

**EVALUATION OF FARMER FINANCING: THE CASE
OF MOLOPO AND DITSOBOTLA DEVELOPING
FARMERS**

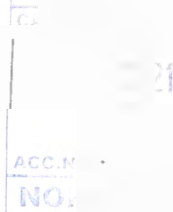
BY

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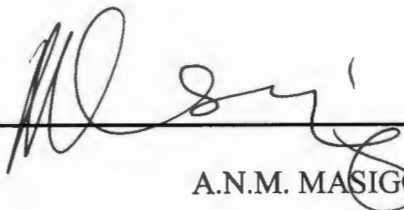
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OCTOBER 2002



DECLARATION

“I declare that the mini dissertation for the degree of Master of Business Administration at the University of North West hereby submitted, has not been previously submitted by me for a degree at this or any other university, that is my work in design and execution and that all material contained therein has been duly acknowledged”.



A.N.M. MASIGO

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ABSTRACT

The research was carried out in the Ditsobotla and Molopo districts in the North West Province. The main activity in the districts mentioned, particularly Ditsobotla is crop farming. The main objective of the research was to evaluate the accessibility of developing crop farmers to finance. This is in the light of the fact that certain recommendations were made by the Strauss Commission, the main one being the mandating of the Land Bank to supply financial services to, among others these farmers. The aim of this research was therefore to assess the extent to which these recommendations have improved accessibility of farmers to finance. The data was collected through questionnaires in the research area, that is, the mentioned districts. One hundred and five (105) farmers were interviewed.

The result of the research revealed that the accessibility to finance by farmers is poor. The main impediment was determined to be their historical debt with the former Bophuthatswana homeland bank (Agribank). They also do not have collateral. This aspect makes them not to be creditworthy. Due to this, the majority of those who acquire loans are financed in the range of R 25 000, which is the category, according to Land Bank, which does not need collateral.

The other findings pertaining to their characteristics are that: the majority of the respondents are old and are earning government pensions; they do not have own land and most of them farm leased land; most of them are wholly dependent on farming i.e. they do not have alternative sources of income. In the absence of financial support for production, the means of livelihood is therefore severely threatened.

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CHAPTER 1

ORIENTATION

1. 1 Introduction

Agriculture is the most important economic activity in poor and middle income countries. It provides 70% to 80% of the labour force in low income developing countries, and between 40% to 50% in middle income countries. It also accounts for 35% to 40% of the gross domestic product in low income countries (Statistics South Africa, 2000:1).

In South Africa, the agro-food complex contributes between 14% and 20% of gross domestic product (GDP). Agriculture contributes 7% to the GDP of the North West Province and 5.3% to the GDP of South Africa. It is also the third largest provider of employment at 17% compared to mining, 18% and services, 30% in the context of the whole of South Africa (A re Ageng, 1999:6). However, with growing pressure for capital intensive agricultural production, farmers require credit to farm productively and profitably. Credit is defined variously as: "The reputation and financial standing of a person or organisation; the sum of money that a trader or company advances to a customer before requiring payment; the ability of members of the public to purchase goods with money borrowed from finance companies, banks and other money lenders" (Butler, Isaacs and Butler, 1997: 85). Credit is therefore a loan.



There are three types of loans, namely short, medium and long term loans. A short term loan covers one production term or year. In farming, this type of loan is used to buy production inputs such as seed, fertiliser and payment of overhead costs. Medium term loans are paid within a term of two to five years and long term loan within fifteen to twenty years. A medium term loan is used to purchase, for example, machinery or implements, whilst a long term loan is used to acquire fixed assets such as land and buildings (Van Zyl, Kirsten, Coetzee and Blignaut, 1999: 222). Access to credit therefore plays an important role to farming enterprises.

Having many risks such as drought and other climatic variables, farming is not a lucrative market for financiers. In most cases governments facilitate access to finance for farmers through policy support. For example, the majority of governments have an overt policy of extending support to farmers in terms of finance and subsidies. In this regard, the apartheid government established the Land Bank in 1912 to exclusively advance financial support to white commercial farmers. The other institution established to support white farmers was the Agricultural Credit Board. Through its Directorate of Financial Assistance and Land Administration based within the then Department of Agriculture, it provided cheap credit and served as a subsidy instrument. It even subsidised interest rates on long term loans at the Land Bank (National Dept. of Agriculture, 1996:32).

Due to the exclusion of Black farmers from the financial services of these institutions, separate institutions were created to supply them with financing, particularly in the homelands. In some homelands special agricultural banks were created. In others, service was provided by development corporations and government-controlled agricultural co-operatives. In the then Bophuthatswana, which currently forms the larger part of the North West Province, the Agricultural Bank of Bophuthatswana (Agribank) was established in 1981 to provide financing to farmers. This institution did not extend a range of benefits such as subsidies and lower interest rates as advanced by the Credit Board and Land Bank. It was also limited in the services it could render. The situation was made worse by default of payment by farmers. By the year 2000, the total amount in arrears to Agribank was R65 403 894 (Agribank financial statement as at 14/08/2000). This is the debt that has accumulated prior to 1994.

It was against this background that the Strauss Commission was set up in 1995 to investigate the provision of rural financial services, within the context of the Reconstruction and Development Programme (RDP). The main aim of the commission was to address the bias of the previous financing policies towards the white sector of the population and to come up with recommendations that would enhance access to financial services by rural dwellers. In its final report, the Strauss commission recommended that the Land and Agricultural Bank of South Africa (The Land Bank) should become a Rural

Bank, a multi sectoral bank providing wholesale funding for all rural sectors (including farming). The Commission recommended that the Land Bank be transformed to pay special attention to the needs of small emerging black farmers (NDA, 1998: 38).

1.2 A Case of Molopo and Ditsobotla Crop Farmers

Crop farming in dryland is seasonal and it is entirely dependent on financing. The districts mentioned are predominantly dryland and therefore the preceding statement made is most relevant. They are dependent on leasing small pieces of land and collectively cultivate them. Combined, the extent of land cultivated is significantly big and justifies the acquisition of capital equipment, machinery and production finance. Some of them practice mixed farming in the sense that they have some livestock which nonetheless is not significant for commercial farming. The latter activity therefore has not yet shown the need for more financing than crop farming.

Allegedly most of these farmers are getting out of farming due to lack of access to finance. If this is true, it has serious implications since farming is an important economic activity in the rural areas. The other serious implication is that the area in which these farmers are situated is regarded as the 'maize triangle', that is, it falls within the radius of the ideal maize producing areas in South Africa. The aspects mentioned have a significant effect on agriculture as a contributor to the gross domestic product of the country. The objective assessment of the extent to which access to finance influences the cropping activity in this area will be done through this study.

1.3 Objectives of the study

The problem of unequal access to finance by farmers has been highlighted in the foregoing discussion. The need to address this state of affairs was done by the appointment of the Strauss Commission which recommended the restructuring of the Land Bank to offer wholesale financing to all farmers, including those it did not serve before. The farmers of Molopo and Ditsobotla are among those that were previously not

served by the Land Bank. The overall aim of this research is to evaluate the current access to finance by these farmers.

The objectives of the study are the following:

- To determine the extent of farmers' alleged failure to access finance with a view to highlighting the contributory factors and offer possible solutions.
- To assess the influence of the adequacy of finance and its timeliness to crop farmers' productivity.
- To assess the perception of farmers regarding the financial services rendered to them with a view to highlighting them to the service provider with recommendations.
- To determine the characteristics of farmers that may influence their productivity and provide strategies to address them.
- To determine the influence of the land tenure system and its significance to the productivity of crop farmers.
- To determine the survival strategies of farmers in the absence of financial support and how they augment their income from crop farming.

1.4 Significance of the study

As it has been mentioned (Ut Supra, p3), the Strauss Commission was given the mandate to investigate and come up with recommendations to improve financial services for farmers and other entrepreneurs. Molopo and Ditsobotla farmers had expectations of more access to finance by virtue of the need of their enterprise for financial support. It is currently alleged that most of these farmers are in fact leaving farming due to lack of finance. The research seeks to investigate this issue as farming is the major activity in the rural areas and therefore plays a crucial role in the rural economy. The research will bring out the current status of farmer financing in these two districts which will be a valuable information to all agricultural role players in the region. The recommendations made will further stimulate debate on the ultimate contribution to the progress of the crop farmers in these districts.

The information will also be valuable to the agricultural financial suppliers as a feedback and will enable them to take necessary corrective measures, maintain their current services or improve them. The research will also highlight the factors that influence access to finance by farmers and this will serve as valuable information to them on issues that would need their attention. Lastly, due to the importance of agriculture in the rural economy, the findings may encourage similar investigations in other parts of South Africa, particularly on black previously disadvantaged farmers.

1.5 Scope of the Study

The scope of this study is limited to small and developing crop farmers in the Ditsobotla and Molopo districts of the North West Province. The farmers will be interviewed to provide information regarding their access to finance and how finance influences their farming activity. A sample will be taken from both districts to arrive at individuals to be interviewed.

1.6 Plan of the study

The plan of the study is as follows:

1.6.1 Chapter 2: Literature Review

In this chapter a literature review pertaining to farmer financing and access to finance will be done.

1.6.2 Chapter 3: Problem Definition and management questions

In this chapter the definition of the problem is given and management questions are raised.

1.6.3 Chapter 4: Research Design

This chapter gives clarity about the population, the sampling techniques, survey method and the statistical analysis of the data collected.

1.6.4 Chapter 5: Analysis of Results

In this chapter the analysis of the responses from the questionnaires will be given.

1.6.5 Chapter 6: Discussion and Interpretation of Results

The results from the analysed data will be discussed and interpretations will be made.

1.6.6 Chapter 7: Conclusions and Recommendations

Recommendations will be made from conclusions arrived at.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

Farmer financing is not an easy concept due to the difficulties inherent in agriculture. As a business competing with other sectors for funding, agriculture does not fare well due to factors many of which are beyond the farmers' control. According to Van Zyl et al (2000: 23-24) the following factors hamper agricultural finance:

- In most cases farming enterprises are sole proprietorships and unlike companies it is difficult for them to access finance. They are in most cases not able to meet the requirements of financiers such as collateral.
- To enhance access to finance using land as security is currently not easy particularly in South Africa due to the fact that previously the market value was distorted by subsidies in terms of price. Due to the abolition of these subsidies, the financiers now consider the productive value of the land as important. Low productive value of the land makes it difficult to obtain credit. South Africa is endowed with limited productive land.
- The seasonal nature of agricultural production causes cash flow problems for the farmer. For example, a farmer has to wait for seven to eight months before harvesting to derive income from the business. In the meantime there is a need to incur expenses on the business and the household. This leads to cash shortfalls that might have a negative effect on the business which might eventually influence the ability to pay back the loan. Financiers are well aware of this and therefore agriculture is not attractive to them.
- Agricultural production units are scattered geographically and usually small. This makes it difficult to service and therefore leads to increased transaction costs. These costs make financing expensive.

- Farming needs different forms of finance depending on the stage in the life cycle. For example, in the establishment phase, long term assets such as land and buildings are required. This essentially means a lot of funding is required at the establishment phase. On the contrary, the financiers would normally prefer to advance limited funds to an individual, particularly if a client is new. On the growth and maturity phase, short term and medium term financing is required essentially to buy inputs and some equipments. Therefore when the business is already established, less funding as compared to start up finance is required. Unfortunately as already mentioned, financiers are not inclined to give big loans.
- Agriculture is slow to react to price changes. If prices fall products cannot be withheld due to their perishable nature. Farmers are therefore compelled to sell at those low prices. This is a less attractive proposition to financiers.
- Changing climatic conditions such as drought and floods make farming very risky. These risks deter financiers.

Farmer financing is therefore influenced by many variables. Apart from all those that have already mentioned (Ut supra 2.1) macro and micro economic variables are important influencing factors. The latter are in turn indirectly influenced by the government policy. It is therefore why government's role is so important in influencing access of finance by farmers by way of policy and legislation. Given the deterrents to financing mentioned above, governments have tried to come up with innovative policies to enhance access to finance by the marginalised farmers.

In this literature review the role and forms of financing, models of financing, factors contributing to poor access to finance, lending policies, interest rates, causes of defaults and political interference in financing will be discussed.

2.2 POLICY AND LEGISLATION SUPPORT ON FARMER FINANCING IN THE SOUTH AFRICAN CONTEXT

In response to the current needs of farmers, particularly the black farmers who were disadvantaged by the previous policies, the government advanced policies, views and legislation to address the imbalances. Some of the policies, reports and legislation are the following:

2.2.1 The White Paper on Agriculture 1995 (NDA, 1995: 13-14)

Chapter five of the White Paper deals with agricultural financing. In this regard the views of government are reflected in the principles contained in the White Paper, as follows:

- Farmers must be assured of equitable access to efficient financial services. Some of the aspects indicated in this principle are flexibility in aspects such as farm size, production systems and funding arrangements and the importance of the time to respond to demand for loans. In addition it goes on to lay down the type of financial services delivery mechanism, which would enhance effectiveness by suggestion of the following criteria – It should reach a large number of clients, improve their income, build up their asset base, mobilise savings, lower transaction costs, reduce of financial regulations and implement risk reducing mechanisms.
- Financial management by farmers should be improved through training and advice. Subsidisation of training is supported in this principle.
- All interest rates on agricultural financing should be market related.
- The ability to repay will be the basis for extending credit to the farmers. In this principle flexibility in the demand of collateral, rescheduling of payments where there are merits, are advocated.

2.2.2 Broadening Access To Agriculture Thrust (BATAT)

BATAT is an implementation strategy approach developed within the Department of Agriculture to support government objectives. The development of this strategy was a result of a consultative process carried out in all the provinces. This culminated in the various reports which are the following: Report of the BATAT Agri- Financial Team; Report on BATAT Marketing Design Team; Report of the Human Resource Development Design Team and Guidelines towards Agricultural Financing policy. All these reports advance packaged ideas and approaches of assisting the farmers, particularly the small ones (NDA, 1995: 1).

2.2.3 Strategic Plans for South African Agriculture

This is a joint document by the two major farmers unions in South Africa which are National African Farmers Union (Nafu) and Agri SA in collaboration with the Department of Agriculture. One of the challenges cited in this document is the skewed participation of certain sectors of the population due to the dualism (Black small farming versus White commercial farming) that previously existed in South African agriculture (NDA , 2002: 10). The three role players identified this, among others, as a major obstacle to tackle. This includes issues such as access to land and finance.

2.2.4 Land Redistribution for Agricultural Development (LRAD)

According to the Ministry of Agriculture and Land Affairs (2000: 5) this programme document is a policy framework for land redistribution. The programme is aimed at increasing access to land by black South Africans and government provide grants on the sliding scale depending on the price of the farm, to purchase farms. The higher the price the smaller the grant or subsidy. The grants range from R25 000 to R100 000. The difference has to be acquired by participants through financial institutions or any other means. The objectives of the programme are as follows:

- Contribution to the redistribution of 30% of agricultural land over 15 years.
- Improvement of income and nutrition of rural people.
- Reduction of overcrowding in the former homelands.
- Expanding opportunities for women and youth in rural areas.

