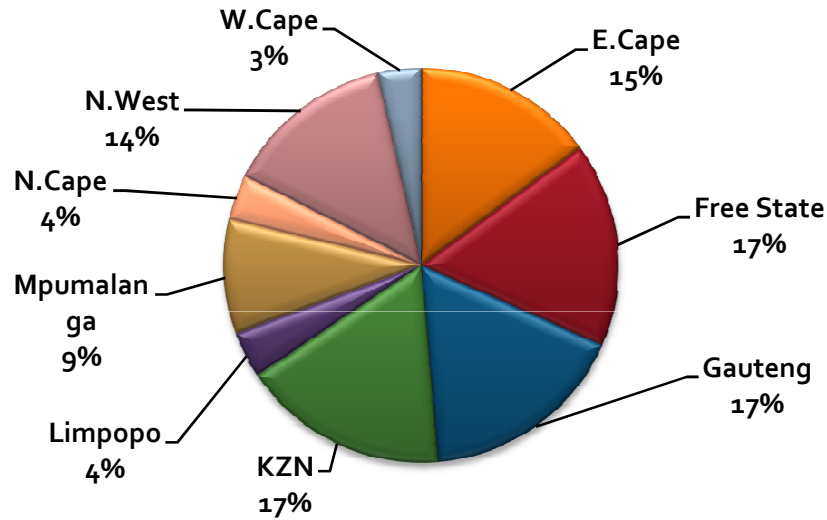
Demand



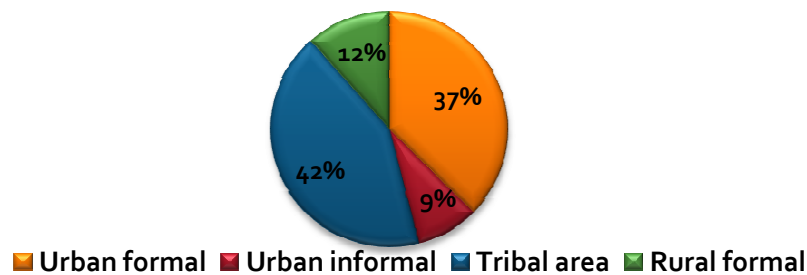
- General demand data specific to rural finance scarce
- In this presentation we focus on the information from the FinMark Small Business Survey 2010 (FinScope Analysis in the overall report)
- Considered as small farms a business that:
 - Rears live stock/poultry and sells e.g. chickens;
 - Sells by-products of animals e.g. meat, eggs, milk;
 - Grows something and sells, e.g. fruit, vegetables and plants
 - Combinations
- 664,418 small farmers in SA - 12% of small businesses
- 67% - sole source of income

South Africa – Demand (2)

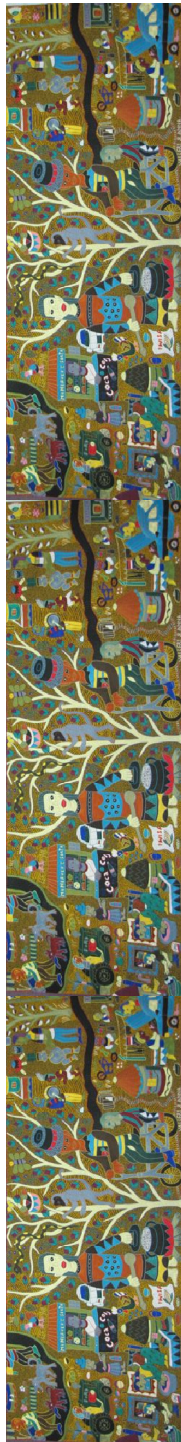
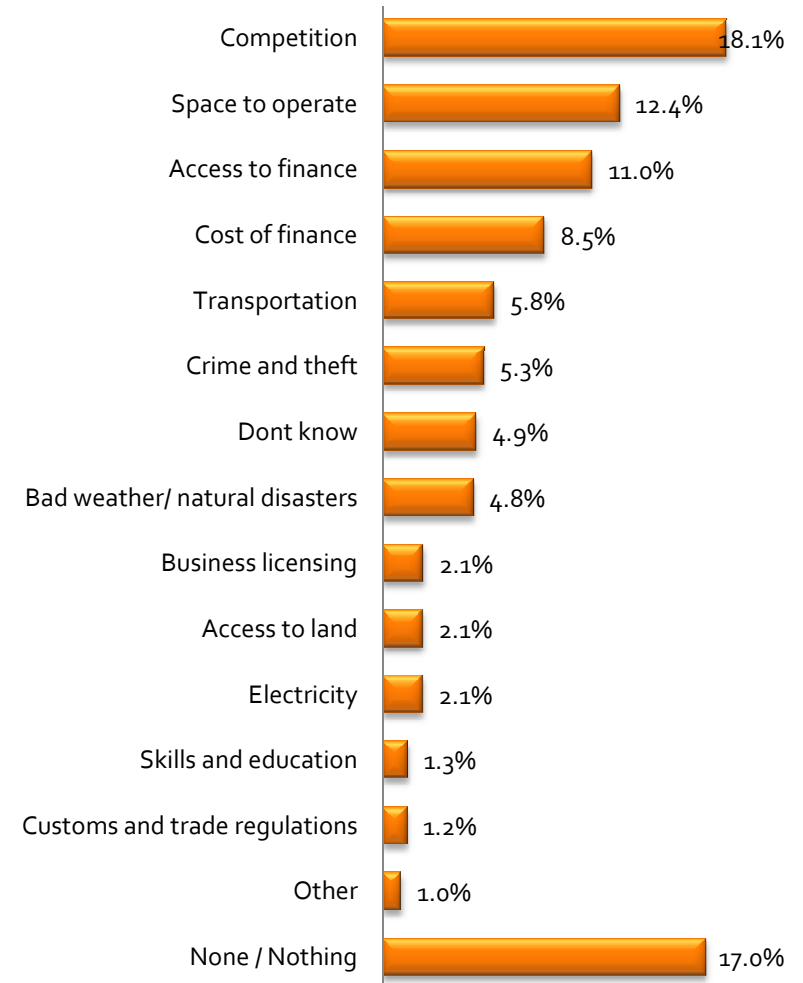
Geographical distribution of small farmers



