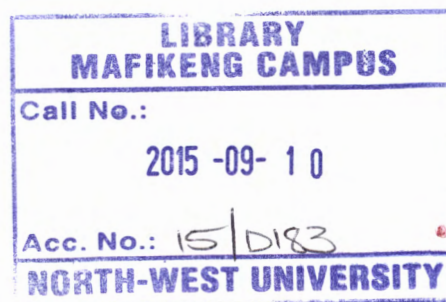


**IMPROVING ACCESS TO AGRICULTURAL FINANCE FOR EMERGING FARMERS  
IN SOUTH AFRICA'S NORTH-WEST PROVINCE**

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**Mini-dissertation submitted in partial fulfilment of the requirements for the degree  
Masters in Business Administration at the North-West University Mafikeng  
Campus**



**Supervisor: Prof Collins Miruka**

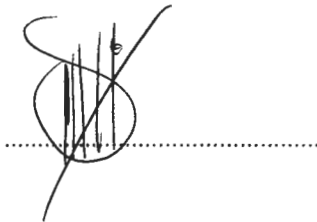
**Date: October 2013**

## DECLARATION

***I, Monei Seleho hereby declare that this dissertation entitled "Improving access to agricultural finance for emerging farmers in South Africa's North-West Province" is an original piece of work produced by myself. All sources have been accurately reported and acknowledged. This document has not previously, in its entirety or in part, been submitted to any University in order to obtain an academic qualification.***

Monei Seleho

Date: October 2013

A handwritten signature in black ink, consisting of a large, stylized 'S' shape with several vertical lines through it, positioned above a horizontal dotted line.

## **ABSTRACT**

The aim of the study was to determine factors hindering access to financial services by emerging farmers in North-West Province of South Africa. Inadequate access to finance may have a negative impact on the economic growth of the country, employment creation and food security.

The literature review was conducted to include the concept of emerging farmers and how they can contribute to the economy of South Africa. The role of financial institutions in agriculture was also studied. Constraints facing emerging farmers, in relation to access to finance were discussed. Various approaches to be used in providing access to finance of emerging farmers were studied which ranges from those in the Public and Private Sectors and those that are neither related to the Public nor Private Sector.

A quantitative research method and data gathering techniques were used. Data that was gathered through a Likert scale questionnaire from the emerging farmers within the NWP was analysed and interpreted. A Pearson Chi Square with its p value and degree of freedom were utilised to derive a relationship between variables.

Constraints facing emerging farmers in relation to access to finance were discussed as well as various approaches to be used in providing access to finance. Recommendations were made and areas for future research were provided.

## ACKNOWLEDGEMENTS

This study was inspired by my involvement in the banking industry where I observed how it was cumbersome and exorbitant for emerging farmers to access agricultural finance. I was moved by the situation and encouraged to study improvement of agricultural finance to emerging farmers.

The research project was made successful by contribution and support of a number of people who are my family, friends and work colleagues. I would like to express my sincere appreciations to all those who have contributed to the completion of this research. I'm thankful to all and obliged to mention a few by names.

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## **LIST OF ACRONYMS**

GDP	–	Gross Domestic Product
NWP	–	North West Province
MAFISA	-	Micro Agricultural Financial Institution
CASP	-	Comprehensive Agricultural Support Programme
SLAG	–	Settlement Land Acquisition Grant

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## **CHAPTER ONE**

### **NATURE AND SCOPE OF THE STUDY**

#### **1.1 Introduction and background**

Many black farmers, smallholders and part-time farmers still have limited access to financial services. Major factors that contribute to the limited finance to emerging farmers are stringent requirements by the commercial banks, such as prohibitive collateral, high interest rates as well as lack of access to land, poor prices of the yield and lack of support from government (Agriculture, 1995:13).

Improving access to credit is often regarded as one of the key elements in increasing the agricultural productivity. The establishment of parastatal institutions with a mandate to channel credit to smallholder farmers is one of the approaches used by governments in developing countries to promote smallholder agricultural development. In South Africa, such parastatals were established in the former homelands. On the other, the Land and Agricultural Bank (Land Bank) and the defunct Agricultural Credit Board were established to address the credit needs for commercial farmers (Machete, 2004:7).

In accordance to the Strauss Commission (1996:1), the White Paper on Agriculture of 1995 directed that the Public Financial sector be reassessed and that the Land Bank identify the needs of different groups of farmers, their characteristics and needs of rural financial markets. Credit to emerging black farmers was to be readily available through the transformation of the Land Bank.

In accordance to Moyo (2002:8) the Land Bank, the State and other institutions should act in support of the market. At the same time, it is acknowledged that there are inherent weaknesses in the existing institutional fabric, noting that these institutions would not be able to contribute to the aims of rural reconstruction on a national basis without appropriate and active

support. The Legislation governing agriculture, banking and land in force in different areas of South Africa was to be harmonised as soon as possible.

A role identified for the state was to facilitate as well as co-ordinate the provision of financial services with special attention to the needs of women Strauss Commission (1996:13). The commission also argued that the state should acknowledge the current gap in rural finance delivery and an overlap in the prospective policy briefs of the state-funded development finance institutions. International experience pointed out to the success of multi sector financial institutions at a retail level and a rich discussion exists on apex institutions internationally.

Strauss Commission (1996:73) acknowledged that the responsibility of the Department of Agriculture was to promote agricultural development. The commission, however, recommended that the department terminate the Agricultural Credit Board and suspend its policy. Female farm workers, male farm workers, landless, unemployed rural poor; pensioners, small-holders, contract farmers, rural businesswomen, rural businessmen and small- and large-scale rural employers, including commercial farmers were identified as those requiring special support measures to gain access to financial services.

In its final report, the Strauss Commission (1996:73) emphasised that the Land Bank should merely focus on agriculture. The Land Bank's wholesale function was to be geared to foster, nurture support and co-ordinate local and provincial level rural financial institutions, by the NGOs, development finance institutions, co-operatives, commercial bank branches, local authorities or any other kind of institution seeking to render agricultural and agriculturally-related financial services.

Fundamentally, the Land Bank's wholesale function should reach those retailers who seek to serve the individual and small group agrarian needs of people in the deep rural areas, eg small-scale individual farmers, groups of female vegetable gardeners and small-scale poultry producers who are far

away from the relatively limited retail branch network (Strauss Commission, 1996:73).

Agriculture remains an important sector in the South African economy. It includes all economic activities from provisioning of farming inputs to farming and value adding. Although primary agriculture is declining, in economic significance it still accounts for 3.9% of the Gross Domestic Product (GDP), while the larger agro-food complexes account for another 9%. Because of globalization, South Africa is affected by whatever is happening elsewhere in the world, whether it is drought, floods, wars, the oil price, subsidies to farmers, etc. each happening sends a ripple effect into the total environment (Terblanché, 2008:59)

Lekunze *et al.* (2011:502) maintains that the primary agriculture is an important sector in the South African economy despite its relatively small share of the total GDP. It remains a significant provider of employment, especially in the rural areas and a major earner of foreign exchange. In the North-West province (NWP) agriculture remains a major source of income for the livelihood of approximately 65% of the rural population.

NWP is home to about 3.9 million people. This province is also known as the Platinum Province and it is centrally located on the subcontinent with direct road and rail links to all Southern African countries. Agriculture is of extreme importance to the North- West. About 64 000 people (1.7% of North-West population) are working in the agricultural sector which in turn contributed about 2.6% through value added for the economy in 2006 (Jacobs *et al.* 2009:1).

Tshuma (2012:4018) uphold the view that with poverty having so many faces, enabling the rural population to produce their own food is a good strategy but on its own, it is not enough to completely eradicate this problem. Increasing access to rural finance for emerging farmers has the potential to improve agricultural productivity, food security as well as reduce poverty and, subsequently contribute meaningfully to the economy of South Africa.

