

Original scientific paper

10.7251/AGRENG1903033B

UDC 338.43.02(675.97)

THE CONTRIBUTION OF MICROFINANCE TO THE RESILIENCE STRATEGIES OF SMALLHOLDER TEA FARMERS IN BURUNDI

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ABSTRACT

Microfinance services are of undeniable importance in the development of agriculture and in improving living standards in rural areas. However, their accessibility in developing countries is problematic. The objective of this article is to assess the contribution of microfinance to improve the living conditions of the population in rural areas of Burundi. An exploratory survey was conducted among 120 smallholder tea farmers in 2018 in two zones (Ijenda and Teza). These smallholder tea farmers are between 30 and 86 years old with a basic level of education. The results of the survey showed that the loans made it possible to carry out small projects and met some urgent needs. However, the level of indebtedness was low due to lack of collateral guarantee and the interest rate was relatively high. In addition, the information collected in Microfinance Institutions (MFIs) revealed a lack of support services within MFIs to enable optimal allocation of credits. To compensate for financial shortfalls, smallholder tea farmers are developing mechanisms for saving in kind and tontine systems with multiple socio-economic roles built up. Credit beneficiaries in MFIs are increasingly losing interest in the MFIs credit systems in favour of tontines. In Ijenda zone, only 37.5% want to renew the credits against 41.4% in Teza zone.

Key words: *Burundi, microfinance, MFIs, tea, tontines.*

INTRODUCTION

A common feature for rural farmers in developing countries is the lack of resources - natural, human, financial, physical and technological in quality and quantity (Maxwell, 2000; Adjei et al., 2009) and rural farmers with few resources have a lower capacity for resilience to risks and vulnerabilities (Baumann, 2002; Mosley and Rock, 2004). Indeed, there is a close relationship between vulnerability and resource ownership (Moser, 1998) because the lack of resources is the cause and consequence of poverty (World Bank, 2000). Some authors (Khandker, 1998;

Henry & Schimmel, 2011) postulate that rural farmers' access to financial resources is one means by which they can reduce poverty and increase productivity. The authors (Matin et al., 1999; Kessy and Urio, 2006) confirm that microfinance institutions (MFIs) are essential to the extent that they can: (i) reduce poverty or improve the standard of living through increased income; (ii) increase the capacity of farmers; and (iii) develop entrepreneurship's potential. Microfinance is generally considered as a provider of financial services to individuals or groups of individuals who would not have had access to traditional banking services. They offer a variety of products and services such as "micro-credit", "micro-savings", "micro-insurance" and training for the efficient use of financial resources. These services are mainly provided to micro-entrepreneurs, low-income people and the poor in order to reduce and mitigate the risks and vulnerabilities that threaten these groups of individuals (Hulme et al., 2009). In Burundi, poverty reduction is at the heart of the concerns of the State authorities despite countless challenges and constraints in the country. To reduce poverty and revitalize the country's economy, State authorities have undertaken strategic growth and poverty reduction programmes in the participatory process involving local community representatives, civil society, private sector, parliament, central government and development partners for redistributive growth for the poorest (Rufyikiri, 2012). Despite this commitment to improve the well-being of the country's population, there is a small private investment sector, which is the driving force behind economic growth. In line with the implementation of rural development strategies, the State authorities are convinced that microfinance is the driver of development in rural areas. To this end, they focus on the microfinance sector in particular. In addition, a desk study on the banking sector in Burundi revealed the inaccessibility of the rural population to the services of classical banks, despite the fact that they represent 75% of all financial assets. The microfinance sector includes both informal and formal sector stakeholders. The informal sector includes endogenous savings and credit practices and the formal sector includes institutions such as savings and credit institutions, NGOs, non-profit organizations, etc. (Ashcroft et al., 2007). The objective of this article is to assess the importance of microfinance in the resilience strategies of smallholder tea farmers in Burundi.

MATERIALS AND METHODS

In order to achieve the research objective, a survey was conducted among 120 smallholder tea farmers in the Ijenda and Teza areas in January and February 2018. Due to time and resource constraints, we chose two areas near the capital (Bujumbura) of Burundi from among the five tea-growing areas (Rwegura, Teza, Ijenda, Tora and Buhoro) in the Mugamba natural region. Stratified random sampling was used to give all small tea farmers an equal chance to be selected for the entire tea acreage of the two surveyed areas (Marshall, 1996). Qualitative data were gathered using semi-structured questions from these 120 smallholder tea farmers and a few MFI staff members in the two selected areas. Secondary data were also collected to complete our survey. When collecting primary data, we first

highlighted the socio-demographic characteristics (age, level of education, gender, marital status), main activities and sources of income that enable smallholder tea farmers to ensure their survival. Then, we placed particular emphasis on the contribution of microfinance and the relationships it maintains with smallholder tea farmers: savings formation, granting loans, reimbursement conditions, the interest rate applied, repayment deadlines, etc. Data exploitation and interpretation are carried out through content analysis (Patton, 2002; Duriau et al., 2007; Srivastava and Thomson, 2009).

