# INVESTIGATING SMALLHOLDER FARMERS' EXCLUSION FROM CREDIT MARKETS IN SOUTH AFRICA

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**Abstract**

Access to credit by smallholder farmers in South Africa has been empirically observed to be characterised by a variety constraints. This paper examines the demographic, financial and economic characteristics of smallholder farmers in order to gain a better understanding of why smallholder farmers are excluded from formal credit markets. The paper uses survey data collected from 362 smallholder farmers randomly selected from Mpumalanga and North West Provinces of South Africa. Using descriptive analysis, the paper observes that smallholder farmers have low annual turnover, low demand for credit and often with a family culture not to borrow. The paper concludes that smallholder farmers in South Africa are still financially excluded, particularly from the formal banking systems. Results of this paper demonstrate a need for a review of financial policies in favour of increasing the supply of financial services, particularly credit to smallholder farmers if South Africa is to achieve its Millenium Development Goals of employment creation and poverty alleviation.

**Keywords:** Credit, Smallholder Farmers, South Africa, Exclusion

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## 1 Introduction

The strategic importance of the agricultural sector remains unchallenged because of its potential to create employment and the role it plays in ensuring food supply and security in South Africa and elsewhere in the region (Irz et al., 2001). There are an estimated 800 million people who are facing starvation in developing countries (Food and Agricultural Organisation, FAO, 2004). It is also estimated that 200 million people from Sub Saharan Africa are categorised as hungry (FAO, 2004). Specifically, Southern Africa (which includes South Africa) is characterised by drought has been hit by severe chronic food insecurity. Claims have been advanced that the performance of the agricultural sector has been hampered by the lack of access to bank credit (Coetzee, 2002, Chisasa and Makina, 2012 and Chauke at al., 2013). Further evidence has been provided that an increase in doses of credit induces a positive and significant influence on agricultural output growth. Formal large-scale commercial farmers have successfully accessed collaterised credit due to their ownership of title to land. This is not true for the marginalised smallholder farmers. Evidence from Chisasa and Makina (2012), Mudhara (2010) demonstrated that smallholder farmers have limited access to formal bank credit leaving them with growth constraints. Thus an examination of the characteristics of smallholder farmers is essential in order to determine the reasons why they are excluded from the formal credit markets.

"Since democracy, limited efforts have been made to further develop the financial sector and the banking sector has been unsuccessful in introducing new non-deposit financial products to attract more savings from the wider population" (Akinboade and Makina, 2006:125). Yet financial markets are ones in which funds are transferred from those with surplus funds to those in a deficit position. Financial markets such as bond and stock markets can be important in channelling funds from those who do not have a productive use for them to those who do, thereby resulting in higher economic efficiency (Mishkin, 1992:11). This sub-section reviews financial sector development in South Africa.

## 2 Structure of the financial sector

By the standards of the economies of emerging markets, South Africa is considered to have one of the most developed and highly sophisticated financial systems (Odhiambo, 2011:78). The financial sector in South Africa is made up of the banking sector, stock market and the Bond Exchange of South Africa (BESA).

### *2.1 The banking sector*

The South African Reserve Bank (SARB) sits at the helm of the banking sector. As the central bank of the Republic of South Africa, the SARB has several responsibilities. Established in 1921, its major objective is to achieve and maintain price stability,

and in pursuit of this objective it governs monetary policy within a flexible inflation-targeting framework. Over and above its monetary policy management function and contribution to financial stability, the SARB is responsible for domestic money market liquidity management, the production and issuing of notes and coins, the management of gold and foreign exchange reserves, oversight of the National Payment System, bank regulation and supervision and administering of exchange control measures (SARB, 2012). The SARB operates as an autonomous institution. However, there is constant liaison with the National Treasury, assisting in the formulation and implementation of macroeconomic policy.

