planning, monitoring & evaluation
Department:
Planning, Monitoring and Evaluation
REPUBLIC OF SOUTH AFRICA

PSPPD
PROGRAMME TO SUPPORT PRO-POOR POLICY DEVELOPMENT

POLICY BRIEF SERIES

Evidence for policy-making and implementation

Sowing the seeds for small-scale agricultural sector growth through MAFISA

INTRODUCTION

In 2004, the Comprehensive Agricultural Support Programme (CASP) was implemented with the Micro Agricultural Financial Institutions of South Africa (MAFISA) as its financial services pillar, in recognition that farmer support was neglected in the budgetary process. The programme, which received initial capital of R1 billion, is underpinned by the principles of being demand-led, backed by the state, and retailed via diverse financial intermediaries.

MAFISA's vision is to empower micro- and small-scale agricultural sector entrepreneurs and farmers to improve their livelihoods and develop their businesses. Its implementation was very important for the sector because it responded to a need that would be valuable for beneficiary farmers in agricultural development and economic growth. Additionally, its implementation responded to various key strategic intents of government, which include rural development and land reform, decent employment, and natural resource management. As such, MAFISA was a crucial programme in the implementation of the National Development Plan (NDP).

In light of the substantial amount of public money that was spent in providing agricultural support through MAFISA, an impact evaluation to assess value for money and the impact thereof was warranted, and was undertaken as part of the 2013/14 National Evaluation Plan between July 2013 and October 2014. This policy brief will present findings and recommendations from that evaluation, as well as highlight the key policy implications.

BACKGROUND

The liberalisation of the agricultural sector began in 1992, but this resulted in reduced state support to the sector. By 2003, the state found that financial services to smallholder farmers were inadequate, farmer support was neglected, and there was a need to re-establish a state-supported agricultural credit scheme. The implementation of CASP in 2004 was therefore aimed at providing agricultural support services to beneficiaries of land reform and to producers who had acquired land privately and were engaged in initiatives that support the domestic or export market.

MAFISA was then intended to provide support to small-scale farmers by providing capital (loans) to enhance agricultural activities. Its approach was to channel funds through the Land Bank to established lenders who would make final loans to farmers. Loans of up to R500 000 were made to emerging farmers and producers, although the bulk of these funds had be used to pay suppliers of agricultural equipment and other inputs.

MAFISA was piloted between July 2005 and December 2007 by the then Department of Agriculture and selected financial intermediaries (FIs) in three provinces. The pilot involved two products, namely a production loan and a small equipment loan, with a maximum loan size of R100 000 per person. FIs were allowed to lend at an interest rate of 8% and of that, 7% was to cover the costs of the FI and 1% was the cost of the wholesale finance from the MAFISA fund. In 2008/09, the Department of Agriculture, Forestry and Fisheries (DAFF) implemented this credit scheme via nine FIs. The maximum loan size was increased to R500 000 per person. However, the original objectives and structure were not revised, nor was the menu of financial products expanded.

THE EVALUATION

n July 2013, the Department of Performance, Monitoring and Evaluation (DPME), in partnership with DAFF, commissioned an impact evaluation to determine whether MAFISA was achieving its policy goals and examine its impact on beneficiaries, including improved and broadened agricultural production, entrepreneurial development, income generation, (secondary) job creation, and poverty alleviation.

The methodology in the terms of reference required that the impact evaluation use DAFF's dataset on MAFISA loans as the primary data source, complemented by 27 case studies. However, it was found that the dataset of MAFISA loans was of variable quality and thus, usefulness. To compensate for this shortcoming, multiple primary and secondary data-gathering techniques were used and a wider spectrum and number of respondents were added. The fieldwork was completed between August 2013 and January 2014. Thematic analysis was conducted on the qualitative data and descriptive and inferential statistical analyses were used for the quantitative analysis.

FINDINGS

The overall conclusion of the evaluation is that MAFISA loans have contributed positively in many ways to beneficiary farmers and that there should be a continuation of support, but in a tailored and targeted fashion.