Small farmers by areas

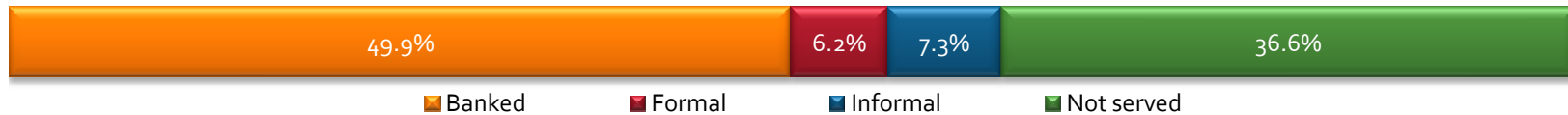


Obstacles to growth



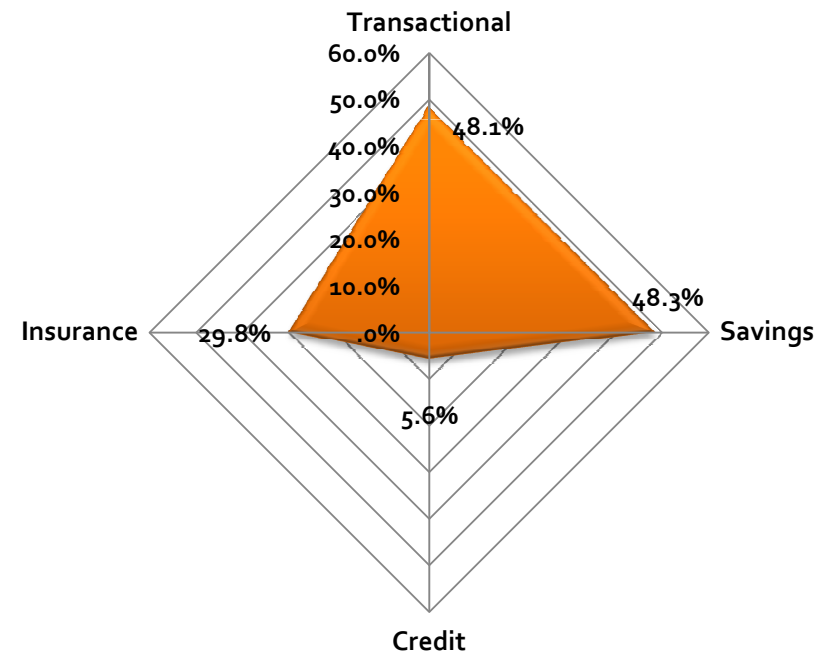
South Africa – Demand (3)

