# THE ROLE OF CREDIT IN THE FARMER SUPPORT PROGRAMME: IS IT THE KEY TO SUCCESS?

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**Abstract**

This paper concentrates on the credit element of Farmer Support Programmes (FSP) and the financial environment in which FSP credit is applied with a view to assess the importance of the credit component in the FSP. First, the theory on rural financial markets and intermediation is briefly reviewed. This is followed by an application to the FSP. The paper concludes with some policy implications of the findings. The main points that FSP financial policy should incorporate are: avoid loan subsidies and targeting; mobilise deposits; charge positive real rates of interest; avoid concessionary discount lines; reduce transaction costs; and emulate informal finance.

**Uittreksel**

**Die rol van krediet in die Boerdery-ondersteuningsprogram: Is dit die sleutel tot sukses?**

Hierdie referaat bespreek die krediet element van boerdery-ondersteuningsprogramme (FSP) asook die finansiële omgewing waarbinne krediet aan kleinboere verleen word. Sodoende word gepoog om die belangrikheid van die kredietkomponent van die FSP te bepaal. In die eerste deel van die referaat word die teorie oor landelike finansiële markte kortliks bespreek. Dit word gevolg deur 'n toepassing van dié teorie op die FSP en die bespreking van die belangrikste resultate verkry uit opnames onder kleinboere. Beleidsimplikasies van hierdie resultate word ook kortliks toegelig. Die belangrikste aspekte wat in die FSP se kredietbeleid geïnkorporeer moet word is: vermy gesubsidieerde lenings en teikengroepe; mobiliseer deposito's; hef positiewe reële rentekoerse; vermy konsessionêre lenings; verminder transaksiekoste; en laastens moet dit die informele finansieringsmark nastreef.

## 1. Introduction

Financial markets are institutions central to the lives of all rural people (Coetzee, 1993). However, compared to commercial farmers, small farmers in South Africa had little and inadequate financial and other support (especially the farmers in the homelands). This was partly the motivation for the Farmer Support Programme (FSP) and the credit component of the programme (Van Rooyen *et al.*, 1987), as launched in 1987 by the Development Bank of Southern Africa (DBSA).

This paper concentrates on the credit element of FSP and the financial environment in which FSP credit is applied with a view to assess the importance of credit component in the FSP. First, the theory on rural financial markets and intermediation is briefly reviewed. This is followed by an application to the FSP. The paper concludes with some policy implications of the findings.

## 2. Theory on rural financial markets

According to Stevens and Jabara (1988), improvements in rural financial markets facilitate economic growth in at least five ways: services provided by financial institutions transcend spatial constraints in the transfer of funds; loans improve resource allocations based on the idea of a farmer with a high return investment opportunity who could borrow from a local financial institution where people with surplus cash deposited savings; loans, by providing more flexible command over resources, enable borrowers to manage better the risks of farming, due to the vagaries of weather and price, by increasing debt during bad crop years and reducing it during good crop years; loans facilitate the purchase of large investments; and loans improve life cycle problems, in which the young need to get farm and household assets often by borrowing from persons who have accumulated savings. In the light of these statements, one would have expected that FSP credit policy would have mentioned at least one of the above reasons for the provision of credit (Coetzee, 1993). However, FSP credit policy is hard to track down. The policy documents on FSP (DBSA, 1986) do not mention credit policy *per se*. Credit is mentioned as an important element that need to be present to support farmers. Without policy guidelines the implementors of the FSP in the different areas followed a diversified approach with regard to the credit component of FSP (DBSA, 1989). This varied from an initial policy of "no credit" in a specific area to an over-emphasis on lending in other areas (see Van Zyl *et al.*, 1992; Lyne and Ortmann, 1992, Fischer *et al.*; 1993; Cross and Evans, 1991a; 1991b).

