



# agriculture, forestry & fisheries

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Department:  
Agriculture, forestry & fisheries  
**REPUBLIC OF SOUTH AFRICA**

## **MAFISA CREDIT POLICY FRAMEWORK**

### **FINAL APPROVED DOCUMENT**

**DIRECTORATE: DEVELOPMENT FINANCE COORDINATION**

**01 APRIL 2015**

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## **Business Definitions and Acronyms**

**BBBEE** – Broad-Based Black Economic Empowerment.

**CASP** – Comprehensive Agricultural Support Programme.

**DAFF** – Department of Agriculture, Forestry and Fisheries.

**DFC** – Development Finance Coordination.

**EXCO** – Executive Committee.

**HDI** – Historically Disadvantaged Individual.

**LB** – Land and Agricultural Bank of South Africa.

**LDV** – light delivery vehicles such as bakkies and vans.

**MAFISA** – Micro-Agricultural Financial Institution of South Africa.

**NCA** – National Credit Act.

**NCR** – National Credit Regulator.

**PDA** – Provincial Department of Agriculture.

**PTO** – Permission to Occupy.

**RLE** – Retail Lending Entity.

**SARS** – South African Revenue Service.

## **Definitions**

**Agri-business** is a generic term for the various businesses involved in food production, including farming, seed supply, agrichemicals, machinery, wholesale and distribution, processing, marketing, and retail sales.

**Client** Is the borrower of MAFISA finance through the RLE.

**Collateral/security value** means **the value of the** security provided by a borrower to back up his /her intention to repay loan such as assets, enterprise, machinery, cessions, market contracts etc.

**Credit policy** is a set of objectives, standards, rules and procedures designed to guide the institutions which grant loans and manage the loan portfolio.

**Credit terms** the conditions under which the credit is granted to the client which specifies the period and interest rates.

**Entrepreneur** mean an individual who operates and own a business or businesses.

**Loan recovery** is the payback of the capital loan amount together with interest.

**Loan portfolio** is the total amount of money given out as loans.

**Microfinance** refers to a variety of financial services that target the poor and low-income people.

**Processor** means a business engaged in processing products and preparing them for the market.

**Reputational capital** means the sum of the value of all corporate assets that can be managed, accumulated and traded in for trust.

## **1. Introduction.**

Access to finance is one of the main constraints in agriculture, particularly among subsistence, smallholder producers and agribusiness entrepreneurs. Access to finance leads to limited production as producers and entrepreneurs are unable to acquire the necessary inputs for optimal production. Previously farmers (particularly white small-scale farmers) who did not qualify for loans from the Commercial Banks and Land Bank were financed by the Agricultural Credit Board (ACB). They were provided with seasonal loans and disaster relief. On the contrary, black small-scale farmers were excluded from the financial services that were available to those white farmers.

During 1998, the government decided to close down the ACB and the credit provision functions of the national and provincial departments were discontinued and the loan books were transferred to the Land Bank. As a result, the Land Bank was mandated to fill the gap that resulted from the closure of the ACB, however not much was achieved in terms of this arrangement. The state found that financial services available for smallholder farmers were inadequate and that the support for farmers was neglected in the budgetary process.

It was shown that there was a need to re-establish an agricultural credit scheme in the then Department of Agriculture. The Strauss Commission of Inquiry then proposed state intervention to support smallholder farmers by facilitating and co-ordinating the provision of financial services, rather than through direct credit delivery. Therefore the Comprehensive Agricultural Support Programme (CASP) and the Micro Agricultural Financial Institutions of South Africa (MAFISA) were introduced in 2004 and the latter was implemented as one of the financial services pillar for the CASP programme.

The main intention to establish MAFISA was to facilitate the provision of equitable and large-scale access to financial services by smallholder operators on an affordable, diversified and sustainable basis. As a market catalyst, MAFISA aims

to leverage financial resources from the market through forging alliances with strategic partners.

The Department has developed MAFISA Credit Policy to guide the provision of MAFISA production loans in the sector. This policy outlines the loan product retailed through the Retail Lending Entities (RLEs) to successful clients; the loan amount limits and associated interest rate structure; qualifying criteria, etc. The policy previously focused solely on agriculture but after the incorporation of the forestry and fisheries branches into the then department of agriculture; the policy was reviewed to accommodate the needs of the two branches as well as other changes in the sector.

## **2. Linkages with Norms and Standards and the Integrated Development Finance policy**

This policy is in line with the Integrated Development Finance policy as it makes use of intermediaries to disburse the funds. The norms and standards document has identified 3 categories of farmers and this policy targets smallholder farmers which is one of the categories identified. In addition to that the norms and standards document recommends the uses of public private partnerships and the model of intermediaries fits in well with this recommendation.