South Africa was characterised by a dominant private banking sector until the 1950s. During this era, products such as personal loans, property leasing and credit card facilities were not being offered by commercial banks. Since then, new institutions such as merchant banks, discount houses and general banks emerged and started to bridge this gap. In response, commercial banks started to diversify their portfolios, introducing medium-term credit arrangements with commerce and industry. They acquired hire-purchase firms and leasing activities and spread their tentacles into insurance, manufacturing and commercial enterprises (Akinboade and Makina, 2006:107). Further developments were witnessed as building societies were abolished in terms of the Deposit-taking Institutions Act of 1991 to avoid overlaps between services offered by commercial banks and building societies. This measure brought the South African baking sector in line with international practice. The 1990s witnessed further metamorphoses of the banking sector, leading to the amalgamation of four of South Africa's leading banks, namely Allied Bank, United Bank, Volkskas and Sage Bank, to form the largest banking group in the country, the Amalgamated Banks of South Africa (ABSA) in February 1991. More developments were to come, as banking services were taken to previously disadvantaged communities in the mid-1990s. To date, the banking sector has reached all sectors of the South African economy, playing the all-important financial intermediary role, as demonstrated by the amount of credit extended to all sectors of the economy (see Table 1). However, agriculture still receives less than 2% of total credit supplied by the domestic banks. This is in spite of the fact that agriculture contributes more to the GDP (2.3%) than the other sectors, for example wholesale, retail and motor trade; catering and accommodation (2.2%), manufacturing (0.8%) and transport and storage (1.9%) (Stats SA, 2014), which receive more credit, as shown in Table 1.

**Table 1.** Sectoral distribution of credit to the private sector, %

| *Sector* | *2010* | *2011* | *2012* |
|---|---|---|---|
| | *Mar* | *Mar* | *Mar* |
| Agriculture, hunting, forestry and fishing | 1.61 | 0.40 | 1.90 |
| Mining and quarrying | 3.08 | 0.50 | 2.20 |
| Manufacturing | 3.55 | 0.70 | 3.60 |
| Electricity, gas and water supply | 0.93 | 1.00 | 1.00 |
| Construction | 1.47 | 0.80 | 0.50 |
| Wholesale and retail trade, hotels and restaurants | 3.72 | 3.40 | 3.50 |
| Transport, storage and communication | 2.75 | 3.10 | 3.20 |
| Financial intermediation and insurance | 22.27 | 20.42 | 19.12 |
| Real estate | 5.45 | 7.99 | 6.46 |
| Business services | 4.58 | 3.59 | 3.64 |
| Community, social and personal services | 4.84 | 6.88 | 8.06 |
| Private households | 38.77 | 43.48 | 41.95 |
| Other | 6.97 | 7.61 | 4.87 |
| Total | 100.00 | 100.00 | 100.00 |

Source: SARB, 2012

In South Africa the financial services sector is fragmented. It is characterised by a well-developed formal banking system on the one hand and a competitive and fast growing informal financial market. An increased investment in information technology has increased the level of competition resulting in formal banking institutions fostering fee-based income growth strategies. Such a competitive environment would ordinarily be expected to enhance the efficient allocation of resources through the intermediary role of financial institutions.

What is evident from empirical literature is that the flow of finance from formal banks to smallholder farmers is thin leaving farmers to rely mainly on equity. However, smallholder farmers have not performed to their full capacity due to lack of access to credit and other financial services (Coetzee et al., 2002; Chisasa and Makina, 2012). This is against a background of growing banking assets with South Africa having survived the 2007/8 global credit crunch. The proliferation of nonbank financial institutions has not helped the situation either.

This article emphasises the exclusion of smallholder farmers from mainstream financial markets and the need to have a greater understanding of the economics of banking in South Africa.

## 3 Theoretical framework

Financial exclusion refers to insufficient access financial services. Thus, people who do not have bank accounts are deemed to be financially excluded (de Koker, 2005). Financially excluded people do not have long- and short-term insurance products that are ordinarily accessed by members of society. Hawkins (n.d.) defines access to financial services as the ability of consumers to:

- Make payments;
- Save and make investments;
- Manage risk;
- Obtain credit and loans;
- Make financial provision for old age.

This paper focuses on the fourth aspect, that is, the ability to obtain credit and loans.

Burkett and Sheehan (2009: Page v) define financial exclusion as 'a process where an organisation lacks or is denied access to affordable, appropriate financial products and services, with the result that their ability to participate fully in social and economic activities is reduced, financial hardship is increased, and poverty (measured by income, debt and assets) is exacerbated.' Similarly, financial exclusion also refers to inadequate access to financial services. People who are financially excluded do not have bank accounts and long- and short-term insurance products that are normally held by members of society. They are therefore excluded from participation as customers in the financial services industry.

The financially excluded are disadvantaged by their isolation from the financial system. They face the financial risks associated with cash, their access to normal consumer credit is limited and their general ability to save threatens their financial security. Financial exclusion hampers their social and economic development. It also impacts on the economic development of the country (de Koker, 2005). In order to fully understand the adverse effects of financial exclusion and the solutions thereof, it is important to explore the causes of financial exclusion.