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

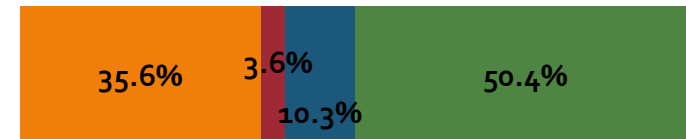
Small Farmers Landscape of Access



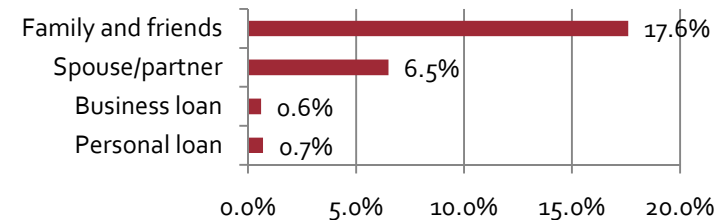
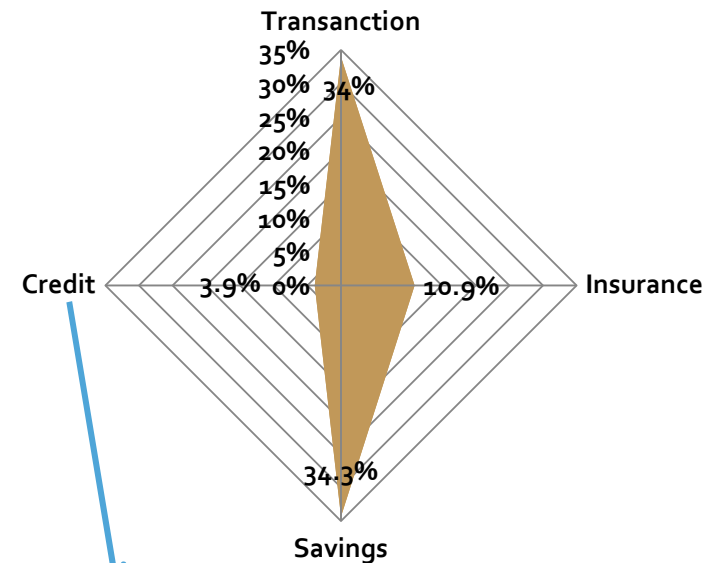
Overall rural finance (all types of businesses)



- 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%



■ Banked ■ Formal ■ Informal ■ Not served





Challenges



- Enhancing capacity of the public sector to serve rural people better
- Ensuring that public institutions deliver on their mandates
- Challenging the private sector institutions to innovative offerings (technology, especially mobile phone and clever use of existing infrastructure and reach)
- Promoting better participation in markets (input, output and financial) by poor people as specific policy and implementation focus areas

Botswana





Botswana -The economy



- Mining: 1/3 of Botswana's GDP, 90% of export 50% of government revenue
- Tourism: increasingly important industry, 2nd largest source of export earnings after diamonds, 4% of GDP.
 - Promising source of growth & employment, esp. in rural areas.
- Agriculture: subsistence farming & cattle ranching, 3% to GDP & 4% to total exports (beef exports) ,only 50% of the country's food needs



Enabling Environment



- Macroeconomic & sectoral policies sound- - budget surpluses & foreign reserves
- Use of diamond revenues & prevailing political peace
- Vision 2016, policy paper setting goals for economic growth & poverty reduction
- National Development Plan 10 (2009/2016 period)
- Bank of Botswana maintains low interest rates , sustainable interest rates
- Exchange rate regime influenced by market forces
- State-owned organizations: Citizen Entrepreneurial Development Agency (CEDA) & Local Enterprise Authority (LEA).
- Public Debt Service Fund (PDSF)



Disabling Environment



- Botswana's financial sector relatively small: reflecting small size of the market & thorough approach to licensing & supervision.
- Commercial banks do not reach rural poor -- few or no branches in rural areas.