2.3 THE ROLE AND FORMS OF FINANCING

There are three main types or forms of financing, which are mainly distinguished by the type of capital items financed. The duration of the loan is the main feature that differentiates them. Van Zyl et al (1999: 219) describe the forms of financing as follows:

- Short term capital – capital items used up or converted during one production season such as seeds and fertilisers. The short term loan is associated with the said capital and is meant to meet the liquidity needs of the farmer.
- Medium term capital - items used up over a number of production periods such as breeding stock, machinery and equipment. The loan acquired for medium capital needs is paid within two to five years.
- Long term capital – consists of assets that take a long time to be used up such as land, fences, dams and buildings. The type of loan used to acquire the mentioned capital is the long term loan. The loan is paid off within fifteen to twenty years

Every farming enterprise requires all these forms of capital and therefore financing is very crucial to every sector and level of productive farming. Financial institutions that serve farmers are therefore very important. Farming is mainly a seasonal event, particularly in dry land production areas. A farmer is only able to derive an income at the end of the season, specifically after harvest. Moreover, he may have to pay labour, overhead costs such as fuel and electricity during the season. The bridging finance from financial service providers is therefore very crucial for the interim sustenance of the farmer.

2.4 MODELS OF FINANCING

In a quest to address the seemingly illusive goal of enabling farmers to have access to finance, financing models or approaches were developed in some developing countries. This section discusses the modalities of those models.

2.4.1 Specialist Farm Credit Institutions

According to Devereaux, Pares and Best (1990 :12), financial institutions referred to as Specialist Farm Credit Institutions (S.F.C.I s) have the following features:

- They engage only in lending, not deposit taking.
- They operate with limited amounts of public funds.
- They are required to lend at concessionary interest rates, which increases their bias towards uncreditworthy borrowers.
- Instead of demanding collateral, they may insist on strict conditions on the use to which loans are put. However, there are variations of applicability of these criteria to S.F.C.Is.

An example of an S.F.C.I in South Africa is the Land Bank. In response to the call to address the extension of finance to farming communities, the Land Bank introduced the following products:

- **Step Up Micro Credit Scheme** : intended for household producers who want credit to improve production of vegetables, poultry, pigs, and other related activities. The entry level is R250.00. Once this is paid back, the person qualifies for the next step, a loan of R500.00. They continue to step up until they reach a loan of R5000.00 on the ninth and the final step. At this point they would have borrowed a total of R18 000.00.
- **Bronze (high risk)**: These clients include those who have little or no collateral. The entry loan is R25 000.00. The ceiling on Bronze category is R50 000.00.

Applicants do not get this amount on the first loan. They have to establish a track record of payment by paying back a lower amount.

- Silver (medium risk): This is for clients who have some security and repayment ability but not enough to meet the gold category. They must have a farming experience and viable farming plans. The ceiling on the silver category is R250 000.00.
- Gold (low risk): There is no ceiling on this category (Land Bank, 1998: 6-7).

The above is a financing approach or model for South Africa, with some unique features but having similar incentives for repayment as other models used in other countries.

As already mentioned, prior to the Land Bank extending its services to small black farmers, the homelands had their own financial institutions mostly modelled along the lines of Specialist Farm Credit Institutions. One such institution in the former Bophuthatswana homeland was Agribank that was established in 1981. According to the Agribank financial statement as at 14th August 2000, the total amount owed by the farmers was R65 403 894.76. This is the amount of debt accumulated in ten to fifteen years. It eventually could not survive as it depended to a large extent on government funding. The S.F.C.Is fail mainly due to default of clients. The other element is that since they are in most cases funded by government, they are impeded to take strong actions against defaulters.

2.4.2 Informal Financing –Group Financing



Due to the risks involved in extending credit, financial institutions have come up with innovative ways of encouraging clients to repay their loans. Trust banks in China started by Opportunity International in Eastern Europe use group pressure. In this model, borrowers would organise themselves into groups of five, where two members of the five person's group get loans. If they repay on time, the next two get loans and finally the fifth one. When a member defaults, all five are barred from borrowing in future. These

Chinese institutions have a repayment rate of over ninety percent (Armenduz de Aghion and Morduch , 2000: 403-404).

2.4.3 Informal financing – Self Help Schemes

According to Albee & Gamage (1996: 9-10), in Sri Lanka, the Colombo women's thrift and credit cooperative society has the following features:

- Decentralised development in which the lower echelon (ordinary members) is the heart of activities.
- Savings are promoted before loans are issued to members thus creating a lending base for the members themselves.
- A common bond between members is emphasised on the basis of living in the same area or being members of the same profession.
- Common ownership is done through the issuing of shares which are sold to members.
- Equity is promoted by voting on the basis of membership and not the number of shares.

Associations run along similar lines exist in various countries. In Lesotho they are called cooperative credit unions (Ayaya, 1996:584). In Nigeria some are called Okwu and others E susu c lubs. These associations are known under different local names such as Chit funds in India; stockvels, gooi gooi and umgalelo in South Africa and pasanakus in Bolivia (Smets, 1996:178).

2.4.4 Informal financing – Moneylenders

Moneylenders, as the name suggests are people whose business is to lend money (Butler et al, 1997: 226). In most developing countries, the individuals concerned are usually not registered. More often they are viewed with skepticism and they have a bad reputation for usury in most countries, as among others they charge high interest rates which is viewed

as taking advantage of borrowers. The central banks are frustrated by this informal sector as it is perceived as flouting most of the financial control regulations and being the possible avenue through which laundered money, tax evaded income and wealth could be channeled (Das Gupta, Poaponsakorn, Lombarte, Prbowo and Rahman, 1992 :71). However, as service providers, these people are very essential to small borrowers, particularly those who do not enjoy favour with the formal financial institutions. They are accessible, they do not have cumbersome screening procedures and therefore give out quick service (Aryeetey, 1995: 45). They are only concerned with the individual's ability to pay, which they could quickly assess since in most instances they are staying in the same village or town with their clients.

Most of the countries have recently begun to regulate these individuals because of reasons mentioned above. In South Africa, they are now registered under the Usury Act and are commonly known as micro lenders. Despite the fact that they are registered, they still have the exploitative characteristics commonly associated with moneylenders in general.

2.4.5 Cooperative Credit

The cooperative supervised credit scheme in which collateral is demanded but the criteria are not as rigid as in commercial banks is another form of financial servicing in Nigeria. The cooperative authorities have to satisfy themselves of the viability of projects. The relationship between the agricultural credit cooperation and the ministry of agriculture is decreed by law. The extension workers have to assist cooperative officials by helping prospective borrowers to prepare farm plans and to provide technical advice to credit officers and farmers. The responsibility of loan approval rests with the cooperative authorities. The extension services should inform the cooperative as to the amount of capital required for each technical innovation (Tasie, 1997:44).

Using the same principle, the Grameen Bank in Bangladesh, Bank Rakyat in Indonesia

(BRI) and Action International in Latin America reduce costs by streamlining their activities to be commensurable with the small size of the loans being made. They accomplish this by knowing the market, cutting administrative costs, using group guarantees, compulsory savings and the promise of subsequent larger loans as a means of lowering the risk of default. Rather than gathering costly information, they employ incentives for repayment (Riley, 1996: 800).

In South Africa credit that agricultural cooperatives extend to farmers is mainly short term in nature and is for the purpose of buying production inputs. The sources of funds of these cooperatives is in turn the Land Bank and commercial banks (Van Zyl et al, 1999: 247-248). South African Cooperatives have an added advantage since they serve as a one stop shop where the farmer would acquire credit and all the production inputs they need.

2.4.6 Commercial Banks

Commercial banks supply a range of products that meet a range of farmers needs. They provide financial support in terms of short, medium and long term credit. The interest rate varies according to the creditworthiness of the applicant (Van Zyl et al, 1999: 247). The latter aspect entails the fact that the less creditworthy one is, the higher interest rate one pays. Obviously most of the small farmers find themselves having to pay higher interest due to their shortfall on creditworthiness.

The foregoing discussion about various ways of financing distinguishes between formal and informal credit institutions. In informal savings and credit schemes, a lender, who may be a borrower's friend, a landlord, a moneylender or a mutual assistance association bears the full risk of default. Formal institutions by contrast, act as intermediaries between those from whom they give loans, and savers. They are designed for credit and savings e.g. commercial banks (Devereaux, et al, 1990: 13).

According to Padmanabhan (1988: 96-99) there are four yard sticks for successful rural financial institutions, i.e viability, self sufficiency, accessibility and efficiency. Viable

institutions should be able to meet their administrative costs without periodic cash injections in the form of grants from donors or government. Their profitability is determined by the lending rate, borrowing rate, loan turnover and transaction costs all conditions being equal, e.g. if among others, there are no defaults. Self sufficiency in credit institutions is accumulating resources by guarding against defaults, mobilisation of savings and guarding against decapitalisation by inflation. It would be self-defeating if viability and self sufficiency were achieved by confining lending to big farmers. Accessibility to rural farmers is an important criterion by which to judge a credit programme. Shifting the emphasis from collateral to profitability of investment activities supported by credit can go a long way in increasing the access of the small farmers to credit. Effective intermediation implies reduction in transaction costs by making direct contact between surplus and deficit units, management of resources and the reduction of risks.

2.5 FACTORS CONTRIBUTING TO POOR ACCESS TO FINANCE

2.5.1 Communication

Accessibility of services, particularly to small and developing farmers is lacking in a variety of forms. They range from poor communication network, roads or lack of buildings for office accommodation for financial institutions in rural areas to actual resentment of financial institutions' staff to live in rural areas. These banks branches location appears not to be planned with farmers' needs in mind (Devereaux, et al, 1990: 25). For example, most of the banks' branches are situated in towns, which are normally far from the rural villages and which require clients to pay for transport. Most of these clients do not have telephones. Besides, the bank would normally require the particular individual to appear in person in the branch.

2.5.2 Collateral

Collateral is defined as an impersonal form of security such as life assurances. These are primary securities. There are also secondary securities such as guarantees (Butler et al, 1997:68). It is the allocation of specific assets as surety for specific loans. In the case of insolvency, the proceeds of the asset(s) on which the bond was registered is used to repay the loan (Van Zyl et al, 1999:238)

Most farmers do not have access to credit institutions because of a lack of required collateral. Land in communal areas is not acceptable security because the customary tenure system makes it inalienable. Land tenure is problematic to banks in two ways. First, an agricultural banker is concerned with land service because land, as a basic factor in production, is both the purpose for and means of repayment for the loan therefore the banker must be sure about the borrower's access to the land in question. Secondly, there are considerable problems for the banks in using land as collateral especially the difficulty of foreclosing on a land mortgage in a situation where a buyer for the land may not be found. This is especially true in South Africa where the pessimistic perceptions have negatively affected agricultural land value to an extent that land seems not to be a good proposition for investment due to crime and farm murders (AgriReview, October 1998:2).

2.5.3 Perceptions

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On the other hand the relationship between banks and small farmers is influenced by misperceptions from both parties and therefore leads to negative attitudes towards each other. Bankers perceive developing and small farmers to be bad credit risks while these farmers in turn perceive banks as alien institutions which exist to serve the needs of their social superiors. The realities concerning access to banks are legal or conventional requirements for the extension of credit, including the need to offer physical collateral, which small farmers seldom possess, and formalities of documentation, which these farmers find difficult to satisfy (Devereaux et al, 1990 :25).

2.5.4 Transaction costs

Transaction costs of administering loans do not vary according to the size of the loan. The banks apply the same procedure and processes to approve all loans and therefore find it not cost effective to deal with small loans. The fact of the matter is that small loans absorb a proportionally larger slice of the income the banks generate. For example, after the approval of the loan the problem of monitoring the use and payment thereof becomes an additional cost. Monitoring is often not successful and defaulting adds even more costs because of frequent visits to defaulters and the cost of collection. Default affects the cash flow, revenue and profitability of the bank. So if farmers do not pay back their loan, the ability of banks to further extend their service or continued existence is seriously affected (Hulme and Mosley, 1996:8). The bank is faced with the enforcement problem where farmers are unable to offer collateral, the courts are too weak to repossess any collateral which is offered, and the insurance against common adverse phenomena such as drought is unaffordable to developing farmers (*Ibid*). Commercial credit institutions therefore need specific inducements to lend to small farmers (Devereaux et al, 1990:39).

2.5.5 Historical Lending Policies

Developing countries had various policy approaches that were not supportive to agriculture. This was due in most cases to the belief and perceptions that producing for foreign markets was the ideal manner of developing the local economy. The imperative to earn foreign currency projected the view that agriculture would be the minor contributor to this aspect. The following brief discussion highlights some of those policy perspectives.

2.5.5.1 Industrial expansion and import substitution

The first policy approach that was less favourable to agriculture was growth through industrial expansion and import substitution. This approach in essence favoured industry over agriculture (Van Zyl et al, 1999: 303). This is contrary to policy approaches in developed countries such as the United States of America and England whose initial development base was agriculture and later transformed to industrial development such as wool spinning (Eicher and Staats, 1990:48-49).

2.5.5.2 Bias towards urban development

The second policy approach that disfavoured agriculture was the pattern of government expenditure. Governments in developing countries tend to bias their funding towards industries and automatically to urban areas which leads to the lagging behind of rural development. To the contrary, the rural economy formed the backbone of development in developed countries prior to the industrial revolution. The added element to this issue was the effort of keeping food prices down for cities (Van Zyl et al, 1999: 303).

The reasons for such decisions are political in nature. The intended approach is meant to please urban dwellers because their dissatisfaction can trigger unrest as they are more sophisticated and are able to quickly mobilise powerful pressure groups (Eicher and Staats, 1990: 156-157).

In cases where resources were allocated by governments to agriculture, it mainly helped developed farmers and not small disadvantaged farmers (Dell A'more, 1975: 16). For example, they would be having the necessary collateral and, of course, political influence and connections.

2.6 INTEREST RATE SUBSIDIES

2.6.1 The usury argument

There are arguments for and against interest rate subsidies. The first argument is the usury. The usury argument is based on moral grounds supported by the Bible, the Talmud and the Koran where the charging of interest to a brother is condemned. Protagonists of this argument simply suggest that it is immoral to charge interest to anyone you loan money. However, the real economic fact is that money is a commodity and has a price in the form of interest. Failure to charge interest is tantamount to giving a commodity without charging any price for it (Adams, Graham and Pische, 1984: 69-70).

2.6.2 Low interest rates in developed countries

The second argument is also that high income countries charge low interest and therefore the same must apply in low income countries. What this argument fails to reflect is the fact that the economies of developed countries are stronger and more stable than developing countries. The reduction of interest rates in the latter economies may worsen the state of the economy by accelerating inflation. This is because the cheaper the price of the commodity, in this case money, the more demand for it. As the demand increases rationalisation rather than focussing on viable ventures occurs (Adams, et al, 1984: 69-70).

2.6.3 Financial institutions get subsidised loans

The third notion is that lenders get cheap money. For example, an Agricultural Bank may get loanable funds from the government, from cheap rediscount windows at the central banks and funds from foreign donors. The argument is that these benefits should be passed on to the farmer or borrower. This argument ignores the fact that the bank has its own administration costs besides the fact that in many cases those funds have to be paid back (Adams, et al, 1984: 69-70).

2.6.4 Regulation of interest rates

The fourth argument advanced against higher interest rates is that the deregulating of interest rates on savings instruments would force institutions to pay higher rates to obtain loanable funds and would force many into insolvency. Also, paying lower interest rates would force intermediaries to even pay lower interest rates to savings deposits. However, it should be realised that agricultural lending is costly because of geographic dispersion, collateral problems, the small size of loans and the risks inherent in farming. Therefore, the higher interest charged by the banks, the more is their viability strengthened. In general, lower interest rates do not necessarily benefit the poor. This is clearly illustrated by the Iron Law of Interest Rate Restriction proposed by Gonzalez Vega (1976) which states that the lower the real rate of interest the more heavily concentrated will the loans be in the hands of relatively few people and usually it is those that are already advantaged.