RESULTS AND DISCUSSION

Savings situation of smallholder tea farmers

The results of the survey reveal that the savings of smallholder tea farmers in MFIs is low: 5.2% of the population surveyed in the Ijenda area save in cash and no savings have been found among smallholder tea farmers in Teza. The holding of accounts in MFIs is almost non-existent in the Ijenda area (zero in the Teza area). The investigation also shows that some bank accounts are closed after opening due to a lack of liquidity to fund them. The survival of smallholder tea farmers is based on income diversification (sale of green tea leaves, food products, livestock, etc.). By default of savings in MFIs, smallholder tea farmers develop other forms of savings. Thus, two types of savings were identified. On the one hand, income that is not allocated in the purchase of consumer goods or inputs is saved in the purchase of domestic animals to obtain organic manure or for subsequent sale if cash is needed. On the other hand, smallholder tea farmers save money in the form of tontines. The latter are organized in the form of small associations of 5 to 30 persons. Members of these small tontine associations contribute small amounts, ranging from 500 to 2500 Burundian franc (BIF) (1.00 € = 2070.69 BIF on July 8th, 2019) per week. Contributions can also be made in kind: in the association "Tugwize uburimi" for example, the associates save 10 kg of green tea leaves per week. These small amounts saved are redistributed among members after one year. In the case of non-distribution, the members of these small associations carry out small projects such as the breeding of domestic animals or the rental of land to grow food crops. In addition to these economic benefits, tontines also provide a social role. In the event of risk (death, illness, etc.), they entitle the partners to a small loan at an interest rate of 10%. In addition, smallholder tea farmers have highlighted the importance of tontine associations as a means of learning and sharing information on agricultural and non-agricultural activities. According to them, tontine associations enable them to acquire knowledge about new technologies and agricultural methods that help them to cope with constraints and vulnerabilities. Tontine associations are considered as open-minded.

Known for a very long time (in Europe and Japan), the tontine system is a form of informal mutual aid economy popularized in developing countries. In various forms, the World Bank is very interested in tontine phenomena: it talks about them in Cameroon, Niger, Mozambique, India, Philippines, Indonesia, Bolivia, Mexico, etc. (Lelart, 1990). The role of tontines is crucial among small rural farmers in

African countries and plays an economic and socio-cultural role. Tontines make it possible to carry out a joint project. Through tontines, rural farmers can save funds either for a short or medium-term investment or for a planned and/or unforeseen event, collectively or individually in a context of extreme material poverty. On the social level, tontines encourage the exchange of ideas and mutual support in times of joy or difficulty (Ependa, 2002).

Inaccessibility to microcredits

In the agricultural sector, the financing of some activities through the use of debt is a condition. To carry out certain projects (purchase of arable land, construction of a house, purchase of cattle, etc.), smallholder tea farmers take out loans in MFIs. However, the amounts of credits are very small to carry out a project in the medium and long term. Over a five-year period, our survey revealed that the smallholder tea farmers in the sample contracted credits for a total of 5,850,000 BIF (Table 1). The amounts of each credit are between 100,000 BIF (€ 48.29) and 300,000 BIF (€ 144.88).

Table 1. Number and amount (BIF) of credits (2014-2018) granted to surveyed smallholder tea farmers

Origin of the credit	Teza zone		Ijenda zone		Total amount
	Number of credits	Amount	Number of credits	Amount	
COOPEC	12	1,700,000	10	1,450,000	3,150,000
MUTEC	-	-	23	2,250,000	2,250,000
DIFO	3	450,000	-	-	450,000
Total	15	2,150,000	33	3,700,000	5,850,000 (€2825.4)

COOPEC- Coopérative d'Épargne et de Crédit (Savings and Credit Cooperative); MUTEC- Mutuelle d'épargne et de crédit (Savings and credit mutual societies); DIFO- Development Interpeople Finance Operations.

Source: our survey, 2018

Regardless of the amount of credit, loans in MFIs are subject to collateral guarantees. In the surveyed area, the collateral guarantee is the tea plant with an area of at least ten acres. The reimbursement of the credits is made thanks to the income from the tea plant (withdrawal from the source at the time of payment) or from other sources of income. The interest rate varies between 18% and 19% for loans with a maturity of 2 to 3 years. Bank overdrafts are remunerated at 30%, the amount depending on the quantity of green tea leaves sold. Depending on the size of the credit amounts, credit recipients should associate in groups of 5 to 10 smallholder tea farmers. The arable land available to smallholder tea farmers is not a collateral guarantee since these smallholder tea farmers do not have land certificates or land titles. In addition, since the houses are made of non-durable material, they are not mortgaged. Credits are not allocated for small projects only. In some circumstances, they are contracted to ensure the survival of smallholder

tea farmers. During the lean season, credits are directed towards the purchase of consumer goods or to pay for certain needs that require a disbursement of funds, such as the occurrence of an illness in a household, the payment of school fees, etc. Despite these multiple advantages of microcredits, the survey revealed a lack of interest in them. The mortgage constraint and the difficulty of repayment - the interest rate is relatively high - are the causes of the disinterest. In Ijenda only 37.5% want to renew the credits against 41.4% from Teza.