## **3. Problem Statement.**

Lack of access to credit is often seen as a critical constraint to the establishment or expansion of viable micro-enterprises. Credit needs of farmers in the rural areas are limited and are met with mostly by moneylenders, relatives and friends. Moneylenders exploit the farmers in various ways like exorbitant interest rates, etc. Farmers have needs for investment funding to purchase new capital goods as well as seasonal funding to procure seed and fertiliser for the new season. Due to the seasonality of agricultural production it is crucial that inputs arrive on time so that the production process can start at the right time. Retail bankers view the smallholder farmers as expensive and risky transactions to deal with,

although there are other alternative ways of providing such services that can be considered. The following additional constraints to financial services in rural areas have been noted:

- Dispersed demand for financial services due to low levels of economic activity and population density.
- High information and transaction costs linked to poor infrastructure (roads, telecommunications) and lack of client information (no personal identification or functioning asset registries).
- Weak institutional capacity of rural finance providers related to the limited availability of educated and well-trained people in smaller rural communities.
- Seasonality of many agricultural activities and long maturation periods for others, resulting in variable demand for savings and credit, uneven cash flow and, lags between loan disbursement and repayments.
- Risks linked specifically to farming, such as variable rainfall, pests and diseases, price fluctuations, and small farmers' poor access to inputs, advice, and markets.
- Lack of usable collateral due to ill-defined property and land-use rights, costly or lengthy registration procedures, and poorly functioning judicial systems.
- Farmers are generally located in less densely populated areas and travel to attend frequent group meetings represents a significant transaction cost.

Government closure of the ACB as its primary organ for financial services to agriculture left the lower end of the sector without an effective new system in its place. Efforts by the Land Bank to fill the gap have been slow and without significant impact. The result has been complaints by the Historically Disadvantaged Individuals (HDI) about the continued discrimination, in the hands of the post-apartheid order.



As stated in the Strauss Commission report, the State must accept its unequivocal responsibility to facilitate as well as co-ordinate the provision of a balanced range of trustworthy financial services to the rural people of South Africa with special attention to the needs of the disadvantaged. It thus remains an important aspect of Government's responsibility to create an enabling environment for the private sector institutions to provide such financial services to the rural areas especially with regards to economic activities for emerging enterprises, which have no access to credit.

This policy provides a framework for taking forward the President's announcement in his State of the Nation address on the 21<sup>st</sup> May 2004, relating to the re-establishment of the Agricultural Credit Scheme (ACS) known as MAFISA in the then Department of Agriculture to provide capital for the emerging farming and rural sector, and leaving the Land Bank to deal with the commercial farming sector.

#### **4. Objectives.**

##### **4.1 Overall Objective.**

The objective is to set the guidelines with regard to the provision of production loan/working capital to smallholder operators along the value chains (from inputs, production and value adding to retailing) through accredited RLEs.

##### **4.2 Development Impact.**

###### **4.2.1 Institutional development Impact.**

RLEs are provided with funding to on-lend to smallholder operators in agriculture, forestry and fisheries. This helps to achieve the following MAFISA objectives:

- Financial services which are more accessible, relevant and responsive to the needs of the target market.
- Greater productivity in farming, agribusiness, fishing and forestry operations.

- More effective and equitable market access by clients.
- Greater and more reliable production of food, timber and other products.
- Increase economic growth in rural and peri-urban communities.
- Improve wholesaling, advocacy and advisory services to strengthen the capacity of the producers and their organizations.

#### 4.2.2 Client's Impact.

Micro-businesses in the agriculture, forestry and fisheries sector are financed with a view to ensuring development impact. This will be a combination of the following elements:

- *Entrepreneurial Development.*  
Development of entrepreneurs is critical for the development of the economy. The number of new and existing entrepreneurs that benefit from MAFISA finance will indicate the level of outreach.
- *Enterprise Development.*  
This includes any new business activities within the agriculture, forestry and fisheries sector as well as existing enterprises which are economically viable and will be expanded.
- *Employment Creation.*  
Those business activities which demonstrate the ability to create and or sustain employment opportunities will be supported.
- *Economic growth.*  
The value of turnover generated by the finance provided plus the increased investment value in assets is a measure of the contribution of MAFISA finance to economic growth.

## **5. Policy Drives and Procedures.**

### **5.1 Policy Drives.**

#### **5.1.1 Loan size and interest rate.**

The maximum loan size offered by MAFISA is R500 000.00 per client with special provision for up to R 1 000 000 for special projects, however the funding for those special projects will be at discretion of the Intermediary. The DAFF will not be liable for any defaults in this regard. The maximum loan size offered without collateral is R50 000.00 per client. MAFISA clients shall be charged 7% interest rate per annum for the loans granted.

#### **5.1.2 Loan purpose.**

The loan is solely for use in agriculture, forestry or fisheries enterprises. MAFISA loans are for purposes of covering production input, small equipment, livestock purchase, harvesting (in the case of fruit, forestry, aquaculture and artisanal fisheries) and agro-processing. The loan is not intended for any form of debt consolidation and payment of existing creditors for past season's debt. In the event where a client has other unpaid debts, an agreement with respective creditors on a repayment plan for their debts is required prior to approval of his / her loan application. In case the intermediary funds farmers to consolidate debts, it will be on their own risks. DAFF will not be liable for this arrangement.

The essence of the MAFISA scheme is to provide financial services to facilitate the development of micro and small businesses and to enable producers and entrepreneurs to develop into larger businesses. Loans must be repaid within the agreement period and savings are to be encouraged. The scheme should not be treated as a handout or a form of grant. It is a loan and need to be repaid. The basic lending principle shall apply when approving the MAFISA loans. The disbursement of approved loans shall be based on production activities undertaken on / at the client's enterprise. The repayment of loans shall be structured to be in line with the income cycle of the enterprise.

### 5.1.3 Types of the loan.

The following are the types of loans and their purposes.

#### 5.1.3.1 Crop Production Loan.

##### a) Purpose.

To provide bridging finance to cover production costs, harvesting and post-harvest cost e.g. fertilizer, seed, chemicals, packaging materials, as well as other production inputs.