2.6.5 Lower interest rates encourage productive investments

The fifth common argument is that lower interest rates are necessary to encourage farmers to make productive investments. The first problem with this argument is that it assumes that farmers are irrational when it comes to allocation of resources and that it is necessary to 'bribe' them to do something that is profitable. The fact of the matter is that farmers allocate their own funds rationally and they will do likewise with borrowed funds. The second problem with this argument is that it assumes that cheap loans are inexpensive. This is untrue as there are costs for paperwork, travel costs, time taken to negotiate and pay the loan and other related administration costs. It is also surprising that the very same farmers or borrowers borrow funds from informal institutions with even higher rates and are able to repay them (Adam et al, 1984: 69-70) .

2.6.6 Income distribution argument

The sixth argument is that cheap agricultural credit is a way of transferring income to rural areas. It is assumed that there are three ways that loans can affect income distribution and these are returns gained by using additional resources purchased with loans, transfer via negative real rates of interest, and through loan default. The truth is that distribution is far from equal. Small borrowers get small benefits, large borrowers get large benefits and non borrowers get no benefits at all (Ibid).

An interest rate that would cover the cost of capital would include the opportunity cost of capital, the costs of administering the provision of credit and the cost of risk and defaults (World Bank, 1974:14). If subsidies are offered it would be advisable to subsidise particular inputs or technology or administration costs rather than the cost of credit to borrowers (Adams, et al, 1984).

2.7 CAUSES OF DEFAULTS

According to Reddy (1998: 106-140), there are various causative factors to defaulting:

Firstly, the failure of farmers to use borrowed funds for something else other than for production leads to the failure of the investment and consequently failure to pay the loan. This inherent characteristic of borrowed funds or cash to be able to be put to any use is called its fungibility.

Secondly, the sole dependence on one agricultural enterprise increases the incidence of default. Agricultural households that have diversified into other enterprises such as dairy or poultry have lower incidence of default as risk could be spread.

Thirdly, widespread default demonstrates to farmers that the financiers are not able or willing to enforce the contracts. This is often mainly due to political interference. The financiers may rather resort to denying the debtor the new loan which is a weak sanction.

This perception often reinforces the behaviour or the culture of non payment. Political interference is manifest in most developing countries such as India and it tends to favour certain individuals or groups, particularly those who are politically prominent.

The fourth reason is the failure caused by natural disasters or climatic conditions such as drought. This is exacerbated by the limited opportunities for risk diversification and high covariant risk, for example, when the farmers in the same area are affected by drought they suffer equally and consequently that whole community is affected (Van Zyl, 1999: 304).

2.8 POLITICAL INTERFERENCE IN FARMER FINANCING

There are various reasons for political interference. This may be explained through Blair's Model (1984). The explanation by this model revolves around the governments' desire to stay in power. This is done by satisfying those who could be disruptive and this explains the bias of services in favour of urban areas. In rural areas, this is done by patronising the rural elite who in turn has influence on the masses with whom they have relationships in various ways such as tenancy, share cropping, informal loans, employee, etc. Granting subsidised loans to these elite is an effective way of ensuring continued support for the current government. Additional resources from government in turn continue to strengthen patron – client relationships. Moratorium on loan repayments in Sri Lanka, India and Bangladesh are examples of governments buying votes (Hulme & Mosely, 1996 :141-142). Actions such as moratorium on loan repayment cultivate the culture of non payment.

There are examples of governments in the developing world who have made deliberate political attempts to influence or even coerce banks to lend to the small farmers and do so at highly concessionary terms. The Differential Interest Rate Scheme, introduced by India, forces both the state institutions and the commercial banks to lend at lower interest rates in rural areas (Devereaux et al, 1990: 21).

In 1977 the government of Nigeria ordered all commercial banks to open branches in rural areas within three years of the decree. These banks were ordered to open branches in specific rural towns or villages. Examples such as these have come to achieve nothing of the desired outcomes (Tasie, 1997:22). The fact of the matter is that accessibility to financing was not achieved due to continued defaults which led to the reduction of the ability of banks to finance farmers. Most of the authors argue that political interference has a negative influence in financial intermediation. It leads to poor targeting due to high demand of finance if credit is cheap. Low repayment rates then occur which eventually leads to the collapse of credit institutions. This negatively affects the economy. However, having cited this, the prevalence of political interference cannot be wished away (Hulme & Mosley, 1996:135).

2.9 SUMMARY

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The literature review indicates two major trends, viz, that the financing of farmers is not an easy task due to the complexity of their profiles and that there are common problems across countries pertaining to small farmer financing services. It should be appreciated also that banks are a business and they need to be sure that they would at least get their money back, hence their requirement of collateral as a minimum assurance. Access by small farmers to finance has been the objective of many governments. This however has been a very illusive goal, and wherever they tried to have a direct intervention, the efforts have not been sustainable. To investigate this issue in the context of small farmers in the North West Province in the districts of Ditsobotla and Molopo, the subsequent chapter will be directed at looking at defining the problem.

CHAPTER 3

PROBLEM DEFINITION AND MANAGEMENT QUESTIONS

3.1 INTRODUCTION

Availability and access to finance is very crucial to successful farming. This service is equally important for crop farmers in Ditsobotla and Molopo Districts. The mere access is however not enough, but what is also important is the adequacy of the credit advanced in relation to the needs of farming operations and whether the loans are issued timeously to enable the farmers to carry out their farming activities within season. Training in financial management to enable small farmers to use funds productively, fair treatment of farmers regarding the management of accounts by commercial banks, and application of financing criteria are of paramount importance. Poor access and service leads to poor productivity which eventually leads to farmers leaving farming.

3.2 STATEMENT OF THE PROBLEM

Land is lying fallow and the trend is increasing on an annual basis in the districts of Molopo and Ditsobotla as farmers abandon farming due to lack of financial support. This happens in spite of the Strauss Commission recommendations of which its aim was to improve access to finance. The situation is a cause for concern for various reasons. Firstly, the communities in the area are dependent on farming, particularly cropping and this state of affairs threatens their basic livelihood. Secondly, the area is an ideal maize producing area which apart from being the staple food of most South Africans, the decline of its production levels would contribute negatively to the Domestic Gross Product of the North West Province and eventually to the Gross Domestic Product of South Africa. Thirdly, as farmers leave farming, employment in rural areas declines, which consequently leads to social problems. Role players in agriculture need to be aware of the contributory factors to this situation and take appropriate measures to ensure that the support mechanisms are in place to keep farmers in business. These farmers are

experienced and denying them support will defeat the goals of government to create black commercial farmers.

3.3 DEFINITION OF THE PROBLEM

3.3.1 Primary problem definition

It is alleged that farmers have poor access to financing and this is a contributory factor for the increase in uncultivated land due to farmers abandoning farming. These factors have to be established and approaches formulated that would promote the sustainability of these farmers.

3.3.1.1 Management Questions

The questions to be posed to the respondents to address the primary problem are the following:

- What is the age structure of farmers?
- What are the education levels of farmers?
- What experience do farmers have?
- What are the sizes of land cultivated?
- What crops are produced?
- What are the yields from these crops?
- What are the common cultivation practices?
- What are the sources of farming finance?
- What sizes of loans do they normally get?

3.3.2 Secondary Problem Definition

It is alleged that more farmers are leaving farming in Molopo and Ditsobotla districts and it is essential to establish the authenticity of this allegation. It is also important that the causes should be established.

3.3.2.1 Management Questions

Questions that would be posed to respondents for proving or disproving the above mentioned allegation (3.3.2) are the following:

- Are farmers still involved in farming?
 - If they are not actively involved, what are the reasons?
 - Are the farmers able to provide collateral?
 - What are other obligations including outstanding farming debt?
- If yes, are they able to service that outstanding debt?
 - Is the amount advanced adequate to produce profitably?
 - Are they able to pay back loan funds, and if not why?
 - What are their perceptions about current financial services?
 - What are other sources of income apart from crop farming or survival mechanisms?

A questionnaire to seek answers to questions posed above will be formulated and will be administered to crop farmers in the area of investigation. It is only after the interviews and analysis of responses that the questions raised will either be confirmed or rejected.

3.3 SUMMARY

The answers to questions posed above were sought by using the questionnaire as an instrument. The rejection or acceptance of the allegations depended on the responses that were given. In the subsequent chapter, detailed elaboration of the methodology used to collect and analyse the information is given.

CHAPTER 4

RESEARCH DESIGN

4.1 Introduction

The study area is comprised of the districts of Ditsobotla and Molepolo which share a boundary. Ditsobotla district is situated to the north west of Lichtenburg and it is made up of forty four (44) villages under trust land and ten (10) villages under the tribal chiefs or headmen. The total arable land is 84 000 ha.

The Molepolo area, on the other hand, is situated around Mafikeng and stretches northwards and shares a boundary with Botswana and in the west, shares a boundary with Vryburg district, Ditsobotla and Lehurutshe districts in the south and in the east respectively. The size of the arable land is 18 453ha. Cropping in the area is mainly dryland.

The average annual rainfall for both districts is 300-450mm per annum. According to the Provincial Dept. of Agriculture Agribank Financial Statement, 2000 farmers list, the target population in the two districts are predominantly male and black in race. The majority of them previously used Agribank for financing their agricultural needs. The area is currently serviced by the Land Bank in terms of production finance. This study therefore concentrates on crop farmers in the districts mentioned. In this chapter, the population, the sampling method and procedure, data collection method and instruments and data analysis are explained.

4.2 Population

The respondents interviewed are from the population of small black crop farmers in the districts of Ditsobotla and Molepolo as mentioned earlier. They cultivate a minimum of 50 hectares to more than 300 hectares each on average. These farmers are those who have or

once had machinery and equipment for crop cultivation and are actually classified under developing farmers and therefore are on the semi-commercial level of production. The farmers in these districts are therefore able to offer collateral, albeit on a limited scale. There is a total of 560 crop farmers (population) in Ditsobotla and Molopo districts.

4.3 Sampling method

These are two separate districts and farmers cultivate different sizes of lands and consequently this had an influence on different sizes of debt, need for finance and production levels. Stratified random sampling was used to select a sample for study from the two districts. A list of farmers was used for the purpose of deriving a sample. Stratified sampling was made according to different categories of land ownership. The population was divided into three strata: those who cultivate less than hundred hectares, those who cultivate less than three hundred hectares and those cultivating more than three hundred hectares. Within each strata, random sampling was performed and as a result every individual member of the population had an equal chance to be selected.

The intention was to interview 140 individual farmers, which is twenty five percent of the total population. However 105 farmers were ultimately interviewed. The rest of the questionnaires were not submitted in time by the enumerators for analysis. However, the questionnaires that were not submitted were insignificant in number to influence the validity and the reliability of the findings.

4.4 Sampling procedure

As mentioned (Ut supra, 4.3), stratified random sampling based on farm size was used to select the farmers as the extent of the land they plough has a bearing on their productivity, need for finance and the extent of indebtedness. A total of one hundred and fourty (58 and 87 Molopo and Ditsobotla farmers respectively) were selected to participate in the study.

Different proportions of farmers by land size were determined and the final result was as follows:

Sixty five (65) farmers operating less than 100ha were selected (26 from Molopo and 39 from Ditsobotla). Sixty one (61) farmers farming on less than three hundred hectares were also selected (24 from Molopo and 37 from Ditsobotla) and fourteen (14) farmers operating on three hundred hectares and more were also selected (6 from Molopo and 8 from Ditsobotla).

4.5 Data collection method and instruments

A questionnaire interview schedule was used to collect data. A combination of structured (closed) and open - ended questions were used. The objective of the technique was to get the individual views pertaining to experiences and perceptions of farmers regarding financial services. For the type of questionnaire and the questions asked, refer to management questions (Chapter 3). Ten interviewers were used to interview farmers through questionnaires. Six of them interviewed Ditsobotla farmers and four Molopo farmers. 140 questionnaires were given out but only 105 were returned.

4.6 Data analysis

Measures such as percentages, frequencies, mode, maximum and minimum were generated were applicable. Data was analysed using Microsoft excel. Frequencies are largely used to present data in the report in the form of charts.

CHAPTER 5

ANALYSIS OF RESULTS

5.1 INTRODUCTION

This chapter indicates the results of the responses of the interviewees collated from questionnaires. The results are shown by indicating the questions and the frequency of responses and percentages. The other measurements which are the mean, the mode, the minimum and the maximum are shown where applicable.

Table 5.1.1: Age structure of farmers

AGES	RESPONSES (FREQUENCIES)	%	MODE	MEAN	MINIMUM	MAXIMUM
21-30	4	4				
31-40	6	6				
41-50	19	18				
51-60	31	30	62	57	23	81
61-70	32	30				
71-80	12	11				
81-90	1	1				
Total	105	100				

The average age of respondents is 57, the youngest is 23 and the oldest is 81. The majority of farmers are 62 years of age: (Cf mode).

Table 5.1.2 Education level of farmers

LEVEL OF SCHOOLING	FREQUENCY	%	MODE	MEAN	MINIMUM	MAXIMUM
No schooling	35	33				
1-2	13	12				
3-4	19	18	0	3	0	10
5-6	23	22				
7-8	9	9				
9-10	6	6				
Total	105	100				

33% of the respondents have not had any formal schooling (which is the majority), the average standard passed is Std 3 and the highest standard passed is Std 10. There is no respondent with post matriculation qualification.

Table 5.1.3: Experience of farmers (number of years in farming)

NUMBER OF YEARS	RESPONSES (FREQUENCIES)	%	MODE	MEAN	MINIMUM	MAXIMUM
0-10	27	26				
11-20	30	28				
21-30	35	33	30	19	2	45
31-40	10	10				
41-50	3	3				
Total	105	100				

33% of the respondents have experience of between 21 and 30 years. The majority of them have experience of 30 years (Cf mode). The average years of experience is 19, the highest number of years in farming is 45 and the least is 2

Table 5.1.4 Land access patterns

TYPE OF LAND ACCESS	TOTAL HECTARES	% LAND	NUMBER OF FARMERS (FREQUENCY)	% FARMERS	MEAN	MAXIMUM
Private Land	3337	21	73	70	32	400
Leased Land	12821	79	97*	92	122	532
Total cultivated land	16158	100			152	620

* Farmers who own land also lease land in addition

21% of the land is privately owned and 79 percent leased. The average land leased is 122 hectares and the average size of land owned is 32 hectares. The average total land cultivated is 152 hectares. Farmers who own land lease land in addition. The biggest size of land owned is 400 hectares, leased is 532 hectares and the highest total land cultivated is 620 hectares.

Table 5.1.5 Common crops produced

CROPS	RESPONSES (FREQUENCIES)	%
Maize only	3	3
Maize and Sunflower	80	76
Maize Sunflower And Groundnuts	22	21
Maize Sunflower And Other crops	13	13

76% of the respondents indicate that they cultivate a combination of maize and sunflower.

Table 5.1.6: Yield of cultivated crops per hectare**RESPONSES (FREQUENCIES)****NWU
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Tons per hectare	Maize	%	Sunflower	%	GROUND NUTS	%	OTHER CROPS	%
0.5-1	26	25	100	95	100	95	102	97
1.5-2	79	75	5	5	4	4	2	2
2.5-3	0	0	0	0	1	1	1	1
Total	105	100	105	100	105	100	105	100

75% of the farmers obtain a yield of 1.5 - 2 tons/hectare in maize and in other crops the majority (over 90%) obtain yields of 0.5 - 1 ton/hectare.

