# LAND BANK FINANCIAL SUPPORT SERVICES TO SMALLHOLDER FARMERS IN THE TZANEEN AREA

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# LAND BANK FINANCIAL SUPPORT SERVICES TO SMALLHOLDER FARMERS IN THE TZANEEN AREA

by

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# SUMMARY

The objective of this research project was to investigate constraints posed by Land Bank financial support services on smallholder farmers in the Tzaneen area. To achieve this objective the study analysed the provision of Land Bank financial support services to smallholder farmers, through questionnaire interviews with smallholder farmers. After analysing the constraints, appropriate mechanisms to overcome the major constraints were recommended.

The farmers involved in the study can be defined as smallholder farmers. These are emerging farmers whose resources are insufficient to qualify for commercial credit and, in the case of the Land Bank; these farmers are classified as Bronze and Silver range risk category clients.

In reviewing the literature on agricultural credit delivery to smallholder farmers it is evident that attention should be focused on a new approach to credit provision to smallholder farmers. The old approach of cheap credit and supply-led credit agencies, which was characterised by low repayment rates, poor targeting and low operational and managerial efficiency and which was thus limited in terms of outreach and sustainability (poor assessment of marketing possibilities and profitability and the limited loan repayment capacities of the borrowers often explain the high rate of loan defaults), is increasingly being discouraged in favour of a new approach that emphasises savings, self-sustainability, loan recovery and viability of financial institutions as well as linkages between farmer and trader and other arrangements with enterprises in the agribusiness chain. It was also clear that it would be self-defeating if viability and self-sufficiency were achieved by confining lending to large-scale farmers, hence accessibility to rural disadvantaged smallholder

Die doel van hierdie navorsingsprojek was om die beperkings te ondersoek wat Landbank finansiële ondersteuningsdienste aan kleinboere in die Tzaneen area stel. Om hierdie doel te behaal, het die studie die voorsiening van Landbank finansiële dienste aan kleinboere ondersoek deur middel van vraelyste-onderhoude met kleinboere. Nadat die beperkings geanaliseer is, is toepaslike meganismes/strategieë voorgestel om die grootste knelpunte te oorkom.

Die boere wat aan die studie deelgeneem het, kan almal as kleinboere (opkomende) boere beskou word wie se hulpbronne te klein en/of onvoldoende is om vir kommersiële krediet te kwalifiseer en, in die geval van die Landbank, word hierdie boere as Silver en Brons risiko-kliënte geklassifiseer.

Die hersiening van literatuur oor landboukredietvoorsiening aan kleinboere het laat blyk dat die aandag gevestig moet word op 'n nuwe benadering tot kredietvoorsiening aan kleinboere. Die ou benadering van goedkoop krediet- en voorsieningsgebaseerde kredietagentskappe, wat gekenmerk word deur lae terugbetalingstariewe, swak doelwitstelling en lae bedryfs- en bestuursdoeltreffendheid, en wat dus beperk is in terme van strewe en volhoubaarheid (swak waardering van bemarkingsmoontlikhede en winsgewendheid en die beperkte vermoë van leners om lenings terug te betaal, wat die hoë graad van gereelde wanbetaling van lenings verduidelik), word al hoe meer ontmoedig ten gunste van 'n nuwe benadering wat fokus op besparings, selfonderhouding, die verhaling van lenings en die lewensvatbaarheid van finansiële instellings, sowel as verbindings tussen boer en handelaar en ander reëlings met ondernemings in die landboubesigheidsketting. Dit is egter ook duidelik dat dit selfvernietigend sou wees as lewensvatbaarheid en selfonderhouding bereik sou word deur lenings aan grootskaalboere te beperk; dus is toeganklikheid vir landelike, minder bevoorregte grootskaal-boere 'n belangrike maatstaf waardeur 'n kredietprogram beoordeel k  is ook duidelik vanuit die literatuuroorsig dat, om die fokus van kollateraal na winsgewendheid van beleggingsaktiwiteite wat deur krediet ondersteun word, te verskuif, baie kan doen om die kleinboer se toegang tot institusionele krediet te verbeter.

Resultate het bewys dat respondente van mening is dat swak nasorgdienste, gebrek aan toepaslike finansiële instrumente en terugbetalingskedules die belangrikste redes is vir swak terugbetaling van lenings. Aan die ander kant voel respondente dat groeplenings, verbindings tussen boer en handelaar soos byvoorbeeld kontrakboerdery, en gelyke finansieringsinstrumente belangrike meganismes is wat goeie terugbetaling van lenings deur kleinboere sou kon verseker.

Dit is duidelik dat 'n groot persentasie van die respondente aangedui het dat gebrek aan kollateraal, en deposito's, die hoofredes was vir die Landbank se weiering van hulle kredietaansoeke. Respondente het 'n gebrek aan swak nasorgdienste en ontoepaslike finansiële instrumente beperkings tot Landbank finansiële dienste in die Tzaneen area.

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## ABBREVIATIONS

| | |
|---|---|
| PTO | Permission to occupy space |
| R | Rand |
| ha | Hectares |
| AfDB | African Development Bank |
| NDA | National Department of Agriculture |
| RSA | Republic of South Africa |
| FAO | Food and Agriculture Organisation of the United Nations |
| ANC | African National Congress |
| NERPO | National Emergent Red Meat Producers' Organisation |
| NAFU | National African Farmers' Union |
| NOPAFU | Northern Province African Farmers' Union |
| GCIS | Government Communication and Information Systems |
| IFAD | International Fund for Agricultural Development |
| ECAPAPA | Eastern and Central Africa Programme for Agricultural Policy Analysis |
| SD | Standard Deviation |
| Freq. | Frequency |
| % Freq. | Percentage frequency |
| n | Sample size |

# GLOSSARY OF TERMS

**Smallholder farmers** refer to those emerging farmers whose resources are too small to allow them to qualify for commercial credit. For purposes of this study the terms smallholder farmers and emerging farmers will be used interchangeably and will thus have the same meaning.

**Local economic development (LED)** is the process whereby local role players undertake economic initiatives that impact directly upon their lives and opportunities.

**Sustainability** refers to the ability to function independently.

**Outreach** refers to the provision of a service to as many clients as possible.

**Credit** is a sum of money in favour of the person to whom control over the sum is transferred and who undertakes to repay it.

**The lender** is the individual or institution that provides a supply of credit to potential borrowers.

**The borrower** is the person or enterprise that has a demand for credit in order to (i) achieve intertemporal transfers of consumption, (ii) even out fluctuations in availability of cash to buy recurrent farm inputs, or (iii) make an investment in order to realise future increases in income.

**Fungibility** refers to the interchangeability of the uses to which credit can be put.

**The saver** is the person or household or institution that is prepared to supply funds to be held by a financial institution in return for an income flow in the shape of interest payments.

**Financial intermediation** refers to the process of saving, lending and borrowing.

**Informal credit channels** refer to the financial services provided by moneylenders.

**Formal credit channels** are those bound by the legal regulations of a country.

**Rural financial system** refers to the entire credit system of institutions and the way they work.

**Loan portfolio** is the collection of loans a financial institution currently offers to borrowers.

**Microfinance institution (MFI)** refers to an organisation that makes small loans to entrepreneurs, farmers, artisans and other business people, as well as to consumers.

**Rural financial institution (RFI)** is an organisation providing financial services to people and businesses in rural areas having little or no access to commercial banking services.

**Spread, or more specifically the interest rate spread**, is the difference between the interest rate charged to the borrower on a loan and the lender's cost for the funds being loaned.

**Village banks**. Small financial institutions in rural villages are often called village banks, whatever their organisational structure. Financial service co-operatives in South African villages are frequently referred to as village banks.

**Parastatal organisations** are business enterprises owned and controlled by the state. An example of this type of institution serving farmers includes the Land Bank.

**Problem-solving research** is designed to solve a specific problem for a specific decision maker and is usually multidisciplinary in nature, although it is possible to have several decision makers with exactly the same problem. How to expand regional trade in dairy products is one such example.

# CHAPTER 1

# INTRODUCTION

## 1.1 Background to the study

One of the most disturbing characteristics of South African agriculture is the presence of untapped human resources and underused natural and physical resources in the midst of abject poverty. This situation is most prevalent in South Africa's rural areas. These rural areas are capable of producing agricultural surpluses. Smallholder farmers present an opportunity for enhancing the growth of the South Africa's economy. The provision of appropriate financial services to smallholder farmers should be one of the most important mechanisms in a rural development strategy for unlocking this development potential (Strauss Commission, 1996).

A major determinant in the development of smallholder farmers is access to appropriate and affordable financial services (Tube, Personal Communication, 2001). The development of the rural economy, more particularly in the Tzaneen agricultural district, depends on the growth of the smallholder agricultural sector. Therefore, access to and provision of financial support services to the smallholder sub-sector can substantially contribute to economic development.

Effective and widespread financial services are essential for agricultural development in any country. Currently, such financial services are inaccessible to large numbers of small and resource-poor farmers. The Land Bank has been identified as a leading agency in making agricultural credit more widely accessible (Ministry of Agriculture and Land Affairs, 1998).

The Land Bank lies at the centre of Government's plan to deracialise agriculture in South Africa. Without access to capital, generations of prospective black farmers have been entirely cut off from business-oriented agriculture. The challenge of providing finance to farmers, from the rich to the poor, falls on the Land Bank (Succeed, 2001). However, there is the persistent problem of limited access to credit encountered by smallholder farmers when approaching the Land Bank for agricultural finance. This restricts the smallholder farmer's opportunities to purchase productive resources such as land and production inputs (Ngomane, Personal Communication, 2001). However, this sub-sector (smallholder agriculture) has great potential to create jobs and income in the country's developing districts while yielding substantial returns for investors that dare to take the perceived risk.

The objective of this study is to evaluate farmer perceptions about the Land Bank in its mission to provide services to smallholder farmers in the Tzaneen area of Limpopo Province.

## 1.2 The problem statement

Financial services are inaccessible to a large number of resource-poor smallholder farmers in South Africa (Ministry of Agriculture and Land Affairs, 1998). Most rural communities in Limpopo Province, Republic of South Africa, were historically settled in isolated areas where farming is the main source of both subsistence and income generation. The homeland economy rendered rural community farming viable and secondary to collar jobs (Kirsten, 1994). However, increased collar job losses after the amalgamation of homelands into provinces in 1994 resulted into increased pressures on primary agricultural sector in various areas of the Limpopo Province. The amalgamation also resulted into the collapse of special agricultural and rural development financing agencies. Ever since, most smallholder farmers had been struggling to raise basic minimum capital that is required in farming through credit.

The Land Bank was mandated by the current government to serve as a leading agency in making agricultural credit more accessible, particularly to smallholder farmers (Land Bank, 1998). However, due to numerous problems that beset smallholder farmers, the Land Bank had not been successful in discharging its mandate in certain portions of the Limpopo Province.

### 1.3 Objectives of the study

The objective of this study is to evaluate farmer perceptions about the Land Bank in its mission to provide services to smallholder farmers in the Tzaneen area of Limpopo Province in order to:

(i) Determine constraints that limit smallholder farmers' access to credit facilities and services, and

(ii) Recommend appropriate mechanisms to overcome the major constraints.

The International Fund for Agricultural Development (IFAD) (2000a) noted that the rural poor, including smallholder farmers, must be understood in their own context and within their specific local conditions, perceived needs, constraints and possibilities. Lacking of understanding this context creates misunderstanding in financial institutions attempt to discharge their mandate towards the smallholder farmers.

### 1.4 Research questions

To achieve the above objectives, the following questions need to be answered:

(i) What are the constraints (real or perceived) that limit smallholder farmers' access to Land Bank credit facilities and services?

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## 1.4 Research questions

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(i) What are the constraints (real or perceived) that limit smallholder farmers' access to Land Bank credit facilities and services?

(ii) What strategies or mechanisms could be utilised to overcome these constraints to enable smallholder farmers to access credit facilities and services?

## 1.5 The hypothesis

The following hypothesis is tested: Smallholder farmers in the Tzaneen areas have resolvable constraints in accessing Land Bank credit facilities and services.

# CHAPTER 2

# LITERATURE REVIEW

## 2.1 Introduction

The agricultural financial subsector is playing a more central role in agriculture (Grant & MacNamara, 1996). Jackelyn & Rhyne (1990) have noted that "while capital is not the only factor that allows the growth or creation of enterprises, it is the most vital, for without it, creativity, drive and innovation cannot be transformed into material action".

Despite Agriculture's increased importance, the relationship between farmers and financial providers has been relatively neglected in the literature (Grant & MacNamara, 1996). Indeed, as Marsden, Whatmore & Munton (1990) noted, "Despite the increasing significance of banking capital, and more specifically, credit relations in agricultural development, it is remarkable how little systematic study has been conducted on the subject".

According to Von Pischke & Adams (1980), small farmer credit programmes in low-income countries have a long history. After the Second World War there was a surge in credit programmes to smallholder farmers that accompanied the growth of foreign assistance to agricultural developmental efforts. During the four decades following the war, governments and donors introduced hundreds of smallholder farmer credit programmes involving tens of billions of dollars (Kirsten, 1994). The establishment of most of these formal agricultural credit programmes was motivated by the belief that capital shortages constrain the economic development of smallholder farmers in developing countries.

