

Factors influencing farmers' attitude towards formal and informal Financial Markets in the Northern Cape, South Africa

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ABSTRACT: This study examines factors influencing farmers' attitude towards formal and informal Financial Markets in the Northern Cape, South Africa. From each of the two districts selected, 80 farmers were randomly selected to give a sample size of 160, however seven questionnaires were discarded after it was discovered that only half of their questionnaires were properly filled, thus giving 153. A questionnaire was developed based on the objectives of the study to collect data on demographic details, farming experience, marital status, education level, ethnic group, land ownership, access to credit from commercial banks, credit worthiness, distance to credit institutions, collateral, formal and informal credit, characteristics of informal financial markets. Data collected were subjected to analysis with SPSS version 20 using frequency counts, percentages and Multiple regression analysis (OLS). Majority of the farmers (70.6%) have been farming for more than five years, between 51 and 65 years of age (54.9%), 77.8% are men. Most of the respondents (73.9%) use communal land to farm, with only 11.8% owning it, while some rent this land from the government (14.4%). Prominent constraints are stringent collateral requirements (86.3%), distant financial markets from farmers (80.4%), and high transaction costs (65.4%). The most prominent attitudinal statement as ranked by the farmers were more responsiveness to the needs of emerging farmers (88.9%) loans provided are too low (93.5%), and services are not sustainable (91.5%). The socio-economic characteristics were significantly related to attitude towards formal financial markets (F-value of 3.642, $p < 0.05$) with five significant variables namely farming experience ($t = 2.41$), land ownership ($t = 3.86$) and type of dwelling ($t = 2.50$), education level ($t = 1.71$) and ethnic group ($t = -1.71$).

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Introduction

Finance in agriculture plays a very significant role in generating enough capital for farmers, particularly the poor ones who find it hard to secure or access the funds from the commercial banks that are less interested in small farmers due to their risk management policies. It is for this reason that government deemed it fit to appoint a Strauss Commission to dissect the credit market with a view to identify loopholes and main reasons why the credit market behaved the way it did. According to Coetzee (1998), the Commission led to the creation of government structures whose aim was to introduce policies and strategies in an effort to support small entrepreneurs and also restructure the existing credit institutions. Microfinance programmes were then introduced by government to try and absorb some of the risks that these institutions were exposed to. This included amongst others, the establishment of the Khula Enterprise under the auspices of the Department of Trade and Industry (DTI). Micro Agricultural Financial Institution of South Africa (MAFISA) was also introduced by the then Department of Agriculture, and now known as the Department of Agriculture (DOA), Forestry and Fisheries (DAFF) in an effort to address the challenges farmers were faced with in relation to lack of access to credit. MAFISA was launched in the Northern Cape in 2007, and this credit policy's main objective is to take credit to farmers and agribusinesses to the far flung and deep rural areas where it is almost impossible for such business people to access credit

through formal credit markets. Some communities depend largely on the financial support of other family members as an informal way of ensuring their access to credit to keep their small business up and running. The Northern Cape remains one of the Provinces that are too rural and less developed, where the majority of people live in abject poverty. The level of unemployment in this Province is just as high as that of literacy, and the majority of dwellers in these rural areas depend largely on agriculture as their source of income. Agriculture is therefore regarded as the backbone of the Province since the mining sector does not employ too many people when the number of people who take up jobs and contribute to economic growth and development are considered.

South Africa's pro-poor micro financial institutions are based mainly in rural areas, but their clients are not agricultural microenterprises due to the fact that the country has few small-scale cash farmers (Baumann, 2001). Agriculture's contribution to the Gross Domestic Products (GDP) is decreasing at an alarming rate, and more needs to be done to curb this. This can only be achieved by ensuring that farmers enjoy the support they deserve from both the state and the private sector on the provision of cheaper credit at all times, including Non-Governmental Organisations (NGO's). The availability of credit in rural areas remains a serious challenge facing farmers, particularly the emerging ones. Commercial banks are less interested in lending their scarce resources to people in

areas where transaction costs are extremely high. Government has been trying to encourage these institutions to invest hugely in rural areas for development to take place, but the private sector is only interested in investing their resources where the levels of risk are very low for them to realise their returns on investment. South Africa is characterised by a concentration of poor people in rural areas where the standard of living is low due to the high numbers of illiterate people. South Africa's retail banks evolved to serve the needs of the white population, and their geographical coverage, institutional structures, and business practices developed accordingly. South African banks are rooted in the British 'high street' tradition, with small branch operations or agencies providing a personalized service. Many middle class retail-banking products have traditionally been cross-subsidised by commercial banking operations (Baumann, 2001). The objective of this study is to analyse the factors influencing farmers' participation in formal and informal Financial Markets in the Northern Cape, South Africa