Table 5.1.7: Cost of production per hectare

COST PER HECTARE	RESPONSES (FREQUENCIES)	%	MODE	MEAN	MINIMUM	MAXIMUM
0-200	3	3				
201-300	14	13				
301-400	15	14				
401-500	16	15	550	514	125	880
501-600	18	17				
601-700	21	20				
701-800	13	12				
801-900	5	5				
Total	105	100				

Most of the farmers' expenditure per hectare is R550 (cf mode), the average expenditure is R514, the maximum R880 and the least R125.

Table 5.1.8: Common cultivation practices in dryland

CULTIVATION PRACTICE	RESPONSES (FREQUENCIES)	%
Ploughing	105	100
Seedbed Preparation	105	100
Planting	105	100
Top Dressing	5	5
Mechanical and Manual Weed	38	36
Chemical Weed Control	29	28
Harvesting	105	100

100% of the respondents do basic practices, namely, ploughing, planting and harvesting, only 5% do top dressing, 38% a combination of mechanical and manual weed control and 29% chemical weed control.

Table 5.1.9: Sources of financing

ITEM	RESPONSES (FREQUENCIES)			
	BANK FINANCING	%	SELF FINANCING	%
Never	26	25	27	26
Sometimes	35	33	22	21
Often	20	19	40	38
Always	24	24	16	15
Total	105	100	105	100

Concerning bank financing 25% of the respondents have never been financed by the bank, 35% sometimes, 20% often and only 25% always. Regarding self financing 26% never financed themselves, 21% sometimes financed themselves, 38% often and 15% always.

Table 5.1.10: Other sources of income

SOURCE	RESPONSES (FREQUENCIES)		%
No other source	37		35
Pension	33		31
Remittance	2		2
Other	33		31
Total	105		100

35% of the respondents have no other additional source of income. 31% receive additional income from pension, 31% from other sources and only 2% from remittances.

Table 5.1.11: Sizes of loans normally received

SIZE OF LOAN	RESPONSES (FREQUENCIES)	%	MODE	MEAN	MINIMUM	MAXIMUM
0-25000	34	32				
26000-50000	40	40				
51000-75000	16	16				
76000-100000	7	7	25000	47280	0	230000
101000-125000	5	5				
126000-150000	1	1				
151000-175000	0	0				
176000-200000	1	1				
201000-250000	1	1				
Total	105	100				

32% of the respondents usually receive loans of up to R25 000 and 40% between R25 000 and R50 000. Most of them receive loans of R25 000 (cf mode). The average loan amount received by respondents is R42 280 and the highest amount is R230 000.

Table 5.1.12: Number of farmers who are still farming and those who got out of farming

ITEM	RESPONSES (FREQUENCIES)	%
Still farming	85	81
Out of Farming	20	19
Total	105	100

81% of the farmers are still fully engaged in farming and 20% are no more farming.

Table 5.1.13: Are more farmers financed than before land bank offered financial services?

ITEM	RESPONSES (FREQUENCIES)	%
Yes	26	25
No	79	75
Total	105	100

75% of the respondents hold the perception that farmers have less access to financing since the Land Bank began offering financial services to them. 25% hold the perception that access to finance has increased since Land Bank took over from Agribank.

Table 5.1.14: Perception on Length of Loan Approval

NUMBER OF DAYS	RESPONSES (FREQUENCIES)	%	MODE	MEAN	MINIMUM	MAXIMUM
0-30	22	20				
31-60	27	26				
61-90	27	26	90	82	30	180
91-120	18	17				
121-150	3	3				
151-180	8	8				
Total	105	100				

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26% of the respondents hold the perception that it takes 31-60 and 61-90 days respectively for loans to be approved by Land Bank. 20% hold the notion that loans are approved within 30 days. The most common answer from respondents was that it takes 90 days to approve the loan (cf mode). The average length is 82 days, the maximum 180 days and the minimum 30 days.

Table 5.1.15 Are farmers able to provide collateral?

ITEM	RESPONSES (FREQUENCIES)	%
Yes	60	57
No	45	43
Total	105	100

57% of the respondents indicate that they are able to provide collateral and 43% indicate that they are not.

Table 5.1.16 Farmers having debt in arrear

ITEM	RESPONSES (FREQUENCIES)	%
Yes	94	89
No	11	11
Total	105	100

89% of the respondents indicated that they have arrear debt and only 11% indicated that they do not.

Table 5.1.17 Farmers who are able to pay outstanding debt

ITEM	RESPONSES (FREQUENCIES)	%
Yes	49	47
No	56	53
Total	105	100

47% of the respondents indicated that they are able to service the outstanding debt and 53% indicated that they are not able to do so.

Table 5.1.18: Amount of debt in arrear owed by farmers

Size of loan	RESPONSES (FREQUENCIES)	%	MODE	MEAN	MINIMUM	MAXIMUM
0-25000	36	34				
26000-50000	23	22				
51000-75000	16	15				
76000-100000	11	11				
101000-125000	6	6	0	60613	0	500000
126000-150000	4	4				
151000-175000	1	1				
176000-200000	3	3				
201000-250000	1	1				
Total	105	100				

34% of the farmers have debt in arrear of up to R25 000, 23% owe between 26 000 and R50 000. The average debt in arrear of R60 613 and the highest amount owed is R500 000.

Table 5.1.19: Reasons why some farmers left farming

ITEM	RESPONSES (FREQUENCIES)	%
Production Related	2	10
Finance Related	15	75
Management Related	1	5
Other (Age, theft, damage of crops by livestock)	2	10
Total	20	100

From 20 farmers who abandoned farming, 75% of them cite finance related reasons.

CHAPTER 6

INTERPRETATION AND DISCUSSION OF RESULTS

This chapter presents the interpretation of the results of the analysis given in chapter 5. The characteristics of respondents, their farming practices, loan profile, survival strategies and their assessment of current agricultural financial services are hereunder.

6.1 AGE OF THE FARMERS

The age of the respondents ranged between 23 and 81 with the average age of 57 years. The majority are older than 50 years of age (Figure1). The most common age is 62 years of age (cf Table 5.1.1).

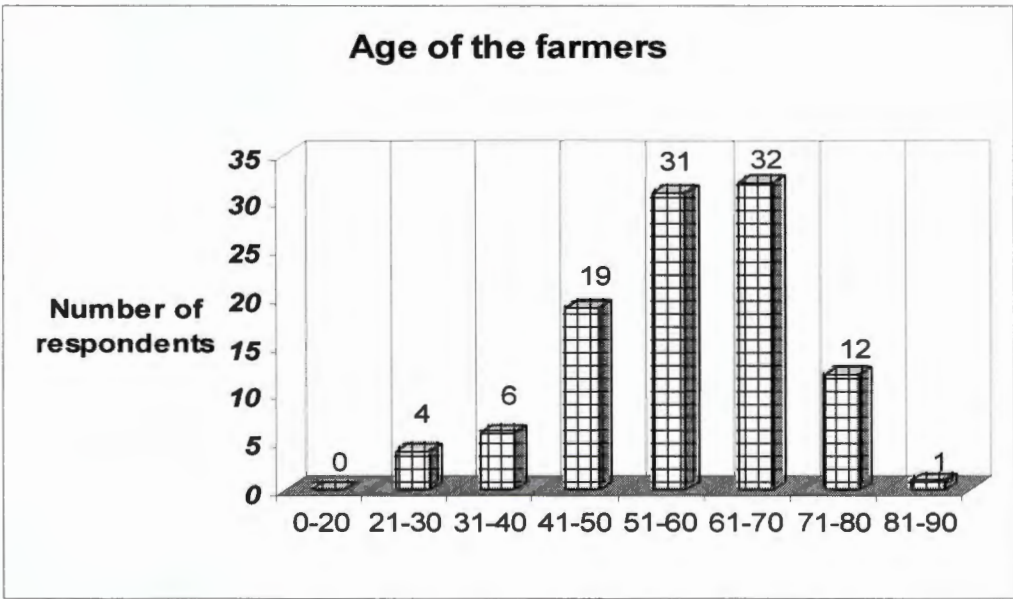


Figure 1: Age category of farmers (N=105)

This confirms the notion that agriculture is mostly dominated by the aged. The scenario poses a serious challenge for strategies to ensure succession. Age has an influence on the actual management of the business as it more often requires direct and usually physical

involvement. It therefore has direct bearing on access to financing by farmers. Financiers would regard old age as a risk element due to assurance premiums for insuring the debt are high and the candidate's ability to manage the farm. The trend of age may be created by the fact that when formal employment in urban areas is terminated, it was then that the respondents found farming as the only alternative in the rural areas.

6.2 EDUCATION

The average standard passed by respondents is Std 3. Although 33% never went to school, 74 out of 105, which is 70% of these farmers had basic education (Figure 2). Only 6% at least reached standard 10. It should be noted that from all respondents none has tertiary education.

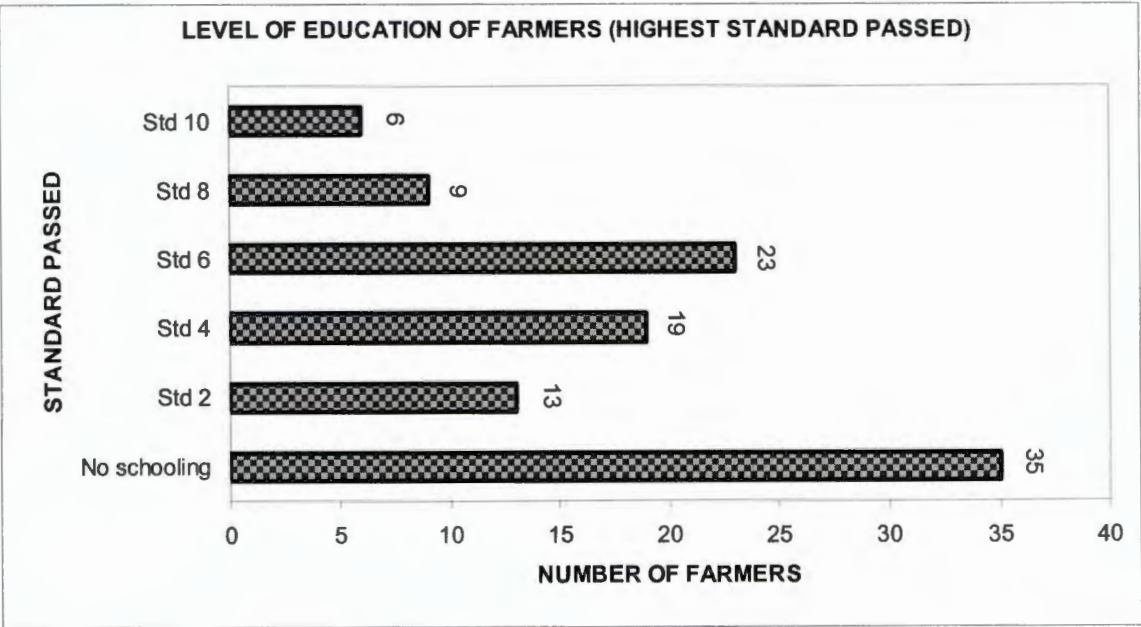


Figure 2: Education of farmers in the study area (N =105)

Given the present challenges in farming, particularly in terms of financial management and marketing, the education levels indicated may be limiting when it comes to farming business skills. In most instances financial and marketing skills are acquired at tertiary level unless a purposeful effort is made to provide informal training. This is an area that cannot be ignored if the farmers are to farm on a sustainable basis. This could be what

actually makes the difference between the successful commercial sector and the emerging sector.

6.3 EXPERIENCE (NUMBER OF YEARS IN FARMING)

The farming experience of respondents range from 2 to 45 years (Table 1). The mean experience in years is 19.

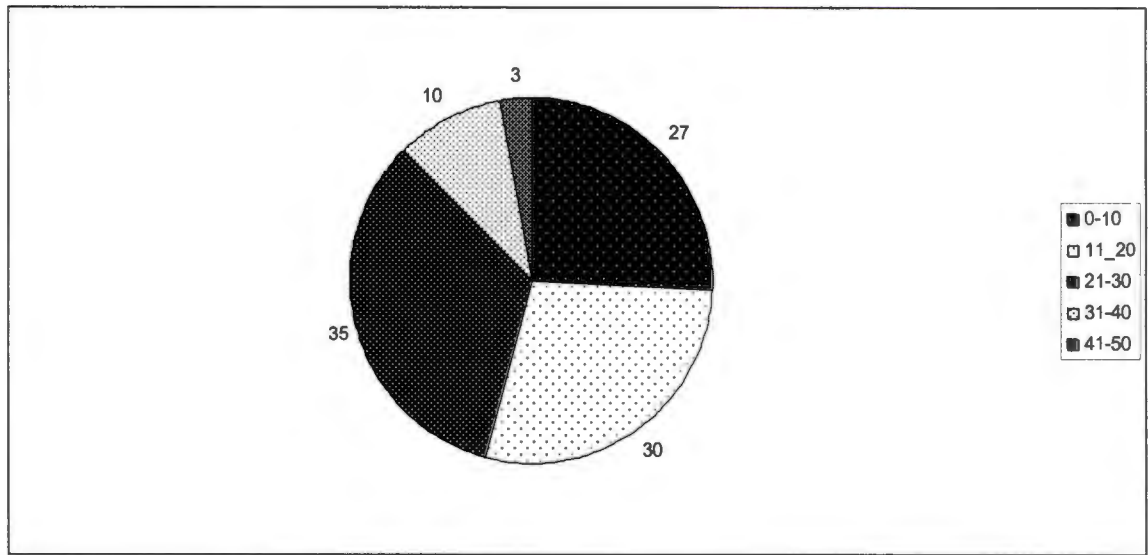


Figure 3 : Experience of farmers (Number of years in farming)

Most of the farmers have experience of 30 years (cf mode figure 5.1.3). The observation made is therefore that farmers are sufficiently experienced in regard to production skills. This is a positive aspect that may be considered favourably when an application for funding is made. This is an attribute that could enhance their access to finance. This is, however, not the case.

6.4 LAND ACCESS PATTERNS

In reference to table 5.1.4 and figure 4, 21% of the land is privately owned. Seventy nine percent of the land is leased. Respondents who have own land also lease additional land. Both private and leased land contribute to the total cultivated land. The average land leased is 122 hectares (cf Mean Table 5.1.4). There is a substantial difference if this is compared with an average of 32 hectares owned privately. Comparing the averages of

leased and privately owned land it is clear that the private owners actually possess small pieces in relative terms. Total privately owned land is 3 337 hectares as compared to 12 821 hectares leased land.