More specifically, MAFISA loans have helped beneficiary farmers and production loans have assisted women to earn livelihoods, encouraged new entrants to farming, contributed to local food production, stimulated entrepreneurial development, increased household consumption, improved access to credit, and facilitated the diversification of farming activities. However, this impact is weakened by the broader challenges facing smallholder farmers.

Furthermore, a total of 16 080 job opportunities were created by 2 448 MAFISA loans (see table below). Larger loan sizes and labour-intensive farming activities positively influenced the numbers of jobs created.

Number and nature of job opportunities related to MAFISA loans

JOB OPPORTUNITIES / TARGETS	NUMBER OF LOANS	SUM OF JOB OPPORTUNITIES
Total number of job opportunities	2 448	16 080
Job opportunities for disabled people	218	66
Job opportunities for youth	523	714
Permanent job opportunities	2 511	7 173
Seasonal job opportunities	824	7 833

Source: MAFISA Loan Dataset from 1 January 2009 to 31 December 2013

MAFISA has the potential to reach more beneficiaries through group loans than loans to individual farmers, although the National Emergent Red Meat Producers' Organisation's (NERPO) ability to reach large numbers of individual farmers with small loans is noteworthy. Nevertheless, there remains an unmet need for working capital among smallholders. MAFISA's loan book shows that 3 638 loans totalling R314 million were disbursed between January 2009 and December 2013. This reveals that MAFISA's reach is small considering that there are between 350 000 and 700 000 smallholder farmers who produce a surplus.

The evaluation also found that MAFISA has not accredited enough FIs to reach the full spectrum of emerging and commercial smallholder farmers on a national scale. In addition, FIs reported that the 7% interest charged does not adequately cover the support that smallholder farmers require from them.

MAFISA has not translated the 2010 monitoring and evaluation (M&E) framework into a practical tool that specifies indicators, numerical targets and related timeframes, not does DAFF have adequate capacity to monitor MAFISA and support its implementation. MAFISA's database is inconsistent and incomplete. It lacks rigour in maintaining critical development and performance data, including loan repayment data.

RECOMMENDATIONS

- **Principle:** The state should continue to offer wholesale funding to diverse FIs to provide financial services tailored to the needs of the full spectrum of smallholder farmers. DAFF should match its typology of smallholder farmers with FIs who are geared to service the different target groups.

- **MAFISA design:** DAFF should review the current model of MAFISA (i.e. a credit scheme/programme operated within DAFF, as opposed to an established independent development finance institution offering full financial services to smallholder farmers).

- **MAFISA implementation:** DAFF should develop the capacity to enhance its support to its accredited FIs and its M&E competencies.

- **MAFISA costs:** FIs should be encouraged and assisted to design competitive packages that meet the needs of smallholder farmers.

- **MAFISA, CASP and other state interventions to support smallholder farmers:** DAFF should improve its coordination with other pillars of CASP and other interventions to better address the challenges that smallholder farmers and FIs face.

KEY POLICY IMPLICATIONS

MAFISA has been implemented as a credit scheme run within DAFF, with no substantive improvements from the pilot phase. Findings from the review of the pilot phase established that DAFF has limited capacity to rigorously monitor and support the FIs contracted to retail MAFISA loans. Consequently, the loans retailed by FIs with experience and expertise in working with smallholder farmers have made a positive contribution to farmers' capacity and overall household consumption. Given that MAFISA loans are virtually the only credit products available to smallholder farmers, and that MAFISA is a relatively cost-effective means of supporting the sector, the state should continue to offer wholesale agricultural finance through FIs with best practices.

Authors

Nkhangweleni Ramashia
Department of Agriculture, Forestry and Fisheries (DAFF)

Noqobo (Nox) Chitepo
Department of Planning, Monitoring and Evaluation (DPME)

Jeanette Sprinkhuizen
Department of Planning, Monitoring and Evaluation (DPME)

planning, monitoring & evaluation
Department: Planning, Monitoring and Evaluation
REPUBLIC OF SOUTH AFRICA

2030 NDP

PSPPD
PROGRAMME TO SUPPORT PRO-POOR POLICY DEVELOPMENT