

Chapter 6: DISCUSSION AND CONCLUSION

6.1 Introduction

The purpose of this thesis has been to introduce, review, apply and appraise the SDI methodology as a tool for measuring the development performance of an RFI. Calculating the KFC's SDI helped to quantify the subsidies that the KFC received during the period under review.

The sensitivity of SDI calculations to changes in the lending rate (i) firstly, and secondly to other variables such as the size and the quality of the loan portfolio (LP), expenditure and profitability (the general efficiency of the RFI's operations), makes it a useful tool for measuring and modelling performance.

The SDI helps to formulate the business model and inform KFC policies and its operations structure based on parameters that would contribute to reducing its subsidy dependence and thus making its operations more efficient. The SDI methodology informs the policy making process of an RFI so that performance is geared towards achieving its stated goals. The stated goals of the KFC are to stimulate the economy of KwaZulu-Natal and increase the base of rural incomes, reduce rural poverty and increase employment opportunities.

The KFC has noble economic and social goals. Its mandate is to operate in rural areas which private commercially oriented businesses usually avoid. The financial support of the state to the KFC and other similar institutions is substantial and therefore could be quite strenuous and even crippling to the fiscus if it is not closely monitored and controlled. It is thus a desirable objective for government policy to promote the self-sustainability of RFIs like the KFC. This could make available subsidies currently going to RFIs to other projects, e.g. infrastructure development. The use of public funds to support RFIs always

carries an opportunity cost. The SDI helps to calculate the opportunity cost of supporting RFIs.

When an RFI's SDI is reviewed in conjunction with its outreach, the state may have good reason to continue supporting such an institution. The measurement of development performance helps decision-makers choose how to influence rural economic policy on economic development.

The SDI offers both management and the state an opportunity to set targets of self-sufficiency and outreach, that an RFI would have to achieve in order to justify its existence. The SDI methodology thus offers an opportunity for RFIs to manage their operations in a manner that would promote the lowering of the SDI over time.

Good business sense is required when managing an RFI, just as it is necessary for profit maximising businesses. All business decisions that lower the SDI increase efficiency. An example of this would be increasing profit (P), increasing the lending rate (i), decreasing bad debts by writing good loans and giving good business advice to clients, pre and post project establishment, and so on. Loan officers can be encouraged to write good loans if evaluation of staff performance is not only related to loan disbursement amounts. A narrow minded focus of this nature incentivises staff to chase after any possible loan that makes them look good in the short term even when they know it may be bad business in the medium to long term.

6.2 The SDI as a value driver

It should be a matter of great pride for management to run a financially self-sufficient RFI. The management of an RFI should passionately seek and pursue

projects that have a good chance of success at positive real onlending rates. A growing and clean loan book must be continuously strived for; the banking arm of an RFI should offer market-related returns that could encourage a savings culture among rural people.

Expenses must be reduced and profitability increased. Improving the creditworthiness of the business must reduce the cost of borrowing.

The SDI is a proxy for a measure of development performance. It encourages those engaged in the business of lending to earn their profits from increasing the size and quantity of their interest income, preserving a high quality book and promoting savings.

6.3 Recommendations for policy makers and the KFC

It is imperative for policy makers to understand at all times why the support of the state is justified for the KFC. The achievement of the objectives of the RFI and the cost to the state of keeping the RFI afloat must be measurable.

Policy makers must be aware that creating a culture of dependency on subsidies does not work, be it at the farm household level or at institutional level. It was argued earlier in this study that, at the farm level, the beneficiaries of subsidised loans were the well off members of the community and not the poor. At the institutional level fiscal reserves can be wasted if an RFI is not geared toward accountability to the shareholder. Political survival can be bought rather than by achieving set performance targets. RFIs answer to the call of economic growth and social stability and poverty reduction, but they must be made accountable for the costs of their sustainability and justify their existence.

The role of government is to understand the mechanisms that can be employed to enhance rural economic dynamics and growth in rural areas. The interventions that gives the highest return to society must be implemented and supported until alternative forms of intervention provides different instruments for development.

For RFIs to be successful they need to operate their business with the same enthusiasm for self-sustainability private companies have for profitability. The SDI has revealed that on-lending interest rate policy is the main variable to be addressed by the KFC since it's the most sensitive variable affecting the SDI.

6.4 Conclusion

The SDI should be incorporated as a standard measure of development performance for an RFI. It must be promoted as a measurement tool that seeks to create self-sustainability among rural citizens and public supported institutions.

Government should not guarantee the continued support of RFIs that do not meet their performance targets. For example RFIs must be encouraged to mobilise savings to fund some of their working capital needs.

In future RFIs can help to create and fund successful rural institutions like the commercial agricultural co-operatives found in the commercial agricultural sector.

Balance before provision		31070	15713
Provision expense (a)	also 0.2.5	11511	11037
Balance at the end of year		20559	27254
E) Net loan book outstanding		515421	
F) Return on lending portfolio		0.236	