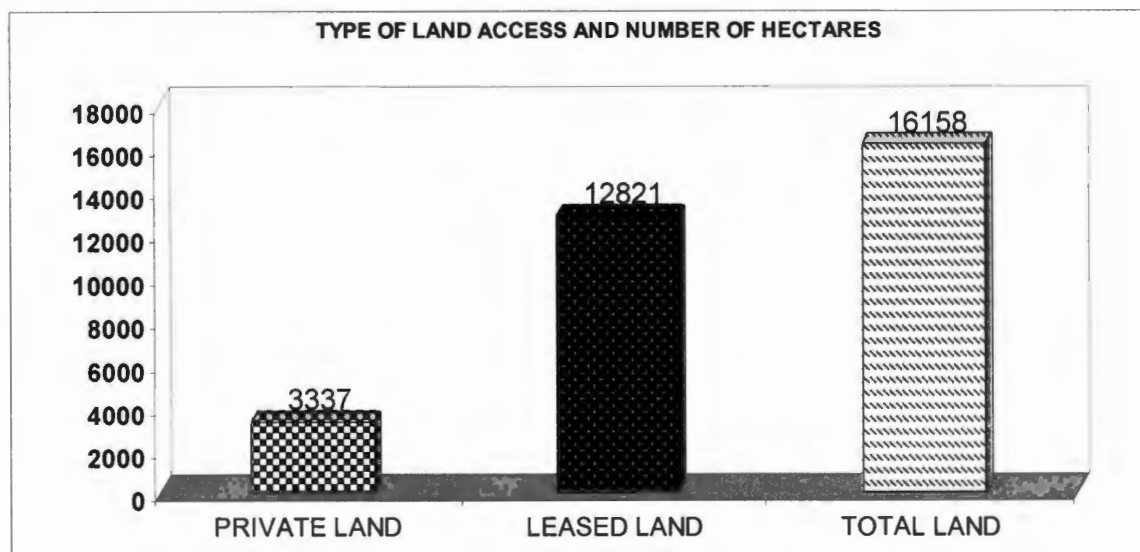


Figure 4: Land access patterns

This highlights the dependence of these farmers on leased land. The leased land is a collective of small pieces of tribal land allocated to community members who often do not have capital equipment or resources to work the land. The land is often leased by sharecropping agreement. This is characteristic of the land tenure system in the rural areas where the farmers are at the mercy of landowners. The implication of this is that meaningful investment in the soil such as liming, is never being made as the real owner may prevent the farmer from continuing to cultivate his farm at any time, which often happens when the owner has been coaxed by another farmer who promised a higher crop share. This eventually affects the fertility of the soil which in the long run affects the very farmers in terms of productivity.

Despite the fact that the majority of the farmers do not have their own land, they farm on a significant scale. The results indicate that there are farmers who cultivate to a maximum of 620 hectares (cf Table 5.1.4). To farm effectively and productively, given the sizes of the land indicated, farmers need adequate financial support without which production is bound to decline.

6.5 COMMON CROPS PRODUCED

Common crops cultivated in the area of investigation are maize, sunflower, groundnuts and other crops such as dry beans, sorghum, and, in isolated cases, soya beans. Figure 5 shows that the most preferred combination is maize and sunflower. The analysis indicates that 76% of the farmers favour the mentioned combination. Among all respondents, only 13% indicate that in addition they cultivate other crops. Regarding the latter, it should be noted that these respondents are also those who cultivate sunflower and maize and therefore the total number of respondents remain 105.

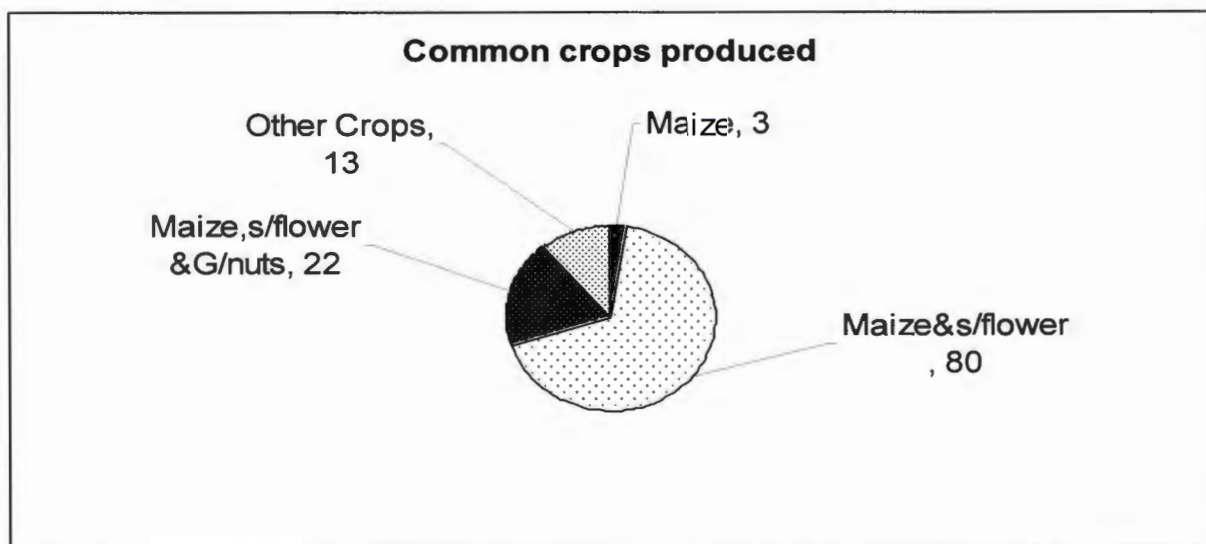


Figure 5 : Common crops cultivated (N105)

Only 21% include groundnuts in their cultivation. There is therefore not so much crop diversification in the production system of the study area. Poor diversification limits the farmers' chances of spreading the risks associated with a variety of crops when price fluctuates and weather changes are negative. This makes these farmers very vulnerable to risk particularly to the fluctuation of the mentioned variables

6.6 YIELD OF CULTIVATED CROPS

The average crop yield ranged from 1 to 1.8 tons per hectare (Figure 6). In general, the yield was below the potential of the area. For example, the potential maize yield is 3 tons/hectare but the respondents reported the maximum of 1.8 tons/hectare. The reasons for this poor performance may be related to cultivation practices due to among others, lack of adequate funding.

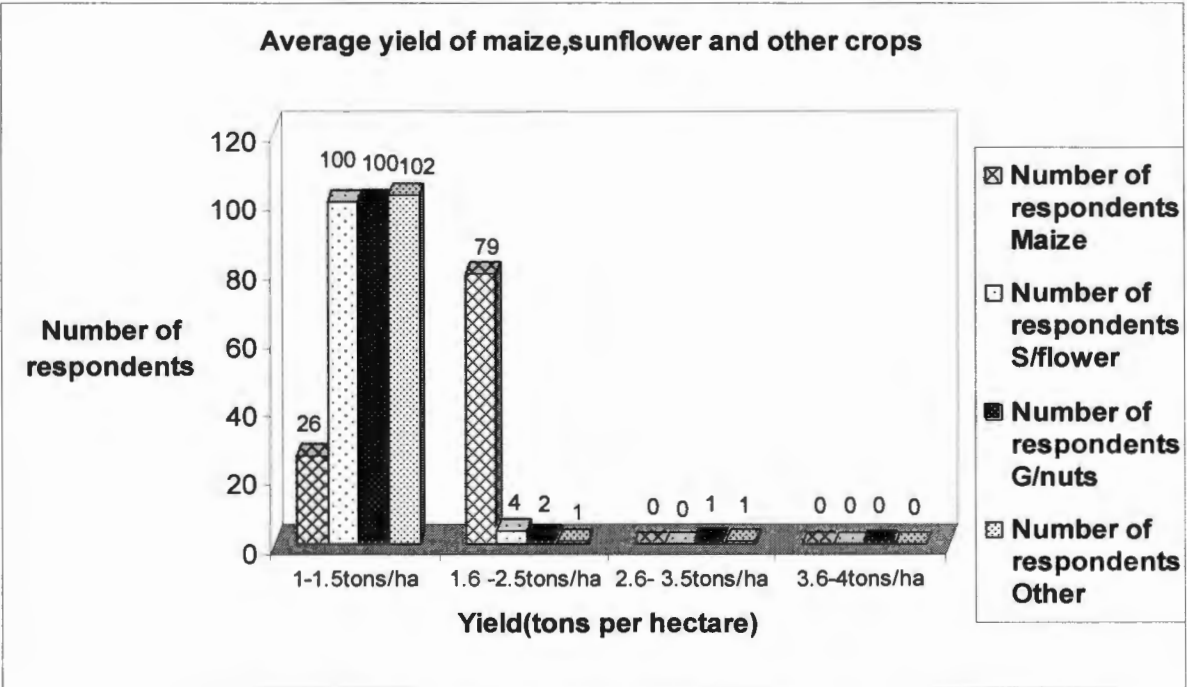


Figure 6: Yield of crops per hectare (105)

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The other observation is that despite the fact that other crops may be cultivated, the majority prefer the production of, in the main, maize and sunflower, irrespective of the lower yields. This could be either due to the fact that the respondents have more experience on the production of those crops or that they are forced by other factors such as maize being their staple food. It could also be due to the land tenure system of which the real land owner might be having an influence as to what crops should be produced as the preferred common lease agreement is share cropping on maize. The implication of this is that the respondents would therefore not be afforded the opportunity to plan their production in an economically feasible manner and this would eventually affect the

profitability of their efforts. In other words, they have to balance their production planning for profitability with the aspirations and immediate needs of the lessor (which is access to maize for food).

6.7 CULTIVATION PRACTICES IN DRYLAND

The analysis indicates that all the farmers are carrying out basic practices, viz, ploughing, seedbed preparation, planting and harvesting (Figure 7). The other three practices are also as important, viz, top dressing, mechanical weed control, and chemical weed control.

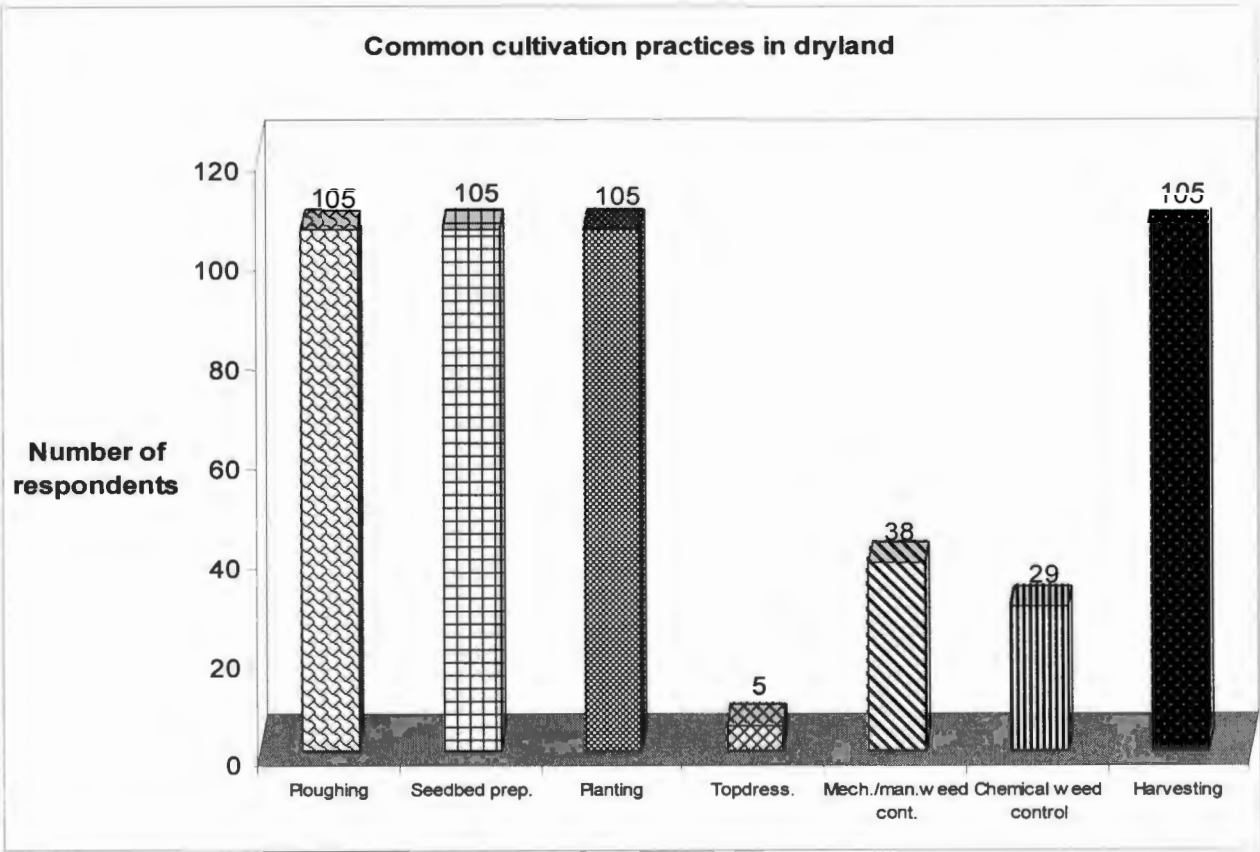


Figure 7: Cultivation practices (N=105)

However, there is only a small number of farmers who carry out all the farming practices. This could be due to trying to rationalise the limited funds they have by concentrating on the basic essential practices. The fact of the matter is, practices such as weed control are

crucial to production because if they are not done they may erode possible gains to a large extent. This is probably one factor that contributes to lower yields.

6.8 COST OF PRODUCTION PER HECTARE

The production cost ranged from R125 to R800 per hectare with an average of R514 (cf Figure 5.1. 7). With reference to figure 8 below, 66 of the respondents, which is 62%, spent from a minimum of R125 to R600 per hectare.

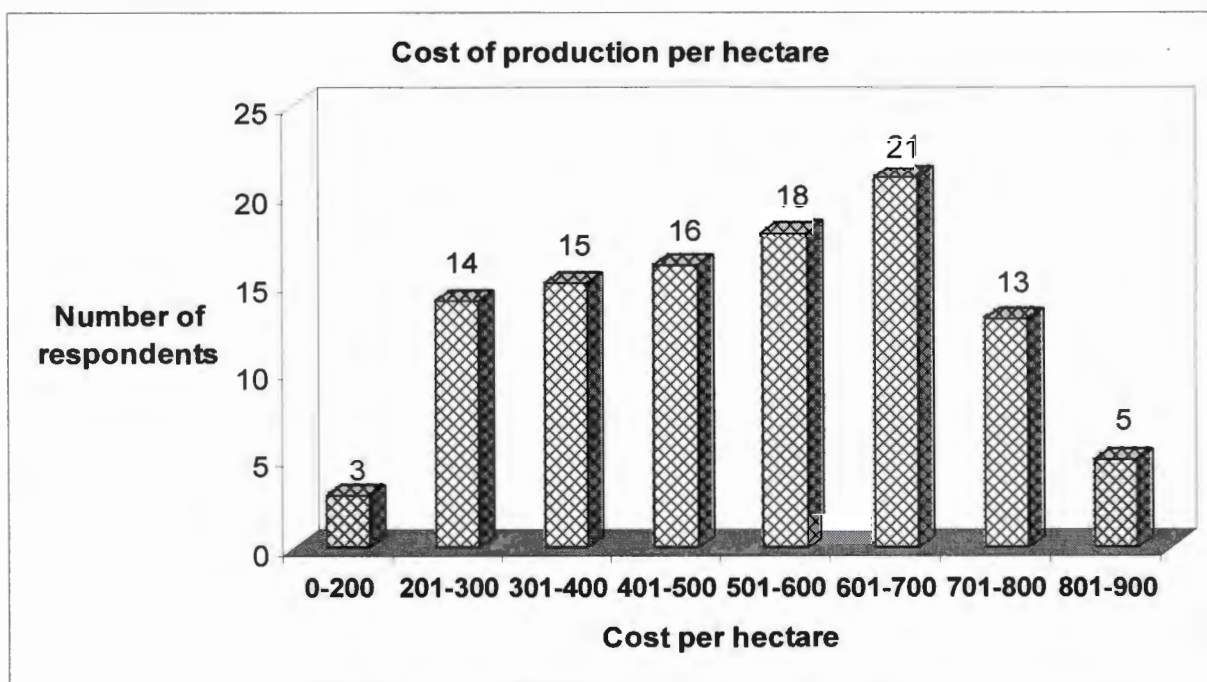


Figure 8: Cost of production per hectare

Currently reasonable expenditure per hectare is between R700 and R900 per hectare. It therefore means 62% of the respondents are spending less per hectare with the implication that there could be some activities that are omitted. This fact is corroborated by the information provided on figure 7 above which indicates that most of the farmers carry out basic cultivation practices at the exclusion of the others. This, as it has already been indicated, contributes to poor yields and consequently to poor profitability, non payment of the loan and eventually bad credit record.