In the conventional approach to rural credit the assumption was that rural development problems in low income countries could be treated with large injections of funds through cheap credit programmes (Adams, 1992). They were based on two assumptions, i.e., farmers need cheap credit to induce them to produce and rural dwellers are too poor to save. Credit programmes were seen to be the solution for production problems, for poverty in rural areas and as a way to correct the urban bias. Credit programmes were also applied to encourage rural people to ignore the "exploitive" informal sources by taking part in the formal targeted cheap credit programmes with the intension that it should encourage small farmers to take up new technology. These programmes were seen as the "ideal" measure to advantage the small farmer and the rural poor (see Coetzee, 1988, for references). Short term results from these programmes were promising (Adams, 1992). New lending institutions were build, existing institutions were expanded and large numbers of loans were made. A feeling of accomplishment based on the number of farmers initially reached was evident. However, problems were encountered with loan recovery; default rates ranging from 40 to 90 per cent were recorded in some programmes (Coetzee, 1988). Another problem was the high transaction costs and it was clear that the institutions could only continue operations with continued injections of funds from government and donors. Even after the initial negative assessment of these programmes they were continued (Adams, 1992). Also, many of the target group of the programmes - the rural poor - did not benefit from these programmes. The targeted funds almost invariably landed in the pockets of the rural elite and large farmers. These negative results of most of the conventional credit programmes prompted researchers and officials to raise questions and challenge assumptions (Adams, 1992; Coetzee, 1988; 1993).

Because of the negative results from the traditional programmes a growing number of individuals have argued that other evaluation criteria should be applied and that alternative approaches should be followed in rural financial markets (Rhyne and Otero, 1992; Adams, 1992; Braverman and Guasch, 1986). The contention is that more attention should be given to the suppliers of financial intermediation, to long run issues such as viability of institutions, to deposit mobilisation, to the lowering of transaction costs, to cost reducing financial innovations, to building sustainable financial services, and to how policies affect the functioning of rural financial markets. Adams (1992) argue for using loan recovery, transaction costs, numbers of people with sustained access to formal financial services and the proportion of lending that comes from deposits as measures of success. The new approach concentrates on deposits. The emphasis on viability of financial institutions and sustainability of the rural financial market is a more holistic approach. It is also an approach that acknowledges the existence of informal financial markets in the rural areas. Rhyne and Otero (1992) argue that sound financial principles should be the basis of a successful technology of credit delivery, i.e., understanding the needs of the client, increasing efficiency by cutting administration costs, structuring the service to motivate repayment, and emphasising the provision of financial services rather than credit provision (Von Pischke, 1991). The main points emphasised by these new views thus are: avoid loan subsidies and targeting; mobilise deposits; charge positive real rates of interest; avoid concessionary discount lines; reduce transaction costs; and emulate informal finance.

## 3. The credit component of FSP

The original development objective of the FSP was to promote structural change away from subsistence agricultural production to commercial production (DBSA, 1986). The programme is based on the premise that this change can be achieved by supplying comprehensive agricultural support services to emerging farmers - primarily in selected "target" areas where the potential for agricultural development is conducive to the implementation of the programme. In an interim evaluation of FSP conducted by DBSA (1989) the development objective was changed to emphasise the broad based access to comprehensive farmer support services.

As mentioned earlier, no specific DBSA policy document exist on the provision of financial services to farmers. The approach followed by the implementors of FSP seems to lean towards the conventional style programmes discussed earlier. Even in the policy document of DBSA on FSP (DBSA, 1986), credit is specifically grouped with inputs in the same element category. This analysis of credit is based on the recent and ongoing evaluation of DBSA's FSPs. Table 1 presents some background information on the FSP to put the following discussions on credit use in perspective, while credit use by respondents in all the areas is shown in Table 2. It provides some indications on the use and sources of credit. Clearly most farmers (farming households) finance their activities out of savings. Further the information also supports the findings in developing areas that informal sources also play an important role where credit finance is used. However, certain discrepancies also are obvious in Table 2, when certain areas are compared and when the results are compared with surveys in other countries.

