

Discussion points

Addressing Challenges of Financing Emerging Farmers

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Organization of the research report

❑ **Motivation**

- 57% of emerging farmers are not servicing their loan obligations.
- Which translates into a total of 429m (179m in arrears and 250m in legal)
- A decision to suspend legal action against emerging farmers who failed to service loan obligations with the Bank.
- Hence this study – to revisit credit policy of the Bank (loan book & viability of emerging farmers)

❑ **What went wrong? Where? When?**

- Some loopholes in the credit policy of the Bank
- Farmers as sources of the problem
- Lack of access to resources
- Lack of access to pre and post-settlement support services
- Policy & institutional constraints at macro-meso-micro levels

❑ **Challenges on**

- Sustainability of the bank
- Thwart agricultural transformation agenda of the government

❑ **What remedies to consider?**

- Introduction a turnaround strategy in three phases
- Improving the profitability of emerging farms

Some questions

- The study covered only those emerging farmers that happened to be *in the loan book of the Bank*.
- The sampled farmers by construction wouldn't regard access to credit as a constraint.
- How does this contribute to our understanding of the plight of the majority of emerging farmers for whom access to all kinds of support services including credit are crucial.
- The study defined success as the ability to service loans.
- But success could mean different thing to different people.
- What if loans are serviced not using profits but by some other means?
- Will this give a representative sample?

Some questions

- Institutions were represented by the Land Bank
 - There are many other institutions that provide financial and other services to emerging farmers.
 - Wouldn't some of the recommendations specific to the land Bank underestimate the nature of institutional constraints that farmers face.
- How big is the problem of default by emerging farmers compared with other clients of the Bank?
 - In 2003 about 2% of the Banks portfolio was for emerging farmers. What is the situation today?
 - Is the problem with regards to non performing loan similar for other clients -Commercial farms, small-scale farms, and rural dwellers?

Agricultural transformation, Land reform, and success of emerging farmers

- The slow pace of the land reform as a constraint for the establishment of emerging farmers (lack of access to land as a constraint).
- About 30% of the agricultural land to be transferred by 2014.
- Only about 7% transferred to date
- We want the land reform program to be successful to drive the *agricultural transformation agenda*.
- ✓ We want it to be politically and economically viable

Agricultural transformation, Land reform, and success of emerging farmers (cont...)

- But the ingredients necessary for success seem not yet in place
 - No proper need assessment conducted to identify pre-and post-settlement support services suitable for emerging farmers.
 - The stakeholders mandated to provide these services are not operating in coordinated fashion
- No policy direction as to how the land reform should drive the agricultural transformation agenda
 - What should take precedent over what? –economic or political considerations or both? Is there a need for sequencing?
 - What lessons have we learnt from our own experience? – SLAG, LRAD, CASP, MAFISA
 - How did others with similar history like ours did it? Any lessons to draw from their experiences?

Addressing problems related to the loan book

- The report identified actions within and outside the power of the Bank needed to improve the loan book of the Bank
- Instituting a turnaround strategy in three phases (Cleanup, stability, and sustainability)
- revisiting the policy/institutional environment at macro-meso- and micro levels, coordination of activities, review of agricultural development plan, etc
- How could the latter be addressed within a *democratic* developmental state framework.

Making emerging farms trusted client of the Bank

- The study proposes three approaches to improve viability of emerging farmers. These include a farmer incubation process, provision of additional capital, and securitization of loans
 - The incubation process calls for introduction of comprehensive package of services in line with the needs of emerging farmers.
 - The last two look at the problem from the perspective of improving access to credit.
- How will the farmer incubation process be part of the credit policy of the Bank.
 - The process requires provision of packages of support services. Some of these services fall within the mandate of other stakeholders.
 - The need for integrated approach to support agriculture in general was mentioned in the Strauss Commission in the late 1990s but it has not yet materialized. How will this be implemented this time around?
 - Who should take the lead? How would the various stakeholders come together? Are there any existing initiative to build on?

Rural finance versus agricultural finance

- Some facts from literature
 - Majority of rural households derive income from a variety of sources.
 - Agriculture is not a major source of income for the majority of rural households
 - Most farmers would leave agriculture if wage income opportunities improve
 - The targeting of full-time farmers makes exposure to risk higher.
 - Farm households that supplement income with other activities are relatively more successful.
 - Households with non-farm sources of income are relatively less poor than households that depend on farming.
 - Strong forward and backward linkages exist between farming and non-farming activities.
 - How can the Land Bank contribute to the agricultural transformation agenda by channeling resources to rural areas in a manner that capitalizes on existing linkages.
 - After all ... “the concept of rural finance is non-sector specific and emphasizes rural areas as locality of financial transactions” (Coetzee, 2003).

THANK YOU