Johnson (1990) argues that conventional rural credit programmes directed to smallholder farmers have had limited success in the world. Owing to the special problems of extending credit to smallholder farmers, a case is often made for less developed countries to set up separate credit schemes for smallholder farmers. Credit was identified as a pressing need for Indian smallholder farmers, and from 1951 to 1971 rural credit co-operatives grew from supplying 3 to 23 percent of India's agricultural credit (Johnson, 1990). Most Third World countries do have agricultural banking, credit institutions and programmes to ensure that external funds are used to the best advantage and increasingly to bring local capital into circulation, but these funds are not always available to smallholder farmers.

There are many problems involved in granting credit to smallholder farmers. It is much more complex than lending to large-scale farmers. According to Johnson (1990), the pre-condition for credit institutions to maintain and expand their services is the continuous inflow of capital both from repayments by the borrowers and the adoption of policies and development of facilities that attract savings. In most cases, micro loans and the spread of borrowers over vast areas makes smallholder credit more costly. The high cost of extending smallholder credit to individuals also arises, because administrative costs such as investigation, office needs, servicing or collection are similar, irrespective of the size of the loan.

Smallholder borrowers should be chosen on the basis of their creditworthiness, like any other borrowers, but the assessment of creditworthiness may differ. Few of those urgently needing loans are creditworthy in the usual sense. The main criteria for smallholder farmer credit should be management ability and repayment capacity, not the amount of collateral offered. Other important factors to consider are the status of the applicant in the local society, the technical feasibility of the proposed enterprise on his/her own farm, and the cash flow expected from the investment (Johnson, 1990).

In most countries, formal credit has not reached more than 20 percent of all farmers. Roughly 5 percent of all farmers in Africa, 25 percent in Asia, and 15 percent in Latin America have access to formal credit. Those excluded are mainly small farmers. For example, after reviewing the credit situation in India in 1976, the National Commission on Agriculture noted that an important feature of the co-operative credit had been its tendency to flow mainly to larger cultivators. Similarly, an analysis of the agricultural financing by the public sector banks has also revealed that farmers having holdings above 2.02 ha receive about 75% of the total credit advanced by banks. Three sets of factors have contributed to this phenomenon, namely (i) the preference of formal institutions to lend to big producers; (ii) the reluctance of smallholder producers to approach formal agencies, and (iii) pre-empting of credit by big producers (Padmanabhan, 1996).

Continued population growth, shortfalls in agricultural production, and widespread rural poverty will force policy makers to continue to promote agricultural development in low-income countries. If the past is any guide to the future, agricultural credit will continue to be a major part of these efforts. Moreover, the problems and controversies that exist in rural financial markets in developing countries are likely to persist (Adams & Vogel, 1990).

The successful reorientation of credit policy in the future requires an imaginative and experimental approach to institutional innovation. The few case studies of successful credit institutions show that devices like regular small savings collected on the doorstep, group lending, and group accountability for loan repayment, as well as improved incentive and performance methods within financial institutions, provide potential ways forward (Ellis, 1992).

## 2.2 Government policy on agricultural finance

The Agricultural Policy for South Africa is informed mainly by policy directions contained in the 1995 white paper on Agriculture and in the 1998 discussion paper on agricultural policy. Major objectives are to build an efficient and internationally competitive agricultural sector, to support the emergence of a more diverse structure of production with a large increase in the number of successful smallholder farming enterprises, to conserve the natural agricultural resources, and to put in place policies and institutions for sustainable resource use (GCIS, 2001). Hence, a strong and vibrant food and agricultural system forms a primary pillar in the government strategy for overall economic growth and development.

The role of government in promoting the availability of financial services is twofold (Ministry of Agriculture and Land Affairs, 1998):

(i) To seek ways of addressing the difficulties of smallholder and resource-poor farmers in obtaining access to formal financial markets. This includes the difficulties faced by lenders in providing such services in areas of relatively low individual capital demand and high transaction costs.

(ii) To ensure that the measures which assist poorer farmers to gain access to credit and other financial services do not inhibit the development of commercial, competitive financial services in rural areas.

Historically the Agricultural Credit Board and the Land Bank have served only commercial farmers, while provincial development corporations (PDC) have served emerging smallholder farmers. Evaluations of the PDC show that their outreach has been poor, whereas their costs have been extremely high (Ministry of Agriculture and Land Affairs, 1998). The Land Bank has been identified by the current South African government to fulfil a leading role as an agency in making credit more widely accessible (Ministry of Agriculture and Land Affairs, 1998).

The central goal of financial delivery mechanisms for smallholder/resource-poor farmers is to redirect capital flows so as to address equity issues within the broader framework of agricultural policy (Ministry of Agriculture and Land Affairs, 2001).

## 2.3 Reaching smallholder farmers

To improve access by rural disadvantaged smallholder farmers to financial services, many experiments have been conducted in developing countries, including co-operatives, rural bank branches, mobile banks, area development projects and group lending (Padmanabhan, 1996). The principal factors that influence access to the formal financial systems are proximity, range of services, cultural identification, and participation (Padmanabhan, 1996).

According to FAO (2001), the channelling of cheap credit through state agricultural development banks was characterised by low repayment rates, poor targeting and low operational and managerial efficiency and thus was limited in terms of outreach and sustainability. Poor assessment of marketing possibilities and profitability and the limited loan repayment capacities of the borrowers often explain the high rate of loan defaults. Linkages between farmer and trader and other arrangements with enterprises in the agribusiness chain, such as contract farming, can overcome some of these constraints (FAO, 2001).

Padmanabhan (1996) reports that it would be self-defeating if viability and self-sufficiency were achieved by confining lending to large-scale farmers, since smallholder credit programmes would in no way differ from those of traditional commercial banks. Hence, accessibility to rural disadvantaged smallholder farmers is an important criterion by which to judge a credit programme.

Padmanabhan (1996) further suggests that shifting the emphasis from collateral to profitability of investment activities supported by credit could go a long way towards increasing the access of smallholder farmers to institutional credit. When smallholder farmers see that they might receive all the necessary supporting services for bank-financed investment activities, their confidence in the banking system increases. Similarly, when bank branches are spread widely in the rural areas, smallholder farmers would be encouraged to borrow from institutional sources. Decentralisation of loan approval powers, effective interaction by loan agents, flexible lending procedures, lower borrower transaction costs, savings facilities, etc. encourage the rural poor to approach the institutions for credit (Padmanabhan, 1996).

Marsden *et al.,* (1990) focus attention on "the ways in which credit agencies determine what loans are used for (i.e. the direction of capital investment) and who is creditworthy (i.e. selectivity)". Greater access to credit gives structural advantages to those farmers enjoying it, but in order to qualify for credit, farmers have to satisfy certain criteria of creditworthiness, such as an emphasis on profit maximisation and entrepreneurship.

The absence of what was perceived as affordable formal credit was also blamed for delaying, if not preventing, a timely adoption of new production technologies and the dissemination of non-labour-intensive inputs such as fertiliser, thereby slowing down the growth and development of the agricultural sector (Yaron, 1992). In addition, Kirsten (1994) notes that the remedy used in most developing countries is to provide public sector loans to enable smallholder farmers to modernise their production. Typically, the loans are made at concessionary rates of interest and are so disbursed as to limit the borrower's use of loan proceeds.

According to Kirsten (1994), most people concerned with the design and operation of agricultural credit programmes still believe that increases in the volume of cheap credit are necessary to boost agricultural production, and that the rural poor farmers could be brought into the mainstream of development through supervised credit programmes. This is sometimes referred to as the conventional or traditional approach. The traditional approach is predominantly supply led, as funds for lending to farmers originate from the central bank (or development bank) or from external donors, rather than from local savings in the rural economy (Ellis, 1992).

Ellis (1992) listed some of the most popular institutional ways of organising credit in developing countries as being:

- State agricultural banks (or agricultural finance corporations),
- Multipurpose development agencies,
- Public owned entities, including marketing boards,
- Co-operatives, and
- Farmers' groups.

Finance in the form of both grants and credit would be necessary if spirals of rural poverty were to be broken. The experiences of a wide range of institutions locally and internationally have indicated that good loan recovery is possible even where the beneficiary asset base is very small. Collateral for small farmers could best be provided by an assessment of the ability to repay, access to future loans, and the borrower's integrity. Conventional collateral, which smallholder farmer often lack, should be replaced by a system structured for repayment and by efficient administration and recovery procedures (ANC, undated). The overall objective should be to develop smallholder agriculture in South Africa through provision of affordable and accessible financial services.

A study among 27 smallholder farmers from the Venda region showed that low farm income, caused by low farm productivity combined with poor commercialisation and poor infrastructure, are major constraints in loan repayment (D'Haese, Mdula, Van Rooyen & D'Haese, 1997). This shows that the problems faced by smallholder farmers are manageable. However, any development strategy directed at this sub-sector needs to adopt a holistic approach in order to ensure sustainable development.

Notwithstanding the plethora of failures in rural financial institutes, there have also been some remarkable successes. One of the success stories is the Grameen Bank of Bangladesh. One of the characteristics of the Grameen Bank was that it granted loans to both individuals and small groups. Experience has shown that group lending can be very successful provided the groups are small, homogenous, and therefore able to exert powerful peer pressure on would-be defaulters (Groenewald, undated).

Also, a study among lender organisations in KwaZulu-Natal revealed that lending to small groups (4-6 members) could be effective, whereas lending to large groups of over 30 members could result in problems (Groenewald, undated). The general picture was and remains one of rather poor financial services to smallholder farmers, which discourages emerging entrepreneurship. Ways should be found for institutions such as the Land Bank to become involved in the mobilisation of savings. This would enhance the Land Bank's lending capacity. Finally, the smallholder farmers are in need of loan education and financial asset education. Staff at financial institutions probably also needs training or education in dealing with resource-poor clients (Groenewald, undated).

The broadening of the agricultural sector to include all part-time and smallholder farmers increased the demand for innovative agricultural finance products. The development of new products for this sector requires taking a new look at small farmers and their households. The fact that the majority of small farmers farm on a part-time basis, or that the farm business makes up only a small portion of the household's total income even though the farmer might be involved in the farm business on a full-time basis, creates new problems and challenges for financiers (Van Zyl, Kirsten, Coetzee & Blignaut, 1999).

According to Van Zyl *et al.* (1999), the New Zealand government uses an innovative method in financing the new entrants to agriculture. Instead of subsidising loans to purchase farms, the government encourages people to save money to invest in agricultural assets. The government then invests an amount equal to that of the investor's savings. This programme is an example of positive rather than negative initiatives and will help to build up a capital base, without newcomers having to incur large debts to enter the agricultural sector.

National Emergent Red Meat Producers News (2000) argues that because the Land Bank had failed to address the financial needs of the emerging smallholder farmers, an urgent appeal had to be made to the government to establish a statutory agricultural development credit fund where emerging smallholder farmers would be given credit at an annual interest rate of not more than five percent and a repayment grace period of not less than five years. The interest rate might be increased by one percent per year after the sixth year until it reaches the market-related rate.

In trying to develop and reach smallholder farmers, the South African government has introduced a programme known as the integrated programme of land redistribution and agricultural development, designed to provide grants to historically disadvantaged South African citizens to allow them to access land specifically for agricultural purposes. In terms of the programme, beneficiaries could access grants on a sliding scale depending on the size of their own contribution in kind, labour and/or cash (Ministry of Agriculture and Land Affairs, 2000). For example if a farmer has an asset contribution of

R5,000.00 he/she will qualify for R20, 000 state assistance. It is believed that once the programme is fully operational it will improve smallholder farmers' asset base and credit-worthiness, thus enabling them to easily access commercial credit.

The Strauss Commission (1996) investigating the provision of rural financial services made the following recommendations with regard to banking services for emerging smallholder farmers:

(i) Rural financial institutions must be empowered to become self-financing, to mobilise savings and to provide credit at reasonable, positive, real rates. Subsidisation of interest rates is to be avoided.

(ii) The Land Bank must be restructured so as to encompass financial services to the entire rural sector, including commercial and emerging farmers, as well as agric-support operators, including co-operatives. The Land Bank should decentralise activities for this purpose. It should not be sustained by government grants, and must compete on an equal footing with the private sector.

(iii) Barriers to entry to the financial sector must be removed in a drive to provide for more effective competition.

(iv) Credit co-operatives should be encouraged, provided they conduct their affairs on a sound business base.

(v) Clear and quick legal procedures must be put in place to deal with insolvent financial institutions and institutions plagued by dishonesty and corruption.

(vi) A government advisory and monitoring institution must be installed.

(vii) Consideration should be given to the introduction of a Pledge Registration Office, where pledges of movable objects could be registered (movables as collateral).

(viii) Onerous land registration requirements should be reviewed.

The Commission further recommended consideration of the following financial 'Sunrise' subsidies to support land reform beneficiaries requiring finance:

- A graded entry to repayment,
- A flexible repayment system,
- A discount subsidy for timely repayment, and
- A minimalist insurance scheme.