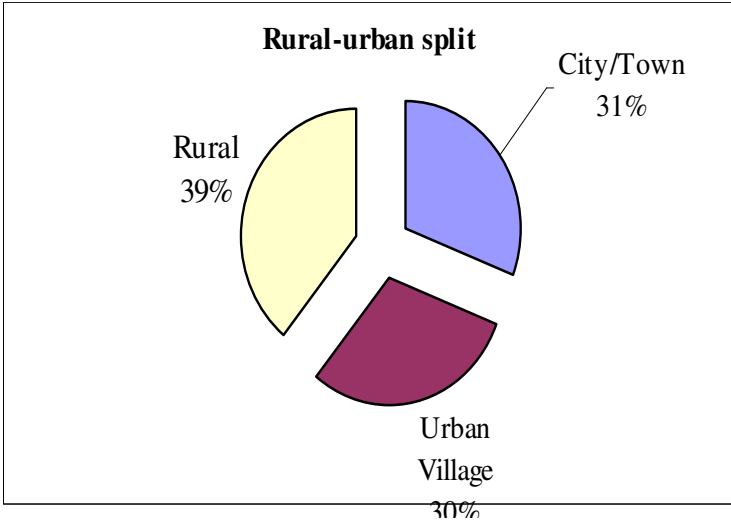
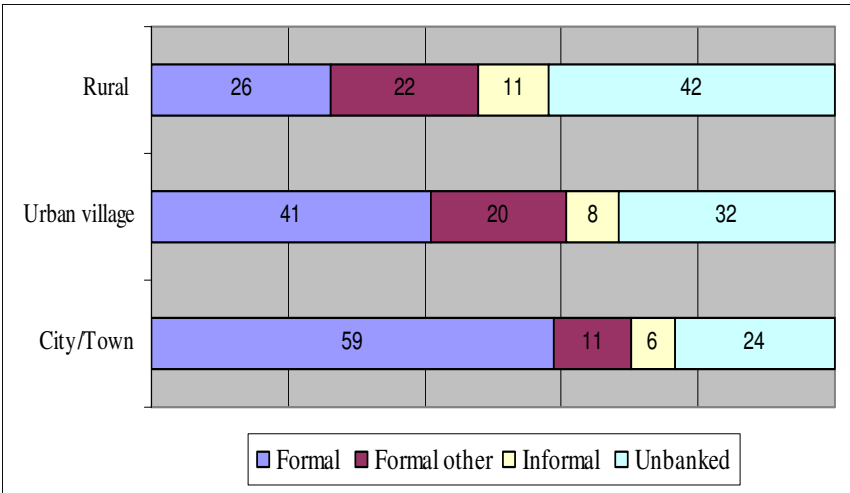
Demand for rural finance



- Data specific to demand for rural finance scarce
- Demand for finance in Botswana is mainly urban
- 47% of Botswana are poor. Majority are in rural areas
- Unemployment is estimated close to 40%



Demand for rural finance (2)