Table 3 provides additional information on the sources of finance used by those households that did purchase agricultural inputs. It is interesting to note that the majority of the households surveyed made used of institutional or formal credit provided via primary co-operatives. In KaNgwane the trend was somewhat different with the majority of the households paying cash for inputs. Between 36 and 40 per cent of the households made use of Agriwane credit, provided via farmers' associations, to finance their agricultural inputs. An estimation of the transaction cost (in terms of days waiting for approval; distance to travel and deposit required) related to the various financial institutions are provided in Table 4. The impression gained from this information is that the transaction costs of the more formal institutions seems to be higher that informal credit sources, as expected.

Average loans and repayments for the past four seasons in the three regions surveyd are summarised in Table 5. The increase in numbers of households gaining access to credit facilities is particularly notable in the case of Lebowa and Venda. The information in the table also gives a clear indication of the impact of the drought on the repayment ability of households in Lebowa and Venda where the recent drought was particularly severe. The average loan provided to KaNgwane farmers is much higher than that of the other two regions. This could be related to the fact that KaNgwane farmers do have access to much bigger land and the higher fertility of the soil in the region and resulting more intensive production, sometimes under irrigation.

An important questions in this regard goes right to the heart of FSP - the target population. According to the FSP policy document (DBSA, 1986) the target is the emerging farmer group[1]. Based on the definition of emerging farmers (DBSA, 1986) not all the respondents participating in FSP can be categorised as emerging farmers. DBSA (1986) states that the FSP should be seen as inclusive and accommodating and that the services of FSP will be available to all farmers, although the benefits are specifically aimed at emerging farmers. Based on the agricultural production performance of farmers, the proportion of farming income in total household income and the marketable sales of farmers, it seems as if only the Lebowa farmers (and specifically the Phokoane group - and some individual respondents in KaNgwane) could be called emerging farmers. The question can then be raised -- if this is the case and FSP should serve all farmers -- is the credit component adequately structured and does it answer the need for financial services for all the farming families in the target areas?

**Table 1: General information on the respondents to the surveys**

| Item | Unit | KwaZulu | Lebowa | Venda | KaNgwane |
|---|---|---|---|---|---|
| Year of survey | | 1990/91 | 1991 | 1991 | 1991/92 |
| N | | 85 | 125 | 91 | 176 |
| Household size | | 7.12 | 7.80 | 6.20 | 8.45 |
| Monthly wage earnings | R | 516 | 280[1] | 882 | ?[2] |
| Monthly wage remittances | R | 260 | 99[1] | 183 | ? |
| Monthly welfare payments | R | 146 | 100[1] | 146 | ? |
| Agric. income/Total income | % | 5 | 68[1] | 20 | 50 |
| 'Arable' farm size | ha | 1.27 | 1.80 | 1.10 | 4.35 |
| Education level of largest proportion | Std | 1-4 | ? | ? | ? |
| Cattle owned | LSU | 3.97 | 5.60 | 3.31 | 7.92 |
| Households growing maize | % | 99 | 79 | 93 | 77 |
| Households that know the agricultural officer | % | 25 | 94 | 91 | 67 |
| Members of a co-op. | % | 10 | 74 | 88 | 86 |
| Clients of FSP implementors | % | 10 | 67 | 76 | 45 |
| Members of stokvel | % | ? | 2 | - | 15 |
| Members of savings club | % | 3 | 1 | 5 | 9 |
| Members of sports club | % | ? | 20 | 26 | 42 |
| Members of garden club | % | ? | 44 | 1 | 29 |
| Members of burial society | % | ? | 95 | 35 | 42 |
| Members of church group | % | ? | 87 | 21 | 84 |

1. These figures are for only one area in Lebowa (Kadishi).
2. The ? denotes that this figure was unavailable due to the way this information was presented.