##### b) Product Specific Requirements.

**Table 1: Crop production loan specifications.**

<b>Maximum Limit</b>	Up to R500 000.00 (five hundred thousand rand) per client.
<b>Loan Term</b>	In line with production cycle of the enterprise.
<b>Security</b>	Security in the form of collateral or an acceptable substitute (i.e. cession over crop proceeds or a market contract or agreement with a reputable supplier) is required for loan amounts above R50 000.00. Collateral security value to be no less than 50% of the loan. Loan amount of less than R 50 000.00 (Fifty thousand) may be granted without security.
<b>Repayment</b>	Repayment should be in line with the income cycle of the specific enterprise. Clients may also use income from other sources to repay the loan. Capital and interest must be redeemed within the agreed loan period.
<b>Loan Disbursement Conditions</b>	Payment will be effected to the third party (supplier / service provider) upon presentation of valid receipt / invoices or sales agreements with the client's signature. The signature confirms / indicates that the client has received the goods / service in good order. Cash or direct deposit into client's bank account may be made for wages and electricity based on the worksheet and electricity bill.
<b>Application form</b>	Application form to be submitted to RLE.
<b>Purpose of the Loan – acquire production inputs such as the below listed</b>	

**items.**

- Production inputs (fertilizer, seed, plant cane, livestock feed, agro-chemicals);
- Packaging costs.
- Irrigation costs (water quota costs and electricity costs).
- Transport costs.
- Service costs (land preparation, planting, harvesting costs, and any other relevant services).
- Electricity bills and wages.
- Salaries and wages
- Any other short term direct production costs.

### 5.1.3.2 Equipment Loan.

#### a) Purpose.

Finance for the purchase of loose tools, plant and machinery, irrigation and other small farming equipment within the band of the maximum loan amount.

#### b) Product Specific Requirements.

**Table 2: Equipment loan specifications.**

<b>Maximum Limit</b>	Up to R500 000.00 (five hundred thousand rand) per client
<b>Term</b>	In line with life expectancy of the equipment (5 yrs period)
<b>Security</b>	Required for loans above R50 000.00. Where possible, take security to the value of the asset. Collateral security value to be no less than 50% of the loan.
<b>Repayment</b>	In line with the income cycle of the specific enterprise. Capital and interest to be redeemed within the agreed loan period.
<b>Loan Disbursement Conditions</b>	Payment will be effected to the third party upon presentation of valid receipt / invoices with the client's signature. The signature indicates that the client received the goods / service in good order.
<b>Application form</b>	Application form to be submitted to RLE.
<b>Purpose of the Loan – To acquire Equipment's and tools such as the below listed items.</b>	
<ul style="list-style-type: none"> <li>• Loose tools – spades, digging forks, etc.</li> <li>• Irrigation pumps.</li> <li>• Small-scale above ground irrigation and production equipment – pipes, fittings, trellising, etc.</li> <li>• Knapsack sprayers.</li> <li>• Repair and maintenance of equipments.</li> <li>• Any other necessary cost that fall within the maximum loan amount.</li> </ul>	

### 3.1.3.3 Livestock Loan.

#### a) Purpose.

Finance for the purchase of livestock, breeding stock, livestock feed and other inputs such as medicines, etc.

#### b) Product Specific Requirements.

**Table 3: Livestock loan specifications.**

<b>Maximum Limit</b>	Up to R500 000.00 (five hundred thousand rand) per client.
<b>Term</b>	In line with the production cycle of the livestock enterprise.
<b>Security</b>	Required security for loans amounts above R50 000.00. The value of the existing livestock must be at least two times the value of the loan. The livestock must be branded and tagged for traceability.
<b>Repayment</b>	The repayment will be in line with the income cycle of the livestock enterprise.
<b>Loan Disbursement Conditions</b>	Payment will be effected upon presentation of valid receipt/ invoices or sales agreements with the client's signature. The signature confirms / indicates that the client received the goods in good order.
<b>Application form</b>	Application form to be submitted to RLE.
<b>Purpose of the Loan – acquire livestock production inputs.</b>	
<ul style="list-style-type: none"> <li>• Purchase of livestock.</li> <li>• Purchase of breeding stock.</li> <li>• Purchase of animal health care facilities, feeds and veterinary drugs).</li> <li>• Transport cost.</li> <li>• Any other necessary cost that falls within the maximum loan amount.</li> </ul>	

#### 5.1.3.4 Forestry operational loan.

##### a) Purpose.

Finance to cover all costs incurred for operations including charcoal production, sawmilling production, harvesting of wood/trees, the purchase/ hiring of machinery for harvesting, and contractual employment, etc.