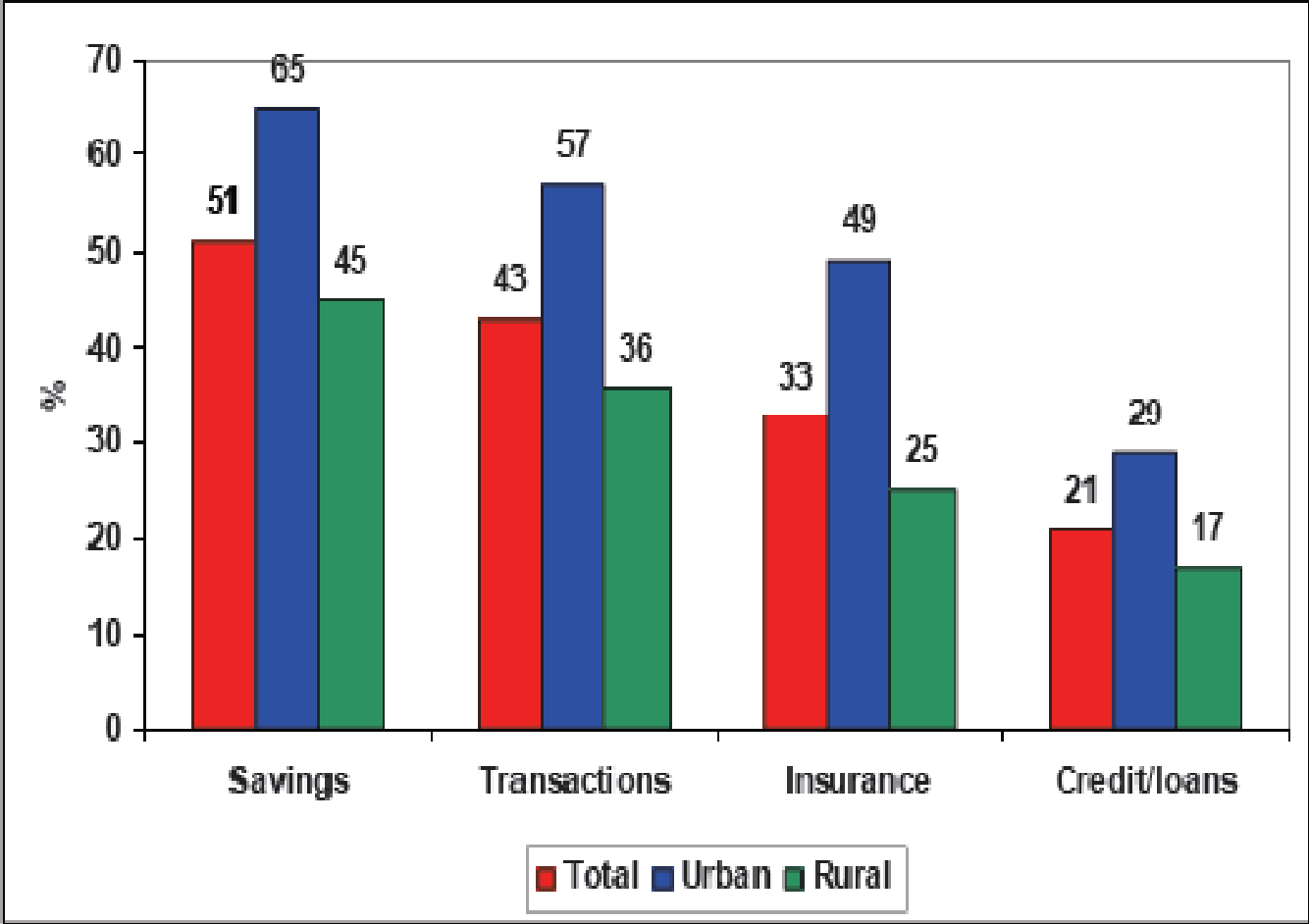


- More households in rural areas (39%)
- 54% female
- Majority 20-39 years old
- 46% monthly income \geq P250
- 26% banked vs 59% in urban

Demand for rural finance (3)



Access to financial services by rural & urban





Supply of rural finance



- Rural financial landscape still dominated by informal suppliers -- formal services are weak or non-existent.
- Formal sector: central bank, commercial & investment banks, insurance companies, leasing finance institutions, development bank, savings bank, building society, development corporation & non-bank financial intermediaries e.g micro-lenders.
- Significant rise in number of both licensed banks and accounts provided by commercial banks since 1995



Challenges



- Government of Botswana has concentrated on macro-economic stability whilst access to finance by farmers including SMMEs has tended to receive low priority.
- High cost of providing banking services in the rural areas identified as a major constraint.
- Lack of requisite infrastructure, consumer education, competition in the provision of banking services in the rural areas.
- Is there a need for a state supported institution(s) to improve access in rural areas?



Zambia



Enabling Environment



- **Economic growth** averaging more than 4% between 1997 and 2007 (6.2% in 2007, 5.8% in 2008 and 4.5% in 2009);
- **Financial Sector Development Plan (FSDP I & II):** *Market Infrastructure; Increasing Competition; and Access to Finance;*
- **Regulatory advancements by Bank of Zambia**
 - Microfinance Regulation (2006)
 - Tier 1: Deposit taking microfinance institutions, with minimum primary capital of K250 million;
 - Tier 2: Non–deposit taking microfinance institutions, with primary capital of K25 million and above; and
 - Licensed MFIs increased from 6 in 2006 to 25 in 2009



Disabling Environment



Inequality and exclusion from mainstream financial markets:

- 64% of individuals live below the traditional “dollar a day” poverty line, which has now been adjusted to \$1.25/day;
- Almost 87% of individuals survive on less than \$2.50 a day (the traditional \$2/day line);
- 85% of FinScope Survey 2009 rural based respondents - no formal education compared to 14% urban dwellers
- Only 13.9% of Zambian adults use commercial bank products.
- Usage of commercial bank products is higher in urban than in rural areas.
- Low insurance penetration (6.6%)