6.9 SOURCES OF FINANCING

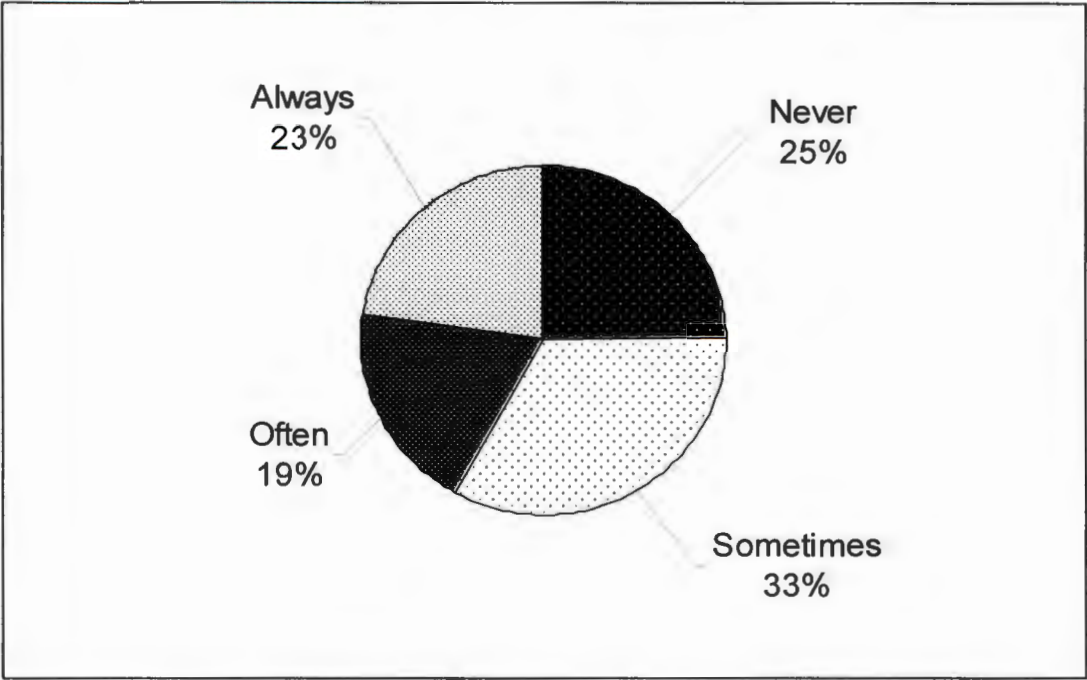


Figure 9: Assessment of farmers' financing by the bank (N=105)

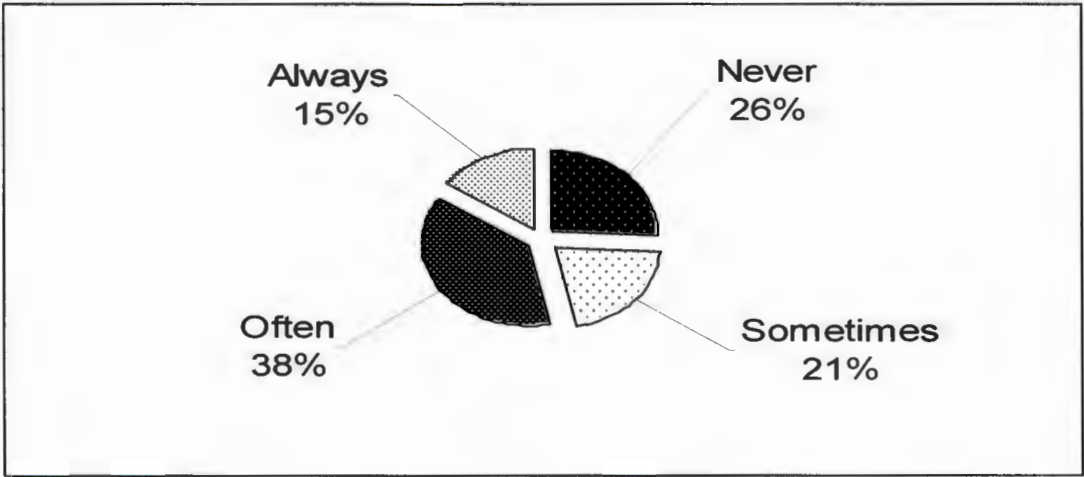


Figure 10: Assessment on self financing (N=105)

64% of the farmers are either often or always dependent on bank financing (cf figure 9). 21% indicates that they have never been financed by the bank. In comparing bank financing and self financing (Figure10), 65% of the respondents either often or always

finance themselves, 25% sometimes finance themselves and 17 % are not able to finance themselves .

The dependence on bank financing of most of the farmers as compared to self financing implies that farming in the survey area cannot succeed unless this support is maintained or increased. This indicates the importance of institutional support in terms of farmer financing.

6.10 SIZES OF LOANS NORMALLY RECEIVED

Figure 11 shows that 32% of the farmers are awarded loans of R25 000. The loans up to the mentioned amount do not require collateral. The loan sizes ranged from R25 000 to R250 000. A minority receive loans in excess of R75 000. When comparing this scenario with the average cost per hectare, it means that with R25 000 a farmer will only be able to cultivate 30 hectares as opposed to the average of 122 hectares if R800 is taken to be the ideal expenditure to cover all cultivation practices.

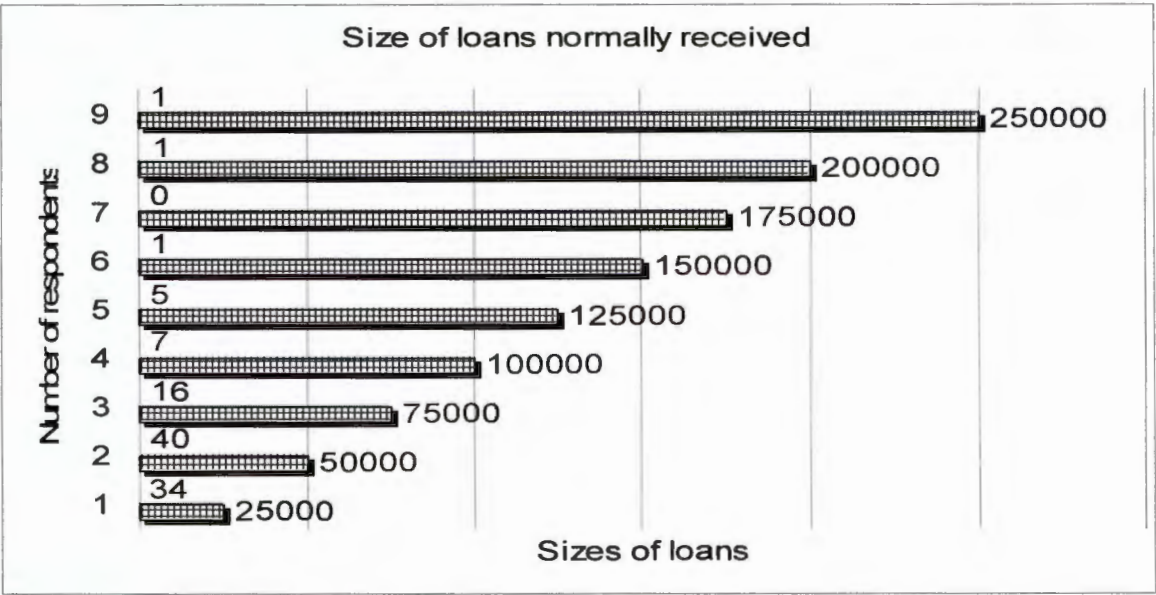


Figure 11: Sizes of loans (N=105)

Certain deductions could be made from this scenario. For example, the farmers could be ploughing more land than the size of the loan and trying to stretch the funds to cover the

excess land that might have been cultivated, hence omission of certain cultivation practices which may have a negative contribution to profitability.

6.11 ASSESSMENT OF CREDITWORTHINESS OF THE FARMERS

6.11.1 Farmers ability to provide collateral

Sixty four percent of the respondents indicated that they are able to provide collateral (Cf. figure 12). This however does not include land as most of them do not own such.

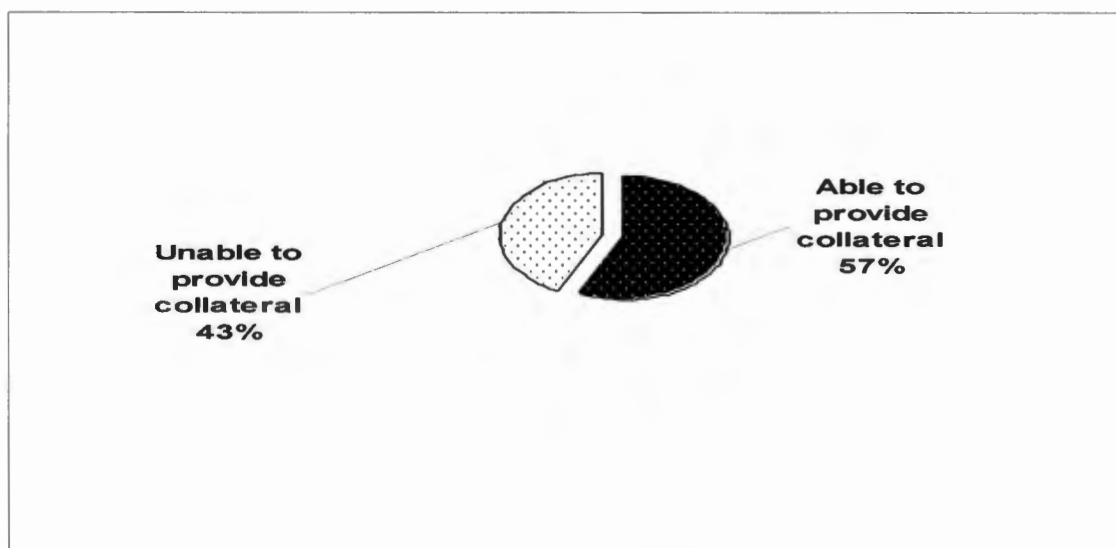


Figure 12: Provision of Collateral (N=105)

Collateral indicated is in the form of capital equipment such as machinery and equipment for example tractors and ploughs. Livestock is also used as collateral if available. This aspect makes them creditworthy.

6.11.2 Farmers having debt in arrear

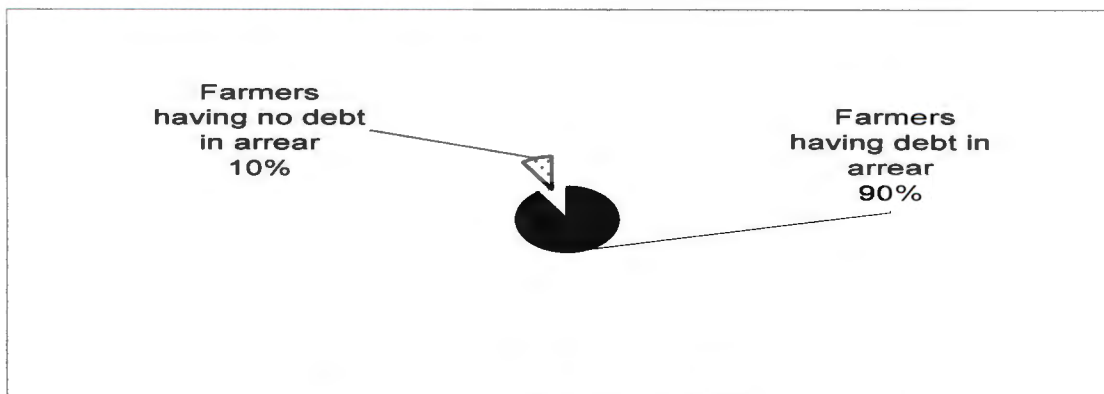


Figure 13: Farmers having debt in arrear

There is however a problem with arrear debt. Most of these farmers have debts with the past financial institutions, particularly the former Agribank. Figure 9 indicates that 99% of the respondents have outstanding debt. This existing debt erodes the creditworthiness of the farmers and consequently affects access to funding.

6.11.3 Ability to pay debt in Arrear

Fifty nine percent of the respondents indicate that they will be able to pay back the outstanding debt (figure 14). A total amount of R 65 403 895 is owed to the previous Agribank (Cf. literature review 2.3.1). If 40% are unable to continue paying due to lack of finance, support and restructuring of their debt may increase the chances of recovering

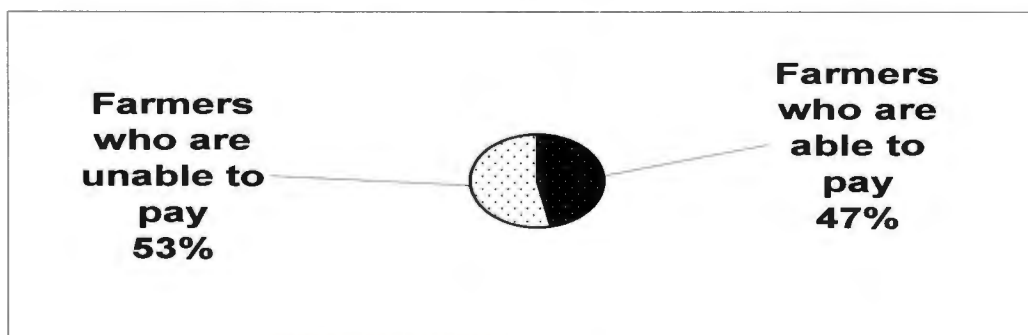


Figure 14: Ability to pay arrear debt (N=105)

substantial amount of money. Failure to follow up this is tantamount to accepting the funds owed as bad debt or a written off debt. A balance should be struck between completely losing the funds or recovering them albeit at a slow pace. It should be noted that the resolution of this arrear debt can greatly improve the creditworthiness of the farmers.