## 1.2 Problem Statement

Access to finance that the market provides through the four commercial Banks being the ABSA, Standard Bank, First National Bank and Nedbank is limited due to a number of reasons. Since their motive is profiting, bank branches are not located in remote rural areas as they try to avoid high costs of operations. Emerging farmers find it costly to travel to urban areas to branches and struggle to meet the minimum requirements set by the banks (Maumbe, 2006:73).

Further obstacles to financial deepening are the lack of enabling policies that the commercial banks face. These obstacles include financial, legal, regulatory and macro-economic policies of government. These policies are rigid and make it difficult for emerging farmers to access finance. In turn, these obstacles faced by the banks are passed through to the emerging farmers and ultimately hinder their access to finance (Pederson, 2003:6).

Small-scale farmers need access to capital to finance operations and make necessary purchases. If a small-scale farmer does not have sufficient equity capital, he has to borrow money and go into debt. For a small-scale farmer to acquire a loan from a traditional lending institution, such as a bank, he must have good a credit record or substantial collateral. Since most small-scale farmers in South Africa have limited resources and no credit history either, they have problems accessing formal finance (Moyo, 2002:189).

Inadequate access to finance may have a negative impact on the economic growth of the country, employment creation and food security. This study seeks to investigate access to funding by emerging farmers with the possibilities of improving accessibility to finance. The following research questions will thus be explored:

- What are the factors that have an impact on access to finance for emerging farmers in the North-West Province?
- Are there any outreach programmes aimed at provision of finance for emerging farmers, are those outreach programmes effective?
- Are there any institutional factors that inhibit access to credit by emerging farmers?
- How can access to finance for emerging farmers be improved?

### **1.3 Research objectives**

#### **1.3.1 Main objective**

The main objective of the study was to investigate accessibility to agricultural finance by the emerging farmers in the NWP.

#### **1.3.2 Secondary objectives**

A literature review was conducted to study:

- Emerging farmers as a concept
- Various financing structures
- Agricultural finance
- Factors having an impact on agricultural finance to emerging farmers

An empirical study was conducted to:

- Identify factors having an impact on agricultural finance to emerging farmers in the NWP
- Identify correlation between emerging farmers with such factors
- Perform a statistical analysis of data
- Interpret the results of a statistical analysis
- Make recommendations and conclusions
- Identify areas for future research

## **1.4 Research methodology**

### **1.4.1 Literature review**

The literature review was performed through the study of academic journals that are published and peer reviewed, books and magazines sourced from the Internet and the library. A study covered literature on key concepts being emerging farmers, financing structures, agricultural finance, policy and institutional factors having an impact on agricultural finance as well as factors inhibiting access to agricultural finance by emerging farmers.

### **1.4.2 Empirical study**

NWP comprise of four main District Municipalities which are Ngaka Modiri Molema (previously known as Central District), Dr Ruth Segomotsi Mompati (previously known as Bophirima District), Dr Kenneth Kaunda (previously Southern District) and Bojanala Platinum.

The target population of the study is emerging farmers in the NWP selected on a random. The research was conducted in a quantitative form using a Likert's scale questionnaire that incorporated all the important aspects relating to emerging farmers and accessibility to finance. Collected data was populated and analysed using statistical analysis tools and the results presented. The Chi Square statistical analysis, together with its p-value and the degree of freedom were used to test the statistical significance between the variables. Results were used to derive conclusions from which a set of recommendations and conclusions were made.

### **1.5 Study limitations**

The study is limited to investigating access to finance by the emerging farmers based in the four district of the NWP. While these farmers may be experiencing the same challenges as other emerging farmers across South Africa, caution is taken not to generalise the findings.

### **1.6 Layout of the study**

*Chapter one* consists of the nature and scope of the study, including the introduction, research problem and limitations of the study. *Chapter two* consists of the literature review which covers the literature on the key concepts. *Chapter three* consists of the research methodology and the statistics. *Chapter four* consists of data interpretation, conclusions and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will review literature that explores various factors affecting the accessibility of finance by emerging farmers. The role of agriculture and emerging farmers in the economy will be discussed first, followed by constraints facing the emerging farmers in South Africa. The focus will shift to the viable options, such as the co-operative model, private sector model, and the public sector model of financing emerging farmers.

This will provide a clear rationale of why financial service providers should penetrate previously untapped market in rural areas and to enable them to participate in the main stream economy. The whole agricultural sector comprises of various role players being; emerging farmers, agricultural unions, government (National Department of Agriculture, provincial department of agriculture and Department of Agriculture at district level), private sector and financial institutions.

#### **2.2 The concept of emerging farmers**

In accordance to Moloji (2008:2) the word emerging farmer attracts a variety of definitions such as resource poor, previously disadvantaged, subsistence, emerging, developing, small-scale and black farmers.

Moloji (2008:3) further defines the emerging farmer as a farmer who is a beneficiary of one of the Government's land reform programmes or a farmer who is mainly dependent on the state and semi-state organisation for support and finance or as a farmer who consumes and sells some portion of the harvest.

## **2.3 Agriculture in South Africa**

### **2.3.1 Role of Agriculture in Economy**

The agricultural sector is a backbone of the economy and its strategic importance lies in its forward and backward integration with the rest of the economy, the establishment and maintenance of food security, the economic welfare of rural areas and stabilisation capabilities in relation to the balance of payments. In developing countries, rural development plays a crucial role in economic development and the alleviation of poverty (Meyer *et al.* 2009:1).

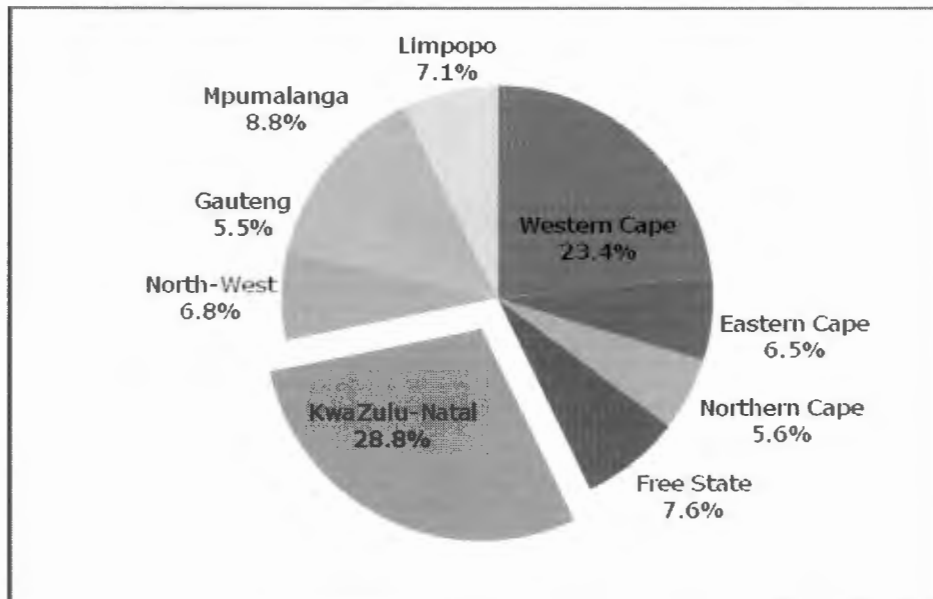
Meijerink and Roza (2007:4) affirm that agriculture constitutes the main source of employment to the majority of the world's poor. The total share of agricultural employment in developing countries constituted 53% of the total workforce in 2004. In Sub-Saharan Africa 60% of the economically active population works in the agricultural sector.

According to Meyer *et al.* (2009:5), agriculture's contribution to Gross Domestic Product (GDP) in South Africa at current factor cost has increased from R190 million in 1946 to R41 935 million in 2005. The economy grew at an average annual rate of 3.8% between 1946 and 2005. The value added by the agricultural sector grew by only 2.4% during this period, averaging a growth rate of 0.4% from 1996 to 2005. This was mostly affected by climatic conditions leading to volatile agricultural output growth, with negative growth rates recorded for several consecutive years, as opposed to a more steady growth experience by the overall economy.