### *3.1 Causes of financial exclusion*

Financial exclusion may be temporary or long-term and may be complete or partial. It is caused by factors such as geographic isolation, illiteracy, costs of financial products or simply by restriction on access to such products. Those who lack access to financial services are often socially and financially vulnerable and include groups such as the unemployed, the homeless and illegal immigrants. Khan and Hussein (2011) identified distance to the bank, number of visits to take the loan, high transaction costs, bribe and corruption as factors that push farmers to the informal lenders. The education of the farmer and farm size were also observed to negate access to credit by smallholder farmers.

### *3.2 Geographic isolation/distance to the bank*

Long distances to the source of financial services are argued to be an important factor inhibiting farmers' credit activities (Akram et al, 2008). The distance from the household to the bank is negatively related to the demand for credit by the farmer. Long distances are costly to the farmer both in terms of time and cost of travelling.

### *3.3 Level of education of the farmer*

The farmer's level of education is negatively related to the demand for credit (Khan and Hussein, 2011). Less educated farmers encounter challenges of calculation, estimation and valuation of assets, loans and returns. They usually lack information about the credit schemes which are available in the market. Furthermore, loan officers exhibit a bad attitude towards less educated farmers thus pushing them to the informal sector where there are less rigorous application procedures.

### *3.4 Farm size*

The poor are often excluded from formal credits partially due to lack of collateral (Yuan and Xu, 2015). Collateral is one of the instruments used by lenders in credit risk mitigation. In the agricultural sector farm land is often used for this purpose. Large-scale farmers enjoy the advantage of ownership of land to access credit. On the other hand, the small farmers, particularly subsistence farmers have no say in formal sector source of credit (Khan and Hussain, 2011). Similarly, Chisasa (2014) posits that lack of collateral worsens the position of smallholder farmers because lenders have no fallback position in the event of default.

### *3.5 Cost of financial products/high transaction costs*

Khan and Hussain (2011) also showed that the higher cost of credit is inversely related to the demand for credit from formal sources. The farmers prefer to borrow from informal lenders. This implies that rural money lenders are dominant in providing credit to smallholder farmers. Although interest rates charged by formal lenders are prima facie lower than those charged by informal lenders, the total cost of loans increases due to other administration charges, such as monitoring, which are added on.

### *3.6 Bribe and corruption*

Bribe and corruption make borrowing cumbersome and more expensive for farmers. To circumvent this problem, farmers resort to informal lenders. Khan and Hussain (2011) posit that bribe results in a decrease in the demand for credit from formal sources. In this regard, bribery, corruption and nepotism should be eliminated and transaction costs be reduced to a minimum in formal credit institutions.

## 4 Methodology

### *4.1 Study area*

This study was conducted in Mpumalanga and North West Provinces, South Africa. The two provinces (out of nine) were chosen because of their strategic importance in maize production. Maize is the staple food in South Africa.

### *4.2 Sampling strategy*

A multistage sampling strategy was applied to gather data from 362 respondents from both provinces. Firstly Mpumalanga and North West provinces were purposively selected because the majority of rural population earn their livelihood from farming. Secondly, simple random sampling was used to select five out of seven districts. Finally, random sampling method was used to select 100 farmers from each of the districts. The selection was based on the number of farmers registered with the African Farmers Association of South Africa (AFASA) in each district.

### *4.3 Statistical analysis techniques*

Given the descriptive nature of the study, data was analysed using descriptive statistics. The analysis covers the socio-economic characteristics of the farmers.

## 5 Results and discussion

### *5.1 Demographic characteristics*

#### *5.1.2 Gender of the farmer*

Respondents were asked to indicate their gender. Of the 362 respondents surveyed, 233 or 65.3% (n=362) of them were male while 124 or 34.7% of them were female. See Table 2 below. Although the number of female farmers is less than that of their counterparts, it is encouraging to note that there are female farmers irrespective of the intensity of work involved in farming.

**Table 2.** Gender

| *Gender* | *Frequency* | *Percentage* |
|---|---|---|
| Male | 233 | 65.3 |
| Female | 124 | 34.7 |
| Missing | 5 | |
| Total | 362 | 100 |

#### *5.1.3 Age of the farmer*

Table 3 shows the age distribution of the surveyed farmers. A majority 143 (n=362) farmers (39.5%) were found to be in the 41 – 50 year age range. Farmers in the 31 – 40 year age group were found to be substantial 32.0%. What is also interesting is that approximately 28.2 percent were found to be 30 years and below. In this case the agricultural sector is observed to have a safe future because the young farmers will replace the older ones who may have aged or passed on for that matter. These results are consistent with those of Oni et al (2005) who found rural farming households in Ose Local Government Area: Ondo State of Nigeria to be below 51 years of age (66%). However, a departure from this observation is available from Oladeebo and Oladeebo (2008) who reported a negative and significant relationship between the age of the farmer and access to credit.