##### b) Product Specific Requirements.

**Table 4: Forestry loan specifications.**

<b>Maximum Limit</b>	Up to R500 000.00 (five hundred thousand rand) per client.
<b>Term</b>	Loan is granted for the harvesting season and repaid after sales.
<b>Security</b>	Required security for loans amounts above R50 000.00.
<b>Repayment</b>	In line with the income cycle of the specific enterprise. Capital and interest to be redeemed within the agreed loan period.
<b>Loan Disbursement Conditions</b>	Payment will be effected to the third party upon presentation of valid receipt/ invoices or sales agreements with the client's signature. The signature confirms / indicates that the client received the goods / service in good order.
<b>Application form</b>	Application form to be submitted to RLE.
<b>Purpose of the loan – acquire inputs required by the forestry enterprise.</b>	
<ul style="list-style-type: none"> <li>• Electricity and wages.</li> <li>• Transport costs.</li> <li>• Small-scale plant and machinery.</li> <li>• Harvesting costs.</li> <li>• Sawmilling production.</li> <li>• Charcoal production.</li> </ul>	



5.1.3.5 Artisanal fisheries operational Loan.

a) *Purpose.*

Finance for the purchase of loose tools, boat repairs and maintenance, and payment of salaries and wages, etc.

b) *Product Specific Requirements.*

**Table 5: Loan specifications for artisanal fisheries.**

<b>Maximum Limit</b>	Up to R500 000.00 (five hundred thousand rand) per client.
<b>Term</b>	Within 30 days to a maximum of 12 (twelve) months.
<b>Security</b>	Required security for loans amounts above R50 000.00.
<b>Repayment</b>	In line with the income cycle of the specific enterprise. Capital and interest to be redeemed within the agreed loan period.
<b>Loan Disbursement Conditions</b>	Payment will be effected upon presentation of valid receipt/ invoices or sales agreements with the client's signature. The signature confirms / indicates that the client received the goods / service in good order.
<b>Application form</b>	Application form to be submitted to RLE.
<b>Purpose of the Loan – acquire inputs needed for the operation of the enterprise.</b>	
<ul style="list-style-type: none"> <li>• Loose tools – fishing rods, nets, coolers and other processing utensils etc.</li> <li>• Repairs of boats and maintenance of the ice-storage.</li> <li>• Leasing of sea space.</li> <li>• Fishing rights.</li> </ul>	

5.1.3.6 Aquaculture operational Loan.

a) Purpose.

Finance for the purchase of fingerlings, feeds and maintenance and transporting costs, etc.

b) Product Specific Requirements.

**Table 6: Aquaculture loan specifications**

<b>Maximum Limit</b>	Up to R500 000.00 (five hundred thousand rand) per client.
<b>Term</b>	In line with the income cycle of the enterprise.
<b>Security</b>	Required security for loans amounts above R50 000.00.
<b>Repayment</b>	The repayment will be in line with the income cycle of the enterprise.
<b>Loan Disbursement Conditions</b>	Payment will be effected upon presentation of invoices or sales agreements after compliance with loan conditions and with the clients' signature. The signature confirms / indicates that the client received the goods / service in good order.
<b>Application form</b>	Application form to be submitted to RLE.
<b>Purpose of the Loan – acquire inputs needed by the enterprise.</b>	
<ul style="list-style-type: none"> <li>• Purchase of juveniles/fingerlings.</li> <li>• Purchase of feeds and medicines.</li> <li>• Leasing for dam or pond space.</li> <li>• Aquaculture rights.</li> <li>• Transport costs.</li> <li>• Production cages.</li> <li>• Equipment – oyster long lines.</li> <li>• Repair and maintenance of boats, machinery and production systems.</li> </ul>	

5.1.3.7 Agro-processing Loan.

a) *Purpose.*

Finance for the agro-processing activities.

b) *Product Specific Requirements.*

**TABLE 7: Agro processing loan.**

<b>Maximum Limit</b>	Up to R500 000.00 (five hundred thousand rand) per client.
<b>Term</b>	In line with the income cycle of the enterprise.
<b>Security</b>	Required security for loans amounts above R50 000.00. Where possible take security equal to the value of the asset. Collateral security value to be no less than 50% of the loan.
<b>Repayment</b>	The repayment will be in line with the income cycle of the enterprise.
<b>Loan Disbursement Conditions</b>	Payment will be effected upon presentation of invoices or sales agreements after compliance with loan conditions and with the clients' signature. The signature confirms / indicates that the client received the goods / service in good order.
<b>Application form</b>	Application form to be submitted to RLE.
<b>Purpose of the loan</b>	Purchase inputs needed for agro-processing.
	Packaging material. Labour costs. Electricity costs. Machinery parts Raw material. Marketing.

## **5.2 Eligibility Criteria for MAFISA loan.**

5.2.1 To qualify for a loan, a client must comply with the following criteria:

- Must be a South African citizen in possession of a valid South African Identity document.
- Be from Historically Disadvantaged Individuals.
- Must have positive credit history.
- Must be 18 years and above of age, in a case of a client which is between 18 - 21 years, the parent/legal guardian consent is needed.
- Gross non-farming income of an applicant must not be above R30 000.00 (thirty thousand) per month.
- The business turnover should not be more than the Value Added Tax (VAT) threshold of R3 000 000.00 (Three million) per annum.
- The client's enterprise must be within the agriculture, forestry and fisheries sector value chain.
- The client must demonstrate the ability and willingness to repay the loan.
- Must have legal permit and or applicable rights required by law to operate the type of business, (title deeds/PTO/lease agreement, water rights or permits, aquaculture / fishing license etc.
- MAFISA loans are available to individuals, groups, trust or an entity.

5.2.2 In a case of trust/legal entity or group, the following will be additional eligibility requirements:

- Be fully-owned by the formerly HDI members (100% of shareholding or members' interest) or fully compliant to the provisions of BBBEE Act.
- Have a formal constitution or articles of association, with a board or committee and a management structure.
- Have legitimate access to the use of land (own, lease, communal etc.) or processing facility.
- The business turnover should be less than the VAT threshold of R5 000 000.00 (Five million) per annum.
- Display willingness and ability to repay.