The economy of the NWP is relatively small, having been valued at R103 billion in 2006, thus making the province the third smallest contributor towards the GDP with 6.4%. The NWP reported a real GDP growth rate of 4.4 % in 2007, compared to the slightly lower real GDP growth rate of 4.3% in 2006. Despite the 0.1% increase in the GDP growth from 2006 to 2007, the growth

remained lower than the rate of 4.9 % in 2005. The NWP's GDP followed a similar trend as that experienced nationally; however, the GDP growth in the province of 4.3% remained slightly below the national GDP growth of 5.1 % in 2007 (Cloete *et al.* 2011:4847).

**Figure 2.1:**  
**Provincial Agricultural activity**



Source: Department of Finance, 2010:11

Figure 2.1 shows the estimated distribution of agricultural activity across all nine provinces of the country for 2009. The bulk of economic activity within agriculture stems from KwaZulu-Natal (28.8%) and the Western Cape (23.4%), with NWP making up 6.8% of the share.

### 2.3.2 The role of financial institutions in agricultural development

Credit is considered a major aspect of financial services which is fundamental in all production units. There has been a general awareness of the importance of credit as a tool for agricultural development. In view of this, the need to provide farmers with credit is inevitable due to its importance in fostering

agricultural development and also ensuring efficiency in the production process. Credit also acts as a catalyst for rural development by motivating latent potential or making under used capacities functional (Kuwornu *et al.* 2013:354).

The Land Bank was established in 1912 in order to offer tailor made financial services to established and emerging farmers. The mission of the Land Bank is to become the financial institution that supports economic growth through the provision of retail, wholesale, project and micro-financial services to agriculture and related rural services (Calvin & Coetzee, 2010:68).

The table below shows assistance the bank has been providing within the agricultural sector since 1974 to 2009

**Table2.2:**  
**Agricultural debt by banks on selected years in percentages**

As at 31 Dec	Land Bank	Commercial Banks	Agricultural Cooperative	Department of Agriculture	Private Person	Other Financial institutions	Other Debt	Total
%								
1974	21.8	21.5	11.1	8.3	16.4	17.4	3.5	100
1984	20.3	31.3	23.5	4.7	7.6	10.5	2.2	100
1994	23.5	31.3	21.5	8.1	8.6	2.3	4.7	100
2000	32.2	37.3	15.1	2.9	6.7	2	3.7	100
2009	6.2	<b>68.8</b>	13.9	0.5	5.7	1.7	3.2	100

Adapted from: Department of Finance, 2010:20

The debt of the Land Bank declined from a high of 32% in 2000 to 6.2% in 2009. This can be attributed to the transfer of more than 70% of debts from the Land Bank to commercial institutions. The rate at which agricultural debt grew in the Land Bank, Agriculture Co-operatives and Department of Agriculture was higher than in other institutions. The reason for the high debt is that the mandate for the enlisted institutions is to provide finance to farmers

and agribusiness in order to guarantee food security in the country (Department of Finance, 2010:20).

#### **2.4 Constraints facing emerging farmers in SA**

A decade after independence, questions are still being asked about how to improve access to banking by marginalised communities. Without paying serious attention to these concerns, most of the black population will continue to face difficulties accessing financial capital and their participation in the mainstream economy will remain peripheral (Maumbe, 2006:72).

In accordance to Antwi (2010:46), there is a need for credit to support development of agriculture-based livelihoods, particularly as a justification for the state and donor supported subsidised credit programmes of the 1950s–1970s. However, the rural economy is financially very fragile. Lack of credit is a significant and sometimes a binding constraint limiting investment in productivity-enhancing technology and inputs. Finance is also required for commodity marketing, sometimes through inventory-backed financing, which offers rural producers, traders and processors the opportunity to improve household income through adopting better produce marketing and raw material procurement strategies.

In accordance to Kuwornu *et al.* (2013:355) the problems of agricultural credit to farmers arise from the source availability and use. There is inadequate or complete absence of financial projections and planning, and also high level of illiteracy among farmers and lack of relevant information as to how, when and where to obtain credit. There is also lack of skilled personnel in the credit institutions to monitor and manage loan packages, and diversion of credit to non-agricultural purposes by farmers.

MacLeod *et al.* (2008:77) notes that problems facing the emerging farmers include lack of secure title to the land, lack of investment and working capital and limited access to credit, poor veld conditions, highly variable climate, insufficient farm size, inadequate or damaged infrastructure, poor access to extension officers who, in turn, are often overcommitted and under-resourced, poor knowledge of pasture and animal management and a highly competitive industry context. Many of these problems can be resolved only by government but problems of pasture, animal, financial and property management can be addressed by training and support.

## **2.5 Factors Hindering access to finance by Emerging Farmers**

### **2.5.1 Structure of financing products**

Maumbe (2006:73) state that the exclusion of poor communities in financing arrangements is a common observable fact throughout Africa, instead, the urban elite or the more affluent and large businesses have tended to dominate most of the share of financial resources from commercial banks.

Moyo (2002:190) further stresses that lack of access to finance by small-scale farmers is partly due to the inappropriate design of traditional financial service products. Commercial financial institutions have traditionally attempted to serve this market with their existing instruments, ignoring the real needs of this potential group of clients and not taking the initiative to engage these clients in an attempt to establish their real needs. The need to develop new products emanates from the need to respond to the demand and preferences of customers.

### **2.5.2 High transaction cost**

Provision of financial services in rural areas is associated with high unit costs both for institutions and for their clients. This is due to the fact that infrastructure for transport, communication and information technology is less

developed in rural areas as well as to the remoteness of these areas. Clients frequently have to travel long distances to deposit savings or repay a loan. This cost them the entire day because they usually travel on foot. Rural financial institutions face additional costs for ensuring security and managing liquidity. High unit costs are usually passed on to the clients, with the result that users in rural areas frequently pay higher interest rates than people in urban areas (Schlaufer, 2008:5).

### **2.5.3 Higher credit risks**

Credit risk is higher in rural areas both for borrowers and for rural financial institutions. The revenues of rural households, whose incomes mostly depend on seasonal agricultural and livestock production, are volatile due to fluctuating weather conditions and pests or diseases. In addition, price fluctuations are high in the agricultural sector. Generally, rural households depend on one or two sources of income only, increasing the risk of credit default. Many households either entirely lack collateral or do not have a legal title to their house or land. Financial institutions thus have no means of securing credit against defaulting clients that tend to run high default risks. The financial institutions typically impose punitive interest rates for delayed payments and might even confiscate assets of defaulting clients (Schlaufer, 2008:5).

### **2.5.4 High rates of illiteracy**

In developing countries illiteracy rates are particularly high in rural areas. Poorly educated people face an additional challenge in accessing financial services as it is difficult for them to analyse credit risks and the profitability of a loan or savings scheme, to provide all documents and information (such as a business plan) required to apply for a loan and to understand conditions and contracts. Some institutions fail to communicate interest rates and commissions in a transparent manner and small prints in contracts can

contain additional costs for borrowers. On the other hand, financial institutions that want to expand into rural areas experience difficulties in finding, hiring and keeping well trained staff that is willing to work in a rural region. Lack of experienced staff, in turn, leads to poor institutional capacity among rural financial institutions (Schlaufer, 2008:5).

### **2.5.5 Marketing constraints**

In accordance to Antwi and Seahlodi (2011:37) the limited contributions to the economy by emerging farmers arise due to the constraints faced by farmers which are many and varied to include marketing, financial, technical, economic, land, social and cultural aspects.

Antwi and Seahlodi (2011:37) further state that other marketing factors include:

- distance from the markets which tends to influence transaction costs
- high feed costs and competition
- lack of appropriate and affordable means of transport poor quality of products lack of storage facilities ,adverse effects of culture and socio-economic factors as well as low educational levels of small and emerging farmers
- agricultural marketing policies imposed
- poor agricultural extension services and lack of financial support

Mmbengwa *et al.* (2011:41) alluded that market availability for any commodity is crucial for the success of any business, regardless of its type and size. Market availability is one of the key determinants and emerging farmers in South Africa require reliable markets to succeed.