**Table 3.** Please indicate the age of the head of the household

| *Age* | *Frequency* | *Percentage* |
|---|---|---|
| Below 20 | 44 | 12.2 |
| 20 – 30 | 58 | 16.0 |
| 31 – 40 | 116 | 32.0 |
| 41 - 50 | 143 | 39.5 |
| Over 50 | 1 | 3 |
| Total | 362 | 100 |

#### *5.1.4 Marital status*

Respondents were asked to indicate their marital status. Approximately 49 percent were married while 29 percent were found to be single. However, some were either widowed (12%), divorced (4%) or separated (6%). Figure 1 below is illustrative. These results show that most rural families consider farming among other sources of income as an important source of livelihood.

#### *5.1.5 Level of education*

Respondents were asked to indicate their level of education. Figure 2 shows the respondent distribution according to the level of education. Disappointingly, only 3.6 percent acquired university degrees and 4.7 percent received college education in agriculture. Approximately 88.1 percent either did not go to school at all (14.7%), received primary school education (37.4%) or held a National Senior Certificate (39.6%). These results corroborate with those of Oni et al (2005) who found farmers in Ondo State only able to read and write. However, complicated bank documents require higher levels of education due to their use of technical language. The lack of higher education may result in smallholder farmers failing to access the much-needed credit from banks.

**Figure 1.** Marital status of the farmer, %

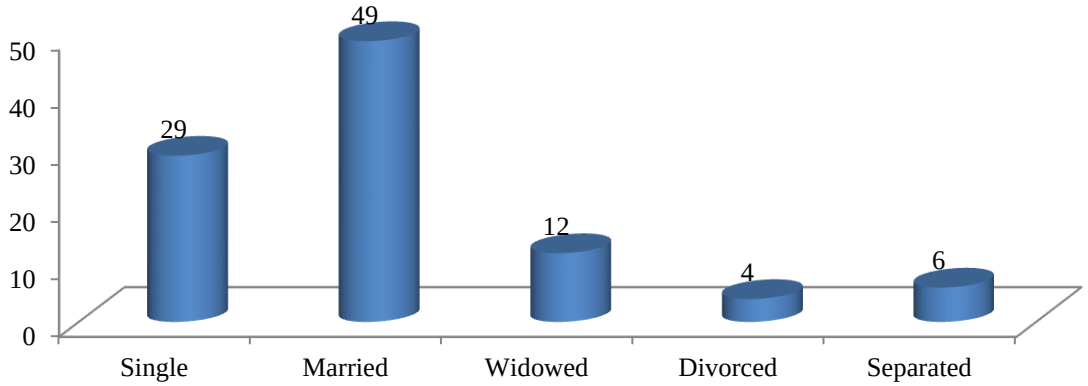
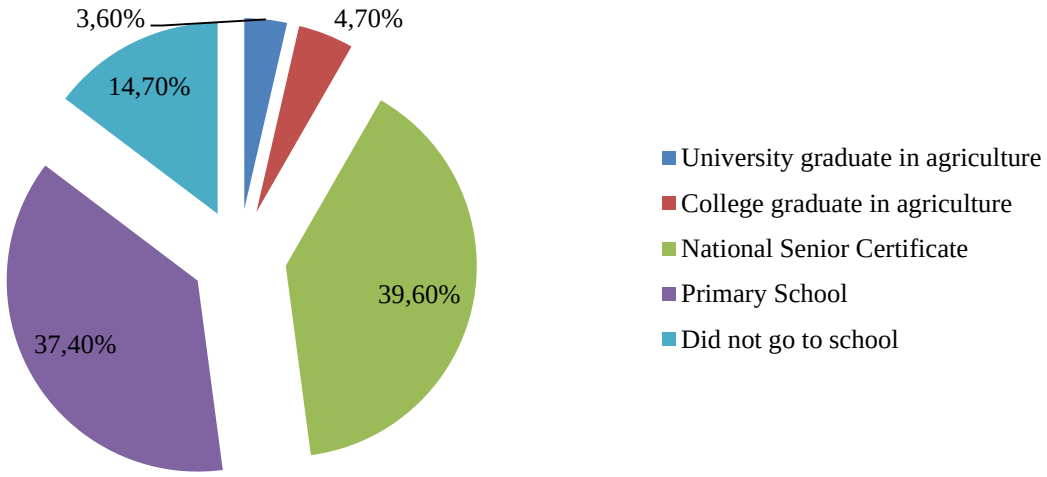