- Tax clearance is required for registered legal entities.

5.2.3 Public servants are not eligible for MAFISA loans (Public Service Management Act No11 of 2014 “prohibits public servants from conducting business with the State”).

5.2.4 RLE personnel and shareholders are not eligible for MAFISA loan within their institution, but they can apply with other financial institution.

### **5.3. Procedure for approving loans.**

#### 5.3.1 Application Forms and Document Checklist.

All clients must complete a Loan Application form issued by the institution from which the application is made (RLE may use their industry specific application forms).

The application form must be accompanied by the following documents:

- A certified copy of the identity document, in case of groups it has to be member/s, shareholders, directors, Trustees.
- Statement of Assets / Liabilities (all asset and liabilities).
- Statement of Personal and business Income and Expenditure.
- Registered Business Entity Founding Statement and proof of registration.
- Marriage Certificate (where applicable).
- Cash flow projection based on standard enterprise budget.
- Proof of residential address and / or GPS Co-ordinate reading.
- Proof of rights of access to land – title deed, lease agreement, PTO.
- Market contract where available.
- Stock card/branding certificate.
- Proof of water rights where applicable.
- Proof of aquaculture or fishing rights and permits where applicable.
- Proof of afforestation license.
- Bank statement where applicable.
- Registration certificate for LDVs and tractors.

- Memorandum of agreement in respect of mentorship & technical support offered by commercial farmer / agri-company.
- Viability assessment report on the suitability of the product/ business is a must.

### 5.3.2 Client and Business Assessment.

The RLE shall assess the business credentials of the client and the merit of the business proposal and approve or decline the application. The client must be up to date with repayments of his/her existing loans or have successfully redeemed previous loans. Where the application is declined, the RLE must indicate the reasons for that decision to DAFF.

#### a) Viability Assessment.

An assessment should be done in accordance with the approved standard viability format for loan consideration. This should at least be based on a cash flow budget taking into account all forms of income and expenses.

Client must have a minimum repayment capacity of at least 120% with an optimum of 150%, (where repayment capacity is taken as income from all sources, less business and personal costs divided by the loan repayment).

The viability report should at least cover the following areas:

A business plan must be submitted to support the application. Components of the business plan should include the following:

- The land to be cultivated, including the potential of the soil as well as the suitability of the crop(s) intended for this land.
- Climatic conditions, including any significant risk posed by climate and any measures taken to mitigate this risk.
- Verification and evaluation of all assets especially those offered as collateral.
- Water supply availability and reliability, its adequacy for the intended purpose, the type of irrigation system, and water rights.

- The client’s farming and business knowledge including the extent of the applicant’s farming knowledge and marketing skills.
- Aquaculture species, environmental requirements, etc.
- Carrying capacity of the grazing camps.
- Production capacity of agro processing / value adding facilities.

b) Credit Check.

A standard credit check shall be conducted via Credit Bureau by the RLE to assess the client’s credit record. Client with bad credit record must provide written motivation and explain reasons for the default record. The client’s past credit redemption performance determines their level of ‘Reputational Capital’ which will determine whether they should qualify for finance or not. The client should be up-to-date with repayments of existing loans and/or successfully redeemed previous loans.

5.3.3 Credit Evaluation Criteria.

**Table 8: Credit evaluation criteria.**

<b>Credit Evaluation Criteria</b>	<ul style="list-style-type: none"> <li>• The client must submit a written application for the loan.</li> <li>• The client must fill in the application form.</li> <li>• The application form must be accompanied by supporting documents.</li> <li>• The client must have a sound viable business plan with a positive cash flow and/or a market contract in place.</li> <li>• The value of own assets must exceed total liabilities.</li> <li>• Positive credit history of the applicant must be acceptable.</li> <li>• If the client has a constantly recurring bad credit history then the application shall be declined, unless some tangible collateral security can be given upfront.</li> <li>• The existence of a savings history is an advantage.</li> <li>• Must have a medium to low risk profile.</li> </ul>
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	<ul style="list-style-type: none"> <li>• Cash income of all sources should be equal to or greater than 120% of total cash expenses.</li> </ul>
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#### 5.3.4 Risk profile.

**Table 9: Risk Profile & Financial Characteristics.**

<b>Benchmark</b>	<b>Low Risk</b>	<b>Medium Risk</b>	<b>High Risk</b>
Total Income / Total Expenditure.	>1,5	1,5 to 1,2	< 1,2
Debt / Assets.	< 30%	30% to 70%	> 70%
Credit History.	No Negative Credit History.	Sporadic late payments, Neg. ITC with justifiable reasons.	Consistent repeat trend of late payments, legal action.
Savings.	Consistent pattern of savings.	Inconsistent pattern of savings.	No savings.

#### 5.3.5. Loan Agreement.

- All successful client will sign a loan agreement with the funding institution.
- All approved clients must receive monthly statements (on the use of their loan) in time from the funding institution.

#### 5.3.6 Appointment of RLE.

- RLE must be accredited and appointed by DAFF.
- DAFF must involve the provincial departments in the process of accrediting and appointing RLEs.
- The appointed RLE must have expertise in agriculture, forestry or fisheries sector and must also be able to provide post support to the client.