The behaviour of the agricultural development corporations (specifically in KwaZulu and KaNgwane) follows a predictable course according to the conventional approach to credit programmes. Experiences of non-recovery exclude defaulters from the following years production loans. Over time the less risky borrowers are selected. Less risky borrowers usually are those with larger tracts of lands, higher off-farm and farming incomes. In this way a certain group of households gets less credit every year from the development corporations and a more affluent group receives more access over time. In terms of the targeting of FSP to emerging farmers it could be argued that this selection process is now reaching the emerging rather than the subsistence farmers - however the broad inclusion of all farmers in the FSP programme shows that the current FSP credit policy is diverting credit from some FSP clients.

In KwaZulu the development corporation also followed the practise of providing production loans for different elements of the production process of the same production cycle (Cross and Evans, 1991a). This increases the transaction costs of lending, increases the difficulty of control and makes it impossible to enforce the principle followed by the specific development corporation of not granting loans until outstanding loans are repaid. Any indications of relaxing the rules of lending may result in the borrower relaxing the rules of repayment, which can imply that the priority attached to repaying development corporation loans may be far lower than other claims on the household budget (Cross and Evans, 1991a). This emphasises the importance of clear and understandable rules of credit provision.

In KaNgwane, Kirsten *et al.* (1993a) describe the practise of the development corporation in changing individual loan practices to a group basis. Although this is a way to decrease transaction costs described earlier, success with group approaches depends on how the group concept is implemented. In this instance the farmer association is chosen by the development corporation to be the group and joint liability is one rule. Unilateral decisions where the individual members of the group are already in near default position is not a measure that will ensure repayment. The group concept should be handled with care as mixed success with this concept has been reported, especially where groups have been formed exogenously and with the sole purpose to be used as a credit conduit (Slover, 1991; Bratton, 1986). The behaviour of some group members in KwaZulu is also an indication of the extreme caution that should be exercised when using groups as a conduit.

**Table 2: Sources of finance in the evaluation target areas (KwaZulu, Lebowa, Venda and KaNgwane)**

| Area | N | Year | FSP Clients | | | Other respondents | | |
|---|---|---|---|---|---|---|---|---|
| | | | No credit | Credit | | No credit | Credit | |
| | | | | Formal | Informal | | Formal | Informal |
| KwaZulu[a] | 292 | 1989/90 | 57 | 42 | 1* | 100 | 0 | 0 |
| KwaZulu[a] | 217 | 1990/91 | 82 | 15 | 3* | 100 | 0 | 0 |
| Lebowa - Phokoane[b1] | 92 | 1991 | 32.4 | 51.4 | 16.2 | ? | ? | ? |
| Lebowa - Kadishi[b2] | 33 | 1991 | ? | ? | ? | 18.1 | 16.7 | 65.2 |
| Venda[b3] | 91 | 1991 | 1.4 | 95.7 | 2.9 | 92.9 | 7.1 | 0 |
| KaNgwane[b4] | 176 | 1991/92 | 74.2 | 9.5 | 16.5 | ? | ? | ? |
| KaNgwane[b5] | 176 | 1989-91 | 14.0 | 60.6 | 39.4 | ? | ? | ? |

Notes: Estimates indicated with a * have a Coefficient of Variance exceeding 20 percent.

1. Due to the different ways in which researchers presented their findings this table will contain certain irregularities.
2. In the Kadishi survey the position of the survey respondents in terms of "clients" of FSP was not clear - although the source of formal credit in this instance was from the Kadishi co-operative.
3. The report did not contain enough information on the credit/cash activities of non-FSP respondents to enable any calculation on their activities, nor did it give detail in terms of the FSP respondents other than the method of purchase of agricultural inputs and services.
4. This row was calculated based on the method of purchase of agricultural inputs - it is not clear whether these respondents accessed their support services from the FSP.
5. This version of the KaNgwane survey results was calculated on the answers to a question that asked the respondents to indicate whether they used credit over the last three years and what was their source of credit. Again no indication was given whether these respondents source supports services from the FSP.