The abovementioned Straus Commission work provides a further basis upon which interventions to address smallholder credit situation and overall rural financial services could be made.

Kirsten (1994), as well as Von Pischke & Adams (1980), presented the following lessons drawn from experiences with smallholder farmer credit schemes:

(i) For most smallholder farmers, reliable access to small and short-term loans was more valuable than having large and long-term loans;

(ii) Lack of funds was not the most important problem faced by most smallholder farmers. Product prices, land tenure, modern input costs and availability, low yields and risk turned out to be more important factors limiting smallholder farmer development. Credit programmes were, however, the most popular response to smallholder farmer problems;

(iii) Much of the costly technical assistance and training that accompanied loans to smallholder farmers were ineffective;

(iv) Loan guarantees aimed at inducing commercial bankers to lend more to smallholder farmers typically had little lasting or positive effect;

(v) Lending to smallholder farmers proved to be costly, even in the most efficient programmes. Lender transaction costs were highly correlated with loan targeting (i.e. the more targeted lending is done, the higher the costs);

(vi) Loan recovery problems were exacerbated when excessive grace periods were attached to loan repayment, when responsibilities for making and recovering loans were shared between several agencies, when funds for lending carried a political aura, when loans were made in a rush, when loans were given to the majority of applicants, and when the quality and dependability of financial services were low;

(vii) Smallholder farmer credit programmes often imposed excessive debt on their clients. Relatively large loans funded large changes in technology and scale that exceeded the managerial capacities of borrowers and exposed them to more risks than they were able to manage.

The abovementioned lessons provides a strong basis upon which smallholder credit programmes could be designed and implemented in developing countries such as South Africa.

Smallholder farmers require more services, closer supervision, and less rigid policies on collateral, deposits and repayment timing than is the case with commercialised and larger farmers. Many small farmers are still held back by an inability to secure credit easily. This is not only a financial constraint; it retards adoption of innovations (Johnson, 1990).

## 2.4 Instruments

Poverty reduction objectives can justify targeted interventions in order to promote rural finance for particular groups of the population. Such financial interventions, however, should be cost effective to achieve poverty reduction in comparison with other targeted interventions, such as smallholder farmer extension, public works, or social safety-net programmes. Past subsidised and specialised credit lines via parastatal institutions did not fulfil these requirements (Mbongwa, 2000).

Kirsten (1994) listed the following as being some of the main instruments of credit policy in developing countries in terms of the conventional approach:

- Low interest rates;
- Credit targeting;
- Loan portfolio regulations;

- Miscellaneous instruments such as the provision of credit in kind to overcome the problem of fungibility or for credit provision to be linked to crop marketing.

Subsidised rural credit such as low interest rate loans, especially during the 1970s, was viewed as one answer to low productivity and poverty in the agricultural sectors of developing countries (Braverman & Gausch, 1986). There is now an emerging consensus that rural credit subsidies (low interest loans) did not work. Kirsten (1994) argues that evidence shows that increases in agricultural output has not been achieved in a cost-effective manner, that rural income distribution and rural savings rates has deteriorated, and that low interest rate loans provided by government did in fact discriminate against the poor. Cheap credit was rationed; the procedures were politically determined and provided opportunities for corruption and favouritism, with a select group of wealthy and powerful individuals capturing all the benefits.

According to Kirsten (1994) at a given interest rate, collateral has three effects, namely (i) it increased the expected return to the lender and reduced the expected return for the borrower; (ii) it partly or fully shifted the risk of loss of the principal from the lender to the borrower; and (iii) it provided those borrowers who would have high utility under default with additional incentives to repay loans. These arguments explain why interest rates and collateral were central to the work of financial service providers throughout the world for years.

In addition Rhyne & Otero (1992) report that sound financial principles should be the basis of a successful technology of credit delivery i.e. understanding the needs of the client, increasing efficiency by cutting administration costs, structuring the service to motivate repayment, and emphasising the provision of financial services rather than credit provision. Kirsten (1994) further emphasised the following points in credit delivery: avoid loan subsidies and targeting; mobilise deposits; charge positive real rates of interest; avoid concessionary discount lines; reduce transaction costs; and emulate informal finance. Adams (1992) lists the use of loan recovery, transaction costs, numbers of people with sustained access to formal financial services, and the proportion of lending that comes from deposits, as measures of success.

Mbongwa & Van Empel (1995) argue for the following instruments, which they believed could improve access to credit for smallholder farmers:

- Credit guarantee scheme to reduce the impact of the lack of securities/collateral;
- Project finance fund that provides grants to partially finance projects, which will increase the rate of return to acceptable levels for the financial intermediary that provides the loan;
- Transaction cost subsidy fund to reduce the transaction cost for the financial intermediary that provides loans to smallholder farmers;
- Crop insurance scheme to reduce weather risks and to replace *ad hoc* drought relief schemes;
- Development of a rural financing system based on the village bank concept; and
- Extension services to reduce the management risk.

Adams & Vogel (1986) suggest that policies to improve savings opportunities could efficiently help the poor. Based on this argument it is evident that savings mobilisation deserves a central role in any financial programme and that agricultural lenders should focus more attention on savings mobilisation to ensure the viability of their institution (Kirsten, 1994).

All of the above different views and findings of the abovementioned authors will aid in the research and development of appropriate financial services and products that are suited to different conditions of the rural farming communities.

## 2.5 Group lending

Padmanabhan (1996) emphasizes that a system of loaning to improve the access of the rural resource-poor smallholder farmers, which has become increasingly popular among many lenders across the continents, is group lending. Group credit can be defined as non-individual credit in which credit is given to groups of farmers joined together in some sort of association, co-operative, credit union, users' society, etc. and where such organisations play a role in the securing, management, use and repayment of such credit. Thus, the association acts as an intermediary between the credit-granting authority and the ultimate user. According to Padmanabhan (1996), group lending has the following potentials:

(a) Increased accessibility by the rural poor to formal lenders.

(b) Availability of scales of economy not only in credit but also in providing other related services. For example, operating large-scale equipment individually could be costly, while in a group it could be economical.

(c) Reduction in borrower and lender transaction costs.

(d) Improved loan recovery.

(e) Provision of a sense of security and self-reliance among participants.

(f) Greater generation of personal savings.

Padmanabhan (1996) further argues that the realisation of all these advantages depend on the individual circumstances. However, as a concept, group lending has not been fully accepted in certain parts of Africa (e.g. Tunisia).

Furthermore Coetzee (1993) suggests that lending institutions could also lower financial costs (bad debt provision and operating funds) by using non-conventional forms of collateral. By using the group approach, a lack of information, reflected in the bad debt provision, is internalised by the group. A group approach or other similar character-based, joint liability approaches, which rely on peer monitoring and other group advantages, could dramatically decrease bad debt provision and administrative cost (Kirsten, 1994). This in essence revolves around character-based collateral, referrals and linked contracts, and the building of a relationship between borrower and lender. Bratton (1986) argue that group concept should be approached with care since mixed success had been reported, especially where groups had been formed exogenously and with the sole purpose of being used as a credit conduit. By following a more focused and well-planned policy according to the local situation, the financier might have a more successful credit provision experience.

In addition Von Pischke *et al.*, (1983) report that most people concerned with the design and operation of agricultural credit programmes still believe that increases in the volume of low interest credit are necessary to boost agricultural production, and that the poor smallholder farmers could be brought into the mainstream of development through supervised group credit programmes. Blackie (1987) argues for the utilisation of many thousands of savings groups in Zimbabwe as rural savings and loan societies, whereby the government could allocate credit to smallholder farmers.

All of the above reviews point to the critical role that could be played by group lending in making financial services widely accessible to a large number of smallholder farmers.

## 2.6 Case studies on smallholder credit

Numerous case studies on smallholder credit exist. However, four case studies on smallholder credit are evaluated. The following case studies provide important insights and lessons and a strong basis upon which to understand the smallholder credit situation and to develop mechanisms for overcoming smallholder credit constraints in the rural areas of South Africa.

**a) Small Cane Growers' Financial Aid Fund (FAF)**

In 1991, financial support services was developed through a Small Cane Growers' Financial Aid Fund (FAF) and operated through the office of the South African Sugar Association, which represented the interests of both growers and millers in the sugar industry. Financed through levies on the sale of sugar, the milling companies acted as agents for the FAF, providing extension and administering credit, with the future crop as collateral (Zingel, 2000). Evaluation of this scheme showed that rates were lower than commercial charges and covered the full production cycle of the crop of between 10 and 18 years, with deductions for services 'in kind' off each annual ratoon. Furthermore a savings or retention scheme was introduced whereby a proportion of the annual proceeds could be held over to finance part of the next year's working costs. According to Zingel (2000) the analysis of the scheme suggested that the credit scheme was unsustainable at low interest rates loans.

FAF articles have changed over time towards a more user-friendly framework of application. Following from these reorientation, the credit scheme has succeeded in that during 1992, 45,000 smallholder cane growers were producing 4.1 million tons per annum with out-grower yields averaging a commendable 41 tons/ha/annum against an industry average of 71 tons, realised on average landholdings of 5 ha, with a range between 11-2.5 ha as a result of this credit scheme (Zingel, 2000). The credit scheme operated under the frame condition of guaranteed single channel marketing within the framework of conventional contract farming methods.

b) **Grameen bank project in Bangladesh (GBP) (Currency Taka: Tk)**

The Grameen Bank Project in Bangladesh was initiated in August 1976 to provide finance exclusively to the landless or near landless to enable them to undertake a wide variety of farm and non-farm activities. Padmanabhan, (1996) reported that to be eligible for credit a borrower had to satisfy two conditions: he or his family should own less than half an acre of arable land (or assets worth less than one acre), and he should join a bank credit group. Grameen Bank workers assisted in the formation of borrower groups of about five members each. Six to ten credit groups were then federated into a centre. Each group elected its own chairperson and secretary. The chairpersons in turn elected a centre chief and a deputy centre chief. Loan requests made by each member were first scrutinised by the group, then by the centre chief and the bank worker. Loans were given to individual members of the group, but the group stood guarantee for the loans. Loans were available for diverse rural activities such as rural trading, livestock, fisheries, tea vending, etc. Loans were normally granted for a year at 16-18% interest and had to be paid back in weekly instalments. Groups met once a week when the bank worker collected repayments as well as deposits. Each member contributed one taka weekly and 5% of the loan was added to a group fund from which needy members could avail loans for consumption. In addition, members contributed an amount equal to 25% of the interest on the loan to an emergency fund. This fund was utilised for payment of the insurance premium. By August 1986 the Grameen Bank was operating 257 branches covering 4 491 villages with a membership of 208 542, of whom 148 284 were women. Total loans disbursed were Tk1 300 million. Loan recovery was nearly 100 percent. Accumulation in the group fund and emergency fund was Tk88 million and Tk16 million respectively (Padmanabhan, 1996).

## c) Group lending in Malawi

A key component of agricultural development efforts in Malawi was the provision of credit through farmer groups that assumed responsibility for repayment, and farmers' adherence to certain restrictions on the use of loans (Kirsten, 1994). In Malawi group credit was introduced in 1973 under the Lilongwe Land Development Programme (LLDP), primarily to reduce lending costs (Padmanabhan, 1996). Each credit group consisted of 10 to 30 members and had a chairperson and a treasurer, as well as a secretary who performed the administrative functions. Individual members of the group credited 10 percent of the loans to a security fund to cover the risk of defaults. Short-term loans to members for seed and fertiliser were issued in kind through the government agency responsible for their supplies. Interest on group loans was 10 percent, compared to 15 percent on individual loans. By 1979 over 1200 credit groups were functioning in the LLDP project area, serving approximately 28 400 farmers. This constituted nearly 50 percent of LLDP's loan portfolio. Loans disbursed to groups had increased from Malawi Kwacha (Mk) 21 000 during 1973/4 to Mk805 000 by 1978/9. According to Padmanabhan (1996) evaluation of this programme indicated that overall, credit groups increased the access of smallholder farmers to credit, reduced transaction costs, and improved crop production. Although there were no differences between repayment records of groups and individuals, costs for collection in the case of the latter were much higher.

d) **Directing Microfinance to the Rural Poor in Benin**

In Western and Central Africa, only a few microfinance institutions focus on the rural areas and tailor financial projects to the most modest needs of the rural poor, despite substantial investments by governments and donors in microfinance in recent years (IFAD, 2000a).

Currently in Benin there are 30 financial service associations (FSA), established with the help of IFAD, with more than 5 000 members. In southern Benin, the Lobogo Financial Services Association has attained a number of impressive achievements since its founding in September 1997. A total of 655 members have mobilised Benin monetary value of (CFAF) 9 million in assets and lent CFAF 14 million to members to cover different activities, including agricultural produce marketing. Reimbursement rates have been close to 100 percent (IFAD, 2000b).

The abovementioned case studies indicates that notwithstanding the plethora of failures in rural financial institutes in other countries, there have been some remarkable successes upon which lessons could be drawn for future direction of the rural financial services.

## 2.7 Financial intermediation

An absence of effective mechanisms for servicing the financial needs of rural households make it difficult for them to participate fully in the agricultural economy. Limited access to, and limited confidence in, formal financial institutions by rural households severely affects their ability to mobilise savings and to borrow for productive enterprises of their choice (African Development Bank, 2001).