6.11.4 Amount of debt in arrear owed

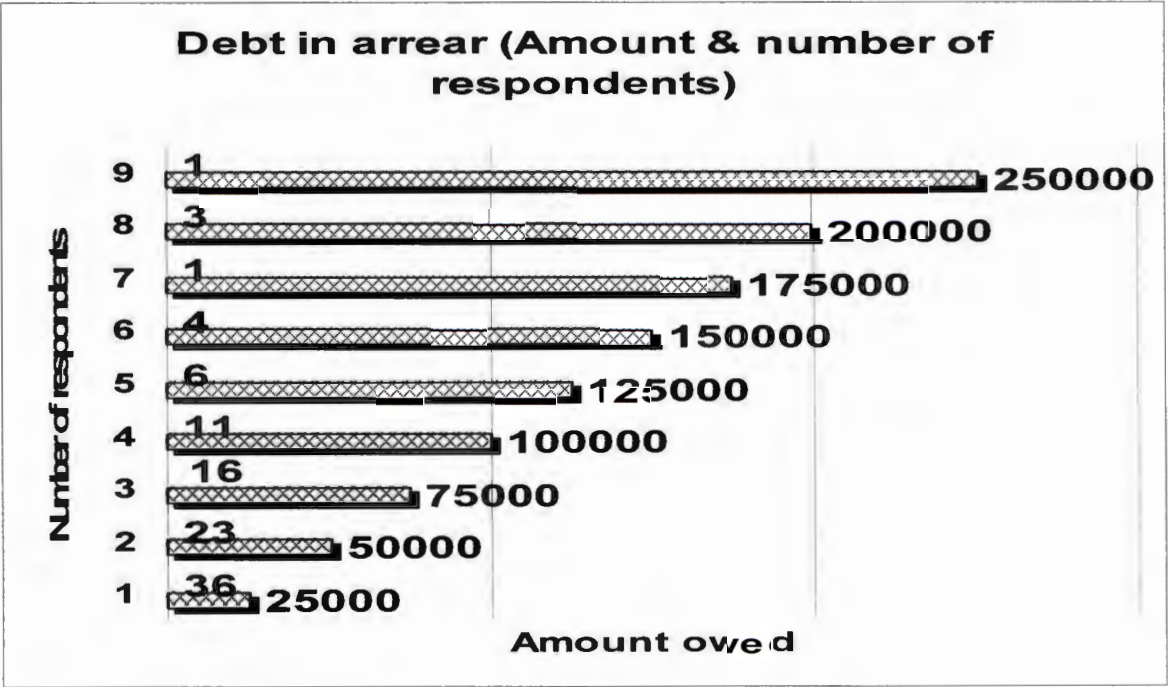


Figure 15: Arrear debt (N=105)

The debt of farmers range from R25 000 to R250 000 (Figure 11). The amounts owed by most of the farmers are not so substantial and given the yield potential in the study area, the amounts could be paid. To enable them to repay these amounts it would need an intervention in terms of support from stakeholders, particularly government and the financial service providers.

FARMERS OUT OF FARMING

Despite the financial difficulties faced by the farmers, they have shown a lot of resilience. This is due to the fact that to them, this is the trade they know best and it is the one that they are entirely dependent on. 89% of them are still actively farming (Figure 16).

The others are out of farming for a variety of reasons, the most prevalent one being lack of financing. Although it is only 21% of farmers who were compelled to abandon farming, the situation is more serious than it appears to be. The reason is that this phenomenon increases every year as financial resources become more and more limited. The escalation of this state of affairs may eventually lead to a complete reduction of farming, affecting particularly developing farmers.

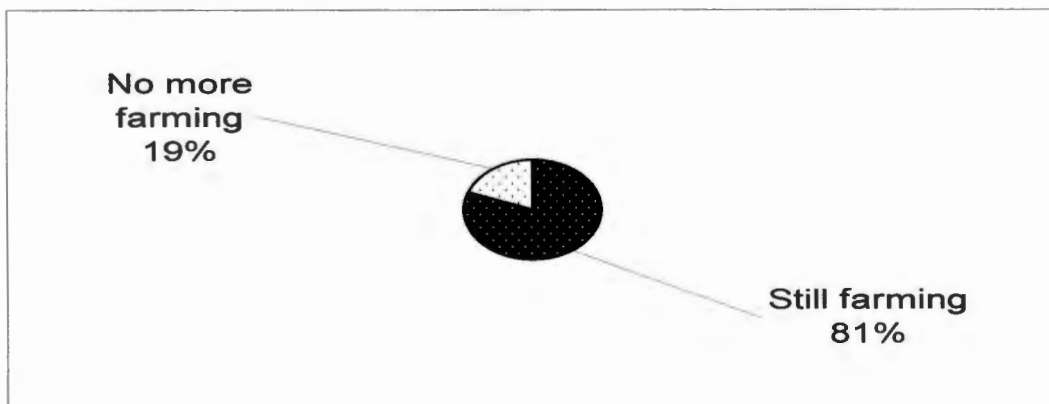


Figure 16: Assessment of current active involvement in farming (n =105)

From the sample taken, generalisation of this to the rest of the population implies a larger number and percentage than actually reflected. This indirectly implies a reduction in land actually cultivated, a decline in income and the ultimate proneness to poverty.

Reasons why some farmers have abandoned farming



Farmers who left farming did so for a variety of reasons. The fundamental problem was that they could not pay their outstanding debt from the homeland era. This factor was an

obstacle as their name could not be cleared and this affected their access to bank financing. Figure 17 below indicates a variety of reasons why they were actually forced to abandon farming. Most of the reasons are financially related. The reasons are classified into the following categories: Production related, financial related, management related, and others. Table 19 below gives the details of these reasons.

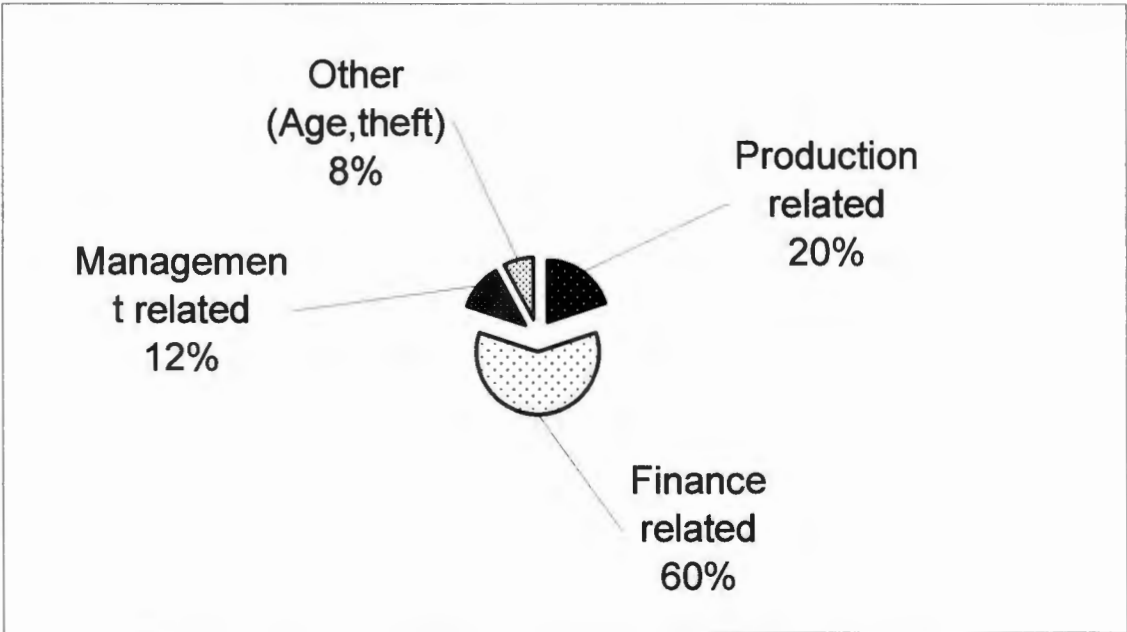


Figure 17: Reasons why some farmers left farming

The list of issues that are cited subsequently are those that were mentioned by respondents in response to the question why they are not able to service their debts (Cf. table 20) :

Table 20: Reasons influencing inability to pay arrear debt

PRODUCTION RELATED	FINANCE RELATED	MANAGEMENT RELATED	OTHER
1. Affected by drought, poor / heavy rainfall 2. Poor yields 3. High input costs 4. Poor maize price 5. Acidity of soils 6. Use of insufficient fertilizer	1. Lack of finance 2. Liquidation 3. Late financing 4. Lack of financial support 5. High interest rates 6. Need for payment of labour and household expenditure 7. Struggling to finance self 8. Tractor in poor condition 9. Not creditworthy 10. Can't provide collateral 11. Can pay provided the debt is restructured (extend period of payment) 12. Do not agree with the alleged debt.	1. Mismanagement of funds 2. Poor planning	1. Poor control of livestock in communal areas – damage to crops 2. Theft of crops 3. No more farming 4. Age (old)

Financial reasons are the ones cited more than all others. Acknowledgement to some of the shortcomings such as poor planning are particularly interesting. It should be noted that non payment of this debt continues to deny them access to finance and eventually this leads to them abandoning farming.

6.12 PERCEPTION OF FARMERS

6.13.1 Access to Finance

Farmers were asked whether according to their perception, more farmers have access to finance as compared to the period before Land Bank extended its services to them as small farmers. Their response is reflected on figure 18 below.

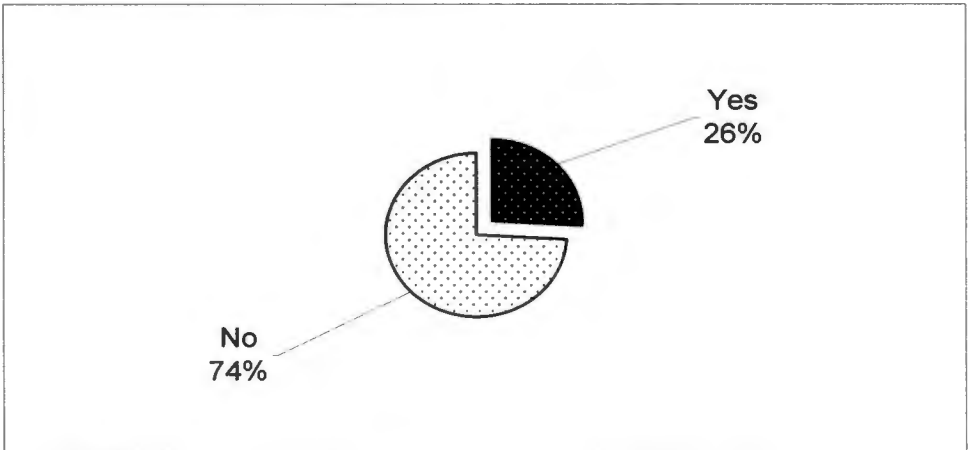


Figure 18: Perception on farmers' access to financing

This suggests that according to them, the government objective of increasing access to financing by farmers has not been met. Some reasons why farmers have less access to finance have already been mentioned, the main one being the outstanding homeland debt. It is therefore imperative that the solution to this problem be found.

6.13.2 Perception on length of loan approval

The aspect of the length of approval of the loan is one of the important elements of service to the farmers. Given the dependence on natural phenomena beyond human control such as utilizing every amount of rainfall to the fullest and critical planting times in the dry land production areas, time is of the essence. Timely decisions on loan applications is therefore very important. The longer it takes to award the loan, the more

the moisture is lost in the soil and the more late it becomes to plant with the consequent poor yield.

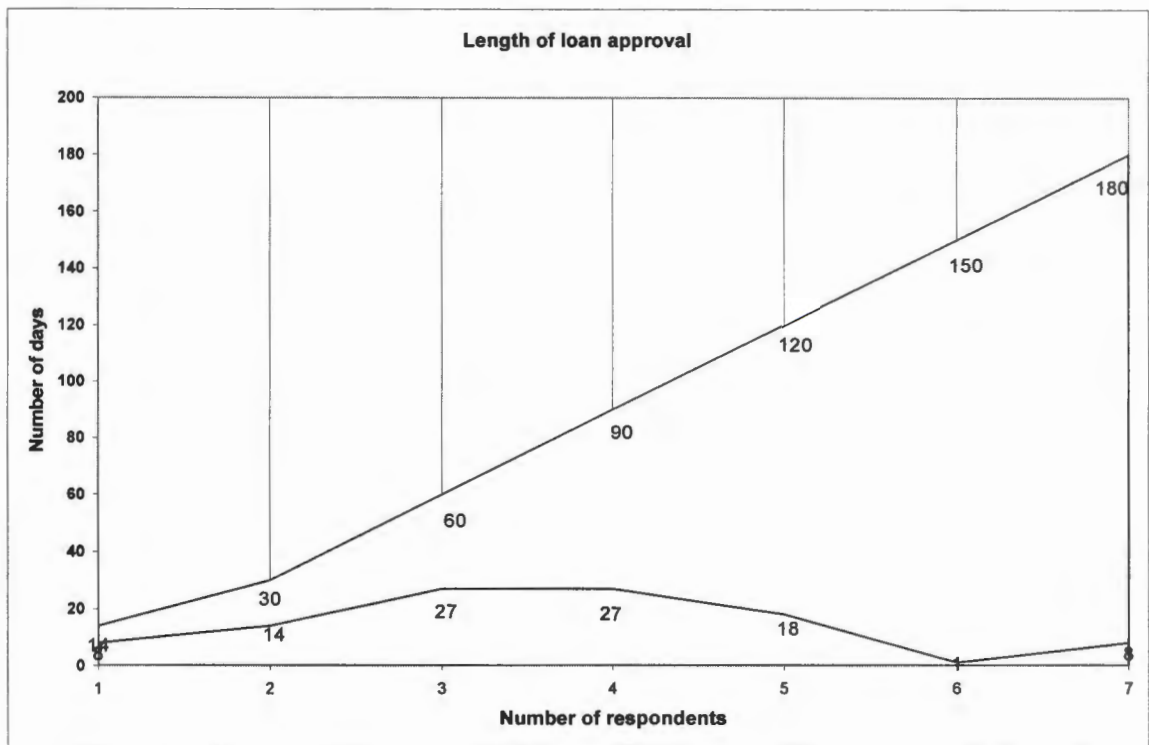


Figure 19: Length of approval of loans (N=105)

In relation to the length it takes for loan approval, the respondents were asked to indicate how long, according to their experience, does the Bank take to approve loans. The results are indicated in the line graph above (figure 19). 57% (54 respondents) indicated that their loans get approved within 60 to 90 days or two to three months.

The assessment arrived at is that the length of loan approval is reasonable depending on when the applications for loans are made. The implications of the delay in approval of loans is that the production of farmers may be negatively affected when they are not able to plant within appropriate time frames. This may result in non payment and therefore it contributes to default.

6.14 SURVIVAL STRATEGIES

Crop production in the area of investigation is seasonal and therefore there has to be other ways of making a living while waiting for harvest. It was essential to establish how the farmers cope and survive in general given limited finances and the period while they are waiting for harvest. A question was therefore asked to the respondents to indicate their other sources of income. Their responses are reflected on figure 20.