Current banked status



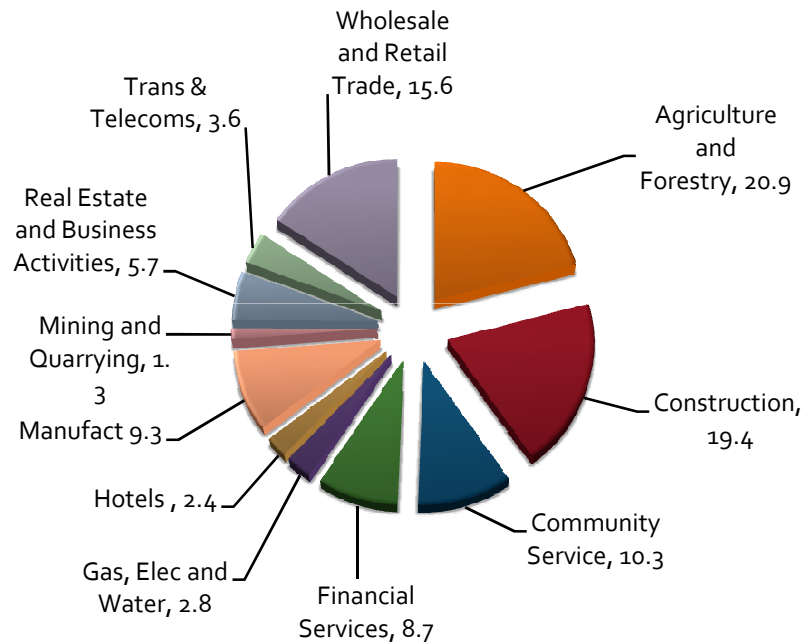
		Current bank status			Total
		Have/use a bank product	Do not currently have/use a bank product but used to have in the past	Have never had a bank product	
Region	Rural	8.60%	4.40%	87.00%	100.00%
	Urban	22.60%	3.80%	73.50%	100.00%
Total		13.90%	4.20%	81.90%	100.00%

Source: FinScope Zambia (2009)

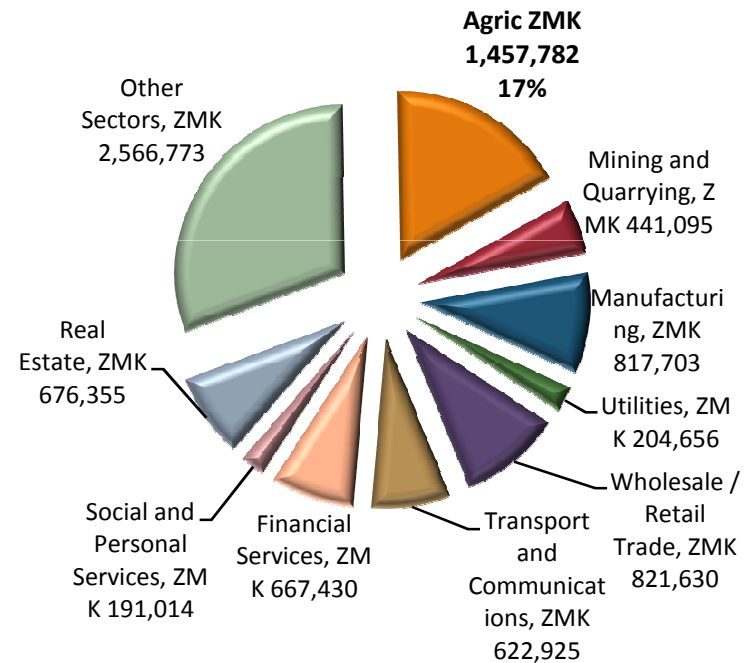
Zambian GDP /Commercial Bank Lending per Sector: (ZMK'ooo,ooo)