Padmanabhan (1996) argues that the process of financial intermediation was an answer to the transaction costs involved in (a) direct contact between surplus and deficit units, (b) management of reserves, and (c) the reduction of risks. Although financial intermediation reduced overall transaction costs in the economy, it could not completely eliminate them. Effective intermediation in essence implied overall reduction in transaction costs. This would be possible only by maintaining a high level of efficiency. For this, the first prerequisite was a sound manpower planning system. Streamlining of procedures by cutting unnecessary documentation and tiers could improve efficiency. Good management information systems could provide management with information necessary to initiate corrective steps at the right time. Similarly a sound bookkeeping and accounting system could improve efficiency.

Coetzee (1993) and Kirsten (1994) emphasise that the new approach to rural financial services require that rural financial institutions should understand and reflect the financial needs of rural farm and non-farm enterprises, which include the following:

- Production credit, to invest in the enterprise and thus to increase the enterprise's production capacity and income;
- Consumption credit (also referred to as consumption smoothing credit), to pay for the working capital of any household, i.e. food, clothing and school fees;
- Savings facilities, as a safe place to deposit money to access in times of need;
- Housing finance, as specialised finance to use towards the attainment or improvement of housing facilities.

Kirsten (1994) further argues that the key elements (which are viability, self-sufficiency, access and efficiency) of more appropriate and efficient institutions resided partly in the changed approach of credit policy (savings, loan recovery and self-sustainability), and partly in the experience of credit institutions that had proved to be successful. Ellis (1992) suggests that credit provision should be located in a context of diverse institutions providing several different services, and not a single bureaucracy providing just one kind of service. Coetzee *et al.*, (1993) provide further insight by noting that conventional institutions, such as specialised farm-credit institutions, government-run business credit institutions and development banks had generally failed to deliver efficient financial services to rural clients. The failure had been mainly due to the application of conventional policies. In a new approach the following, among others, could be used as vehicles for financial intermediation: NGO's, credit unions, co-operatives, money-lenders, linked markets, community banks and guarantees to commercial banks. Following sound financing principles, and providing the services demanded by smallholder farmers, would increase their own efficiency and that of the financial intermediary. The overall result would be a positive contribution to rural development and economic growth.

## 2.8 New approaches to agricultural credit programmes

Coetzee *et al.,* (1993) argued that government intervention in the provision of financial services where and when the market failed was based on a set of erroneous principles, resulting in a series of assumptions and additional errors that prevented the development of commercial and cost-effective alternative financial institutions. The conventional approach assumed that rural development problems in low-income countries could be treated with large injections of funds through cheap credit programmes. This approach was based on two assumptions: rural entrepreneurs need cheap credit to induce them to produce, and rural people are too poor to save. Short-term results from these programmes were promising. New lending institutions were created, existing institutions were expanded, and large numbers of loans were made. A clear sense of achievement was absent with respect to the number of entrepreneurs initially reached. However, in the early 70's, warning signals started to emerge. Problems were encountered with loan recovery, and default rates of up to 90 percent were recorded.

Due to the negative results of conventional programmes, a growing number of individuals argued that other evaluation criteria should be applied and that alternative approaches should be followed in rural financial markets (Rhyne & Otero, 1992; Adams, 1992; Bravermann & Gausch, 1986; Coetzee, *et al.*, 1993). The contention is that more attention should be given to financial intermediaries and to long-term issues such as the viability of institutions, deposit mobilisation, the lowering of transaction costs and cost-reducing financial innovations, as well as to how policies affected the functioning of rural financial markets.

Based on international and local experience, Kirsten *et al.*, (1994), Jackelyn & Rhyne (1990), De Jong & Kleiterp (1991), Christodoulou *et al.*, (1993) and Coetzee *et al.,* (1993) identifies a number of principles according to which institutions should deliver financial services in terms of the new approach. The approaches are discussed below, and to some extent confirm what was reviewed earlier:

- The provision of deposit-taking (savings) facilities should be encouraged and all legal barriers preventing institutions from taking up deposits should be reviewed. This criterion is based on the negative effects of ignoring the provision of savings facilities in conventional credit programmes. Local experience has indicated that the majority of rural entrepreneurs finance themselves out of savings, which implies a greater need for savings facilities than for credit facilities. Also, a lack of other financial services in rural areas is evident. This would, *inter alia*, include fund transfer mechanisms and insurance products.
- The institutions should be able to recover costs by charging interest rates that reflect the real cost of lending. If they did not, the sustainability would be in question. Transaction costs and interest rates are the most

important variables in calculating the ability of lenders to recover costs and thus to stay in business.

- Good default management will encourage loan repayments. Lukewarm efforts with respect to default management usually result in lukewarm loan repayments. If an institution is seen to be serious about the product it sells, clients are usually serious about loan repayments.
- Institutions should be largely independent from the public sector over the long term. This point links with the point on long-term sustainability.
- By following a minimalist approach, institutions can further bring down their operating costs, and thus the interest rate charged. According to the minimalist approach, credit and savings facilities are the only services provided, and international literature and national experience to date indicates that this is a more successful approach. The integrated approach provides a number of support services in addition to the financial support. These include managerial training and counselling, while the cost of these services is very difficult to recover. If additional services are to be provided it should preferably be a separate entity.
- Decisions should be made at grassroots level and quickly. Decisions should thus be made where the information exists on which to base the decision. If a loan is for production purposes (e.g. agriculture), it also serves no purpose to postpone decisions until after planting time.
- Incentive systems should be considered in structuring the remuneration packages of staff. Experience in Indonesia has indicated that it is far more efficient to pay financial officers a bonus on deposit mobilisation rather than on number of loans extended. Incentives are also necessary for borrowers to repay loans. The way an institution operates and is structured could contribute to the provision of good incentives for borrowers to repay loans, e.g. access to future loans at an efficient organisation.
- The best indicator of success for these institutions is sustainability, measured in terms of the ability to recover costs and survive. By looking at repayment rates and the demand for future loans an institution's

success can be measured. A high repayment rate of loans at high interest rates is a good indication of an institution's potential viability and sustainability.

- Institutions should be non-prescriptive and refrain from the targeting of cheap funds to specific groups. In almost all cases where this type of targeting was attempted it failed, since the more influential succeeded in grabbing away from the target group.
- Lending institutions should aim to increase their reach or to massify the provision of financial services. By linking the activities of grassroots-level institutions, it is possible over time to multiply the numbers of people reached. This will contribute to scale and scope economies.
- The institution can lower the borrower's transaction costs by being accessible and in close proximity to the clients. Furthermore the lending institution can decrease the borrower's opportunity costs by processing applications speedily and having a flexible approach to repayment terms. The institution should be able to adjust to local circumstances.
- Institutions should concentrate a major portion of their efforts on women. Women have suffered the most from a lack of access to credit and have proven to be more reliable clients.

The past approaches to financial service delivery, especially in rural areas, were neither effective nor efficient. By following sound financing principles, and by providing the services demanded by rural smallholder farmers, increased efficiency of financial intermediaries would imply increased efficiency of rural entrepreneurship by the smallholder farmers. Competitive formal financial systems should expand, especially on the deposit side, to serve much larger numbers of the rural poor. Innovation is also required to assist more poor people to become creditworthy and to have a long-term working relationship with formal institutions (Kirsten, 1994).

Following from the above reviews it is imperative that rural financial institutions take cognisance of the above critical factors if they are to remain relevant in today's developing world and achieving their developmental mandates.

## 2.9 Fungibility

At the farmer level, fungibility means that loans targeted for specific purposes (e.g. herbicides and fertiliser use in maize cultivation) may be used by the household for quite different ends (Ellis, 1992).

Von Pischke & Adams (1980) and Kirsten (1994) argue that many credit projects treat loans as production inputs, ignoring a unit of borrowed money held by the borrower. The borrower can therefore substitute and divert the borrowed funds to other uses or to those that give him/her the highest marginal return in consumption or production.

To address the problem of fungibility most credit loans were made in kind, such as bags of fertiliser or seed (Kirsten, 1994). However, Von Pischke *et al.* (1980) and Ellis (1992) argues that the strategy of providing credit loans in kind did not solve the problem of fungibility, as goods provided could be sold and converted into cash if the borrower so wished.

## 2.10 Participation and partnerships

African Development Bank (2001) reports that the design of activities without client participation at all levels has led to inappropriate choice of interventions, lack of end-user ownership and commitment, failure to develop effective incentives for implementation of planned activities, and gender-based exclusion of participants. Since women contribute significantly to household food security and poverty alleviation by spending high proportions of their incomes on investments in household welfare, giving inadequate attention to women has had adverse impacts on their participation in agriculture development (African Development Bank, 2001).

According to Zingel (2000) it is inconceivable that development challenges could be successfully addressed by any single or select group of individuals or organisations, but rather that these could be addressed through partnerships, and in this specific regard he listed farmers as the starting and finishing point.

## 2.11 Land Bank products and services

The Land Bank is a State-owned agricultural development bank that provides financial services to a diverse range of clients. The Bank does not receive any financial support from the State and obtains its funds on the money and capital markets. However, the Bank does not pay tax or dividends to its shareholder, government (Land Bank, 2001). The Land Bank is mandated by government to service both the commercial and resource-poor smallholder farmers in South Africa.

The Land Bank has developed three broad credit bands to accommodate the needs of resource-poor smallholder farmers across the agricultural sector: special, medium-risk (silver) and high-risk (bronze) mortgage loans. Risk and interest rates go hand in hand – the higher the risk the higher the interest rate. However, the Bank also has a unique system for reducing interest rate differentials through a bonus for on-time payments (Land Bank, 2000a). Land Bank retail products include the following: instalment sale finance, mortgage loans, medium-term loans, establishment loans, production loans, and step-up micro credit.

The Land Bank has the following parameters for silver, bronze and special mortgage loans:

- Silver: Medium-risk client, farming skills but insufficient security or financial track record; ceiling of R250 000 and farming business plan prepared and acceptable to the Land Bank (Land Bank, 2000a).

- Bronze: Higher risk client, no security and new to farming and financial sector; viability of agricultural enterprise will determine loan amount; 20 percent deposit for medium-term loans and ceiling of R10 000 for production loans; surplus household income must cover first instalment; track record taken into account.
- Special mortgage loans: Available up to an amount of R500 000; 15 percent interest; first-time farm buyers who are historically disadvantaged individuals; 20 percent deposit in cash.

The following information is required by the Land Bank when farmers apply for credit:

- Identity document;
- Title deed, lease agreement, or permission to occupy land;
- Proof of any previous loans repaid;
- Latest statements of all accounts;
- Proof of any outstanding loans or debts;
- Proof of any fixed assets owned, such as buildings or land;
- Proof of any long-term investments like savings or investment policies;
- Income statements from any farming and non-farming income; and
- A business or farming plan.

According to the 1999/2000 Land Bank (2000b) social accounting report, the following feedback from resource-poor smallholder farmers on how they saw the Land Bank's products and services was received:

- The high level of interest on smallholder farmers renders ventures totally impossible;
- Land Bank offers poor consultation with smallholder farmers;
- The need for equity-based product in the Land Bank;
- Limited understanding of the smallholder farmer market;
- Lack of sufficient information on Land Bank by resource-poor farmers;
- Lack of knowledge and understanding of Land Bank products; and

- Land Bank's lack of knowledge on rural finance for resource-poor smallholder farmers and its inaccessibility to resource-poor smallholder farmers.

The about review of the Land Bank products and services provides a further understanding of the kinds of challenges that faces the institution that is charged with a mandate to serve the smallholder farmer and provides a firm basis upon which recommendations will be made.

CHAPTER 3

# RESEARCH METHODOLOGY

## 3.1 Introduction

The study was conducted in the Tzaneen area, situated in Mopani Agricultural District, Limpopo Province. The area has tropical climate with average rainfall of 800 mm per annum. Soils in this area are described as high potential soils. The area has adequate irrigation water, to meet the high atmospheric demand.

The selection of the study area was done in consultation with members of the local farmers' association, which provided background information on local dynamics regarding smallholder farmers in the area. Also, the extension agents from the Provincial Department of Agriculture and the officers of the Land Bank in Tzaneen were consulted on various aspects of the research.

## 3.2 Selection of study sample

The study area had 300 smallholder farmers on communal land through Permission to Occupy (P.T.O.) with 239 farmers being active at the time of sampling. A simple random sampling technique was used to select the participants in the study. First, farmers were assigned number from one to 239 then using table of random numbers (Hoshmand, 1988), 50 farmers were selected to participate in this study.

## 3.3 Methods employed in data collection and analysis

Information and data were collected from 01 March 2001 to 30 September 2001. For individual interviews, structured questionnaires were used (Appendix 1).

The questions in the questionnaire were structured with coded responses. The data were then entered, in Microsoft Excel, printed and verified manually to ensure accuracy before analysis started. Data were then analysed using descriptive statistics, with emphasis on percentage frequency distribution (Hoshmand, 1988). Statistical analysis was done using the SAS system (SAS, 1999). The system files were then subjected to:

- File manipulation procedures in order to prepare the data for analysis as required;
- Descriptive statistical analysis, with emphasis being on percentage frequency distribution. A 12% frequency distribution was used as a cut-off point for seriousness of a factor being evaluated;
- Inferential statistical procedures such as chi-squared analysis were used for studying the association between variables; and;
- The frequency tables were used to determine the frequencies and percentage frequencies of responses for most of the categorical items in the questionnaire.