- Appointed RLE shall be required to establish formal working relations with provincial departments of Agriculture.
- RLE must charge the interest rate prescribed by DAFF.
- Each RLE must be allocated funds from which it will provide interest bearing loans to clients.
- Appointed RLEs shall open, keep and manage a dedicated account on MAFISA.
- If the appointed RLE change the MAFISA dedicated bank account, RLE must inform DAFF for approval.
- Appointed RLEs shall be audited and monitored against the agreement signed.
- RLE shall develop an appropriate loan management system.
- RLE may charge initiation fee as long as it is within the NCA prescripts.
- RLE's credit policy should be aligned to MAFISA Credit policy.

**Assumptions:**

- Will only use accredited RLE to disburse the loans to the clients.
- RLE will assume responsibility with respect to operations after signing agreement.
- 100% capital risk rests with MAFISA on conditions that both parties agreed.
- Clients will know about MAFISA.
- Land Bank will be a Fund Manager.

**6. Guiding Principles for the provision of MAFISA loans.**

**6.1 Target market.**

**6.1.1 Geographic**

MAFISA loans will be provided to clients through accredited RLEs in their respective provinces.

### 6.1.2 Sector

MAFISA loans will be available for smallholder operators who are active in any leg of the agriculture, forestry and fisheries value chains.

### 5.1.3 Partners

For participation as an intermediary DAFF will only consider any institution that is registered with the National Credit Regulator Act (NCR) as Financial Service Provider and has the capacity to manage the fund as well as meeting all other accreditation requirements by DAFF.

### 6.1.4 Clients

MAFISA loans will be available to smallholder operators in the agriculture, forestry and fisheries sector especially those that are gearing towards producing surplus for the market and are from historically disadvantaged groups as well as meeting MAFISA requirements.

## 6.2. Principles of good practice.

- *Ability to repay.*

The client must clearly demonstrate the ability to repay the loan. All sources of income must be taken into account and there must be a surplus of income above all expenses to cater for risk and uncertainty. Ability to pay is closely linked to the potential of the operating facility and the suitability of the area for the activity planned. In the case of a value adding enterprise or service business, then the access to production premises and markets is an important consideration.

- *Willingness to repay.*

The client must demonstrate a clear willingness to repay the loan. Willingness to repay is about integrity and honesty and is a measure of the client's 'Reputational Capital'. This can be assessed by past credit track record or personal endorsement by a reputable third party and history of

debt repayment. Willingness to pay is also reflected by the level of own capital invested into the business and or own contribution made towards the full funding required for the venture. Always attempt to get at least a 10% to 20% own contribution but there is no minimum contribution required. The client will be required to advise the RLE of all debt commitments prior to the granting of a loan and any new commitments, after the granting of a loan. The credit provider has to verify if full disclosure has been made by performing credit checks failing which the credit provider may be liable for reckless lending should it be discovered later that the loan was to a client who was already over indebted and as such will not be able to repay.

- *Something to lose.*

Generally some form of collateral is required from a client but due to the general lack of collateral within the MAFISA target market, collateral is not a prerequisite for amounts below R50 0000. However where collateral or collateral substitute is available, it must be considered. This may be in the form of conventional security over assets taken (bonds), liquid investments, cessions of insurance policies, cessions over income from sale of certain industrial crops (cotton, sugar etc), credit sale agreements, general notarial bonds and pledges over movables such as livestock and others. For groups it is advisable to make all members jointly and severally liable for the debt to encourage peer pressure amongst group members.

- *“Free riders” and Group Consensus.*

Generally, in groups there is always the problem of free riders. These are people who make no contribution to the business, who are disruptive in consensus seeking but who stand to benefit from the endeavors of others. It is therefore advisable to encourage a strong constitution which emphasizes discipline of members with the threat of expulsion if they don't conform. The larger the group, the more difficult it is to achieve

consensus. This can be disruptive in farming where situations often demand quick decisions. It is best to encourage smaller groups, preferably less than ten members.

- *Matching repayment to cash flow.*

Wherever possible match the repayment plan to income flows from all income sources. The more frequent the repayment the better (i.e. monthly, annually, etc).

- *Ease of Repayment.*

Wherever possible, easy means of repayment should be applied. This includes cessions, debit orders and stop orders. The structuring of the repayment cycle should be flexible and be discussed with the client first and there should be an agreement on the terms.

- *Credible Suppliers.*

Clients must purchase inputs and equipment from credible suppliers. This is especially so for second hand equipment. The client must make sure that there is fair value in the asset and some form of guarantee is provided. Clients must not be forced to purchase inputs or equipment from the suppliers of the financier's choice.

- *Understandable interest rate.*

Most of the clients find it difficult to understand interest rates (compound and simple interest rate). Financial literacy training is recommended to make sure the client understands and agrees to the product (financial) terms. The interest rate charged to clients shall be 7% per annum compounded.

- *Risk Mitigation.*  
Life and disability insurance is required to mitigate the risk mitigation on the loan while comprehensive insurance over equipment is required. For loans exceeding R50 000, collateral is required.
- *Disbursement of Funds to Third Parties.*  
Disbursement of loan funds must be made to third parties (suppliers/ service providers). An invoice or sale agreement signed by the client must be submitted to the financing institution for payment. The payments must be made after the service has been rendered and not before the service is provided. However up to 10% of the total loan amount may be transferred directly into the account of the client for emergencies such as electricity payments and wages. This must however be supported by necessary documentation such as electricity bill.