GDP by Sector 2008



Commercial Bank Lending per Sector

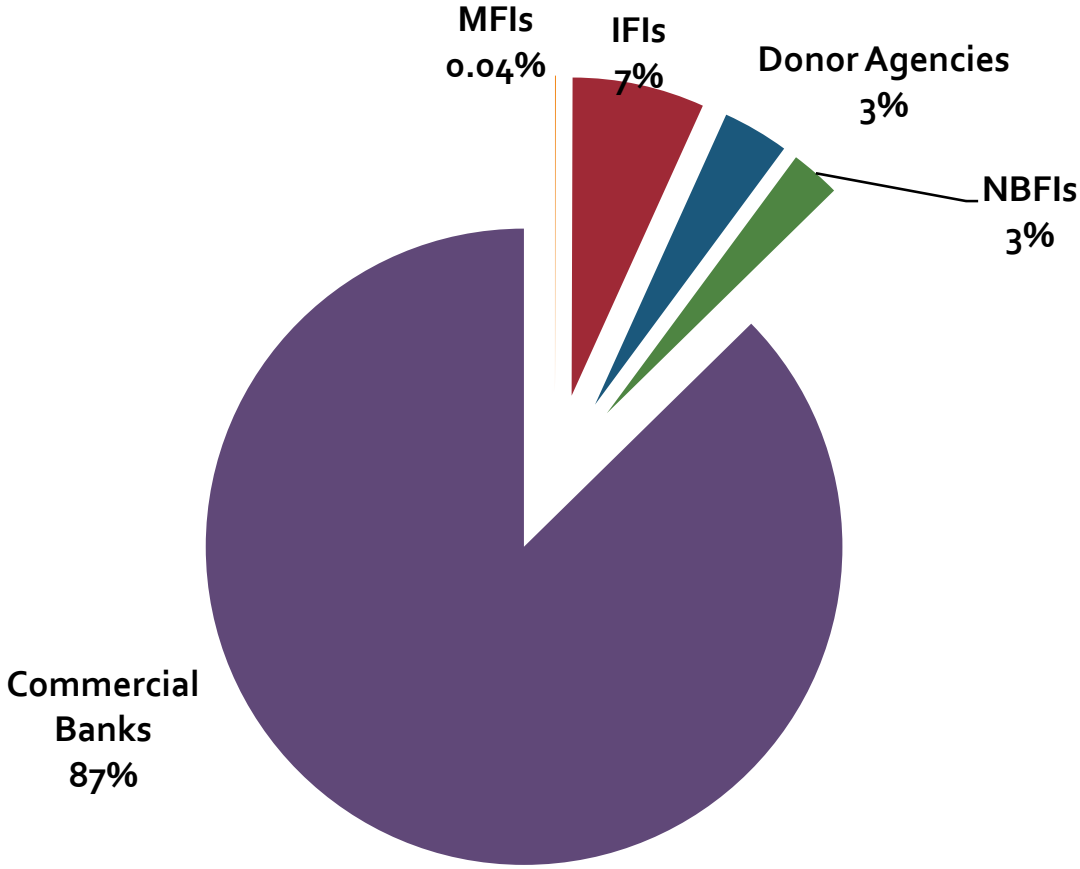


Source: Bank of Zambia July 2009





Agricultural Finance Supply



Agriculture = 17% of total commercial bank portfolio

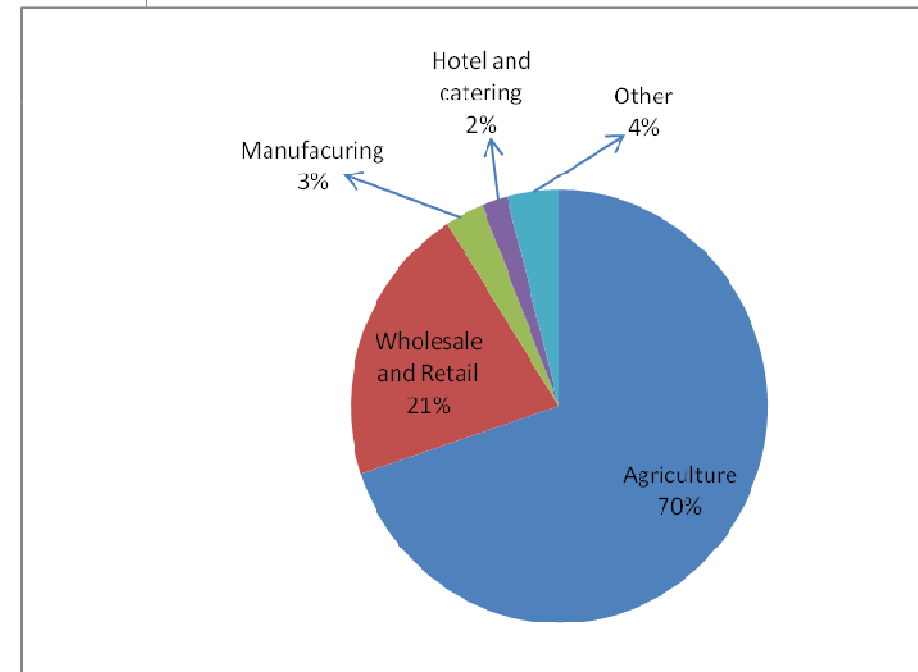
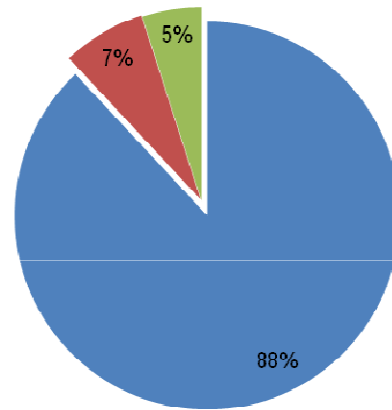


Informal & Microenterprise Sector (Agriculture-dominated)