Data collected covered access to credit, constraints to credit, strategies to overcome limitations to credit, socio-economic constraints, land tenure, and problems associated with smallholder agriculture.

youths in the 30 years and younger age bracket. The average age of the respondents was 41 years (results not shown).

The educational qualification of the smallholder farmers in the Tzaneen area is summarised in Figure 1.

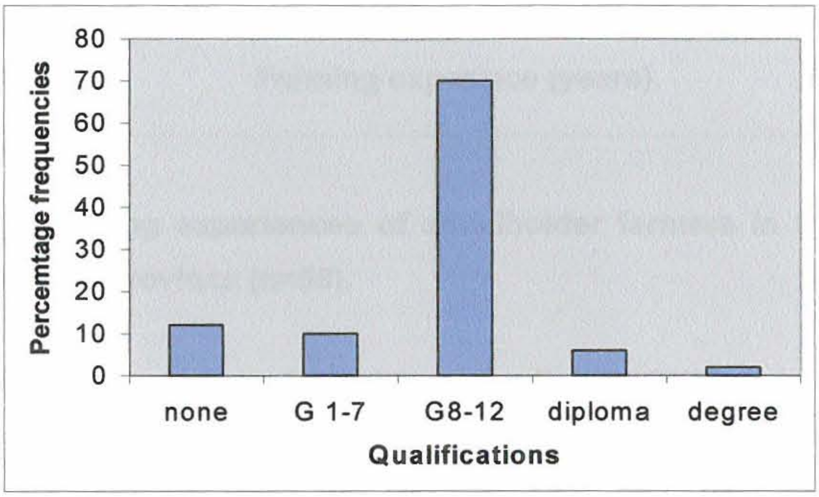


**Figure 1: Educational qualifications of smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

Most of the respondents (70%) had a grade 8 to 12 qualification, whereas 12% had no formal qualification. Those with professional qualifications, in a diploma or degree category, were the fewest.

Farming experience of the smallholder farmers in the Tzaneen area is summarised in Figure 2.

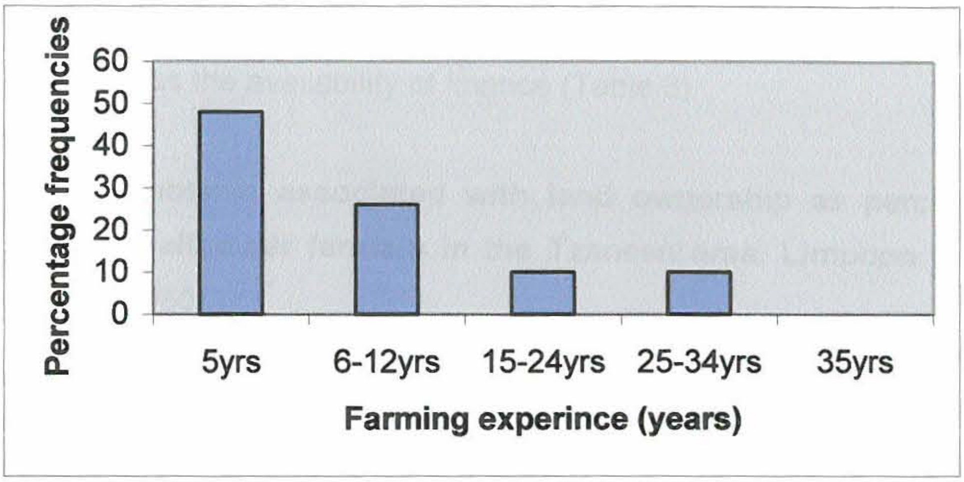


**Figure 2: Farming experiences of smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

Most respondents (48%) had equal to or less than five years of experience in farming, followed by those with 6 to 12 years (26%), 15 to 24 years (16%) and 25 to 34 (10%) years of experience.

Most farmers (46%) had 6 - 14 ha land, with the second majority of the respondents (22%) occupying less than 2 ha (Table 2).

**Table 2: Land size of smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| | Land size | |
|---|---|---|
| Size (ha) | Frequency | % Frequency |
| ≤ 2 | 11 | 22.0 |
| 3-5 | 9 | 18.0 |
| 6-14 | 23 | 46.0 |
| 15-24 | 3 | 6.0 |
| ≥ 25 | 4 | 8.0 |
| TOTAL | 50 | 100.0 |

Most farmers (70%) believed that the principal problem related to lack of land ownership was the availability of finance (Table 3).

**Table 3: Problems associated with land ownership as perceived by smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| Problems related to land ownership | | |
|---|---|---|
| Problem | Frequency | % Frequency |
| Collateral | 3 | 6.0 |
| Finance | 35 | 70.0 |
| Infrastructure | 1 | 2.0 |
| High cost | 3 | 6.0 |
| Security | 2 | 4.0 |
| PTO | 6 | 12.0 |
| TOTAL | 50 | 100.0 |

Permission to occupy space for agricultural purposes and lack of finance were viewed as the major problems that work against farmers in attaining land ownership. However, lack of collateral, infrastructure such as access roads to farms or markets and high cost of land were not considered as major problems with respect to land ownership.

## 4.3 Turnover and services

Table 4 illustrates the annual turnover per farmer in the sample in the Tzaneen area, as provided by the respondents.

**Table 4: Annual turnover per smallholder farmer in the Tzaneen area, Limpopo Province (n=50).**

| Annual turnover per smallholder farmer | | |
|---|---|---|
| Turnover per annum (Rand) | Frequency. | % Frequency |
| 1 000-24 000 | 26 | 52.0 |
| 25 000-49 999 | 12 | 24.0 |
| 50 000 & above | 12 | 24.0 |
| TOTAL | 50 | 100.0 |

The average annual turnover of all the farmers in the sample was R48 768 per annum (2 438 400/50 = R 48 768). Most respondents (52%) were in the R1 000 to R24 000 annual turnover bracket, followed by those in the R25 000 to R49 999 (24%) annual turnover bracket and the R 50 000 and above (24%) annual turnover bracket. The median annual turnover was R 23 250, which is much lower than the average value and it shows the skewed distribution of annual turnover reported by farmers in the Tzaneen area.

Table 5 illustrates the services not accessible to smallholder farmers in the Tzaneen area, as provided by the respondent farmers.

**Table 5: Inaccessible services to smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| Inaccessible services to smallholder farmers | | |
|---|---|---|
| Service | Frequency | % Frequency |
| Extension | 1 | 2.0 |
| Market information | 2 | 4.0 |
| Infrastructure | 8 | 16.0 |
| Credit facilities | 35 | 70.0 |
| None of the above | 4 | 8.0 |
| TOTAL | 50 | 100.0 |

When cited in decreasing order, reasons advanced for not realising high turnover were inaccessibility of credit facilities (70%), and infrastructure (16%). Market information and extension services were not regarded as important constraint to the realisation of high turnover margins.

### 4.4 Loan applications

Most respondents (86%) approached the Land Bank in the Tzaneen area for a loan during the 1999 to 2000 period (Table 6). A negligible percentage (2%) of the respondents approached the Land Bank for a loan in 1997.

**Table 6: Years during which the smallholder farmers in the Tzaneen area approached the Land Bank, (n=50).**

| Years during which farmers approached Land Bank | | |
|---|---|---|
| Year | Frequency. | % Freq. |
| 1997 | 1 | 2.0 |
| 1998 | 3 | 6.0 |
| 1999 | 32 | 64.0 |
| 2000 | 11 | 22.0 |
| 2001 | 2 | 4.0 |
| Don't know | 1 | 2.0 |
| TOTAL | 50 | 100.0 |

The primary purpose for credit was for use as working capital (74%) and the purchase of either livestock or equipment (20%). Land purchase and debt consolidation were hardly cited as reasons for seeking credit (Table 7).

**Table 7: Purpose of smallholder farmer's loan applications to the Land Bank in the Tzaneen area for the period 1997-2001, (n=50).**

| Purpose of loan applications | | |
|---|---|---|
| Purpose | Frequency | % Frequency |
| Land purchase | 2 | 4.0 |
| Livestock/equipment | 10 | 20.0 |
| Working capital | 37 | 74.0 |
| Debt consolidation | 1 | 2.0 |
| TOTAL | 50 | 100.0 |

### 4.5 Constraints to Land Bank financial support services

Respondents were given defined categories to indicate reasons given by the Land Bank, if any, for the refusal of their loan applications. The responses are summarised in Table 8.

Approximately 34% of the respondents felt that lack of collateral was the reason their loan applications were rejected, whereas 50% believed that loan refusal was due to their not having the 20% deposit. Almost 14% of the respondents did not know why their loan applications were refused, as a result of not being informed by the Bank, whereas bad credit record was mentioned by 2% of the respondents as a reason for loan refusal.

**Table 8: Reasons for loan refusal to smallholder farmers as perceived by the smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| Reasons for Loan applications refusal | | |
|---|---|---|
| Reason | Frequency. | % Frequency |
| No 20% deposit | 25 | 50.0 |
| No collateral | 17 | 34.0 |
| Bad credit record | 1 | 2.0 |
| None | 7 | 14.0 |
| TOTAL | 50 | 100.0 |

Respondents were given defined categories to indicate what they perceived as constraints to accessibility of Land Bank financial services and products. The responses are summarised in Table 9.

**Table 9: Constraints to Land Bank financial services as perceived by the smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| Constraints to Land Bank financial services | | |
|---|---|---|
| Constraint | Frequency | % Frequency |
| Lack of P.T.O | 1 | 2.0 |
| Lack of collateral | 5 | 10.0 |
| Bad credit record | 1 | 2.0 |
| Complicated applications | 1 | 2.0 |
| Inappropriate financial instruments | 6 | 12.0 |
| No aftercare | 29 | 58.0 |
| Conservative assessment criteria | 2 | 4.0 |
| TOTAL | 50 | 100.0 |

Inappropriate financial instruments (12%) and no aftercare service (58%) were cited as significant factors limiting access to Land Bank financial services by smallholders in the Tzaneen area (Table 9).

## 4.6 Loan repayment

Respondents were requested to indicate what they perceived to be the causes of poor loan repayments by smallholder farmers. Results are summarised in Table 10.

**Table 10: Causes of poor loan repayments by smallholder farmers as perceived by smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| Causes of poor loan repayments | | |
|---|---|---|
| Cause | Frequency | % Frequency |
| Poor aftercare | 26 | 52.0 |
| Lack of appropriate financial instruments | 14 | 28.0 |
| Improper repayment schedules | 7 | 14.0 |
| High interest rates | 2 | 2.0 |
| TOTAL | 50 | 100.0 |

Poor aftercare services (52%), lack of appropriate financial instruments (28%) and improper repayment schedules (14%) were considered by respondents as the major causes of poor loan repayments to the Land Bank in Tzaneen

Respondents were also requested to indicate what they perceived to be the mechanisms that could ensure good loan repayments by smallholder farmers. Results are summarised in Table 11.

**Table 11: Mechanisms to ensure good loan repayments by smallholder farmers as perceived by respondents in the Tzaneen area, Limpopo Province (n=50).**

| Mechanisms for good repayments | | |
|---|---|---|
| Mechanism | Frequency | % Frequency |
| Linkages of farmer and trader (i.e. contract farming) | 9 | 18.0 |
| Group lending | 28 | 56.0 |
| Own contribution | 2 | 4.0 |
| Financial incentives for prompt repayment | 1 | 2.0 |
| Equity financing instruments | 10 | 20.0 |
| TOTAL | 50 | 100.0 |

Group lending (56%), linkages of farmer and trader such as contract farming (18%) and equity financing instruments (20%) were perceived by respondents as major mechanisms that could ensure good loan repayments by smallholder farmers.

## 4.7 Impact of Land Bank on smallholder credit situation

A descriptive summary of the reasons for poor impact of the Land Bank on smallholder credit situation, as perceived by respondents in the Tzaneen area, is summarised in Table 12.

**Table 12: Reasons for poor impact of the Land Bank on smallholder credit situation as perceived by smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| Poor impact of the Land Bank on smallholder credit situation | | |
|---|---|---|
| Reason | Frequency | % Frequency |
| High default rate | 17 | 34.0 |
| Poor market access | 15 | 30.0 |
| Inappropriate instruments | 7 | 14.0 |
| Gender insensitivity | 5 | 10.0 |
| No support services | 6 | 12.0 |
| TOTAL | 50 | 100.0 |

All the respondents had a perception that the Land Bank had not as yet met its mandate of serving the financial needs of the smallholder farmers in the Tzaneen area. Poor impact of the Land Bank on smallholder farmers' credit situation was perceived as being due to high default rate (34%), poor market access (30%), inappropriate instruments (14%), and lack of support services (12%).

A descriptive summary of the reasons for insufficient database on smallholder farmers by the Land Bank, as perceived by respondents in the Tzaneen area, is summarised in Table 13.