**Figure 2.** Level of education of the farmer, %




## *5.2 Production characteristics*

### *5.2.1 Labour*

One of the characteristics of smallholder farmers is that family members often form a source of labour for the farmer. When asked to indicate the number of family members, the respondents reported family sizes ranging from 1 to more than 10 family members who assist with farm work. Thus smallholder farmers rely on family labour and external workers. An analysis of the use of non-family members on the farm revealed that 74 percent of the respondents have less than 5 workers while 19 percent employed 5 to 10 workers. The small number of employees suggests that family labour is very important in supplementing external labour. Furthermore, it goes to show how small the farms are so that only a small labour force is required for the farming activities. The comparative analysis of family and non-family labour is presented below as Figure 3.

### *5.2.2 Type of land ownership*

Respondents were asked for the form of ownership of the land on which they were farming. The purpose of this question was to determine if the farmers have legal title to the land. The majority of respondents were observed to be farming on communal land (52.1%). Others were operating as sole proprietors (24.9%), leasehold (6.9%), partnership (11.6%), or were simply renting land (4.4%). Table 4 below is illustrative. Based on this result, it can be argued that smallholder farmers are excluded from credit markets due to a lack of ownership of the land they farm on. This argument is supported by Okunade (2007) whose study showed a positive and significant relationship with accessibility to a credit facility.

### *5.2.3 Farm size*

When asked for the size of the land on which they farm, 15 percent of the respondents indicated that they farm on less than 5 hectares while 27.8 percent have farms with 21 hectares or more. A whopping 57.2 percent were observed to be farming on farms between 5 and 20 hectares. Amao (2013) made similar observations in Odo-Otin Local Government Area of Osun State in Nigeria. The summarised results are depicted as Figure 4 below. This shows that smallholder farmers are characterised by small sizes of land on which they farm.

**Figure 3.** Farm labour

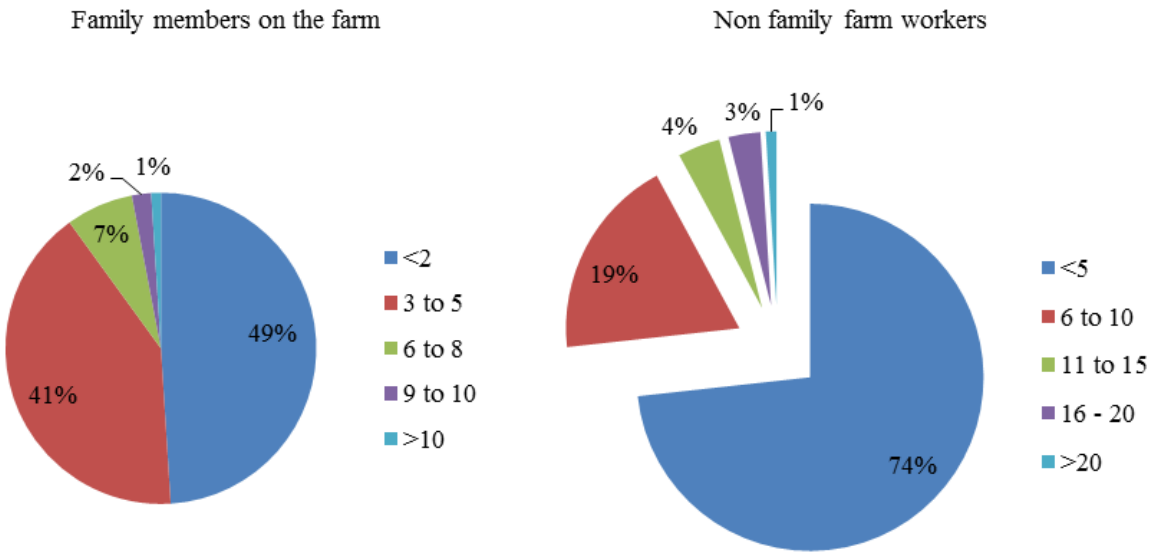
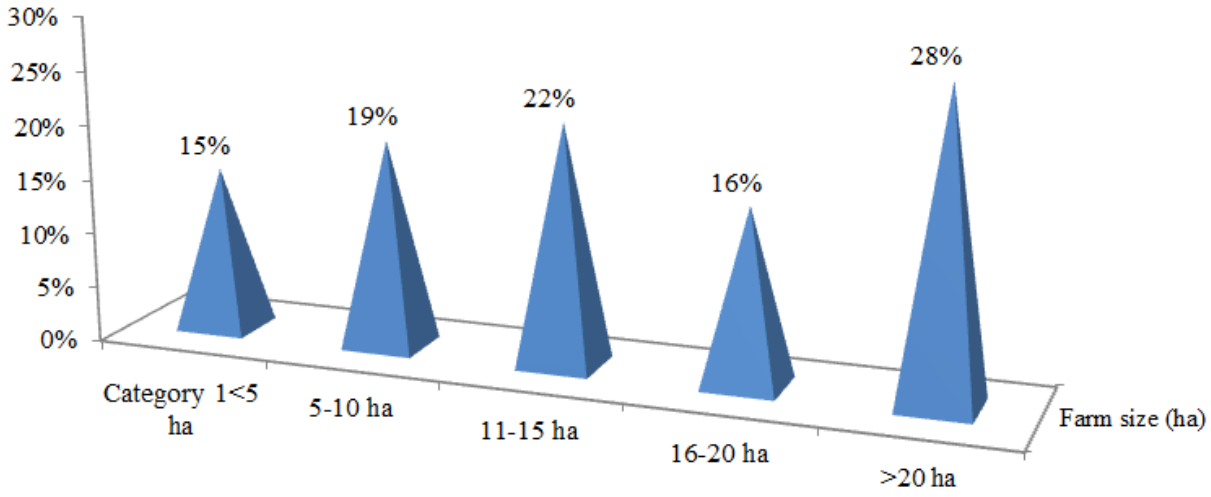