Coetzee *et al.* (2005:84) agree with the above that marketing should play a vitally important role in the process of transforming small-scale farmers into

commercial producers. The market is the institution that should provide the necessary incentives for farmers to increase their income.

The growth of the supermarkets and food retail sector has changed the sourcing and procurement practices of supermarkets and others in the food retail sector. Consumer preference and demands as well as high health requirements have meant that supermarkets and agro-processing companies have had to develop sophisticated logistical systems and have moved from wholesale procurement to a system of purchasing from few preferred customers who can meet the stringent health and quality demands as well as providing consistent supply. They also prefer suppliers who have the technology and expertise to be able to adjust their product to consumers changing tastes and needs (Louw *et al.* 2008:288).

#### **2.5.6 Allocative constraints**

These are aspects which directly affect the farmer and over which the farmer has little control and are as follows:

- **Poor Access Roads**

Poor road conditions, high transport costs and distant markets have been identified as factors that hamper improved market access for emerging farmers in South Africa. Amongst other factors, the ability of farmers to access services depends on the state of the road, the transport systems and the distances from the villages to the nearest towns (Chaminuka *et al.* 2008:365).

According to Coetzee *et al.* (2005:88) infrastructure involves both the physical (communication, transport and roads) and institutional infrastructure (market information, security and animal disease control). Small-scale farmers are mostly found in areas remote from market places, where there is a serious lack of the aforementioned facilities. Furthermore, distance between the area

of production and well-established markets necessitate the transportation of livestock.

Infrastructure is the capital stock that can help to provide goods and services to the public. Such infrastructure services in agriculture are categorized into soft and hard infrastructure. The soft infrastructure includes transportation services, finance services, animal husbandry, input distribution and marketing. This can either improve or hinder agricultural development. Roads, telecommunications, electrification and irrigation are termed 'hard infrastructure (Chaminuka *et al.* 2008: 366).

- **Lack of access to Land**

Whitebread *et al.* (2011:443) notes that despite the best intentions of some of the emerging farmers to make the transition to a commercial farmer status, many new farms are too small to be economically viable. For example, livestock farms with carrying capacities below 400 livestock units (LSU – animal with a weight of 450 kg) struggle to survive. Many new farms have an effective carrying capacity of less than 150 LSU, largely due to their small initial area. Farmers are further constrained by poor land conditions because of bush encroachment. Such farms cannot support the needs of the household and farmers typically have to seek employment in other regions. This further compromises the ability to implement sound farm management.

Norris *et al.* (2011:51), suggest that access to land, particularly in rural areas, has the potential to result in improved and stable access to income and food. That will ensure that South Africa's rural poor people have access to productive land in order to farm for subsistence and income purposes.

### **2.5.7 Loan repayment history**

Loan repayment history is mainly used by financial institutions to assess the risk category of both individuals and enterprises that have qualified for credit (Mmbengwa *et al.* 2011:43).

However, agricultural lending is a risky enterprise because repayment of loans can seldom be fully guaranteed. Generally, in spite of the importance of loan in agricultural production, its acquisition and repayment are fraught with a number of problems especially in the small holder farming (Akwasi & Idowu, 2011:11)

Akwasi and Idowu (2011:12) confirm that most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans. For this reason, lenders devise various institutional mechanisms aimed at reducing the risk of loan default (pledging of collateral, third-party credit guarantee, use of credit rating and collection agencies). In the context of providing credit to the rural asset-poor, what is required is institutional innovation that combines prudent and sustainable banking principles with effective screening and monitoring strategies that are not based on physical collateral such as land.

## **2.6 Public Sector approaches towards providing access to finance by emerging farmers in South Africa**

The following initiatives are carried out by the National Government with an aim of providing financial and related support to the emerging farmers.

### **2.6.1 Nationalisation of Commercial Banks**

According to Nagarajan and Meyer (2005:13), many specialized agricultural development banks were set up in developing countries, especially during the 1960s and 1970 as part of the expansion of agricultural credit under the old paradigm. Like most state-owned banks, these agricultural nationalised development banks generally performed poorly, although there have been important exceptions. Many have been privatised or closed, especially in Africa and Latin America. Others are technically bankrupt but continue to limp along but unable to attract substantial new funding. The loss of rural banking outlets that occur with closure plus a few successful cases of reform have

contributed to a renewed debate about the appropriate strategy for dealing with failing institutions.

Tshabalala (2011) argues that there are two reasons why nationalisation will not work, firstly that South Africa usually runs an external deficit and the country rely on savers from the rest of the world to lend money to fund new enterprises and new infrastructure. If the banks are nationalised, lending would dry up and South Africans would have no choice but to invest and consume less, shrinking the economy and destroying jobs.

Tshabalala (2011), furthers alludes that experience from all over the world shows that nationalised banks and state-run banking systems usually turn out to be expensive precisely because they are not managed properly. In the years following African independence, many governments believed that the existing private banks were being run to benefit 'foreign shareholders' rather than in the interests of indigenous business and national development. The solution was often to nationalise banks and to direct them to offer loans at preferential interest rates to favoured firms and sectors.

These banks were handicapped from the start by their confused mandates; governments did not make it clear whether these state banks were to be cautious, profit-making commercial banks or highly risk-tolerant development institutions with unequivocal fiscal support in the event of losses. Worse, an expectation was created that the government would shield its banks from the consequences of making bad loans. Both of these problems were bad enough for the nationalised bank's efficiency. But what really doomed the state banks were continual pressure to lend to politically favoured individuals and 'connected' firms. In almost all cases, Africa's state banks were in deep trouble within a decade and bankrupt within 20 years (Tshabalala, 2011).



## 2.6.2 Outreach Programmes

Government continues to face challenges in terms of ensuring that the available resources and services are spread amongst citizens. Evidence from across the world's main regions confirms that a close link exists between land policy and economic growth, as well as between poverty reduction and empowerment (Deinenger, 2003:3).

One of the most critical elements in sustaining food production is to improve the living conditions of rural communities by assisting small farmers in enhancing agricultural productivity and their incomes and to provide access to land. In order to achieve this, Micro Agricultural Financial Institutions of South Africa (MAFISA) was launched and contributed to the government's overall commitments towards the social up-lifting of people in their communities by benefiting both farm and non-farm beneficiaries such as farm workers, household producers, small-scale land owners, food garden producers, rural and micro-entrepreneurs (Twala, 2012:217).

Furthermore, the farmer support programme provided support to promote economic and market development to sustain adequate on-farm incomes which promoted stability, competitiveness, growth and transformation in the agricultural sector. This initiative had been augmented with the Comprehensive Agricultural Support Programme (CASP) which was a conditional grant raised by the central government to supplement the provincial funding to ensure accelerated delivery of support services to farming communities. In addition to providing farmer support, the Settlement Land Acquisition Grant (SLAG) provided grant through which poor landless black South Africans could form a group to apply, buy and develop land. By the end of the year 2000, the Ministry of Agriculture and Land Affairs had approved 484 projects, transferring 780 407 hectares of land to 55 383 people, with 14% headed by women. The above process was not sustainable because SLAG ended in 2000 having achieved the goal of improving emerging farmer's access to land by managing a total of 542 projects and assisting 89 000 beneficiaries, and sustained participation in agriculture by

establishing 84 agricultural co-operatives in the 9 provinces of South Africa (Twala,2012:217).

### **2.6.3 Government Loans and Grants**

Sebopetji and Belete (2009:718) indicated that generally, developing countries established parastatal institutions with the aim of channelling credit to small scale farmers. Similarly, in South Africa, Land Bank and the Agricultural Credit Board were established to serve commercial farmers with small-scale farmers served by parastatals in the former homelands. The collapse of such parastatals left small-scale farmers without access to credit services.