**Table 13: Reasons for Land Bank insufficient database on smallholder farmers as perceived by respondents in the Tzaneen area, Limpopo Province (n=50).**

| Reasons for Land Bank Insufficient database | | |
|---|---|---|
| Reason | Frequency | % Frequency |
| Inappropriate products | 44 | 88.0 |
| Insensitivity to gender issues | 5 | 10.0 |
| Inappropriate screening procedure | 1 | 2.0 |
| TOTAL | 50 | 100.0 |

The principal reason for an insufficient information database on smallholder farmers by the Land Bank was perceived as being inappropriate products (88%). Insensitivity to gender issues (10%) and inappropriate screening procedure (2%) were perceived by a few respondents as reasons for insufficient database.

Table 14 summarises the opinions of farmers concerning bank credit refusal by level of education.

**Table 14: Opinion of farmers concerning bank credit refusal by level of education[1]**

| | Level of education | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | No formal education | | Grade 1-7 | | Grade 8-12 | | Diploma or degree | | Total | |
| Opinion | F | % | f | % | f | % | F | % | f | % |
| Lack of 20% deposit | 0 | 0 | 3 | 60 | 22 | 62.8 | 0 | 0 | 25 | 50 |
| Lack of collateral | 6 | 100 | 1 | 20 | 9 | 25.7 | 1 | 2 | 17 | 34 |
| Bad credit record | 0 | 0 | 0 | 0 | 1 | 2.9 | 0 | 0 | 1 | 2 |
| None | 0 | 0 | 1 | 20 | 3 | 8.6 | 3 | 6 | 7 | 14 |
| Total | 6 | 100 | 5 | 100 | 35 | 100 | 4 | 8 | 50 | 100 |

[1] chi-square = 28.64, $P<0.05$

Results of the chi-square analysis show that the reasons for loan refusal are significantly dependent on the farmer's educational background (i.e. all farmers who had never had any formal education listed lack of collateral as a reason for their loan refusal).

A correlation analysis of the data showed that there is a significant correlation between age and experience of farmers ($r=0.78$, $p<0.001$). There is also a significant correlation between the size of the farmer's landholding and that farmer's annual turnover ($r=0.75$, $p<0.001$).

### 4.8 Farmer-to-farmer mentorship

Table 15 summarises the smallholder farmer's social and institutional constraints as perceived by farmers in the Tzaneen area.

**Table 15: Social and institutional constraints experienced by smallholder farmers in the Tzaneen area, Limpopo Province (n=50).**

| Social and institutional constraints | | |
|---|---|---|
| Constraint | Frequency | % Frequency |
| Communal land allocation | 18 | 36.0 |
| Issues of right to occupy | 27 | 54.0 |
| Lack of resources | 5 | 10.0 |
| TOTAL | 50 | 100.0 |

Issues of right to occupy land for agricultural purpose (54%) and communal land allocation (36%) were considered by respondents as social and institutional constraints encountered by smallholder farmers in general.

Table 16 summarises the motivations for a smallholder farmer's mentorship programme as perceived by respondents in the Tzaneen area.

**Table 16: Motivations for a smallholder farmer mentorship programme as perceived by farmers in the Tzaneen area, Limpopo Province (n=50).**

| Motivations for smallholder farmer mentorship programme | | |
|---|---|---|
| Motivation | Frequency | % Frequency |
| Good empowerment program | 6 | 12.0 |
| Good mentorship program | 12 | 24.0 |
| Would assist in establishing successful farmers | 9 | 18.0 |
| Good capacity-building strategy | 11 | 22.0 |
| Good development programme | 10 | 20.0 |
| TOTAL | 50 | 100.0 |

It was evident that all farmers were in favour of farmer-to-farmer mentorship programme. Good mentorship program (24%), good capacity building strategy (22%) and good development programme (20%) were perceived by respondents as some of the motivations for the need for a farmer-to-farmer mentorship programme.

# CHAPTER 5

## DISCUSSION

### 5.1 Socio-economic characteristics

Age: an analysis of tomato-producing farmers in the Limpopo Province showed that most of the participating farmers were elderly, whereas those in the youth bracket constituted only 8% (Mashela, 2002). On the contrary, the respondent farmers in the Tzaneen area had an average age of 41 years, with a large percentage being younger than 60 years. This observation suggests that age is not a constraint to the farming ability in the Tzaneen area.

Qualification: Since the majority of the respondents could read and write, most of them could be trained in technical and managerial aspects of agriculture. Thus, illiteracy was not a constraint to the ability of those farmers to engage in commercial farming when compared to other developing countries (Kirsten, 1994).

Farming experience: The percentage of respondent farmers who have had less than five years of farming experience is approximately similar to the total percentage of those with more years of experience in farming combined. Thus, there was a large pool of farmer-to-farmer farming experience in the area. This factor is important, because farmers indicated that farmer-to-farmer mentorship was among the most effective methods of training.

The study also demonstrated that farming experience was correlated with age ($r=0.78$, $P<0.001$). This implies that the older farmers were more experienced than the younger farmers. This result was not surprising, because many elderly people in the province are involved in farming.

Land size: Many respondent farmers indicated that their landholding was between 6 and 14 ha. Generally, 5 ha is recommended as the minimum landholding size in horticultural production under intensive irrigation farming systems (Mathonzi & Hedden-Dunkhorst, 2000). Since it is Land Bank policy to provide loans to crop farmers who intend to irrigate their crops, such landholding is adequate in the Tzaneen area.

Respondents operated on both communal and purchased land. From the results of the study, many respondents cited unavailability of finance as being a major problem related to land ownership. It was obvious during interaction with the respondent farmers that many of them wanted to move from the trust P.T.O land to their own private land. It is also understandable why farmers cited finance as a problem, because land in the Tzaneen area is of high-potential and is therefore expensive compared to other parts of the province, (The Tzaneen area is a high-rainfall region with an average annual rainfall of over 700 mm).

### 5.2 Turnover and services

The average turnover of R48 768 per annum is acceptable. However, 52% of the respondent farmers had an annual turnover of between R1 000 and R24 000. This demonstrates that, since many farmers had landholding above the 5 ha minimum, they were not utilising the land to its full potential. The farmers cited lack of credit facilities as a primary reason for low turnover. Also, the primary reasons such as lack of basic infrastructure, particularly access roads to the farm, should not be overlooked. The 1999/2000 floods rendered most of the farm holdings inaccessible.

Furthermore, turnover was correlated with the land size ($r=0.75$, $P<0.01$), which agreed with reports from other studies (Mphahlele & Hedden-Dunkhorst, 2000). Thus, although respondent farmers did not indicate that land size was an issue, it is important that the ability to repay the loans be tied to the size of the landholding.

## 5.3 Loan applications

With respect to land size and turnover, respondent farmers indicated that their constraints were finance and credit facilities respectively. It is interesting to note that farmers indicated that between 1997 and 2001, they had approached the Land Bank for working capital loans and not for the purchasing of land. Also, it is worth noting that during the cited period, most farmers in the Tzaneen area did not experience debt problems, since 2% of the respondents cited debt consolidation as a reason for applying for credit (Table 7). Credit for the purchasing of equipment to cultivate the land was cited as the second major reason for approaching the Bank.

These two major reasons, namely working capital and equipment, were important because farming for commercial purposes is not practical if financing for those resources is not available. In many cases, it was preferable that smallholder farmers be provided with group lending credit to purchase a common implement that could be collectively used, as was generally done in government-initiated projects (Kirsten, 1994). However, proper equipment management training would be necessary in order to ensure ownership of the equipment by the group.

## 5.4 Smallholder farmers' credit situation

The respondents had experienced refusal of loans, and it is important to note that although most of them had no formal agricultural training, none of them cited "management inability" as a reason for refusal of their loan requests. The respondents believed that the primary reasons for refusal of their loans were their lack of both deposit and collateral.

Respondents indicated that inability to manage or repay the loan was not an issue. Inappropriate financial instruments were cited as one of the constraints inherent to the Land Bank in relation to financial services. The data, therefore, suggest that the Bank might be using inappropriate instruments in the assessment of the loan applications.

Many of the perceived constraints related to financial services in the Bank were linked to those that were provided as reasons for loan refusal. However, the results showed that the principal reasons for loan refusal were dependent on the educational level of the farmer (see Table 16). Also, all farmers with no formal education cited "lack of collateral" as a major reason for their loan refusal, whereas those with a formal education cited "lack of deposit". The reason for this disparity is not clear. However, it should be emphasised that these technical terms were adequately explained to the respondent farmers.

It is also important to note that the applications of the majority of respondents (95%) who had applied for working capital loans had been refused. Because working capital was cited as the principal reason for applying for these loans (Table 7), it was imperative that internal mechanisms within the Bank be improved to address that aspect.

Reasons for poor loan repayments as perceived by farmers were primarily those that could be corrected. For instance, poor aftercare and lack of appropriate financial instruments could be dealt with easily by government and the Land Bank. The respondents believed that strategies to resolve poor loan repayments should, *inter alia,* include linkages of farmer and trader, such as contract farming and group lending. In the Limpopo Province, particularly in rural communities, the government is also a major consumer of agricultural produce; for instance procurement for hospitals, prisons, homes for the aged and children's feeding schemes could give preferential treatment to smallholder farmers. However, the present tendering system is not friendly to smallholder farmers and their produce. Should the need arise legislation should be promulgated to enable government institutions to support smallholder farmers through special procurement of their produce. For example a certain allocation (i.e. 40%) should be set aside where competition would be restricted to smallholder farmers.

Furthermore, from the results of this study, age is correlated with experience of the farmers. This means that the older farmers were more experienced than the younger farmers. Also, landholding size is correlated with farmer's annual turnover. This means that the larger the landholding size of the farmer, the higher the farmer's annual turnover.

The case for group lending was presented earlier in this discussion. To emphasise this argument, group lending could also assist the Land Bank since only one account needs to be opened instead of numerous small accounts, which are invariably expensive to manage. Group lending is practised in other developing countries such as Malawi and Zimbabwe (Kirsten, 1994).

According to respondents, the Land Bank has made less impact on the smallholders' credit situation due to various reasons, which were related to an insufficient information database. All reasons provided suggest that there is a gap between Land Bank and farmers which needs to be closed for improved service delivery.

## 5.5 Mentorship

Respondents believed that farmer-to-farmer mentorship would be beneficial to them. In actual fact, larger commercial farmers are well placed in the Limpopo Province for developmental activities such as mentorship and the creation of employment opportunities. Thus, providing incentives for this partnership could have high spin-offs on smallholder agriculture development in the Limpopo Province.

# CHAPTER 6

# SUMMARY, RECOMMENDATIONS AND CONCLUSION

## 6.1 Summary

The objective of this study was to evaluate farmer perceptions about the Land Bank in its mission to provide services to smallholder farmers in the Tzaneen area of Limpopo Province in order to determine constraints to smallholder credit and where appropriate recommend mechanisms to overcome the constraints. To achieve this objective the study analysed the provision of Land Bank financial support services to smallholder farmers through structured questionnaire interviews with smallholder farmers. After determining and analysing the constraints, appropriate mechanisms to overcome the major constraints were recommended.

The study describes how smallholder farmers perceive the delivery of services from a financial institution that has been mandated to assist them. The study demonstrates that farmers have various perceptions on why they are not receiving the expected services and they also have proposals on how the services could be improved. Proposed services included non-conventional collateral substitutes such as viability of farming enterprises, linkages of farmer and trader such as contract farming, proper repayment schedules that are tied to the agrarian production cycle and different types of production.

In reviewing the literature on agricultural credit delivery to smallholder farmers it was evident that attention should be focused on a new approach to credit provision to smallholder farmers. The old approach of cheap credit and supply-led credit agencies was characterised by low repayment rates, poor targeting, and low operational and managerial efficiency. Poor assessment of marketing possibilities and profitability and limited loan repayment capacities of the borrowers often explained the high rate of loan defaults. The old approach is increasingly being discouraged in favour of a new approach that emphasises savings, self-sustainability, loan recovery, and viability of financial institutions. It was also clear that it would be self-defeating if viability and self-sufficiency were achieved by confining lending to large farmers, hence accessibility for rural disadvantaged smallholder farmers is an important criterion by which to judge a credit programme. It is also evident from the literature review that shifting the emphasis from collateral to profitability of investment activities supported by credit could go a long way towards increasing the access of smallholder farmers to institutional credit.

Results demonstrated that poor aftercare services, lack of appropriate financial instruments and improper repayment schedules were perceived and considered by farmers as principal reasons for poor loan repayments. On the other hand, group lending, linkages of farmer and trader such as with contract farming and equity financing instruments were perceived by respondents as important mechanisms that could ensure good loan repayments by smallholder farmers.

A large percentage of the respondents indicated that lack of collateral and deposit were the main reasons for the decline of their credit requests by the Land Bank. Lack of aftercare services and inappropriate financial instruments were considered by respondents as the main constraints to Land Bank financial services in the Tzaneen area.