### **6.3 Management of loans.**

- All loans shall be disbursed in time and the recipients shall be closely monitored by the intermediary to minimize possible risks.
- Whenever loan repayment becomes irregular, investigations must be instituted by the intermediary to identify the cause / reason and discuss that with the client.
- If the client is not fulfilling the promise regarding the loan repayment arrangement, the RLE may start the process of recovering securities pledged by the client.

### **6.4 Write-off of loan**

- Request for write off of loan shall be considered only with a written motivation from MAFISA retail RLE and shall be approved by DAFF.
- Should the RLE write off the loans without DAFF's approval, it will be on the intermediary own cost. DAFF will not be liable in this regard.

- The approval of the write off will only be considered if it was due to the factors that are beyond the control of the client. This also needs to be investigated and approved by DAFF and also needs to be approved by National Treasury.
- Clients whose loan have been written off shall not be eligible for MAFISA loan for a minimum duration of 5 years unless the repay the loan.

### **6.5 Refinancing consideration.**

Agriculture depends largely on climatic conditions. Adverse climatic condition may negatively affect the yield and therefore the income and repayment capacity. Due to this a client may need to be refinanced to continue with the enterprise activities. Consideration for refinancing shall be on the discretion of the funding institution. However refinancing does not mean the first loan is written off and therefore care must be taken to ensure that the client will be able to repay the two loans even if that may mean with extended repayment term.

Refinancing can be considered under the following condition.

- The clients whose prior debts with RLE have been written off are not eligible for refinancing unless the write off amount is recovered in full.
- If the client has applied for and received the maximum loan amount and defaulted, refinancing is not applicable.
- Consideration for refinancing shall be on the discretion of the funding institution.

### **6.6 Disputes and conflict between the client and the RLE**

Should there be dispute between clients and financing institution, the following steps must be followed to resolve the dispute:

- In case of the dispute and conflict between the client and the RLE, both parties must meet to discuss and to solve problems.

- Should the parties fail to reach consensus, both parties should agree to bring in the mediator.
- Should the parties fail to reach an agreement with the assistance of the mediator, both parties are entitled to refer the matter to a court of law.

### **6.7 Co-funding.**

MAFISA allows co-funding from other funding institutions to support the farmer; however the funding should not be used as collateral to access MAFISA.

## **7. Institutional Arrangements.**

To obtain maximum outreach to deliver its services to target the client, the policy should proactively pursue strategic linkages and dialogue with other stakeholders involved through co- and parallel financing, additional resources are mobilized for larger projects and other rural financial sector investment programmes. In many cases, technical assistance will be needed to give extra value to the smallholder sector.

### **7.1 Roles and responsibilities.**

#### DAFF

- Source of funding.
- Accredite and appoint RLEs.
- Develop policies and procedures.
- Oversee the implementation and monitor the implementation.
- Regularly review the scheme and factor-in the required changes.
- Give feedback to relevant stakeholders including parliament.

#### PDA

- Provide support to clients in terms of infrastructure, advisory services, information and other support services.
- Assist clients to complete MAFISA application forms and developing business plans.

- Facilitate training of farmers in the skills required to be effective agribusiness entrepreneurs.
- Work closely and share information with national department and RLE on projects provided with support and other issues of concern.
- Assist in the implementation and monitoring of funded project.

**Note: DAFF should facilitate the establishment and strengthening the working relationships between the RLE and PDA. There must be a dedicated official in the province with regard to MAFISA. The PDA should get access to reports monthly and annual reports from their provincial intermediaries and also the national picture of all intermediaries' performance reports from DAFF.**

#### RLE

- Disseminate information to clients.
- Ensure adequate capacity to assist and assess client operations.
- Receive and assess the applications.
- Approve or decline the applications on time.
- Disburse loans to clients on time.
- Collect loan repayments from clients.
- Report to DAFF monthly, quarterly and annually in time as per agreement with evidence.
- Monitor the projects and provide after care where necessary.
- Work closely and share information with PDA on the projects.
- Provide post support services to farmers when necessary.

#### Clients

- Apply for loans for purchasing inputs, livestock, equipment, etc.
- Produce and manage the enterprises.
- Secure markets for their produce.



- Pay back the loans.

## 7.2 Mentorship Arrangement.

- The client is expected to participate in the appointment his/her mentor and have a say in decision making. The policy will also be guided by the National Mentorship Framework of the department.

## **8. Monitoring and Evaluation.**

### **8.1 Reporting by RLE.**

The RLE should submit the following reports in time to DAFF according to the template provided with the evidence.

- Monthly report with information on:
  - Financial matters.
  - Disbursements.
  - Repayments.
  - Narrative report.
  - Adhoc report.
- Quarterly report.
  - The RLEs shall submit a report on declined application. The report must be accompanied by the list of the applications as evidence
  - A quarterly report on disbursements and repayments
- Annually report: summarizing all the reports/activities for the whole year.
  - Financial report.
  - Non-financial reports.
  - Approval and declined applications.
  - Disbursements.
  - Recollections.
  - Narrative report indicating challenges and other issues.