Over the last 40 years, policy makers identified a host of problems in rural financial markets. There was an attempt to resolve these problems through targeting, providing subsidies and applying governmental controls. It was hoped that those measures will reduce rural poverty, however, government involvement in the management and implementation of rural financial systems has proven expensive and inefficient. Subsidised credit programmes which are part of state intervention in rural financial markets undermine the institutional sustainability of financial institutions, distort rural financial markets and discourage savings mobilisation and fail to develop market driven sources of funding. Such credit programmes do not include repayment capacity as part of loan analysis and end up impoverish their borrowers and destroy the lending operations of the institutions (Satish, 2004:132).

To date, the Land Bank has had limited success in offering financial assistance to black farmers. According to the Credit Risk Monitoring Report of 31 August 2012, the development loan book amounted to R874 million, with a very high percentage of non-performing loans. This is partly because the bank was restricted to supporting white farmers before 1993, so it had little understanding of the needs of the black farming population when the political tide turned. Since then, the Bank has made progress and improved its

understanding of emerging farmer's needs, but there is still much work to be done. Between 1994 and 2012, the Land Bank has written off debt close to R5 billion that was given to emerging farmers (Land Bank, 2012: 103).

#### **2.6.4 Access to Training**

Training is essential to curb poor production planning, managerial ability, coordination, technology, low level of technical knowledge and wastages businesses run by poorly trained personnel are not immune from unsustainable practices and often collapse without fulfilling their objectives (Mmbengwa *et. al.*,2011:39)

Agricultural education, extension, and advisory services are a critical means of addressing rural poverty, as government have a mandate to transfer technology, support learning, assist farmers in problem solving, and enable farmers to become more actively embedded in the agricultural knowledge and information system (Christoplos & Kidd, 2000:11).

In accordance to Mmbengwa (2009:97) small-scale farmers in rural areas are often highly illiterate. These farmers have to cope with all the problems related to their limited resource base, their limited experience with farming, their very often lower levels of schooling and their lack of association and contact with the various institutions serving modern commercial agriculture.

Commercial farmers are relatively well educated and have acquired appropriate skills for their operations compared to small-scale farmers. The challenge for both the national and provincial departments of agriculture is to create a well-trained and motivated extension service that can advise and assist smallholders with regards to agricultural production and farm and financial management issues. Mentoring of emerging farmers by commercial farmers could also be an effective approach to training emerging farmers who have acquired redistributed land (Ortmann, 2005:305).

### **2.6.5 Subsidised Interest Rates**

Past government and donor support programmes in South Africa that provided subsidized credit to small-scale farmers, emerging agribusinesses and micro-entrepreneurs to try and reduce poverty and stimulate economic growth have had limited success. Similar to international experience, the programmes suffered from limited investment in productive inputs, high default rates (up to 40%), lack of savings mobilisation, and limited client coverage (Kuhn *et al.*2000: 77) .

It has been argued that since access to cheap subsidised credit is partly what kept successive generations of white farmers on the land, agricultural credit policies should be used as a redistributive mechanism and to correct some of the imbalances created by previous political policies in South Africa. This argument is, however, not reflected in credit policies drafted in the late 1990s (Weideman, 2004:130).

### **2.6.5 Private Sector approaches towards providing access to finance by emerging farmers in South Africa**

#### **2.7.1 Activities of commercial banks in credit extension**

According to Schoombee (2004:5), commercial banks traditionally do not serve low income earners, micro-entrepreneurs and the poor (collectively referred to as unbanked) mainly because of high costs involved. It is only since the early 1990's that they have given serious thought to entering the market segment, in no small way influenced by the changes in the political landscape.

South African commercial banks have come to share in the corporate reconceptualization of the poor that has taken place over the past decade. Whereas the poor used to be framed as a risky market because the poor were viewed as bad financial managers and terrible savers, the poor are now

lauded or romanticized as great savers and responsible. Moreover banks have discovered that billions of Rands flow through informal savings clubs in urban townships and they are eager to profit through the capturing of these informal monies by the formal banking system (Krige, 2012:3).

While commercial banks have been reluctant to 'enter' the 'unbanked' market because of the 'risk' it entails and the expense of administering accounts, and while they have publicly protested the state's efforts to cajole them into providing affordable savings products, it is also increasingly in their interest to try and capture some of the large pools of money which continue to circulate outside the formal banking system. The four large commercial banks are known for incredible high banking costs, and the monopolistic behaviour of the banking and political elites have thus latched onto the mutual aid societies such as burial societies and stokvels as 'indigenous' African mechanisms (Krige,2012:3).

Commercial banks tend to be unwilling to embark on rural credit programmes because of the particular difficulties encountered in rural financial markets. These include the difficulty of serving clients who are widely dispersed, administering a large number of relatively small transactions and operating in an agricultural industry that experiences unanticipated changes in prices, incomes and yields. Other problems, particularly in developing countries include poorly developed legal systems and information infrastructure, high transaction costs, lack of or poor credit and financial records of potential borrowers and collateral that is not secure (Weideman, 2004:119).

### **2.7.2 Moneylenders**

Moneylenders are able to disburse short-term loans (at high interest rates) significantly faster than institutions do. Moneylenders are generally considered to be an important source of finance for the rural poor. Empirical evidence indicates that moneylenders are only used as a last resort largely because of their high interest rates. In cases where individuals opt for loans

from moneylenders, it is often for consumption and/or distress purposes and not for productive purposes (Weideman, 2004:117).

Mariwah (2012:152) assert that the interest rates charged by different informal lenders vary considerably between 50% and 100%. But, it is unclear how moneylenders determine interest rates, and that their rates are not negotiable. Meanwhile, moneylenders have been criticized for charging rather high interest rates and thereby hindering the well-being of the rural and semi-urban populace by limiting their access to credit. Moreover, they are indifferent to the purpose of the borrowing and by lending for consumption activities, like burial ceremonies they put the poor in more future problems.

## **2.8 Other approaches towards providing access to finance by emerging farmers in South Africa**

### **2.8.1 Co-operative movement**

Stevens and Terblanché (2004:40) maintain that farmer groups have become very popular in agricultural related activities in both developed and developing countries. These have been both formal (e.g. Cooperatives) and informal in nature. Many factors are motivating the formation of farmer groups, including an efficient means for communicating and transmitting information, sharing information (e.g. study groups, focus groups); identifying and evaluation of group techniques; improving on-farm and off-farm linkages and the encouragement and empowering of farmers.

Agricultural cooperatives are often viewed as appropriate vehicles to facilitate vertical coordination with or horizontal integration between, small farmers who would otherwise be excluded from value-adding opportunities and discerning markets. In South Africa, renewed interest in development-oriented cooperatives saw the introduction of Cooperatives Act (Act 14 of 2005) along with support measures dedicated to 'emerging' cooperatives (Lyne & Collins, 2008:180).

Roets (2004:214) also contends that cooperatives are a culturally acceptable business form to small-scale farmers because they work on similar principles as “stokvels” and burial societies with which these farmers are already familiar.

Ortmann and King (2006:62) recommend that small-scale farmers in South Africa should exploit the wave of support for cooperatives even though future growth of their enterprise may be constrained by institutional deficiencies inherent in traditional cooperatives.

### **2.8.2 Rotating credit and savings associations**

Lack of access to financial services by the poor households makes them to look for alternative sources of finance and heavily depend on the financial services of their local informal moneylenders who are regarded as responsive to their financial needs. In view of the problems of inaccessibility of financial services and their vulnerability of not knowing or understanding how the micro-lenders operate or the rules and regulation governing such micro-lenders, the poor households resort to the informal means of finance in order to survive. The households access finance through various forms of informal savings and lending which are mostly used in the poor black communities. These include, among others, rotating credit and savings associations known as stokvels (Mashigo, 2006:11).

Verhoef (2001:520) defines a stokvel as the umbrella term used for informal savings organisations in the African community in South Africa for survival. In most cases, the contributed amounts are saved and also made available as loans to the stokvel members. These stokvels assist the households to provide for their basic needs for entertainment, household utensils and groceries, education, and funding for predictable expensive events such as marriages and most importantly, unpredictable ones like illnesses and funerals. The households themselves decide on how the stokvels should operate by stipulating own rules and regulations in the form of the constitution.