## 6.2 Recommendations

### 6.2.1 Collateral

From this study it is clear that collateral is central to the availability and accessibility of financial services by smallholder farmers. This is also supported by other research findings such as those of the African Development Bank (2001) and Mathonzi & Hedden-Dunkhorst (2000). This is particularly true since most emerging smallholder farmers do not have conventional collateral security due to the historical legacy of land dispossession, which has led to them being confined to communal trust land with limited or no tenure security. Hence, credit institutions such as the Land Bank should consider alternative collateral requirements if they are to serve a large number of smallholder farmers, the majority of whom do not meet the normal conventional collateral requirements set by credit institutions. Therefore, instruments such as credit guarantee schemes, group lending, linkages between farmer and trader such as with contract farming, as well as securing the tradability of permission to occupy space for farming purposes (PTO), could provide potential solutions to addressing the collateral/security concerns of credit institutions while opening doors for smallholder farmers to widely access institutional credit.

The advantage of using instruments such as contract farming as a collateral substitute is that credit is given in association with other transactions. Examples are a trader paying in advance for a crop to provide consumer credit. Another collateral substitute is threat of loss of future borrowing opportunities. Central to this would be effective default information management. Another collateral substitute that may be considered, but which is not recommended in this study, is differentiated interest rates, the reason being that those experiences world wide have shown that this approach has not been successful in bridging the gap between the smallholder farmers and institutions offering institutional credit. For example, the net effect of charging the emerging smallholder farmers high interest rates due to their being classified as bronze (high-risk) and silver (medium-risk) clients is the reduction in the smallholder farmer's disposable income and ultimately the farmer's ability to service the loans and purchase the much-needed productive assets.

Currently, age is not a factor when the Land Bank is determining what interest rate to charge on a particular farmer/client. However, from this study it has been established that there is a significant correlation between age and experience of farmers. Therefore, consideration could also be given to differentiated interest rates on the basis of experience of the farmers as opposed to the current approach, which is largely biased toward collateral.

### 6.2.2 Appropriate financial instruments

The key to the development of appropriate financial products and services is the establishment of an effective research and development capacity within a financial institution, which is geared to address and respond to the credit needs and situation of smallholder farmers. Hence, instruments such as interest rates, credit guarantee schemes, group lending, contract farming, equity financing, good screening of applicants, threat of loss of future borrowing, participatory approaches, and provision of aftercare services and loan education are recommended approaches to unlocking institutional credit to a large number of smallholder farmers. These instruments have proved to be appropriate in responding to the credit situation of smallholder farmers in developing countries similar to the rural areas of South Africa, thereby enabling them to widely access institutional credit.

In future, the smallholder farmers' credit situation should inform the type of intervention and instruments required to address their credit needs. In this way institutions such as the Land Bank could ensure that appropriate and accessible products are designed and implemented. Lastly, given the moderate literacy level of most smallholder farmers, as confirmed in this study, the need arises for credit and financial education and aftercare services. This will ensure that smallholder farmers are better positioned to make appropriate and informed choices and decisions regarding their financial situation. The Land Bank and other financiers involved in smallholder credit could certainly learn from the experiences of the Grameen Bank in Bangladesh, which has been able to serve the poor and smallholder farmers through group lending.

#### 6.2.3 Deposit and/or own cash contribution

It is recommended that linkages of farmer and trader, such as with contract farming, be utilised by financial institutions like the Land Bank as a substitute for the requirement of own cash contribution and/or 20% deposit before a farmer may access their institutional credit facilities. This would release the much-needed resources to enhance the production capacity of smallholder farmers if appropriately and properly implemented.

#### 6.2.4 Repayment schedules

It is evident from this study that repayment schedules negatively impact on the farmers' ability to service their loan debt, their ability to access future credit, and their financial position in general. For credit suppliers such as the Land Bank to address issues pertaining to accessibility of their services would require recognition of the fact that farmers need credit at the beginning of a season and can only realistically begin to repay such credit after a harvest. Similarly, development finance institutions such as the Land Bank should consider credit systems that recognise that the time required for the realisation of profits in agricultural production differs between crop types (e.g. vegetables and fruit trees).

### 6.3 Conclusion

Smallholder farmers perceived various constraints as limiting them to access institutional financial support services. The major constraints were lack of conventional collateral security, inappropriate financial instruments, lack of aftercare services such as loan education and supervision and lack of deposit.

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# 8 APPENDICES

## APPENDIX 1: Questionnaire

**QUESTIONNAIRE TO DETERMINE CONSTRAINTS TO THE LAND BANK'S FINANCIAL SUPPORT SERVICES TO SMALLHOLDER FARMERS IN THE TZANEEN AREA**

COMPILED BY: SPS MALEPENG

<u>OVERALL OBJECTIVE OF THE QUESTIONNAIRE</u>:

- To determine the constraints faced by smallholder farmers with regard to Land Bank credit in the Tzaneen area

**EXAMPLE:**

Which of the following categories describes you:

| | | |
|---|---|---|
| 1. | Part-time farmer | X |
| 2. | Full-time farmer | |

## A. FARMER'S PERSONAL DATA

1. Questionnaire number ………………………………………………… 1

2. Gender 2

| Choose one | |
|---|---|
| Male | |
| Female | |

3. Age: ……………………………………………………years 3

4. Educational level 4

…………………………………………………………

5. For how many years have you been a farmer?………………yrs 5

6. Farming status: 6

| Choose one | |
|---|---|
| Emerging (smallholder) farmer | |
| Commercial farmer | |

7. Are you farming on: 7

| Choose appropriate answer(s) | |
|---|---|
| Lease land | |
| Permission-to-Occupy land | |
| Own land (title deed) | |
| Tribal land | |
| State land | |
| Communal grazing | |

8. Size of land. ……………………………………………… (ha)

9. What are the problems associated with your choice in 7 above?

………………………………………………………………………………

………………………………………………………………………………

………………………………………………………………………………

10. Do you have enough drinking and irrigation water?

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

11. In which of the following farming enterprises are you involved? 14

| Choose appropriate answer(s) | |
|---|---|
| Poultry farming | |
| Livestock farming (i.e. cattle, sheep) | |
| Fruit farming | |
| Vegetable farming | |
| Game farming | |
| Field husbandry | |
| Other (specify) | |

15
16
17
18
19

12. What is your average turnover per year from the above-mentioned farming activities? R………………………………. 20

13. Do you have a problem with overgrazing in your area? 21

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

| | | | |
|---|---|---|---|
| 14. | Which of the following support services are not accessible to you? | | 22 |
| | | | 23 |
| | | | 24 |
| | | | 25 |

| Choose appropriate answer(s) | | |
|---|---|---|
| 1. | Extension service | |
| 2. | Market information | |
| 3. | Infrastructure (i.e. market, roads, dams & telephones) | |
| 4. | Credit facilities | |
| 5. | None | |

## B. AVAILABILITY OF FINANCE

"Problems through the eyes of the farmer"

15. How would you rate the outreach of the Land Bank Tzaneen to emerging farmers in terms of distance and services? 26

| Choose one | |
|---|---|
| 1. Poor | |
| 2. Good | |

16. In your view, do Land bank credit programmes take into account the needs and socio-economic backgrounds of smallholder farmers? 27

| Choose one | |
|---|---|
| 1. Yes | |
| 2. No | |

17. In your opinion, do the present Silver and Bronze risk category products address the credit needs of smallholders? 28

| Choose one | |
|---|---|
| 1. Yes | |
| 2. No | |

18. If no/yes, give reasons.

| Choose appropriate answer(s) | |
|---|---|
| Lack of 20% deposit/contribution | |
| Lack of collateral | |
| No supervision/aftercare services | |
| Former homeland debts | |
| Other (specify) | |

29
30
31

19. Have you ever approached the Land bank for finance? 32

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

20. If Yes, when? 33

.........................................................................

21. What was the purpose of your loan application? 34
35

| Choose appropriate answer(s) | |
|---|---|
| Purchase of land | |
| Livestock/Equipment | |
| Working capital | |
| Consolidation of debts | |

22. What was the outcome of your application? 36

| Choose one | |
|---|---|
| Granted | |
| Refused | |

23. If Refused, what were the reasons? 37 38 39 40 41 42

| Choose appropriate answer(s) | |
|---|---|
| Lack of 20% deposit/own cash contribution | |
| Lack of collateral/security | |
| Bad credit record/ITC listed | |
| Lack of market | |
| Poor management ability | |
| Poor repayment ability | |
| Poor business planning | |
| Poor support services | |
| None | |

24. Which of the following financial products do you require the most? 43 44

| Choose appropriate answer(s) | |
|---|---|
| Production (working capital) loan | |
| Medium-term loan (Livestock & Equipment) | |
| Long-term loan | |

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25. What do you consider as barriers to accessing the financial services of the Land Bank Tzaneen?

| | |
|---|---|
| | 45 |
| | 46 |
| | 47 |
| | 48 |
| | 49 |
| | 49 |
| | 50 |
| | 51 |

| Choose appropriate answer(s) | |
|---|---|
| 20% Deposit on all loans | |
| Lack of security/collateral | |
| No aftercare services | |
| ITC listed | |
| Lack of business planning skills | |
| Complicated application procedure | |
| Poor location of Land Bank Tzaneen | |
| Inappropriate financial instruments | |
| All of the above | |
| Conservative assessment criteria | |
| Conservative loan criteria | |
| None of the above | |
| Other (specify) | |

26. Does the land Bank Tzaneen offer deposit facilities for emerging farmers?

| | |
|---|---|
| | 52 |

| Choose one | |
|---|---|
| 1. Yes | |
| 2. No | |

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27. Which of the following is the main reason for the non-repayment of loans by emerging farmers?

| | |
|---|---|
| | 53 |
| | 54 |
| | 55 |
| | 56 |

| **Choose appropriate answer(s)** | |
|---|---|
| Lack of markets | |
| Lack of/poor aftercare services | |
| Lack of appropriate financial instruments | |
| Floods | |
| Drought | |
| Poor management | |
| Over-financing/over-gearing | |
| Poor screening capacity | |
| No proper repayment schedules | |
| High interest rate | |
| Other reasons | |

28. Which of the following strategies would ensure a good loan repayment record/minimise defaults?

| | |
|---|---|
| | 57 |
| | 58 |
| | 59 |
| | 60 |

| **Choose appropriate answer(s)** | |
|---|---|
| Good screening of applicants | |
| Own contribution (cash) | |
| Financial incentives for prompt repayment | |
| Incentives for staff | |
| Denying borrowers access to future loans if they fail to repay an earlier one | |
| Group lending | |
| Equity financing instruments | |
| Linking funding with produce marketing | |

| Other (specify) | |
|---|---|
| | |
| | |

29. Do Land Bank loan repayments (instalments) take into account the nature and income structures of the financed farming enterprise? 61

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

30. In your opinion, does the Land Bank Tzaneen provide adequate information about its activities to emerging farmers? 62

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |
| 3. | Don't know | |

31. In your opinion, is the on-time bonus scheme incentive to emerging farmers for early loan repayment successful? 63

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

32. Explain your answer in 32 above: 64

………………………………………………………………………………………… 65

………………………………………………………………………………………… 66

33. Current Land Bank policy does not encourage group lending to emerging smallholder farmers: 67

Do you regard this as?

| Choose appropriate answer | | |
|---|---|---|
| 1. | Negative | |
| 2. | Not a problem | |
| 3. | No need for it | |
| 4. | Limitation to credit | |
| 5. | Other (specify) | |
| | | |

68

69

70

71

34. Are you of the opinion that the interest rate charged by the Land Bank to smallholder farmers on short- or medium-term loans is:

| Choose appropriate answer(s) | |
|---|---|
| Lower than other banks | |
| Similar to commercial banks | |
| Higher for a development bank | |
| Don't now | |
| Other | |

72

73

74

35. In your opinion, is the Land Bank Tzaneen meeting its challenge/mandate of providing finance to smallholder farmers in your area? 75

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

36. Give reasons for your answer above 76 77 78

| Choose appropriate answer(s) | |
|---|---|
| Has few successful smallholder farmers | |
| Leads to high default rate | |
| Poor financing mechanisms | |
| Putting smallholders in a debt trap | |
| Source of failure for agribusiness | |
| Low profit margin as a result of high interests | |
| Other (specify) | |

37. In your opinion, does Land Bank Tzaneen have sufficient information and a knowledge base attuned to the realities of both the region and the emerging farmers? 79

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

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38. If yes/no, explain:

| Choose appropriate answer(s) | |
|---|---|
| Inappropriate financial products | |
| Insensitive to gender issues and approaches | |
| Lack of understanding of the socio-economic dynamics of the emerging farmers | |
| Inappropriate screening procedure | |
| Inappropriate application form | |
| All of the above | |
| Other | |

| | |
|---|---|
| | 80 |
| | 81 |
| | 82 |
| | 83 |
| | 84 |
| | 85 |

39. Does the Land Bank Tzaneen consult the emerging farmers in your region on the local priorities, proposals and needs? 86

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

40. At present, what impact do the financial services of the Land Bank Tzaneen have in terms of establishing black farmers in your area? 87

| Choose one | |
|---|---|
| High impact | |
| Medium impact | |
| Low impact | |
| No impact | |