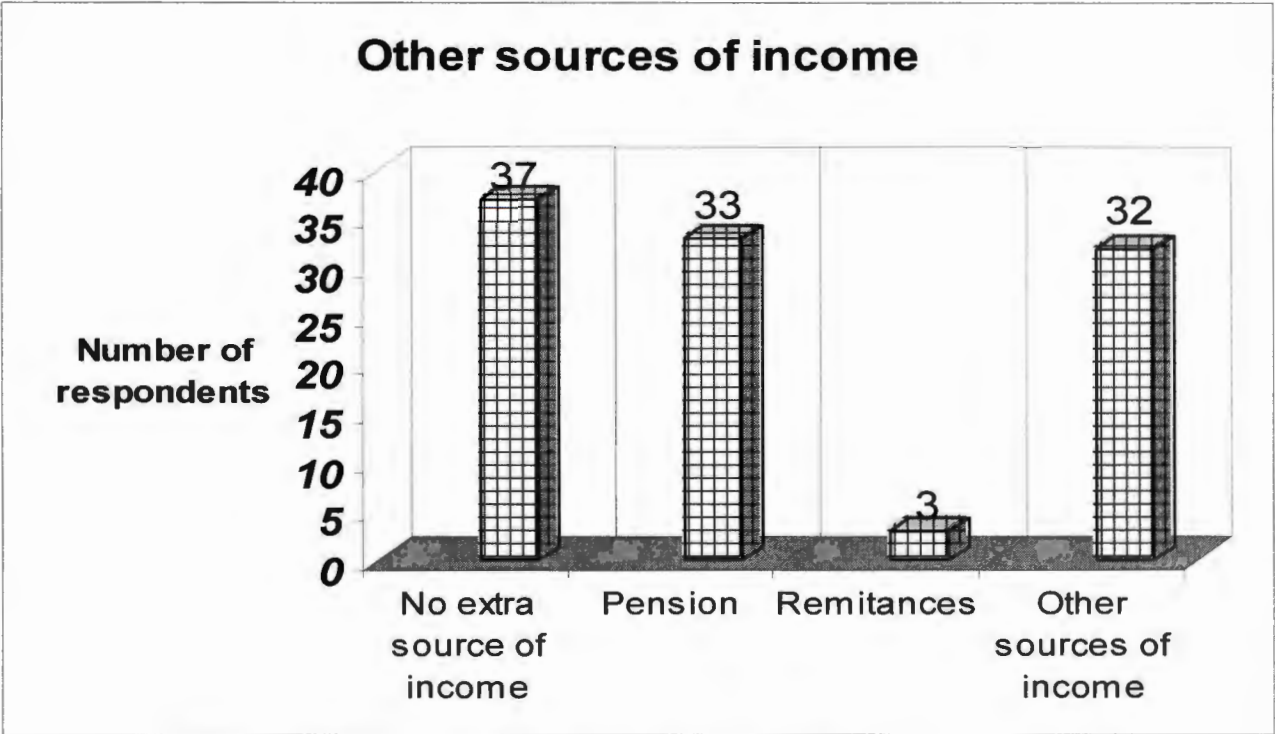


Figure 20 : Other sources of income other than crop production

Figure 20 indicates that 35% of the respondents do not have any source of extra income. They are therefore entirely dependent on farming. This aspect indicates the importance of agriculture in rural areas. It also indicates the extent of their vulnerability should agricultural production which is their sole source of income fail or not be appropriately supported. Sources of extra income from the study area include government old age pension 31%, remittances 3% livestock and milk sales and small business, 31%. Once again the age factor is reflected as most of the respondents (31%) are pension earners.

Livestock production is an important source of income together with small business. Livestock production therefore would need support for those who have them.

Financial support for production therefore is very important to this sector that is very vulnerable. If financial services are inadequate or not available, the ultimate result would be that farmers would be out of farming or else they would revert to the basic subsistence level. The land sizes mentioned above, do not fall within the ambit of mere subsistence farming but are potentially commercial units if support is adequate.

6.15 Summary

Farmers have poor access to financing caused by a variety of reasons. The most important is their financial track record which in turn influences their creditworthiness. Those that are financed do not receive adequate funding. This in turn leads them to spread that little amount to cover some important activities, excluding yet other important ones. This practice leads to poor yields, poor profitability, poor repayment and eventually poor record that is not in good standing with the financier. This is therefore a vicious cycle that needs to be broken.

CHAPTER 7

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

In reviewing what has already been achieved in this study, it is essential to briefly state the highlights of the previous chapters. Chapter one introduced and gave the background and aims of this particular study. In this chapter the plan of study was also briefly outlined. In Chapter two a detailed literature review was given. Chapter three presented a research problem and research management questions. Chapter four presented a detailed research methodology. In Chapter five a detailed analysis of the results of the research was given and interpretation of the research results was presented in chapter six.

The aim of this chapter (Chapter 7) is aimed at highlighting the most important findings as reflected in the analysis and interpretation of results in the previous chapters in a summary form. Conclusion will then be made against the background of the objectives of the study followed by recommendations based on the findings. A summary is made by revisiting management questions in brief and in the process highlight findings on each with a view to coming up with recommendations.

7.2. Findings to Management Questions Regarding the Primary Problem

7.2.1 What is the age structure of farmers?

7.2.1.1 Findings

The average age of respondents is 57, the youngest is 23 and the oldest is 81. The majority of farmers are 62 years of age. Most of the respondents are therefore elderly which may be a negative factor towards access to finance. The future of farming in terms

of the younger replacing the older persons is also precarious since there are less younger persons involved currently in farming.

7.2.2 What is the education level of the farmers?

7.2.2.1 Findings

33% of the respondents have not had any formal schooling (which is the majority), the average standard passed is Std 3 and the highest standard passed is Std 10. The literacy level is relatively low and this may contribute to poor production and management which ultimately affects profitability and loan repayment. This ultimately affects the creditworthiness of the farmer.

7.2.3 What experience do farmers have?

7.2.3.1 Findings

33% of the respondents have experience of between 21 and 30 years. In fact the majority of them have experience of 30 years. The average years of experience is 19, the highest number of years in farming is 45 and the least is 2. Indications are that respondents have a sufficient exposure to farming which may serve as a positive aspect that enhances access to finance in the view of financial institutions.

7.2.4 What are the sizes of land cultivated?

7.2.4.1 Findings

21% of the land is privately owned and 79 percent leased. The average land leased is 122 hectares and the average size of land owned is 32 hectares. The average total land cultivated is 152 hectares. Farmers who own land lease additional land. The biggest size of land owned is 400 hectares, leased is 532 hectares and the highest total land cultivated

is 620 hectares. The majority of farmers depend on leased land. Those who own land, own relatively small pieces and they augment it by leasing additional land.

7.2.5 What crops are produced?

7.2.5.1 Findings

76% of the respondents indicate that they cultivate a combination of maize and sunflower.

7.2.6 What are the yields from these crops?

7.2.6.1 Findings

75% of the farmers obtain a yield of 1.5-2tons/hectare in maize and in other crops the majority (over 90%) obtain yields of 0.5-1ton/hectare. The average yield is below the yield potential of the area, particularly maize and this is an indication that there is lack either of sufficient investment or production and management skills.

7.2.7 What are the common cultivation practices?

7.2.7.1 Findings

100% of the respondents do basic practices, namely, ploughing, planting and harvesting, only 5% do top dressing, 38% a combination of mechanical and manual weed control and 29% chemical weed control. They are not carrying out all cultivation practices due to lack of enough production finance.

7.2.8 What are the sources of farming finance?

7.2.8.1 Findings

Concerning bank financing 25% of the respondents have never been financed by the bank, 35% sometimes, 20% often and only 20% always. Regarding self financing 26% never finance themselves, 21% sometimes finance themselves, 38% often and 15% always.

7.2.9 What sizes of loans do they normally get?

7.2.9.1 Findings

32% of the respondents usually receive loans of up to R25 000 and 40% between R25 000 and R50 000. In fact most of them receive loans of R25 000 (cf mode). The average loan amount received by respondents is R42 280 and the highest amount is R230 000. Given the sizes that these farmers cultivate (average of 152 ha.), R25 000 is relatively insufficient to enhance optimal production hence production below the potential of the area due to non application of all cultivation practices.

7.2.10 What are other sources of income apart from crop farming?

7.2.10.1 Findings

35% of the respondents have no other additional source of income. 31% receive additional income from pension, 31% from other sources and only 2% from remittances. The percentage that earn income from pensions indicates the predominance of the elderly in farming. The dependence of the majority on government pension together with those that do not have any alternative sources of income also reflects the limit of opportunities for survival.

7.3 Findings to Management Questions Regarding the Secondary Problem

7.3.1 Are farmers still involved in farming?

7.3.1.1 Findings

81% of the farmers are still fully engaged in farming and 20% are no more farming. This means lands of 20% of the farmers are lying fallow and are out of production. This has a negative impact on the rural economy in terms of income and employment.

7.3.2 If they are not actively involved, what are the reasons?

7.3.2.1 Findings

From 20 respondents who abandoned farming, 75% of them cite finance related reasons. This is an indication that there is a poor accessibility to financing.

7.3.3 Are the farmers able to provide collateral?

7.3.3.1 Findings

57% of the respondents indicate that they are able to provide collateral and 43% indicate that they are not. Quite a significant number is not able to meet basic bank requirements which is collateral and this affects their accessibility to financing.

7.3.4 Do they have other obligations including outstanding farming debt?

7.3.4.1 Findings

89% of the respondents indicated that they have arrear debt and only 11% indicated that they do not. Debt in arrear is a major contributory factor to continued financing by the bank which limits the availability of funds for farming.

7.3.5 What amounts do they owe?

7.3.5.1 Findings

34% of the farmers have debt in arrear of up to R25 000, 23% owe between R26 000 and R50 000. The average debt in arrear is R60 613 and the highest amount owed is R500 000. With adequate support, the amounts owed are not insurmountable to be paid.

7.3.6 If yes, are they able to service that outstanding debt?

7.3.6.1 Findings

47% of the respondents indicated that they are able to service the arrear debt and 53% indicated that they are not able to do so.

7.3.7 Is the amount advanced adequate to produce profitably?

7.3.7.1 Findings

32% of the respondents usually receive loans of up to R25 000 and 40% between R25 000 and R50000. In fact most of them receive loans of R25 000 (cf mode), the average loan amount received by respondents is R42 280 and the highest amount is R230 000.

Given the sizes of lands cultivated, the amounts advanced are inadequate to enable respondents to farm efficiently.

7.3.8 What are their perceptions about current financial services?

7.3.8.1 Findings

75% of the respondents hold the perception that farmers have less access to financing since the Land Bank began offering financial services to them. 25% hold the perception that access to finance has increased since Land Bank took over from Agribank. They perceive the length of approval of loans to be average.

7.4 CONCLUSION

In conclusion the objectives of this research (cf 1.3) are revisited. They are the following: to determine the extent of farmers' alleged failure to access finance, to assess the influence of the adequacy of finance and its timeliness to crop farmers' productivity, to assess the perception of farmers regarding the financial services rendered to them, to determine the characteristics of farmers that may influence their productivity and provide strategies to address them, to determine the influence of the land tenure system and its significance to the productivity of crop farmers, to determine the survival strategies of farmers in the absence of financial support and how they augment their income from crop farming. Comments made subsequently are therefore meant to reflect on these objectives.



There are various factors that contribute to poor access to finance by these farmers. Timeliness of financing, the amount of finance advanced and related aspects to finance are the main impediments that prevent productivity of farmers. Loans are either not available or are not sufficient for efficient production. This affects productivity and therefore contributes to low yields. Low yields result in poor profitability causing respondents to be unable to pay their loans and eventually have a bad credit rating. This

factor is therefore an important contributor towards the ability to pay back the loan. This in turn culminates in non payment of loans and results in a vicious cycle of poor access to financing. The majority of the respondents also cannot access funds due to outstanding debt that renders them uncreditworthy.

The respondents largely depend on leased land and only a few possess own land. Land is a basic asset that normally enhances access to finance by serving as collateral. The land tenure system therefore has a direct influence in access to finance and productivity, for example farmers are not keen to make long term investment on the land that the owner may take away at any time. Pertaining to the characteristics of the farmers, most of them are elderly. The majority of them solely depend on farming and a significant number earn government old age pension. This is one of their survival mechanism in addition to livestock and milk sales, and a very small majority earn additional income from small businesses through which they finance their farming in the absence of bank finance. One of the characteristics of the respondents is that they have a lot of experience, especially in crop production skills.

However, financial management is not sufficient. This leads to poor profitability of their ventures. The farmers have adequate knowledge of crop production, however when it comes to financial management the skills are lacking. This is reflected by the failure to pay debts. Financial management should have assisted them in knowing the implications of not servicing the debt, for example, that unpaid debt accumulates interest and may lead to liquidation. As also indicated by some of the respondents, planning and financial management are the skills that are lacking.

Farmers hold the perception that the current financial services do not meet their expectations. They have less access to finance and this affects their ability to produce effectively. The length of loans approval according to the respondents is however reasonable

In conclusion therefore, current financial services do not promote the farmers productivity since most of the farmers do not have access to farm financing.

7.5 RECOMMENDATIONS

Against the background of the findings mentioned above, the following recommendations are made:

7.5.1 Building capacity of non indebted farmers

There are farmers who do not have debt in the Ditsobotla– Molopo area . They also have basic equipment and machinery. An assessment could be made as to who they are and their location to determine their distribution through the whole districts. A purposeful programme could be developed with the Land Bank to increase their capacity in terms of capital equipment (tractors and machinery) and skills. This should be done with a view to making them able to increase their extent of farming i.e to even cover those lands that are currently lying fallow.

7.5.2 Support to new and young farmers

7.5.2.1 Succession planning

The research reveals that the average age of these farmers is 57 and most of them are 60 and above. Firstly, since they are almost reaching the retirement age and they are in debt, they should be encouraged to pass on their equipment to their children who would have access to funds since they do not have debt. A new clientele may need to be developed. Investment in training the youth will go a long way. This will also address the issue of succession.

7.5.2.2 Purposeful introduction of youth into farming

Through the graduation system of the Land Bank (bronze, silver, gold) , there should be developed a joint project with the Provincial Department of Agriculture and other role players to have youth involved in crop farming moving through the graduation process. Initially they could hire machinery and implements and utilize their R25 000 non collateral requiring loans. As time goes on their amount of loan advances could be increased and they could then buy their own equipment until they become more progressive. Capacity building in terms of skills should be at the centre of such a project.

7.5.3 Forming of a close corporation or company

This effort will enable the farmers to be disassociated with their debts because a close corporation is an entity separate from its members. They could apply for loans as a separate entity. However, there have to be assets that they would collectively contribute for collateral in such cases (it may be cattle or equipment that is not hypothecated). They could therefore farm as a company. This should be outside government control as cooperatives were previously formed with officials running them. They ultimately collapsed as is common with most institutions where government has a lot of interference and control.

7.5.4 Contracting

Farmers who do not have production funds may use their equipment and machinery solely for contracting. The arrangement could be done with the bank to finance land owners i.e 15 ha plot owners, who will in turn engage these contractors to plough for them. The arrangement should be that in the meantime these contractors who are currently having a bad credit record, should pay their arrear debt to improve their credit rating. When the record has improved, they could then be financed as independent farmers. Entrepreneurship should be encouraged also in this aspect. Guidance and advice should be the only government involvement and not control.

7.5.5 Financial management training

It would be in the interest of the financing institution in collaboration with other stakeholders to see to it that as an additional service, their clients should be able to manage the funds they advance. A training partnership on financial management should be developed and this can go a long way in addressing issues of loan payment default and the profitability of the farming ventures. It should also be a condition that farmers advanced money should attend such training.

7.5.6 Alternative crops

Despite the fact that the results have indicated that some of the crops other than the common ones cultivated by the farmers yielded very low, they need to be encouraged. A purposeful investigation (research) should be done as to which alternative crops could suit the area. The farmers should be adequately trained on the production requirements of those crops. Most of the farmers are planting maize and sunflower in the average rainfall area of 300- 500mm per annum. This is very marginal for such crops, particularly maize which require a minimum of 700mm of rainfall per annum.

7.5.7 Diversification

Diversification of crops and mixed farming with livestock could be beneficial to the farmers. This investigation revealed that most of the farmers derived a substantial income from livestock. The environmental issues are well noted i.e overgrazing due to overstocking in some of the areas. This does not mean that the environmental aspects should be overlooked. Crop residues could be put into a fodder flow programme that may relieve for example, grazing to a certain extent. Mixed farming with livestock should therefore be encouraged.

7.5.8 Need for further research

Further research may be needed to determine the amount of land that lie uncultivated due to farmers' lack of resources. This should be done with a view to determining the impact might have on the local economy on those particular communities. The research may be made in a broader scale throughout the province since North West is comprised mainly of agricultural communities. The recommendations made in the establishment of the Land Bank as a rural bank should also be investigated in the province and even nationally to determine whether they indeed bore fruit.

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