The households manage the finances themselves and exert peer pressure on one another to repay the loans for the purpose of sustaining the stokvels. Since members of associations tend to know each other, these associations are not plagued by the same risks related to information constraints as commercial banks. Records are simple and understandable and an efficient source of finance for the poor.

Although membership in rotating savings and credit associations have clear economic and social benefits, these associations are not likely to address problems such as structurally entrenched poverty or transform economic power relations in rural societies. These associations are affected by severe capacity constraints and can only provide limited resources and, as such, are “coping mechanisms” rather than “permanent solutions” to poverty (Weideman, 2004:117).

## **2.9 Conclusion**

The literature review was conducted to include the concept of emerging farmers and how they can contribute to the economy of South Africa. The role of financial institutions in agriculture was also studied.

Constraints facing emerging farmers, in relation to access to finance were discussed. Various approaches to be used in providing access to finance of emerging farmers were studied which ranges from those in the Public and Private Sectors and those that are neither related to the Public nor Private Sector.

In South Africa, whilst there has been an initiative to assist emerging farmers in a nationalised approach in the form of the Land Bank, it seems a lot of farmers still need to be reached.

While co-operative approaches have been very successful in developed and developing countries, including sub-Saharan Africa, it has not been the case in South Africa as co-operatives have mainly benefited commercial farmers.

Models such as rotating financing and stokvels are already in place thus providing the needed infrastructure for the germination of co-operatives among emerging farmers.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research is about asking and beginning to answer questions, seeking knowledge and understanding of the world and its processes, and testing assumptions and beliefs. Research is based on enquiry methods, questioning and hypothesis or assumptions that you need to question and test (Wisker, 2008:51).

In accordance to Welman *et al.* (2010:23), research is a process which involves application of various methods and techniques in order to create scientifically obtained knowledge by using objective methods and procedures the purpose of which research is in three folds, as follows :

- To describe how things are, that is define the nature of the study objective
- To explain why things are the way they are
- To predict phenomena

The purpose of this chapter is therefore to discuss the research paradigms; instruments used and interpret the results of the empirical study conducted. The study focused on improving access to agricultural finance to emerging farmers in NWP.

#### **3.2 Research paradigms**

A research paradigm or perspective is the underlying set of beliefs about how the elements of research area fit together and how we can enquire of it and make meaning of our discoveries; (Wisker, 2008:78). There are two main approaches to research, being the positivist approach which is based on the philosophical approach known as logical positivism. The positivist approach

underlies the natural-scientific method in human behavioural research and holds that research should be limited to what can be observed and measured objectively that is, that which exist independently of the feelings and opinions of individuals (Welman *et al.*2010:6).

The positivist approach is opposed by the anti-positivist approach which share resistance to upholding of the natural scientific approach as the norm in human behavioural research. According to the anti-positivist approach, it is inappropriate to follow strict natural scientific approach which is believed to have been designed to study molecules and organisms and is therefore not relevant to human phenomena being studied in the human behavioural sciences (Welman *et al.* 2010:6).

### **3.3 Quantitative approach**

According to Welman *et al.* (2010:6), the positivist approach to research is also known as the quantitative approach. The positivists define their approach as the study of observable human behaviour.

The purpose of quantitative research design is thus to evaluate objective data consisting of numbers, which involves the use of a process of analysis that is based on complex structured methods to confirm or disprove hypotheses (Welman *et al.* 2010: 8).

#### **3.3.1 Sampling Method**

A random selection method was used and farmers were randomly selected in four districts of the NWP. Questionnaires were distributed, completed by the farmers and returned.

### 3.3.2 Population and sample

The population consists of emerging farmers from the four districts in the NWP being Dr Kenneth Kaunda District, Dr Ruth Segomotsi Mompati, Ngaka Modiri Molema and Bojanala Platinum District Municipalities. Out of the total number of eighty (80) farmers selected in the NWP, only forty (40) questionnaires were returned resulting in a 50% response rate.

## 3.4 Analysis of Results

### 3.4.1 Bibliographic details of sample

**Table 3.1: Age of respondents**

		Age	Frequency	Percent
Age	1.0	Below 25	0	
	2.0	25 – 35	3	7.5
	3.0	36 – 45	16	40
	4.0	46 +	21	52.5

Table 3.1 indicates that 52.5 per cent of respondents are over 46 years and older, whilst 40 per cent is made up of respondents between 36 and 45 years of age. 7.5 per cent represent respondents that are between 25 and 35 years of age.

**Table 3.2 Gender of respondents**

		Gender	Frequency	Percent
Gender	1.0	Male	27	67.5
	2.0	Female	13	32.5

Male respondents make up 67.5 per cent of respondent while females makes up 32.5 per cent of the total respondents.

**Table 3.3 Race of respondents**

	Race	Frequency	Percent	
<b>Race</b>	1.0	African	35	87.5
	2.0	White	0	
	3.0	Coloured	5	12.5
	4.0	Indian	0	

A total of 87.5 per cent of respondents are Africans and 12.5 per cent are Coloureds.

**Table 3.4 Farm size**

	Farm size (hectares)	Frequency	Percent	
<b>Farm Size</b>	1.0	0- 100	6	15
	2.0	100- 500	11	27.5
	3.0	600- 1000	17	42.5
	4.0	1100- 2000	4	10
	5.0	2100 +	2	5

Table 3.4 indicates that 15 per cent of respondents have access to land between 0 to 100 hectares, 27.5 per cent of respondent have access to land between 100 to 500 hectares, 42.5 per cent of respondent have access to land between 600 to 1000 hectares, when 10 per cent of respondent have access to land between 1000 to 2000 hectares whilst only 5 per cent have got access to land of 2100 hectares and more.

### **3.4.2 Financier of agricultural enterprises**

The objective of this question is to determine the level of financial support from different financial service providers to emerging farmers.

**Table 3.5: The following Bank has previously financed your farming operation?**

Type of Bank	Type of bank	Frequency	Percent
1.0	FNB	3	7.5
2.0	Absa	3	7.5
3.0	Standard Bank	2	5
4.0	Nedbank	0	0
5.0	Land Bank	16	40
6.0	Other	2	5
7.0	N/A	14	35

Table 3.5 indicates that 7.5 per cent of respondents were provided credit from First National Bank and ABSA. 5 per cent of the respondents were provided credit by the Standard bank, none of the respondents were provided credit by the Nedbank. Majority of the respondents, making up 40 per cent were provided credit from Landbank, whilst 35 per cent indicated that they did not receive any finance from the Banks.

### 3.4.3 Government training for farmers

Objective of this question is to determine the level of government support in terms of capacity building, provision of training and technical assistance to the emerging farmers.

**Table 3.6: Does government provide training for farmers?**

Farmers offered training	Training of employees	Frequency	Percent
1.0	Strongly disagree	3	7.5
2.0	Disagree	4	10
3.0	Neutral	8	20
4.0	Agree	19	47.5
5.0	Strongly agree	5	15

Table 3.6 indicates that 7.5 per cent of the respondents strongly disagreed, 10 per cent disagreed that they were offered training by government, 20 per cent are neutral, 47.5 per cent agreed, whilst 16 per cent strongly agree that were provided training by the government.

### 3.4.4 The nearest location for a financial institution for credit access

The objective of this question is to test the accessibility of financial service providers within the proximity where farmers are carrying on trade.

**Table 3.7: How far is the nearest financial service provider?**

		Nearest financial service provider	Frequency	Percent
<b>Nearest financial service provider</b>	1.0	Less than 10 km	6	15
	2.0	20 – 100 km	26	65
	3.0	110 – 250 km	6	15
	4.0	260 – more	2	5

Table 3.7 indicates that 15 per cent of the respondents travel a distance between 1 to 10 kilometer to the nearest financial institution, 65 per cent travel a distance between 50 to 100 kilometers, 15 per cent travel a distance between 100 to 250 kilometers when 5 per cent travel a distance of 260 kilometers and more.

