

The Impact of Seasonal Food and Cash Loans on Smallholder Farmers in Zambia

Policy Implications

Günther Fink

Associate Professor of International Health Economics
Harvard T.H. Chan School of Public Health

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Key Objectives

- Introductions
- Quick review of project findings
- Discussion of implementation challenges
- Discussion of possible ways to scale program
- Discussion of alternative policy instruments

Key Project Implications

- Seasonal constraints are severe for a majority of rural farming households, resulting in hunger, malnutrition, and also poor agricultural outcomes
- ➔ new policies are needed to support these populations if hunger MDG and SDG goals are to be achieved
- The seasonal loan program we tested can partially address these shortages, but comes with several challenges

Any Questions?

Seasonal Loan Challenge 1: Are Farms Able to Repay?

- All of the data collected in this study suggest that farms are able to re-pay with interest
- The fact that most farmers renewed their loan in the second year suggests that farmers view them as a “good thing” even after they have repaid
- Lower interest rates would make the program likely more attractive

Why Was Repayment High in Trial?

- Evidence on local credit behavior is mixed:
 - ✓ Outgrower loans to companies like Dunavant and Cargill generally get repaid
 - ✓ Loans offered by micro-credit organizations have been struggling
- ➔ **Enforcement of loans is critical**
- We think repayment in our study was solid because
 - We rewarded headmen for helping us
 - Farmers felt like they could be taken to court if they did not repay (focus groups)

Seasonal Loan Challenge 2: Cost

As part of the typical loan program, we had to visit villages 6 times:

1. Visit to announce program
2. Visit to explain program and sign up farmers
3. Visit to disburse cash or maize
4. Visit to announce collection 1
5. First collection visit
6. Second collection visit

For each visit, staff and transport is needed

Cost Estimate

- Cash programs: K 1700 per village
- Maize programs: K 3950 per village

Why are maize programs so expensive:

1. Need to buy in December and sell in June (or store)
2. Need to pay pickup trucks to go out to drop off and collect

Could These Programs Sustain Themselves?

50 loans per village x K 200	K -10,000
45 (90%) repay K 260	K 11,700
Financial benefit	K 1,700

→ Even in relatively large villages and using cash only, seasonal programs are likely hard to sustain

Possible Options to Reduce Cost

- Collect outstanding debt as part of FRA purchases
- Use cash transfer system to announce and disburse loans
- Directly work with headmen to collect loans
- Other?

Possible Alternative Policies to Address Seasonal Hunger and Labor Inefficiencies

- Encourage savings through formal saving accounts offering positive interest rates
- Facilitate food storage and sales when prices go up
- Introduce unconditional seasonal support programs (costly!)
- Other?