Africa Farm Management Association

AFMA

The 8th AFMA Congress

Peer Reviewed Papers

Theme:

"Repositioning African Agriculture by Enhancing Productivity, Market Access, Policy Dialogue and Adapting to Climate Change"

MOI UNIVERSITY PRESS

Financing Rural Credit: Experiences with Farmers in East & Southern Africa

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Abstract

Small financial loans (credit schemes) can be strategic to help African subsistence farmers to develop their farms and in fostering new rural micro-enterprises. Such credit can be provided and serviced by NGOs (Non-Government Organisations – often charitable). Concomitant training in financial management and entrepreneurship can be helpful. Drawing on participant observer research and experience in Southern and East Africa, the authors propose that ultimately – to be sustainable - responsibility for such financial provision must be taken by farmers themselves, both individually and communally. Initial help from outsiders (such as charitable NGOs) may be crucial in catalysing this provision and in setting up procedures for its prudent and transparent management. However, ongoing help should be confined to training in financial management and entrepreneurship, leaving farmers themselves to organise and take responsibility for their funds, interacting with the banks, or with traditional societies such as stokvels where appropriate. Evidence is provided from the experience of ACAT in South Africa over the past 33 years, of a hugely beneficial strategic switch from expensively servicing and financially monitoring Savings Clubs to encouraging their formation and management independently by farmers. Lessons are drawn from and for work in East Africa. Their application is the objective of this Paper.

Introduction

Small farm businesses employ limited capital, one person or only a few people and thus have limited financial turnover. Of course, small businesses can grow into larger ones. Part of the skill and wisdom needed to run a business lies in deciding when it risks getting too big. Greed

1 Deceased August 2012

can drive a successful small business to over borrow and so to expand that the initiator of it loses control or becomes controlled by its insatiable demands upon her or his time. Businesses require sound management of all their resources, notably their personnel. The management of objectives, of change, and of time requires strategic planning and honest review of performance. Businesses can have a life cycle and need not last forever; it takes courage to close down a business before it fails. Very often, more can be achieved by collaboration, though this has the prerequisite of mutual trust, which takes time and shared moral values to establish. Both business acumen and training help. Proper record-keeping to monitor performance, regular evaluation and discussion of teamwork, and communications are vital to success in management. The business mind-set may take time to develop and require ongoing training but the argument of this Paper is that early transfer of responsibility for limited credit provision must be made to farmers themselves, otherwise dependency will set in and the credit provider will suffer administrative diversion from a more fruitful role of integral management training (Kyamuwendo & Wibberley, 2009).

Microfinance requires not only a provider (bank, credit society or NGO), but also accountability and this is often to be provided by a group who stand surety for any member in the necessarily unusual case of their default on repayments. Group failure results when such mutual trust is betrayed either by excessive defaulters or by mis-use of shared funds such as by embezzlers. Small loans can be highly significant in enabling small businesses to get started, such as illustrated by the *Grameen* ('Village') banks across Bangladesh since 1983 founded by Yunus, who has since proposed an international approach of 'social businesses' (Yunus, 2009). He began after loaning just US$ 27 to 42 poor people. The *Grameen* Bank in 2009 had some 2,520 branches with 27,000 staff serving over 7.5 million micro-loan borrowers in all villages of Bangladesh. It lends over US$ 1 billion annually; 97% of borrowers are women and over 98% of loans are repaid without problems (Weber, 2009, p.149). The model has inspired similar micro-finance schemes all over the world (Kyamuwendo & Wibberley, 2011; Wibberley, 2011).

Southern Africa

Group lending is well shown through ACAT (Africa Co-operative Action Trust; Fig. I) in Southern Africa since 1979 (www.acat.co.za) using an uncopyable stamp to endorse inspected records that are then audited.