## **8.2. Audit of RLE.**

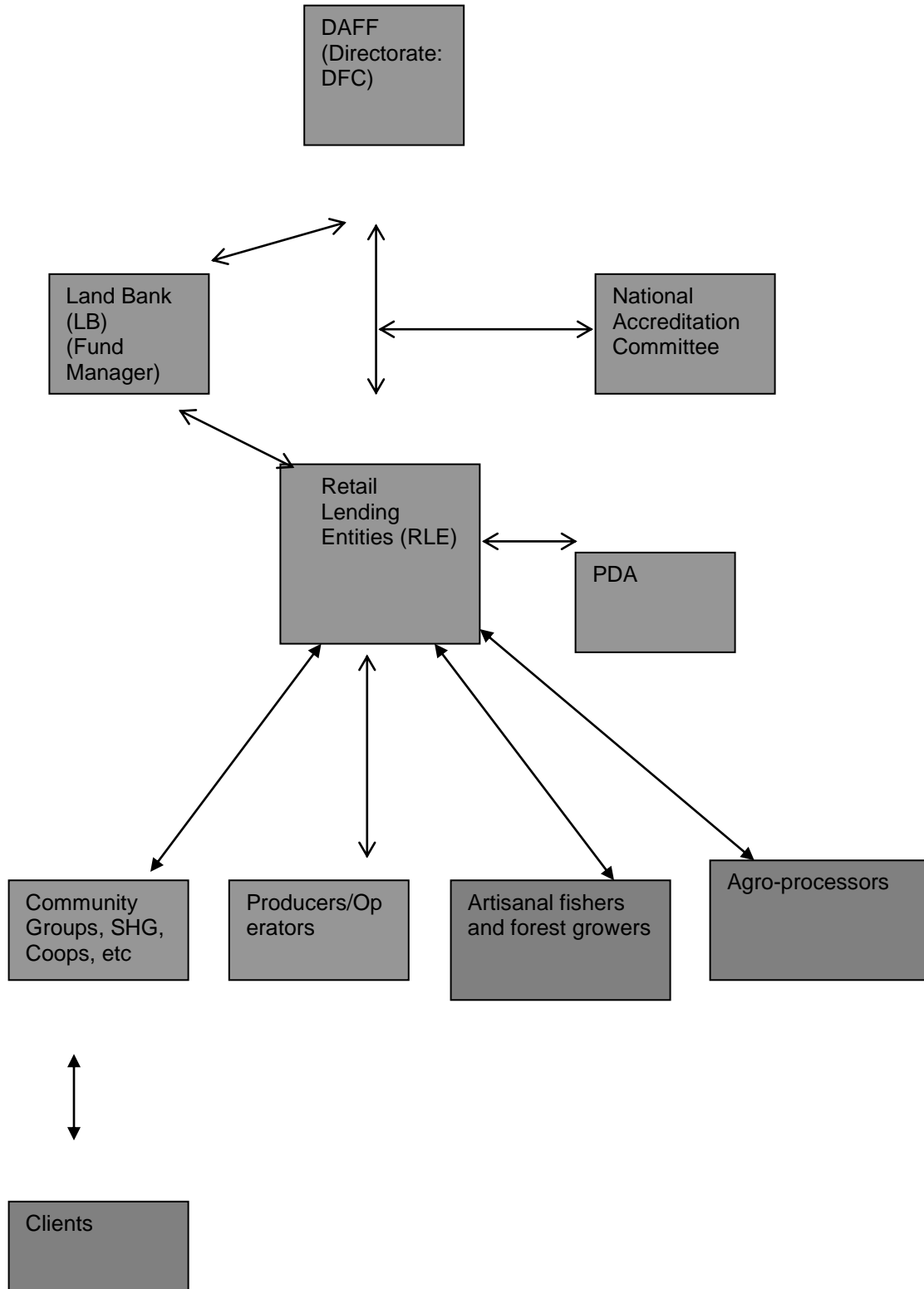
There will be a periodic audit of all accredited institutions' MAFISA books. This will include the review of operations, inflows and outflows of MAFISA funds. The aim of the audit will be to verify if expenditures and compliance were in line with MAFISA Policy.

## **9. Policy Owner/Coordinator.**

Chief Director: Development Finance.

## 10. APPENDICES

### ANNEXURE A: THE TRANSACTION



## **ANNEXURE B**

### **INTEREST RATES AND MAFISA TRANSACTION FEES**

a) MAFISA loans shall charge 7% compounded interest per annum.

The interest rate for MAFISA is 7% to clients. The compounded interest is an interest that is added back to the principal sum so that the interest is earned on that added interest during the next compounding period. This is when a client takes out a loan and the interest is calculated for the first period (it can be a month, quarter or a year). This interest is then added to the original total. Then the interest following for the next period is calculated also but is based on the gross figure from the first period.

b) Transaction fee of 1% deducted from RLE drawdown.

The RLE that are accredited for MAFISA have to disburse the fund to the clients, and therefore in every disbursement they make they have to earn a transaction (service) fee as a once off payment. The RLE earn this fee for the individual loan transaction that is disbursed to the clients.

c) Transaction fee of 1% deducted from end-user drawdown.

This is a once off service fee where-in RLE deduct it against every loan transaction made by client.

## **ANNEXURE C**

### **APPLICATION FORM**

**Available from accredited RLEs in the provinces**

## **ANNEXURE D**

### **MAFISA DOCUMENTS: AVAILABLE ON THE INTRANET & INTERNET**

See:

Form M2 – Process flow

Form M4 – Credit Policy

Form M6 – Product Document Checklist

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