Sources:

a. Lyne and Ortmann, 1992.
b. Van Zyl *et al.*, 1992; Additional information supplied by Van Zyl *et al.*, 1992, not reflected in this report.

**Table 3 : Sources of finance for the purchase of agricultural inputs by households in Venda, Lebowa and KaNgwane, (1992).**

| Source | Venda | | | Lebowa | | | KaNgwane | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fertiliser n = 56 | Seed n = 53 | Ploughing services n = 50 | Fertiliser n = 77 | Seed n = 74 | Ploughing Services n = 68 | Fertiliser n = 111 | Seed n = 111 | Ploughing services n = 108 |
| Co-op | 82% | 81% | 80% | 83% | 84% | 78% | - | - | - |
| Cash | 16% | 17% | 18% | 12% | 12% | 16% | 58% | 57% | 52% |
| Assoc | - | - | - | - | - | - | 42% | 40% | 36% |
| Savings | - | - | - | - | - | - | - | 1% | 1% |
| Stokvel | - | - | - | - | - | - | - | - | - |
| Family | 2% | 2% | 2% | 1% | 1% | 2% | - | 2% | 11% |
| Cattle | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | 4% | 3% | 4% | - | - | - |

**Table 4: An estimation of transaction costs at rural financial institutions**

| Institution | Waiting period for approval (days) | Distance to source (km) | Deposit required |
|---|---|---|---|
| Commercial Bank | 8 | 53 | Yes |
| Co-operative | 4 | 9.7 | No / Yes * |
| Family/friends | 1 - 2 | 0.1 - 2 | No |
| Money lender | 4 | 10 | ? |

Notes: This table was compiled from a combination of data obtained from the 1991 survey in Venda and Lebowa. Only a few respondents were able to answer questions regarding this aspect and the data should therefore be interpreted against this background.
* Yes in Lebowa where 40% to 50% deposit is required and No in Venda

**Table 5 : Average loans and repayments in Venda, Lebowa and KaNgwane (1989 - 1992).**

| Year | Venda (N = 60) | | | Lebowa (N = 84) | | | KaNgwane (N = 111) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Access (%) | Loan (R) | Repay-ment (R) | Access (%) | Loan (R) | Repay-ment (R) | Access (%) | Loan (R) | Repayment (R) |
| 1989 | 33.3 | 290.00 | 290.00 | 16.7 | 669.07 | 450.00 | 48.6 | 2252.44 | 2062.38 |
| 1990 | 21.7 | 314.60 | 303.00 | 38.1 | 566.62 | 591.33 | 57.0 | 4017.82 | 1927.60 |
| 1991 | 40.0 | 370.20 | 395.00 | 58.3 | 534.60 | 442.38 | 34.0 | 2513.59 | 2379.41 |
| 1992 | 40.0 | 372.91 | 61.93 | 71.4 | 417.68 | 198.96 | 40.0 | 2993.66 | 2750.08 |

Cross and Evans (1991a) observed that meetings of groups for repayment purposes are often badly attended and that the credit officers often need to visit an individual member repeatedly to obtain payments, resulting in home visits to become the norm rather than the exception for collecting debts of individual group members. These problems are seen as systemic problems (based on the operational policy of the lender), rather than as constraints on the cash flows that inhibit repayment of loans (Cross and Evans, 1991a), implying that by following a more rigorous and well planned policy according to the local situation, may result in more successful credit provision experiences for the development corporation.