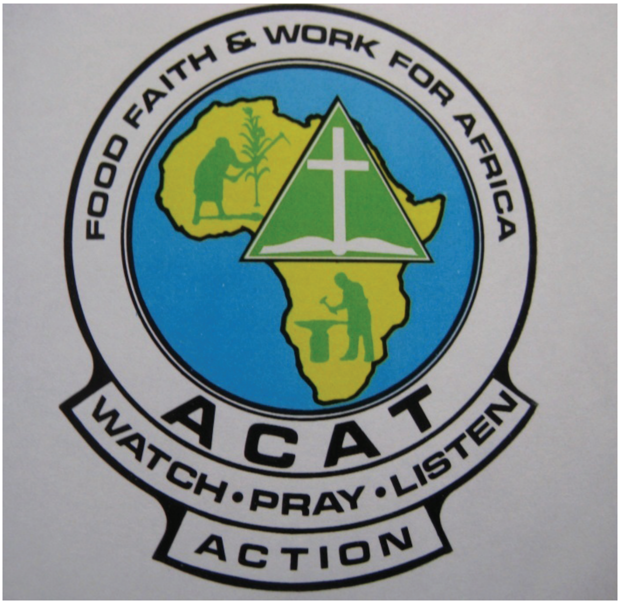

Fig. I. The ACAT logo, expressing its philosophy

However, since the late 1990s, ACAT in South Africa has moved away from forming and supporting Savings Clubs directly as in earlier days, owing to its time and cost commitment, and the wish of ACAT to foster independence as far as possible (McCrystal, 2005). This is an experience echoed in Nigeria by Morse & McNamara (2012).

ACAT Swaziland (2010) reports that 'in Swaziland, the group or Savings clubs approach, promoted by ACAT, has proved to be very effective, contributing to coherent and inclusive development of disadvantaged communities.' ACAT is motivated by its Christian foundations and teaching. In a community, once people are grouped into a savings club, they are then exposed in an integrated way through the different ACAT activities aimed at improving agriculture as well as self-help projects.

'Key strategic focus areas under its ENTREPRENEURIAL SKILLS DEVELOPMENT PROGRAMME (ESDP) are Savings and Credit activities, Income-generating activities, Community and individual gardens and Community training on technical and leadership skills. It is encouraging to note that a loan repayment rate of 93% was achieved under the Savings and Credit activities. Community and individual gardens continued to improve the lives of the target rural community people. From the profits of a tomato production project, one member constructed a modern house for his family.' Under its SUSTAINABLE AGRICULTURE programme, ACAT Swaziland (2010) partnered with the Swazi Ministry of Agriculture and the UN Food & Agriculture Organisation (FAO) to implement a Conservation Agriculture pilot project, active in all the four regions of the country where ACAT has Extension officers on the ground. They also entered into a renewed partnership with NGO *Bread for the World*, to implement a food security pilot project in Sphofaneni area. During the year 2009/2010 Swaziland had to feed about 270,000 of its 1.1 million people through food aid provided by the World Food Programme. Swaziland has low life expectancies (47.6 female; 49.7 male – The Economist Pocket World 2011; some say true life expectancy is nearer only 32 years – *Whitaker*, 2011). Swaziland has the highest recorded incidence of HIV/AIDS at over 26% of its 15-49 age group; many consider the true figure is much higher. This results in around 900 deaths from AIDS per 100,000 population, as well as hunger through debilitated bread-winners, quite apart from erratic rains and commonly poor farm management.

In South Africa since 2000, with its more promising economic situation, ACAT has focused more on training in groups and encouraged direct interaction with banks and with local credit unions such as *stokvels* for provision of necessary finance. Previously, the running of ACAT Savings Clubs had become a massive undertaking to support and service with both 'in house' extension and auditing commitment (Wibberley, 1988; 1992). *Stokvels* ('stock fairs' where livestock were traditionally traded along with celebrations) are savings or investment societies to which members regularly contribute an agreed amount and from which they receive a lump sum payment. They often hold regular parties wearing distinctive uniforms and with their own songs. These are funded by the members and generate profits for the hosts. They serve as revolving loan credit unions in which members pay in fixed sums of money to a central fund periodically (weekly, fortnightly or monthly). Each month a different member receives the money in the fund collected during that period. People do not fail to make contributions owing to strong group culture. Members use their allocated fund either for payments or for investment purposes. The key points about *stokvels* are cultural embeddedness, mutuality and independent management. It can be argued that ACAT's period of twenty years focus through Savings Clubs has been foundational for such independence with its training of ACAT Clubs' farmer committees in organisation, administration and enterprise development. Training is ongoing in these aspects alongside other livelihood skills but there is no longer the systematic commitment of time and funds by ACAT in supervising and auditing its own network of Savings Clubs as hitherto (Fig.II).