Microcredits have undeniable advantages. They enable rural farmers to overcome periods of shock or hunger. Access to credit makes it possible to obtain new resources to replace those destroyed by natural disasters (World Bank, 2002). Credits make it possible to deal with exceptional situations that require financial resources without being able to place key survival assets on the market or disinvest in human capital, such as dropping out of school or children not attending school because of a lack of financial resources to afford school fees and materials, for example (Barnes, 1996). The constraint of collateral guarantees, relatively high interest rates, payment terms and small amounts received are shared by rural farmers in modest living conditions in some developing countries (Banerjee and Newman, 1993; Rweyemamu et al., 2003; Kessy and Urio, 2006). Inaccessibility to microcredits is a limitation to take advantage of opportunities that may arise (Bebbington, 1999). The situation of MFIs for smallholder tea farmers in Burundi is very different from that of the Grameen Bank in Bangladesh, a genuine microfinance institution for small groups of rural farmers (World Bank, 1996; Hassan & Renteria-Guerrero, 1997). Microfinance in Burundi offers relatively fewer flexible conditions for smallholder tea farmers to take advantage of the services offered to them. In addition, there are donor interventions in many developing countries for microfinance development such as: U.S. Agency for International Development (USAID), International Fund for Agricultural Development (IFAD), Norwegian Agency for International Development (NORAD), Canadian International Development Agency (CIDA), Swedish International Development Authority (SIDA), etc. (Khandker, 1998).

Microcredit support services

The survey revealed a lack of non-financial support services for credit recipients. Training in MFIs is limited to their staff, mainly in terms of IT tools. MFI services should not be limited to crediting only. Microfinance managers have to be concerned about the impact of these credits on the lives of credit recipients in the medium and long term in the event of a good or misallocation of the financial resources received. Our sample is made up of smallholder tea farmers with a basic level of education. At this level, the concepts of interest rates, payment deadlines and/or amounts to be reimbursed are not known to the beneficiaries of loans. The survey revealed that most of them did not know either the interest rate or the payment due date. In Ijenda, 50% of loan beneficiaries did not know the interest rate applied to the contracted loans and 12% gave incorrect interest rates (lower than the rate required by MFIs). In the Teza area, all borrowers have set the interest

rate between 2% and 3% while the interest rate is between 18% and 19%. It is questionable whether MFIs actually provide clear information about interest rates and/or other information about contracted loans or whether this lack of knowledge is due to their level of education. A support service for credit recipients should be mandatory. MFIs need to make credit lenders understand what the money is to be used for in order to take advantage of the loans requested and anticipate repayment issues. It is an opportunity for them to acquire knowledge related to investment, budgeting, saving, borrowing, etc. Sebstad and Cohen (2003) reaffirm that microcredits are exposed to daily, sometimes unexpected financial needs (accident, unexpected illness, etc.) due to the low livelihoods of rural farmers and consequently a misallocation of microcredits results. In addition, the situation of rural farmers may in some circumstances constitute opportunity costs. A support service for rural farmers should be set up within MFIs.

CONCLUSION

Rural farmers in developing countries are in need of financial resources for the implementation of small projects that can improve their well-being. This article shows that in Burundi, access to the microfinance credit system is subject to restrictive measures. To meet these constraints, smallholder tea farmers are building up tontine systems with a socio-economic role. To mitigate the constraints on access to MFIs services, some measures could be implemented. In order not to limit access to credit only to small tea farmers with plantations of a certain size, the collateral guarantee could be extended to food crops. To this end, the repayment of the credits would be deferred over the post-harvest periods of the country's three cultural seasons. Training for credit recipients would precede the disbursement of credits for a better allocation of funds. It would be essential for the local authorities to be involved to facilitate repayment tasks. A positive productivity impact on rural farmers would undoubtedly be remarkable thanks to the acquisition of inputs in sufficient quantity and quality (improved seed, fertilizers, pesticides, etc.) and the implementation of small joint projects. To avoid insolvency in the event of climatic hazards, the public authorities would guarantee the credits. The purpose of MFIs is to reduce poverty among low-income rural and urban populations. The interest rate of these MFIs should be lower than that of traditional banks. To prevent these MFIs from working at a loss, the public authorities would exert a significant influence, as they did on mineral fertilizers, which are subsidized up to 40% of the total price (MINAGRIE, 2011). In addition, tontine supervision could lead to very positive results. Instead of making weekly savings and redistributing them among members at the end of the year, savings could be extended over the medium term. Thus, smallholder tea farmers would make considerable investments in cooperatives.

ACKNOWLEDGEMENTS

The authors would like to thank the smallholder tea farmers and microfinance staff for agreeing to answer their questions.

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