Informal finance plays a major role in the supply of financial services to rural people. In Table 2 it was indicated that many farming households make use of informal credit. However, in order to finance purchases of agricultural inputs, households tend not to use informal sources, but rather to use credit supplied through institutional channels, i.e. co-operatives, farmers' association and sometimes even using cash and savings. Informal sources include family and friends, moneylenders, stokvels, traders, and input suppliers. Coetzee (1988:102) showed that family and friends are the largest source of informal credit and that moneylenders play a small role. Another popular institution in South Africa is the stokvels (rotating savings and credit associations), however, the survey results showed only in two areas are respondents members of stokvels, i.e., KaNgwane (Van Zyl *et al.*, 1992) and in KwaZulu (Cross, 1986). This is contrasting to the important role that stokvels play in the urban environment (Lukhele, 1990; Markinor, 1992). This phenomena is similar to other countries in Africa and may be due to the dispersed nature of settlement in the rural areas, irregular incomes and lower savings propensities in rural areas (Coetzee, 1993). The difference in utilisation of credit institutions in the different areas is difficult to explain based on the information presented in the consultants' reports. The different credit use profiles of FSP and non-FSP clients (see Table 2) could be based on the access to alternative sources by FSP clients. Although it is not the intention of this paper to discuss the theoretical basis of financial markets dealing with risk, transaction costs, information and related concepts, one theory could assist in the explanation of the selection of financial sources by respondents. Cuevas (1992) bases this selection procedure on a theory of "pecking order." This implies that the farmer or entrepreneur will follow the "safety first" principle and access financial sources so that the sources with the least influence on decision making and ownership of his firm will be selected first, e.g., own savings. This also implies in areas where FSP credit is an important source that the farmer may regard this as an "easy or cheap" source in terms of influence on the control of his firm (farm) and as a source where the perceived retribution when defaulting may not carry a high risk (Coetzee, 1993).

Interest rates for formal FSP credit are subsidised in all regions. Although informal rates are not available, Coetzee (1988) reported informal credit rates to be as high as 40 per cent per annum in KaNgwane (from money lenders) and on average 16.3 per cent (formal loans carried rates of on average 12.1 per cent for the same area and period). The negative effects of subsidised rates on the viability of lending operations and the lack of deposit mobilisation contributes to the reliance of these institutions on public sector injections of capital. This is one area in the FSP that needs much attention in future.

Mechanisation services under the FSP are supplied by farmers themselves, by contractors and in some instance, by the development corporations (implementors). Farmers pay for ploughing services in cash but mainly by using credit obtained via co-operatives and farming associations (See Table 3). Most contractors have access to loan packages from the development corporations. In some areas the provision of ploughing services was seen as an important element of the FSP (Van Zyl *et al.*, 1992). Lyne and Ortmann (1992) found that 8 out of 17 contractors used credit to finance their equipment. Some of these contractors indicated that they are not sure of the level of interest rate that they are paying. It seems as if credit supply, or access to credit, for contractors are quite efficient. However, the fact that some borrowers were uninformed about rates they are paying may imply that lenders should provide more information to borrowers.

The FSP evaluation conveyed the perception that FSP is associated with specific elements in specific areas (Coetzee, 1993). In KaNgwane, farmers associate FSP with credit and the shed (service centre). In KwaZulu, due to the view of the implementors of FSP that credit was the only element of FSP support services they did not provide before the advent of FSP, the people see FSP as a credit programme. In Lebowa, due to the emphasis of the implementing agencies on training, FSP is seen as a training or extension programme. Overall, it seems as if farmers associate FSP mostly with the access to credit. However, farmers, when asked what were the real constraints to their farming enterprises, most often cited other constraints than credit as primary constraints. Table 6 is an indication of this for the different areas.

## 4. Impact of FSP and the credit component of FSP

The impact of FSP differs considerable between the different areas surveyed. In the Lebowa case, and specifically at Phokoane (Van Zyl *et al.*, 1992), the results of a discriminant analysis suggested that surplus producers were households who used insecticides, intercropped larger areas, ploughed smaller areas, and have more adult females in the household. These factors were also related to the purchasing of inputs on credit, participation in the FSP and receiving higher wage remittances.