### 3.4.5 Loans without collateral for emerging farmers

The objective of this question is to test if emerging farmers are provided unsecured loans by any financial service provider

**Table 3.8: Is Collateral always required when you in apply for a loan?**

	Collateral required	Frequency	Percent	
<b>Collateral required</b>	1.0	Strongly agree	22	55
	2.0	Agree	6	15
	3.0	Neutral	4	10
	4.0	Disagree	7	17.5
	5.0	Strongly disagree	1	2.5

Table 3.8 indicates that 55 per cent of respondents strongly agreed that the Bank required collateral when applying for a loan, 15 per cent agreed, 10 per cent are neutral, when 17.5 per cent disagreed and 2.5 per cent strongly disagreed.

### **3.5 Relationship between variables**

In accordance to Lussier (2011:352), the Chi Square statistic is a measure of difference between the two values. The higher the value is, the greater the difference is between the two frequencies. Burns and Burns (2008:334) further indicate that a Chi Square for the independence of categorical variables can be utilised to examine a relationship between two variables.

A statistical analysis was thus conducted using a Chi Square tests to examine the relationship between various variables. The Chi Square was interpreted together with its p-value and degree of freedom. A p value of less than 0.05 was considered statistically significant.

**3.5.1 Table 3.9: Relationship between age and credit access**

		Credit Access									
		1.0		2.0		3.0		4.0		TOTAL	
		Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp
Age	2.0	1	0.7	1	1.2	1	0.7	0	0.5	3	3.0
	3.0	3	3.6	8	6.4	5	3.6	0	2.4	16	16.0
	4.0	5	4.7	7	8.4	3	4.7	6	3.2	21	21.0
	TOTAL	9	9.0	16	16.0	9	9.0	6	6.0	40	40.0

The p-value is 0.261 and a Pearson's Chi square stastic of 7.698 and a degree of freedom of 6 was obtained.

**3.5.2 Table 3.10: Relationship between gender and credit access**

		Credit Access									
		1.0		2.0		3.0		4.0		TOTAL	
		Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp
Gender	1.0	6	6.1	10	10.8	6	6.1	5	4.1	27	27.0
	2.0	3	2.9	6	5.2	3	2.9	1	2.0	13	13.0
	TOTAL	9	9.0	16	16.0	9	9.0	6	6.0	40	40.0

The p value is of 0.832 and a Pearson's Chi Square statistic of 0.874 and a degree of freedom of 3 was obtained.

**3.5.3 Table 3.11 Relationship between race and credit access**

		Credit Access									
		1.0		2.0		3.0		4.0		TOTAL	
		Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp
Race	1.0	9	7.9	13	14.0	8	7.9	5	5.3	35	35.0
	3.0	0	1.1	3	2.0	1	1.1	1	0.8	5	5.0
	TOTAL	9	9.0	16	16.0	9	9.0	6	6.0	40	40.0

A p value of 0.579 and a Pearson's Chi square statistic of 1.968 were derived. A degree of freedom of 3 was obtained.

**3.5.4 Table 3.12 Relationship between credit access and nearest financial institution**

		Location Of The Nearest Financial Institution									
		1.0		2.0		3.0		4.0		TOTAL	
		Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp
Credit Access	1.0	0	1.4	7	5.9	2	1.4	0	0.5	9	9.0
	2.0	3	2.4	10	10.4	2	2.4	1	0.8	16	16.0
	3.0	1	1.4	5	5.9	2	1.4	1	0.5	9	9.0
	4.0	2	0.9	4	3.9	0	0.9	0	0.3	6	6.0
	TOTAL	6	6.0	26	26.0	6	6.0	2	2.0	40	40.0

A p value of 0.703 and a Pearson's Chi square statistic of 6.368 were derived. A degree of freedom of 9 was obtained.

**3.5.5 Table 3.13: Relationship between credit access and farm size**

		Farm Size											
		1.0		2.0		3.0		4.0		5.0		TOTAL	
		Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp	Obs	Exp
Credit Access	1.0	3	1.4	3	2.5	1	3.8	1	0.9	1	0.5	9	9.0
	2.0	2	2.4	4	4.4	8	6.8	1	1.6	1	0.8	16	16.0
	3.0	1	1.4	2	2.5	4	3.8	2	0.9	0	0.5	9	9.0
	4.0	0	0.9	2	1.7	4	2.6	0	0.6	0	0.3	6	6.0
	TOTAL	6	6.0	11	11.0	17	17.0	4	4.0	2	2.0	40	40.0

A P value of 0.601 and a Pearson's Chi square statistic of 10.171 were derived. A degree of freedom of 12 was obtained.

### **3.6 Conclusion**

This chapter placed a focus on the empirical study and presentation of results. A quantitative research method and data gathering techniques were used. Data that was gathered through a Likert scale questionnaire from the emerging farmers within the NWP was analysed and interpreted. A Pearson Chi Square with its p value and degree of freedom were utilised to derive a relationship between variables.

## **CHAPTER FOUR**

### **INTERPRETATION, RECOMMENDATIONS AND CONCLUSION**

#### **4.1 Introduction**

The objective of gathering data was to obtain information on the possible challenges facing emerging farmers in NWP pertaining to access to agricultural finance, aspects of institutional structure in rural areas that can improve access to finance and determine the financial support extended to emerging farmers by government.

Data discussed in terms of the demographics should reflect how the developing farmers, agricultural Unions, government (National Department of Agriculture, Provincial Department of Agriculture and Department of Agriculture at District level), Private Sector and Bank will improve in shifting the viable options, such as the co-operative model, private sector model, self-financing and the public sector model of financing emerging farmers in the province.

#### **4.2 Research objectives**

The main objective of the study was to investigate accessibility to agricultural finance by the emerging farmers in the NWP. This research objective was addressed through the literature review that was done in Chapter two, and the empirical study that was conducted in Chapter three.

##### **4.2.1 Findings**

With the exception of limited response from respondents, the research objectives have been met and the the following research findings were made:

The results as indicated in table 3.1, provide that there is a clear indication that farming is mostly dominated by older farmers. This might possibly lead to skills gap if the youth are not attracted to the agricultural field. Table 3.9

indicates that there is no statistical difference between credit access and age. As a result, age is not a factor when it terms of credit access.

Farming so far seems to have failed to attract female population. The reflection of lack of participation of women in the agricultural sector might also be an observable demonstration of their lack of expertise in the field. Although there are policies targeted at empowerment of women in the agricultural sector, they should be implemented aggressively. There is no statistical significance between gender and credit accessibility as indicated on table 3.10. Therefore, gender is not a factor when it comes to access to credit.

Table 3.3 clearly indicates that with 87.5 percent of respondents were African and 12.5 percent were Coloured. Its evident that emerging black farmers are now participating into the agricultural main stream.

Land Bank continues to play a significant role in financing emerging farmers whilst other banks also play a role in financing emerging farmers. As reflected on Table 3.5 indicates that most of the farmers were financially assisted by Land Bank. It was reflected through literature that Banks such as Land Bank are fraught with inefficiencies under mandates for development and this might be an institutional impediment in providing access to emerging farmers.

Despite the fact that skills development through training is crucial for emerging farmers, the Government's role in training was found to be minimal as reflected on Table 3.6.

Majority of respondents travel a distance to reach financial institutions for credit access or banking as reflected on Table 3.7. There is no statistical difference between location of financial institution and credit access, as a result, location of nearest financial institution is not a factor when it comes to credit accessibility. However, spatial accessibility to financial institutions is still

a problem. Despite the fact that emerging farmers do not have bankable assets, most financial institutions needed collateral to facilitate access to agricultural finance as shown in table 3.8.