**Table 4.** What is the type of ownership (legal form) of your farm?

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Sole proprietor | 90 | 24.9 | 24.9 | 24.9 |
| | Leasehold | 25 | 6.9 | 6.9 | 31.9 |
| | Communal | 188 | 51.9 | 52.1 | 83.9 |
| | Renting | 16 | 4.4 | 4.4 | 88.4 |
| | Partnership | 42 | 11.6 | 11.6 | 100.0 |
| | Total | 361 | 99.7 | 100.0 | |
| Missing | System | 1 | .3 | | |
| Total | | 362 | 100.0 | | |

**Figure 4.** Farm size in hectares




## *5.3 Financial characteristics*

### *5.3.1 Farm output*

Respondents were asked to reveal the gross agricultural output for the previous season. The purpose was to determine the farmers' ability to service loans if approved by a bank. Apriori, results show that 68.0% (n=362) managed less than R50 000 in gross output. Only a paltry 2.7% produced in excess of R80 000. It is therefore not surprising that smallholder farmers find it difficult to access credit

from formal banking institutions such as retail banks. This is because as part of the initial credit assessment process, lenders analyse the borrower's sources and level of income when estimating the borrower's probability of default. Applicants with high income stand a better chance of approval when compared to those with low income streams. Table 5 below presents the summarised results.

**Table 5.** What is your gross agricultural output in Rands for the last season?

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Less than 50 000 | 223 | 61.6 | 68.0 | 68.0 |
| | 50 001 – 60 000 | 50 | 13.8 | 15.2 | 83.2 |
| | 60 001 – 70 000 | 28 | 7.7 | 8.5 | 91.8 |
| | 70 001 – 80 000 | 18 | 5.0 | 5.5 | 97.3 |
| | 80 001 and above | 9 | 2.5 | 2.7 | 100.0 |
| | Total | 328 | 90.6 | 100.0 | |
| Missing | System | 34 | 9.4 | | |
| Total | | 362 | 100.0 | | |

Respondents were asked to identify factors that negatively affect their output, 37% indicated lack of access to credit as inhibiting output growth, lack of adequate land (21.8%), lack of inputs (37.3%), lack of equipment (59.6%), insufficient water (41.2%). Other factors include lack of expertise (17.2%) and lack of extension services (14.7%).

### *5.3.2 Ratio of agricultural income to total family income*

The study also analysed the ratio of the farmers' income from agricultural activities to the family's total income in order to gain a clear view of the viability of the respondent smallholder farmers. Results show that households earn less income from agricultural activities than non-farm activities with 89% (n=362) earning up to 10% from agricultural activities. This implies that farmers supplement their income from non-farm sources in order to survive. When borrowing money for the purpose of farming, the farmers may encounter challenges getting approvals because of low income related to the core business of farming. When a business applies for credit, the repayment is expected to come from the trading activities of the business being financed. In this case it does not seem to be the case. This may lead the farmers being excluded from the credit market. Summary statistics are presented in Table 6 below.