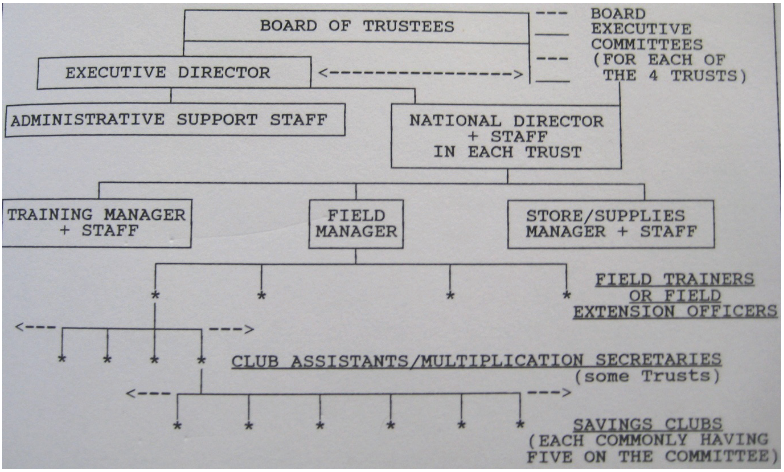

Fig. II. The Former ACAT Structure to service Savings Clubs *(Source: Wibberley, 1992).*

ACAT Kwazulu-Natal (2011) records, "Facilitating sustained transformation of people remains the essence of ACAT's work and focus. Today so much effort focuses on changing the environment, rather than changing people who in turn can change their environment. ACAT has tried and tested this approach for over 33 years, and our experience informs us that the only way this is realised is by finding ways of inviting God back into every dimension and area of our lives, and to promote the same to our target group and their communities. A question we regularly ask ourselves regarding God's active participation in our lives is: how can any intervention be sustainable if the Creator is left out, or on the fringe of things?"

Impacts of ACAT work since 1979 in Kwazulu-Natal (ACAT KZN, 2012) are as follows:-

Over 444,000 people are reckoned to have benefited directly from ACAT's help since restructuring in the year 2000. Thus, including the initial 'savings clubs era' (1979-99), which benefited a further 110,000 people, the total estimated number of people impacted by ACAT in Kwazulu-Natal since its inception is 554,000. These figures do not include the multiplication effect of beneficiaries themselves training and mentoring their wider family, friends, neighbours, schools and clinics. In 1989, after ten years of ACAT work in Southern Africa, there were 2378 Savings Clubs with a total membership of 44,645 and 3,269,287 rand of savings deposited. Average Club size was 26.5 members in KZN and 27.6 in Swaziland, with farm sizes averaging 1.8 and 2.2 acres respectively. It was reckoned there were six other beneficiaries for every Savings Club member (Wibberley, 1992).

In 2011, ACAT Kwazulu-Natal carried out the following activities (ACAT KZN, 2012):-

- 2487 One-day workshops;
- 2445 Extension visits;
- 22 Cross visits between programme participants;
- 23 Week-long courses at ACAT's centre;
- 754 New food gardens were started in 2011, totalling 11,915 since the year 2000;
- 430 New subsistence farmers have joined the programme;
- 665 People were given the opportunity to start their own survivalist enterprises;
- 246 Volunteers assisted their own communities
- Some 7,600 new family members benefited from ACAT's services in 2011.

From the perspective of 'delivering credit via servicing Savings Clubs', ACAT Kwazulu-Natal had moved away from any direct involvement by 2011, enabling it to quadruple during eleven years (2000-2011) the number of people directly helped in its first twenty years (1979-99)! Over many years, ACAT Kwazulu-Natal administered many small rand loans totalling R1, 896,068 million. This is now replaced by intensified ACAT promotion of, and training in, community-driven savings and loan schemes, where people mobilise and distribute themselves the funds they need. This is a highly significant strategic change, not only for more effective use of ACAT's resources but also in development of people's responsibility for their own financial management.