In KwaZulu, and specifically in the Khanyile ward (Cross and Evans, 1991b:25), it appears that formal credit users earn higher incomes and have a higher level of informal sector activity, and have a greater overall access to arable land. Note that the different contributions of agriculture in these two areas are 5 per cent for KwaZulu and 68 per cent in Lebowa. In KaNgwane, Van Zyl *et al.* (1991) observed a marked difference between households supported by FSP and those who are not. When compared with the rest of the respondents, surplus producers (mostly FSP clients) have larger savings accounts, greater access to credit and extension and markets.

A few variables seem consistently present in those cases where FSP appears to have a positive impact, i.e., access to more land, other sources of income in the household (note Nieuwoudt and Vink's (1989) earlier findings in an area of KwaZulu on the liquidity constraint on food production where farmers with access to non-farm income are better able to invest in agriculture), and access to credit. Kirsten *et al.*, (1993b) concluded that based on their findings in Lebowa, KaNgwane and Venda, that finance is important in promoting surplus producers, i.e. emerging commercial farmers.

Table 6: Farmers' perceptions on constraints to farming: The view on credit as a constraint1

| Area | N | Main constraint | % | Credit as a constraint | |
|---|---|---|---|---|---|
| | | | | Ranking | % |
| Venda | 91 | Lack of fencing | 82.4 | 13 | 49.5 |
| Lebowa: Kadishi | 125 | Poor tractor service from Government | 100.0 | 5/17 | 81.8 |
| Lebowa: Phokoane | | Drought | 90.6 | 11/17 | 37.8 |
| KaNgwane | 176 | Inadequate credit | 82.4 | - | - |
| KwaZulu | 217 | Lack of fencing | 39.0 | 4/9 | 20.5 |

Lyne and Ortmann (1992) constructed a model that showed that two variables play a major role in differentiating between clients who will potentially default on loans and those who appear to have a low chance of default, i.e., the level of off-farm income and access to more land (here rental of more land). This emphasises the constraints that need to be attended to before access to credit can play a positive role, and these findings are mostly consistent throughout the evaluation.

## 5. Conclusions

In general FSP policy itself seems to be sound. However, problems arise in the implementation of FSP. The lack of appropriate policy guidelines to the implementors of FSP, specifically with respect to financial policies, is highlighted as a major contributing factor in this respect. The following suggestions should form part of a sound FSP financing policy.

Designing of evaluations could benefit by reviewing the measures of success for credit/financial programme as propagated by the supporters of the institutional view on financial programmes. These measures should concentrate on the viability of institutions that supply credit services, ways in which to extend these services to include deposit mobilisation and other services, levels of transaction costs of these institutions and their clients (and opportunities to decrease these transaction costs). Evaluations thus far have concentrated on the number of farmers that used formal credit and the estimation of impact of credit supply. This is necessary, but not enough. Farmers need the assurance that they will have continued access to financial services. The way in which the current public sector financed suppliers of credit operate, does not include the ingredients of long term viability. The intention of FSP policy (DBSA, 1986) always was to phase out public financed suppliers of support in favour of private suppliers. The information collected thus far by public suppliers of credit may prove to be an invaluable source of information to potential private sector suppliers. The role played by commercial banks in this regard seems to have increased from 1987 to 1992. This may provide an opportunity to involve the private sector in this regard. The way in which the informal and formal suppliers of financial services can be linked also should be investigated, based on the important role informal finance plays. In addition the indication of the importance of self-financing also should allow for a central role that deposit mobilisation can play in the financial services provided to farming households and the concomitant positive effects for the functioning of rural financial markets in these areas.

FSP has the potential to contribute positively in alleviating the constraints to farming activities of emerging commercial farmers. Several constraints, however, are not adequately addressed by FSP. This may be due to different implementation of FSP in the different areas, but also to optimistic production targets on which input requirements, credit requirements and production activities of farmers are based, and the seemingly unimportant role risk play in the planning stages of FSP. Further, some confusion is evident due to the implied targeting of emerging commercial farmers and the all inclusive nature of FSP. The structuring of and policy on provision of elements of FSP, especially for credit, should incorporate this dual objective. Rigid application of credit procedures and financial services should make way for area specific adaptation of the credit supply element. This is not only true for the provision of credit support between different areas, but also to different types of clients within specific areas.