**Table 6.** Please indicate the ratio of agricultural income to total family income (%)

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Less than 5% | 192 | 53.0 | 55.5 | 55.5 |
| | 6% - 8% | 80 | 22.1 | 23.1 | 78.6 |
| | 9% - 10% | 36 | 9.9 | 10.4 | 89.0 |
| | 11% - 12% | 24 | 6.6 | 6.9 | 96.0 |
| | Over 12% | 14 | 3.9 | 4.0 | 100.0 |
| | Total | 346 | 95.6 | 100.0 | |
| Missing | System | 16 | 4.4 | | |
| Total | | 362 | 100.0 | | |

### *5.3.3 Level of saving*

A total of 45.5% of the respondents indicated that they did not save anything (see Table 7). However, what is encouraging is that despite low income levels realised, 54.5% were able to make a saving. These results show that increased savings by smallholder farmers in South Africa may improve chances of access to credit as observed by Akudugu (2012). Using the Tobit model to estimate the determinants of credit supply, the author demonstrated that, among other factors, the amount of savings made determines the amount of credit supplied by rural banks.

### *5.3.4 Value of fixed assets*

Respondents were asked to indicate the estimated value of fixed assets held. The purpose of this question was to determine the availability of assets that could be encumbered as collateral for credit obtained from the bank. The majority (80%; n=362) respondents were observed to have fixed assets valued at not more than R60 000. The remainder held fixed assets valued at more than R60 000. Table 8 below summarises the value of assets held by the farmers surveyed.

**Table 7.** What proportion of household income were you able to save last year?

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | None | 160 | 44.2 | 45.5 | 45.5 |
| | <5% | 86 | 23.8 | 24.4 | 69.9 |
| | 5% to 10% | 67 | 18.5 | 19.0 | 88.9 |
| | 11% to 15% | 26 | 7.2 | 7.4 | 96.3 |
| | 16% to 20% | 8 | 2.2 | 2.3 | 98.6 |
| | 21% and above | 5 | 1.4 | 1.4 | 100.0 |
| | Total | 352 | 97.2 | 100.0 | |
| Missing | System | 10 | 2.8 | | |
| Total | | 362 | 100.0 | | |

**Table 8.** Please indicate the estimated value of fixed assets

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Less than 50 000 | 202 | 55.8 | 62.7 | 62.7 |
| | 500 01 – 60 000 | 55 | 15.2 | 17.1 | 79.8 |
| | 60 001 – 70 000 | 26 | 7.2 | 8.1 | 87.9 |
| | 70 001 – 80 000 | 20 | 5.5 | 6.2 | 94.1 |
| | 80 001 and above | 19 | 5.2 | 5.9 | 100.0 |
| | Total | 322 | 89.0 | 100.0 | |
| Missing | System | 40 | 11.0 | | |
| Total | | 362 | 100.0 | | |

***5.3.5 Average monthly expenses***

The majority of respondents indicated that on average they spend less than R2, 000 (41.8%), while 53% of the respondents spend between R2, 000 and R8, 000 monthly. Only 5.3% have monthly expenses averaging in excess of R8, 000. This is an important statistic because it enables the credit provider to determine the disposable income of the farmer and thus make an informed credit decision.

***5.3.6 Family networth at the beginning of last season***

Approximately 60% (n=362) of the respondents reported a networth of less than R10, 000 while 33.9% had a networth of between R10, 000 and R25, 000. Only 6% had more than R25, 000 networth. This information was necessary to determine the degree of financial leverage of the respondents. For the lender, the lower the financial leverage of the borrower, the lower the probability of default and therefore the higher the chance of accessing credit. The respondent farmers demonstrated low equity levels, suggesting that they could only access limited amounts of formal credit from the South African formal credit market.

***5.3.7 Form of collateral offered for credit received and/or applied for***

One of the major constraints to access to credit is the unavailability of collateral required by lenders. Respondents were asked to indicate the type of collateral they would offer a credit provider in return for a loan. A total of 54% (n=362) indicated that they did not have any collateral to offer. When taking into account other farmer attributes such as low annual income and low networth the results confirm that smallholder farmers are less likely to receive credit from banks in the absence of collateral which serves as a fallback position for the lender. Summary statistics are presented in Table 9.