East Africa

Kyamuwendo & Wibberley (2011) reported that since 2007, *Kulika* has piloted a micro-finance loan scheme among farmers in their groups as they have developed trust in one another. Through this, over 400 individuals have been helped (*Kulika*, 2009). Hundreds of *FARMS* (Farm Asset Resource Management Study) Groups have been started through *Kulika* and associated NGOs in Uganda. Three of the Farmers' study groups started in Mubende District, Uganda after 2000 that have participated in their micro-finance scheme are compared in Table I. These groups are of mixed sex and age; vary from 18 to 22 members all of whom have made a profit invested as new capital assets, extra cash for urgent household needs, or both. The most successful members managed to more than triple their income and assets. Loan repayments came in without difficulty on time, except in one case where a member fell ill. Reinvestment of these profits was in various sustainable ways:-

- in soil management, better seeds and in cultivating more land;
- in diversification into livestock enterprises or new types of crop;
- in improved households such as tin roofs, proper latrines (Kyamuwendo & Wibberley, 2009);
- in setting up new businesses, notably shops, processing and direct selling of farm produce.

It is considered vital that these groups manage their own loans and repayments rather than becoming an administrative burden upon *Kulika* thus distracting its efforts and resources from its proper role of extension to promote independent enterprise and associated financial management.

The project is carried out in conjunction with the Rotary Club of Abingdon Vesper, UK, and is based in rural villages in the Mubende District of Uganda. By 2009, £3000 had been raised and donated to three different farmers groups; The Ssemuto Mixed Farmers Association, The Twekolere Development Group, and the Kyamukoona Farmers group. The loans offered have a three month grace period, and an interest rate of 12% per annum on reducing balances. Funding has been split between members of these groups with some members receiving up to 300,000UShs. (in 2012, 3850 Ush. = £1). The loans are used by the farmers as they wish, and have been used for a variety of projects (Table I). *Kulika* (2009) reported that groups chosen to receive the loans were pre-existing, recognised, active farmers' groups with a constitution and which all had their own loan system in place for small amounts. The groups were self-governing and signed as joint guarantors to all who received the loan. The groups were mixed in sex and ranged in size from 18 to 22, and their investments proved an overwhelming success. Every person who received a loan has made profit. The means of profit fall into 3 main categories:-

- Those who have gained capital i.e. animals, structures or land they did not have before.
- Those who have gained money, through sale of their crop or animals.
- Those who have gained both money and capital (as in most cases.)

Table I. Microfinance & Enterprise via three *FARMS* Groups associated with *Kulika*, 2009.

GROUP NAME	Members	Females	Males	Enterprise & Numbers doing it	Nos.
Kyamukoona Farmers' Group	18	7	11	POULTRY CATTLE GOATS MORE FARMLAND USED BANANA REHABILITATION	7 3 2 1 1
Ssemuto Mixed Farmers' Organisation	22	5	17	PIGGERY POULTRY GOATS	17 3 1
Twekolere Development Group	21	14	7	MORE FARMLAND USED PIGGERY POULTRY NEW CROPS – Irish Potatoes, Peppers, Passion Fruits …	7 4 3 3

In Kenya, some 4,000 farm families have been helped recently via IcFEM Kimilili (Inter-Christian Fellowships' Evangelical Mission; www.icfem-mission.org) to gain Government of Kenya/Equity Bank help. IcFEM has sought to avoid dependence as a catalysing NGO so that groups take responsibility for their own savings and credit management from the outset.

Discussion, Conclusions & Recommendations

Experience over more than four decades in sub-Saharan Africa in promoting sustainable agriculture and farm-household technologies shows the importance of making sustainable financial management an integral part of that. There may well be a process for subsistence farmers on small acreages whereby initial catalysis and help is needed to instil a properly managed savings and reinvestment culture, such as serviced by ACAT In South Africa from 1979-99, and with 'seed' capital for strategic borrowing as provided through *Kulika* in Uganda currently. However, ultimate responsibility for loans and repayments must be with people themselves. The key lesson is that this needs to be made clear from the outset of any rural credit scheme. Also, when supportive rural NGOs devote themselves to training and extension of proper financial management alongside suitably sustainable livelihoods teaching, then great impacts can be secured to strengthen the huge number of small farm households upon whom the future of Africa's truly sustainable food security depends, unless land grabs and unregulated trading kill it.

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