Employment by Sector Distribution

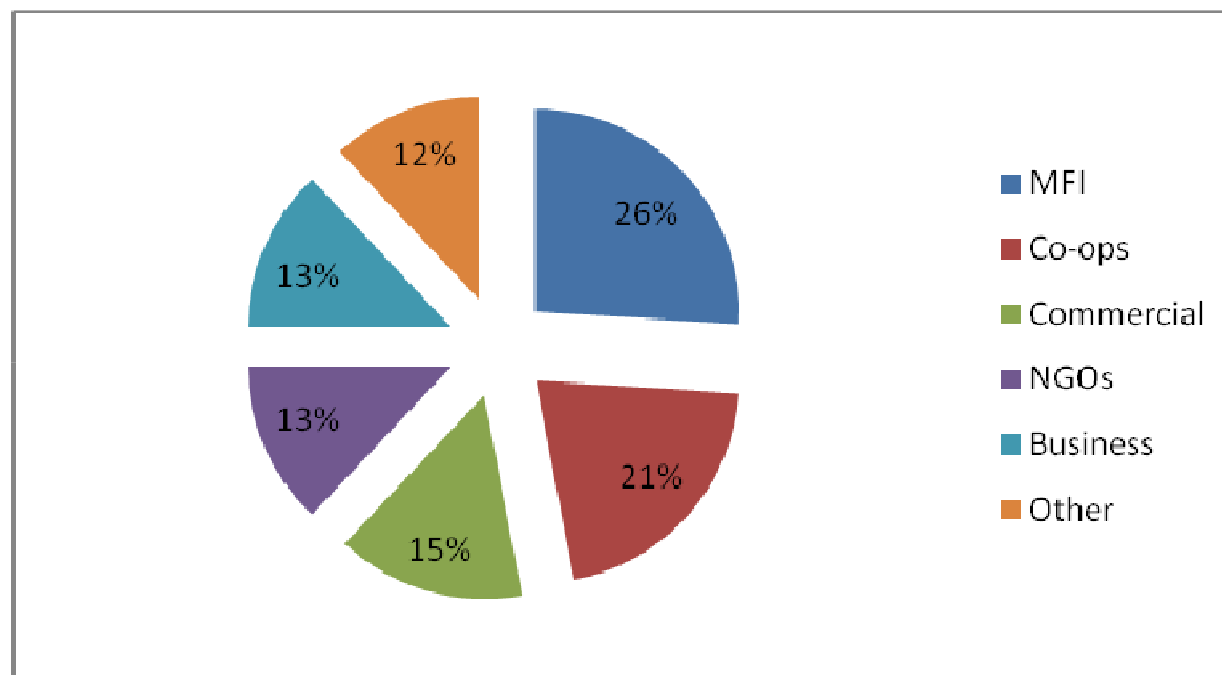
■ Informal sector ■ Private Formal sector ■ Public sector



MSME Activities: ZBS 2010



Demand



Share of service providers within the microenterprise sector

Source: Chiumya (2010)

Critical Gap



Small & inadequate MFI sector with Commercial banking not inclusive:

- Entry barriers with constraining product requirements (account opening balances in Zambia's banks range between K50 000 and K1 000 000)
- 90% of smallholders account for 20% sold crop – majority are subsistence or net maize buyers
 - Issues of collateral and transaction costs
 - Poor infrastructure
 - Limited finance access via out grower schemes, etc.
- Over-emphasis on collateral vs. cash flow
 - Highly illiquid market for agricultural assets in Zambia
- Smallholder and emergent farmers access no more than \$15m per year – 6% of total finance yet produced over 60% maize sold



Focus Projects – Selection criteria



- Success achieved to date.
- Impact on poverty.
- Likelihood of replication.
- Variety of services provided.
- Possibilities for leverage.
- Likelihood of project sustainability.
- Cost-effectiveness of support to be provided.
- Potential to enhance FinMark Trust's objectives.
- Willingness of project to accept external support.



Focus Projects



- Botswana: No focus project identified.
- South Africa: No focus projects identified.
- Zambia: Micro Bankers Trust – initially, established as an apex institution but later moved to retail lending. Currently uses Grameen Bank model and individual lending.



Initial views



- In general little access and thus an area that needs focus
- Governments in all three countries working towards solutions
- Private sector missing in countries studied (except Zambia)
- Real research gaps
- A diversified portfolio that complements agricultural loans with other loan products
- Adapting practices
- Flexible, high-quality technical assistance
- Lenders should not assume that a loan product intended for agriculture will necessarily be used for agriculture
- There is substantial demand for savings by rural households
- The high cost of reaching rural clients remains an obstacle
- Farmer groups and associations

Thank you