41. If no/low impact, why? 88

| Choose appropriate answer(s) | |
|---|---|
| High default rate | |
| Poor market access | |
| Inappropriate instruments/credit programmes | |
| Lack of sensitivity to gender approaches and issues | |
| High rate of repossession and liquidation within a short time | |
| No support services | |
| Poor repayment schedules | |
| Drought | |
| Floods | |
| Poor financial position | |
| Other | |

89
90
91
92

42. Are you aware of any gender-specific issues and approaches built into the screening and assessment criteria for finance by the Land Bank Tzaneen? 93

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

43. Do you consider access to markets and market information as part of the constraints limiting your ability to access Land Bank funding? 94

| Choose one | |
|---|---|
| 1. Yes | |
| 2. No | |

44. In your opinion, which of the following social and institutional constraints do you encounter in your area? 95 96 97 98

| Choose appropriate answer(s) | |
|---|---|
| Communal land allocation | |
| Issues of right-to-occupy | |
| Lack of resources | |
| Market access/remote location | |
| Poor communication and co-ordination between different government agencies, especially at the provincial and local level | |
| Depending on your government and lack of initiative | |

45. Do you think linking the loan to other transactions, for example crop marketing, would assist in the extension and availability of financial services (Land Bank) to smallholder farmers in your area? 99

| Choose one | |
|---|---|
| 1. Yes | |
| 2. No | |

46. Explain your answers above.

| Choose appropriate answer(s) | |
|---|---|
| 1. Will result in good repayment probability | |
| 2. Another form of security | |
| 3. Not feasible | |
| 4. Other (specify) | |

| | |
|---|---|
| | 100 |
| | 101 |
| | 102 |
| | 103 |

47. Do large commercial farmers in your area assist with some type of mentorship programme in agriculture? 104

| Choose one | |
|---|---|
| 1. Yes | |
| 2. No | |

48. Do you think the provision of incentives for a farmer mentorship programme would encourage commercial farmers to nurture emerging farmers? 105

| Choose one | |
|---|---|
| 1. Yes | |
| 2. No | |

49. Provide reasons

| Choose appropriate answer(s) | |
|---|---|
| Would be abused | |
| Larger farmers not committed | |
| A form of enrichment for large farmers | |
| Good capacity-building programme | |

| | |
|---|---|
| | 106 |
| | 107 |
| | 108 |
| | 109 |

| | |
|---|---|
| Good strategy for developing emerging farmers | |
| Other reasons (specify) | |

50. In your own opinion, are the farmer-to-farmer support programme necessary, i.e. successful farmers supporting emerging smallholder farmers through on-farm training? [ ] 110

| Choose one | | |
|---|---|---|
| 1. | Yes | |
| 2. | No | |

51. Explain your answer above: [ ] 111

……………………………………………………………………………………… [ ] 112

……………………………………………………………………………………… [ ] 113

……………………………………………………………………………………… [ ] 114

## APPENDIX 2: Code list

CODE LIST

QUESTIONNAIRE TO DETERMINE THE CONSTRAINTS TO THE PROVISION OF FINANCIAL SERVICES TO SMALLHOLDER FARMERS IN THE TZANEEN AREA

**EXAMPLE**

Part-time farmer = 1 [Code 3]
Full-time farmer = 2

1. Questionnaire number: nominal value [Code 1]
2. Male = 1 [Code 2]
   Female = 2
3. Age: Exact nominal value [Code 4]
4. Education level: [Code 5]
   None = 1
   Grade 1 - 7 = 2
   Grade 8 - 12 = 3
   Diploma = 4
   Degree = 5
5. Experience (yrs): Nominal value [Code 6]

| | | | |
|---|---|---|---|
| 6. | Smallholder farmer | = 1 | [Code 7] |
| | Commercial farmer | = 2 | |
| 7. | Lease Land | = 1 | [Code 8] |
| | Permission-to-Occupy land | = 2 | |
| | Own land | = 3 | |
| | Tribal land | = 4 | |
| | State land | = 5 | |
| | Communal grazing | = 6 | |
| 8. | Size: Exact nominal value | | [Code 14-15] |
| | Communal grazing = 0 | | |
| 9. | Lack of collateral | = 1 | [Code19-22] |
| | Lack of finance | = 2 | |
| | Lack of security | = 3 | |
| | Lack of markets | = 4 | |
| | Lack of implements | = 5 | |
| | Lack of infrastructure | = 6 | |
| | High Costs of land | = 7 | |
| | No P.T.O. certificate | = 8 | |
| 10. | Yes = 1 | | [Code 23] |
| | No = 0 | | |
| 11. | Poultry farming | = 1 | [Code 25-31] |
| | Livestock farming | = 2 | |
| | Fruit farming | = 3 | |

Vegetable farming = 4
Game farming = 5
Field husbandry = 6
Other = 0

12. Turnover: Exact nominal value [Code 32]

13. Overgrazing: [Code 35]
Yes = 1
No = 0

14. Support services: [Code 37-41]
Extension service = 1
Market information = 2
Infrastructure = 3
Credit facilities = 4
None = 5

15. Poor = 1 [Code 42]
Good = 2

16. Yes = 1 [Code 44]
No = 0

17. Yes = 1 [Code 46]
No = 0

| | | | |
|---|---|---|---|
| 18. | Lack of 20% deposit/contribution | = 1 | [Code 48-52] |
| | Lack of collateral | = 2 | |
| | No supervision/aftercare services | = 3 | |
| | Former homeland debts | = 4 | |
| | Other | = 5 | |

| | | | |
|---|---|---|---|
| 19. | Yes | = 1 | [Code 53] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 20. | 1997 | = 1 | [Code 55-57] |
| | 1998 | = 2 | |
| | 1999 | = 3 | |
| | 2000 | = 4 | |
| | 2001 | = 5 | |
| | Never | = 6 | |

| | | | |
|---|---|---|---|
| 21. | Purchase of land | = 0 | [Code 58-61] |
| | Livestock/Equipment | = 1 | |
| | Working capital | = 2 | |
| | Consolidation of debts | = 3 | |

| | | | |
|---|---|---|---|
| 22. | Granted | = 1 | [Code 62] |
| | Refused | = 2 | |

| | | | |
|---|---|---|---|
| 23. | Lack of 20% deposit/own cash contribution | = 0 | [Code 64-73] |
| | Lack of collateral/security | = 1 | |
| | Bad credit record | = 2 | |
| | Lack of market | = 3 | |
| | Poor management ability | = 4 | |
| | Poor repayment ability | = 5 | |
| | Poor business plans | = 6 | |
| | Poor support services | = 7 | |

| | | | |
|---|---|---|---|
| | None | = 8 | |
| | P.T.O | = 9 | |
| 24. | Production loans = 1 | | [Code 74-76] |
| | Medium-term loans = 2 | | |
| | Long-term loans = 3 | | |
| 25. | 20% Deposit on all loans | = 0 | [Code 77-89] |
| | Lack of security/collateral | = 1 | |
| | No aftercare services | = 2 | |
| | Bad credit record | = 3 | |
| | Lack of business planning skills | = 4 | |
| | Complicated application procedure | = 5 | |
| | Poor location of Land Bank Tzaneen | = 6 | |
| | Inappropriate financial instruments | = 7 | |
| | All of the above | = 8 | |
| | Conservative assessment criteria | = 9 | |
| | Conservative loan criteria | = 10 | |
| | None of the above | = 11 | |
| | Lack of P.T.O. | = 12 | |
| 26. | Yes = 1 | | [Code 89] |
| | No = 0 | | |
| 27. | Lack of markets | = 0 | [Code 91-101] |
| | Lack of/poor aftercare services | = 1 | |
| | Lack of appropriate financial instruments | = 2 | |
| | Floods | = 3 | |
| | Drought | = 4 | |
| | Poor management | = 5 | |
| | Over-financing/over-gearing | = 6 | |
| | Poor screening capacity | = 7 | |
| | No proper repayment schedules | = 8 | |

| | | | |
|---|---|---|---|
| | High interest rate | = 9 | |
| | Other | = 10 | |
| 28. | Good screening of applicants | = 0 | [Code 102-110] |
| | Own cash contribution | = 1 | |
| | Financial incentives for prompt repayment | = 2 | |
| | Incentives for staff | = 3 | |
| | Denying borrowers access to future loans if they fail to repay an earlier one | = 4 | |
| | Group lending | = 5 | |
| | Equity financing instruments | = 6 | |
| | Linkages of farmer and trader | = 7 | |
| | Other | = 8 | |

| | | | |
|---|---|---|---|
| 29. | Yes | = 1 | [Code 111] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 30. | Yes | = 1 | [Code 113] |
| | No | = 0 | |
| | Don't know | = 2 | |

| | | | |
|---|---|---|---|
| 31. | Yes | = 1 | [Code 116] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 32. | High default rate | = 0 | [Code 118-120] |
| | Low repayment rate | = 1 | |
| | Low arrears | = 2 | |
| | High repossessions | = 3 | |
| | Poor repayment schedules | = 4 | |
| | High liquidations | = 5 | |
| | High arrears level | = 6 | |
| | Would encourage timely repayment of loans | = 7 | |

| | |
|---|---|
| Good form of encouragement | = 8 |
| Differentiate large farmers from small farmers | = 9 |
| Excludes the poor | = 10 |

| | | | |
|---|---|---|---|
| 33. | Negative | = 1 | [Code 121-122] |
| | Not a problem | = 2 | |
| | No need for it | = 3 | |
| | Limitation to credit | = 4 | |
| | Other | = 5 | |

| | | | |
|---|---|---|---|
| 34. | Lower than other banks | = 0 | [Code 126-127] |
| | Similar to commercial banks | = 1 | |
| | Higher for a development bank | = 2 | |
| | Don't know | = 3 | |
| | Other | = 4 | |

| | | | |
|---|---|---|---|
| 35. | Yes | = 1 | [Code 131] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 36. | Has few successful smallholder farmers | = 0 | [Code 133-139] |
| | Leads to high default rate | = 1 | |
| | Poor financing mechanisms | = 2 | |
| | Putting smallholders in a debt trap | = 3 | |
| | Source of failure for agribusiness | = 4 | |
| | Low profit margin as result of high interests | = 5 | |
| | Other | = 6 | |

| | | | |
|---|---|---|---|
| 37. | Yes | = 1 | [Code 140] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 38. | Inappropriate financial products | = 1 | [Code 142-148] |
| | Insensitive to gender issues and approaches | = 2 | |
| | Lack of understanding of the socio-economic dynamics of the emerging farmers | = 3 | |
| | Inappropriate screening procedure | = 4 | |
| | Inappropriate application form | = 5 | |
| | All of the above | = 6 | |
| | Other | = 7 | |

| | | | |
|---|---|---|---|
| 39. | Yes | = 1 | [Code 149] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 40. | High impact | = 0 | [Code 151] |
| | Medium impact | = 1 | |
| | Low impact | = 2 | |
| | No impact | = 3 | |

| | | | |
|---|---|---|---|
| 41. | High default rate | = 0 | [Code 155-165] |
| | Poor market access | = 1 | |
| | Inappropriate instruments/credit programmes | = 2 | |
| | Lack of sensitivity to gender approaches and issues | = 3 | |
| | High rate of repossession and liquidation within a short-time | = 4 | |
| | No support services | = 5 | |
| | Poor repayment schedules | = 6 | |
| | Drought | = 7 | |
| | Floods | = 8 | |
| | Poor financial position | = 9 | |
| | Other | = 10 | |

| | | | |
|---|---|---|---|
| 42. | Yes | = 1 | [Code 166] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 43. | Yes | = 1 | [Code 168] |
| | No | = 0 | |
| 44. | Communal land allocation | = 0 | [Code 170-173] |
| | Issues of right-to-occupy | = 1 | |
| | Lack of resources | = 2 | |
| | Market access/remote location | = 3 | |
| | Poor communication and co-ordination between different government agencies | = 4 | |
| | Depending on your government and lack of Initiative | = 5 | |
| 45. | Yes | = 1 | [Code 176] |
| | No | = 0 | |
| 46. | Would result in good repayment probability | = 1 | [Code 178-179] |
| | Another form of security | = 2 | |
| | Not feasible | = 3 | |
| | Other | = 4 | |
| 47. | Yes | = 1 | [Code 182] |
| | No | = 0 | |
| 48. | Yes | = 1 | [Code 184] |
| | No | = 0 | |
| 49. | Would be abused | = 1 | Code186-188] |
| | Larger farmers not committed | = 2 | |
| | A form of enrichment for large farmers | = 3 | |
| | Good capacity-building programme | = 4 | |
| | Good strategy for developing emerging farmers | = 5 | |
| | Other reasons | = 6 | |

| | | | |
|---|---|---|---|
| 50. | Yes | = 1 | [Code 192] |
| | No | = 0 | |

| | | | |
|---|---|---|---|
| 51. | Good capacity-building strategy | = 0 | [Code 193-195] |
| | Good empowerment programme | = 1 | |
| | Would assist in establishing and developing successful farmers | = 2 | |
| | Would not work | = 3 | |
| | Comments | = 4 | |
| | Good development programme | = 5 | |
| | Good mentorship program | = 6 | |
| | Would assist in harmonising relations | = 7 | |