**Table 9.** What form of collateral have you offered or would you offer a bank/lender?

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Mortgage bond over farm land and buildings | 36 | 9.9 | 10.6 | 10.6 |
| | Notarial bond over movable assets | 42 | 11.6 | 12.4 | 22.9 |
| | Guarantee (specify) | 18 | 5.0 | 5.3 | 28.2 |
| | Personal property | 62 | 17.1 | 18.2 | 46.5 |
| | None | 182 | 50.3 | 53.5 | 100.0 |
| | Total | 340 | 93.9 | 100.0 | |
| Missing | System | 22 | 6.1 | | |
| Total | | 362 | 100.0 | | |

### *5.3.8 Preferred sources of credit*

Results under this construct show a variety of attitudes towards credit (see Table 10). These range from the family culture to borrow as little as possible to preference to borrowing from friends or relatives. Asked what the family culture was towards borrowing, respondents indicated that the culture of the family was not to borrow (33%) while approximately 23% were of the contrary attitude. A total of 151 respondents (42%) were found to maintain neutrality between low and high levels of borrowing. Table 10 below summarises the results.

**Table 10.** Family culture is to borrow as little as possible

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Strongly disagree | 51 | 14.1 | 14.7 | 14.7 |
| | Disagree | 28 | 7.7 | 8.1 | 22.8 |
| | Neutral | 151 | 41.7 | 43.5 | 66.3 |
| | Moderately agree | 73 | 20.2 | 21.0 | 87.3 |
| | Strongly agree | 44 | 12.2 | 12.7 | 100.0 |
| | Total | 347 | 95.9 | 100.0 | |
| Missing | System | 15 | 4.1 | | |
| Total | | 362 | 100.0 | | |

Furthermore and consistent with Mpuga (2010) in Ghana, respondents indicated preference of borrowing from a friend or relative (56%). The remainder (44%) indicated that they would rather not borrow from friends or relatives. Summary statistics are presented in Table 11. The implied sources of finance would thus be owner funds (equity), formal lenders or informal credit providers.

**Table 11.** Prefer to borrow from a friend or relative

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Sometimes | 198 | 54.7 | 55.8 | 55.8 |
| | Not at all | 157 | 43.4 | 44.2 | 100.0 |
| | Total | 355 | 98.1 | 100.0 | |
| Missing | System | 7 | 1.9 | | |
| Total | | 362 | 100.0 | | |

Intriguing results were observed when approximately (52%) indicated that they would not like to be indebted to a bank at all. See Table 12 below.

**Table 12.** Do not like to be indebted to a bank

| | | *Frequency* | *Percent* | *Valid Percent* | *Cumulative Percent* |
|---|---|---|---|---|---|
| Valid | Sometimes | 167 | 46.1 | 47.2 | 47.2 |
| | Not at all | 185 | 51.1 | 52.3 | 99.4 |
| | 3 | 1 | .3 | .3 | 99.7 |
| | 4 | 1 | .3 | .3 | 100.0 |
| | Total | 354 | 97.8 | 100.0 | |
| Missing | System | 8 | 2.2 | | |
| Total | | 362 | 100.0 | | |

The income of the farmers which was found to be low is in line with the findings of Oni et al (2005) in Nigeria.

## 6 Conclusion

Access to credit is arguably one of the challenges facing smallholder farmers in South Africa. Accordingly, this paper used cross-sectional survey data to examine the characteristics of smallholder farmers that lead to inadequate access to credit from formal credit institutions. The paper focused on socio-economic characteristics.

Using descriptive statistics, the paper observes that the majority of smallholder farmers surveyed are female. Most farmers were also found to be married, suggesting that farming is essential as a source of family livelihood outside formal employment. Most

farmers were found to be in the 20 to 50 age group. The level of education of the farmers was found to be lower than tertiary level for most of them. Both family and external sources of labour were utilised on the farm, creating the much needed employment. The majority of farmers do not own the land they farm, which is either communal or is leased. Only about 28 percent farm on more than 20 hectares of land while others occupy pieces of land as small as less than 5 hectares. Financial characteristics of the farmers show low output of up to R70 000 (92%) with low savings. The respondent farmers were observed to hold low values in fixed assets. Not surprisingly, the majority portrayed neither short-term nor long-term debt thus confirming that they are excluded from the credit markets. In this regard, the family attitude was found to be one of borrowing as little as possible thus further compounding the lack of access to credit by the farmers.

In light of the foregoing observations, this paper concludes that the interplay of social and economic characteristics contribute to the exclusion of smallholder farmers from formal credit markets. What is evident is that more investment is required in the area of research and development in order to deepen the formal credit markets and thus accommodate the smallholder farmers, a sector that contributes immensely to the alleviation of unemployment and poverty. It is recommended that financial institutions invest more resources in information gathering in order to gain a good understanding of the smallholder farmers. This will help alleviate asymmetric information, default probabilities, reduce capital adequacy requirements and improve lender profitability.

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