### **4.3 Recommendations**

#### **The recommendations are as follows:**

- Access to agricultural finance need to be enhanced as a socio-economic imperative to counter unemployment especially among youth. Agriculture is a key contributor to the South African GDP and can be utilized as a vehicle to create employment opportunities through involvement of the younger generation which is currently low. This could be due to the labour intensity of the agricultural sector thus being unattractive to the youth. It is therefore recommended that programs aimed at attracting youth to the agricultural sector be enhanced.
- Participation of women in the agricultural sector appears to be minimal. This might be due to limited access to credit, land and training. It is therefore recommended that policies aimed at supporting women in farming be implemented aggressively.
- It is a normal banking process that collateral for funding of farmers be sought. Most emerging farmers do not have secure title to land, are without investments and bankable assets. Contributing collateral to the loan is an impediment to most start-up businesses and for the majority of emerging farmers. There is a need to improve the business model for funding that would ultimately benefit emerging farmers.
- There has been a substantial increase in competition of rates amongst the financial institutions. This creates an opportunity for emerging

farmers to be banked. Involvement of national department of agriculture together with private sector is needed to come up with more innovative ways of providing services to farmers.

- There seems to be a need for capacity building within the agricultural sector particularly among the emerging farmers who face an additional challenge of understanding financial issues and legal aspects of accessing financial services. It is difficult for them to analyse credit risks, profitability of loans and/or savings schemes. Provision of all documents and information such as a business plans, cash flows, financial statements when required to apply for a loan is a challenge. Understanding conditions and contractual obligations of credit access is also difficult. Government need to work together with full time mentors to assist farmers in acquiring the necessary financial and legal skills.
- Participating farmers in associations need to have access to finance as an item of priority in their deliberations. Means of engaging the government and financial services sector on how to devise credit packages for farmers need to be created through farmer associations.
- Although there is an increased efficiency in provision of financial services, the gains are not realised due to spatial planning. Financial services should thus be aggressively extended to areas where there is lack of access and those that are currently unserved.
- The developmental mandate of the Land Bank needs to be further clarified to enhance a much more wide access to agricultural finance by emerging farmers.

## 4.4 Conclusion and areas of future research

### 4.4.1 Conclusion

- It can thus be concluded that access to agricultural finance by the emerging farmers in the NWP is still a challenge.

The above conclusion can further be solidified by the following factors:

- Through the empirical study, spatial planning, lack of access to agricultural land, capacity to understand financial and contractual aspects of credit access, lack of knowledge of financial management and collateral are the factors that inhibit emerging farmers to obtain access to agricultural finance.
- Literature has confirmed that there are a number of outreach programmes by the National government aimed at assisting emerging farmers in obtaining access to finance such as the MAFISA programme and CASP. Empirical analysis has proven that those Government interventions have not been effective in provision of access to finance by emerging farmers.
- There are a number of initiatives by the Private and the Public Sector that are available to provide agricultural finance. Institutional factors such as high lending rates, financial models used by banks, structure of financing products and high transaction costs are inhibitive in emerging farmers obtaining access to agricultural finance.
- Land Bank has been established by the National Government to provide credit access to farmers, however, it seems that through inefficiencies of nationalised banks and lack of understanding of the mandate of the Land Bank has left a lot of finance needy emerging farmers un-reached.

- Access to finance of emerging farmers can be improved through configuration of banking models and processes to specifically cater for emerging farmers.

#### **4.4.2 Areas of future research**

The following areas for future research are therefore identified:

- The study has shown that majority of emerging farmers obtained finance from Land Bank. Studies need to be performed to determine the difference between funding models of Land Bank and those of commercial banks.
- The extent to which policies on land reform affect access to credit by the emerging farmers needs to be studied to derive policy proposals that would foster access to finance.

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## Appendix A: Questionnaire

FOR OFFICE USE ONLY: Respondent Code: \_\_\_\_\_

### VOLUNTARY QUESTIONNAIRE FOR ACCESS TO AGRICULTURAL FINANCE FOR EMERGING FARMERS IN SOUTH AFRICA'

#### "IMPROVING ACCESS TO AGRICULTURAL FINANCE FOR EMERGING FARMERS IN SOUTH AFRICA'S NORTH-WEST PROVINCE"

**Graduate School: NWU**

**University of South Africa**

**Researcher: M. Seleho**

**Prof Collins Miruka**

#### Note to the respondent

- We need your help to understand and investigate how the government can improve Financial Access and Training to South African farmers effectively.
- Although we would like you to help us, you do not have to take part in this survey.
- If you do not want to take part, just hand in the blank questionnaire at the end of the survey session.
- What you say in this questionnaire will remain private and confidential. No one will be able to trace your opinions back to you as a person.

The questionnaire has four parts:

Part 1 asks permission to use your responses for academic research.

Part 2 asks general personal particulars like your age, gender and home language.

Part 3 to 6 asks about farming activities, finance access / markets and training for farmers.

#### How to complete the questionnaire

1. Please answer the questions as truthfully as you can. Also, please be sure to read and follow the directions for each part. If you do not follow the directions, it will make it harder for us to do our project.
2. We are only asking you about things that you and your fellow researchers should feel comfortable telling us about. If you don't feel comfortable answering a question, you can indicate that you do not want to answer it. For those questions that you do answer, your responses will be kept confidential.
3. You can mark each response by making a tick or a cross, or encircling each appropriate response with a PEN (not a pencil), or by filling in the required words or numbers.

*Thank you very much for filling in this questionnaire.*

#### Part 1: Permission to use my responses for academic research

**I hereby give permission that my responses may be used for research purposes provided that my identity is not revealed in the published records of the research.**

Initials and surname \_\_\_\_\_ Postal address: \_\_\_\_\_

\_\_\_\_\_ Postal code: \_\_\_\_\_

Contact numbers: Home: \_\_\_\_\_ Cell: \_\_\_\_\_

No.	<b>PART 2: GENERAL PERSONAL PARTICULARS</b> <i>Please tell us a little about yourself</i> Please mark only ONE option per question below.	8.	Collateral is not always required when you apply for a loan? <input type="checkbox"/> Strongly Disagree <input type="checkbox"/> Disagree <input type="checkbox"/> Neutral <input type="checkbox"/> Agree <input type="checkbox"/> Strongly Agree
1.	I am _____ years old. <input type="checkbox"/> 18-25 <input type="checkbox"/> 26-35 <input type="checkbox"/> 36-45 <input type="checkbox"/> 46+ <input type="checkbox"/> I do not want to answer this question	9.	It's easy to access credit from any financial service provider for farming? <input type="checkbox"/> Strongly Disagree <input type="checkbox"/> Disagree <input type="checkbox"/> Neutral <input type="checkbox"/> Agree <input type="checkbox"/> Strongly Agree
2.	I am a: <input type="checkbox"/> Male <input type="checkbox"/> Female.	10.	<input type="checkbox"/> 0-5 <input type="checkbox"/> 6-10 <input type="checkbox"/> 11-15 <input type="checkbox"/> 16-20 <input type="checkbox"/> +20
3.	I am _____ <input type="checkbox"/> African <input type="checkbox"/> White <input type="checkbox"/> Coloured <input type="checkbox"/> Indian <input type="checkbox"/> Oriental <input type="checkbox"/> I do not want to answer this question		
4.	Which of the following best describes the size of your farm? <input type="checkbox"/> 0-100 ha <input type="checkbox"/> 100-500 ha <input type="checkbox"/> 600-1000 ha <input type="checkbox"/> 1100- 2000ha <input type="checkbox"/> 2100ha +		
5.	Which of the Banks has previously financed you for your farming operation? <input type="checkbox"/> FNB <input type="checkbox"/> ABSA <input type="checkbox"/> Standard Bank <input type="checkbox"/> Nedbank <input type="checkbox"/> Land Bank <input checked="" type="checkbox"/> other <input type="checkbox"/> N/A		
	<b>PART 3: Farming Activities</b> Please mark only ONE option per question below		
6.	Government provide training to farmers? <input type="checkbox"/> Strongly Disagree <input type="checkbox"/> Disagree <input type="checkbox"/> Neutral <input type="checkbox"/> Agree <input type="checkbox"/> Strongly Agree		
7.	How far is the nearest Bank / financial service provider from you? <input type="checkbox"/> less than 10 km's <input type="checkbox"/> 20-100 km's <input type="checkbox"/> 110-250 km's <input type="checkbox"/> +260km's		