Access to credit for agricultural production from formal sources seems to have the highest impact where farming households have access to larger tracts of land and where these households have higher levels of off-farm income. It has been argued that for the emerging farmer complement agricultural credit may be more important than for subsistence and sub-subsistence farmers. Access to credit for other purposes may play a more important role for the latter group of farmers. As argued above the expansion of financial services rather than concentrating only on farmer credit may have a positive impact. All clients do not have the same needs, resources and sources of income and the lenders should incorporate this in their policy. It seems that informal sources of credit have a better handle on this, most probably because of better information on clients and their activities.

Subsidisation of credit will only be to the long term detriment of the target group. Subsidisation of interest rates rules out the provision of savings facilities by financial institutions. Due to low, if any, cost recovery on loans it is impossible to offer attractive interest rates on savings. The important role of deposit mobilisation has been argued.

Transaction costs for both borrowers and lenders are important components affecting the viability of financial institutions. More information in this regard is needed. Steps that could be considered has been discussed and include the following possibilities (Meyer and Cuevas, 1990): improving the economic environment - although FSP is intended to contribute in its totality to this it also includes efforts outside FSP such as improved communication, transportation and information systems, improved marketing information services to farmers; improved regulatory structure; reduction of risks; diversification of services provided by financial institutions; expanding the service network; group based schemes; improved internal operations; and linking informal finance with formal finance.

Good intentions in development often result in failures and pain for those at the receiving end. For credit/financial programmes this is mostly due to inadequate information on the clients and the financial market in which they operate. It is also due to an ignorance of the risk factors inherent in financial transactions and the concrete fact that the lender can never have the same information on the potential and circumstances of the borrower, than the borrower self. This is called the problem of asymmetric information, and may lead to adverse selection (more risky borrowers) or/and borrowers that have a high chance of wilful default (problem of moral hazard)[2]. Adams and Meyer (1989) concluded that by employing rural financial markets to transfer subsidies results in inequitable distribution of incomes and assets, also that targeted loans had little effect on borrower behaviour and that loan targeting and subsidies seriously damage the ability of financial markets to carry out their real role, i.e., that of improving the efficiency of resource allocation.

## Notes

1. Endless discussions on the definition of different types of farmers and the grouping farmers necessitate the use of the definition of the financiers of this evaluation, DBSA. According to DBSA (1986) "emerging farmers are defined as those who have the motivation and potential to farm as fully fledged commercial farmers, but lack resources and access to the necessary support services to expand and be classified as commercial farmers. It is important to note that any farmer who produces a marketable surplus can be considered a commercial farmer, but is emergent until he/she is able to utilise her/his agricultural resources without substantial external support". The other two categories as defined by DBSA (1986) are commercial farmers, " fully commercial farmers who farm independently for their own account on a commercial basis and compete with commercial farmers throughout Southern Africa" and subsistence farmers " sub-subsistence and subsistence farmers who primarily produce for own use, but may produce intermittent surpluses". According to DBSA (1986) FSP is aimed at emerging farmers, but all farmers can use the services, with the essence of the programme being that it should allow economic forces to operate, thus serving as a spontaneous means of selecting the commercial farmers.

2. These concepts are discussed in detail by Coetzee (1993). These are elements contributing to the principle-agent problem. This alludes to the problem of the relationship (contract) between the principles (e.g. shareholders of a bank) and their agent (manager or management of the bank). In this relationship the agent is acting on behalf of the principle. This highlight the problem of whether the agent will fulfil the wishes of the principle or not, which influences the return on the investment of the principle.

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