Methods

The Northern Cape lies in the North Western part of South Africa, bordering Namibia and Botswana. This is a relatively dry Province with temperatures fluctuating from one region to another, and these temperatures can reach 40 degree Celsius in summer. This mainly happens in the western regions of the Province, i.e. the Upington area. The Province contributes 2.4% to the country's GDP, and this poor performance can be attributed to its (Province) rural nature. The survey was conducted in two (John Taolo

Gaetsewe and Pixley Ka Seme) of the five Districts of the Province. Northern Cape is the biggest Province in the country in terms of land size, but the smallest in terms of population size. Almost all the Districts are described as rural and lack the basic infrastructure required for development to be stimulated, especially the John Taolo Gaetsewe which is the only district with villages while others are made up of small towns and townships. From each of the two districts selected, 80 farmers were randomly selected to give a sample size of 160, however seven questionnaires were discarded after it was discovered that only half of their questionnaires were properly filled, thus giving 153. A questionnaire was developed based on the objectives of the study to collect data on demographic details, farming experience, marital status, education level, ethnic group, land ownership, access to credit from commercial banks, credit worthiness, distance to credit institutions, collateral, formal and informal credit, characteristics of informal financial markets. Data collected were subjected to analysis with SPSS version 20 using frequency counts, percentages and Multiple regression analysis (OLS).

Results

The results in Table 1 shows distribution by personal characteristics, Table 2 presents constraints facing farmers on formal financial institutions, Table 3 depicts attitude of farmers towards informal financial markets and Table 4 presents multiple regression analysis showing relationship between socio-economic characteristics and attitude towards formal and informal financial markets.

Table 1: Distribution by personal characteristics (n=153)

Variables	Frequency	Percentage
Farming experience		
Less than 1 year	3	2.0
1-2 years	10	6.5
3-5 years	32	20.9
Over 5 years	108	70.6
Age		
Less than 18 years	0	0
18-50 years	55	35.9
51-65 years	84	54.9
Over 66 years	14	9.2
Gender		
Male	119	77.8
Female	34	22.2
Education level		
No formal education	27	17.6
Up to Grade 7	57	37.3
Grade 8-12	66	43.1
Post-Secondary	3	2.0
Land status		
Own	18	11.8
Rent	22	14.4
Communal land	113	73.9
Enterprise		
Large stock	108	70.6

Small stock	43	28.1
Vegetables	1	0.7
Other	1	0.7
Distances		
Less than 100 km	6	3.9
100-150 km	17	11.1
Over 150 km	89	58.2
Not sure	41	26.8
Institution	Yes	No
Land Bank	64 (41.8)	89 (58.2)
MAFISA	61 (39.9)	92 (60.1)
Family	99 (64.7)	54 (35.3)
Friends	70 (45.8)	83 (54.2)
Loan Sharks	47 (30.7)	106 (69.3)
Savings Clubs	8 (5.2)	145 (94.8)

Figures in parentheses are percentages of the total sample

Table 2: Constraints facing farmers on Formal financial Institutions

Constraints	Yes	No
Stringent collateral requirements	132 (86.3)	21 (13.7)
Blacks are not good farmers	68 (44.4)	85 (55.6)
High transaction costs	100 (65.4)	53 (34.6)
Distant Financial Markets from farmers	123 (80.4)	30 (19.6)
Lack of Information	59 (38.6)	94 (61.4)
Poor repayment abilities	100 (65.4)	53 (34.6)
Poor record keeping	49 (32.0)	104 (68.0)
Poor financial and farm management	48 (31.4)	105 (68.6)

Table 3 Attitude of farmers towards Informal Financial Markets

Statements	SA	A	D	SD
More responsiveness to the needs of emerging farmers	17 (11.1)	119 (77.8)	14 (9.2)	3 (2.0)
Financial services are easily and readily available	18 (11.8)	87 (56.9)	38 (24.8)	10 (6.5)
Transaction costs are very low	20 (13.1)	34 (22.2)	78 (51.0)	21 (13.7)
Turn-around time short	5 (3.3)	25 (16.3)	56 (36.6)	67 (43.8)
More information provided	4 (2.6)	47 (30.7)	91 (59.5)	11 (7.2)
Contracts are easy to understand	3 (2.0)	68 (44.4)	61 (39.9)	21 (13.7)
Collateral not regarded as the main requirement	1 (0.7)	22 (14.4)	45 (29.4)	85 (55.6)
Agents are more friendly	6 (3.9)	23 (15.0)	86 (56.2)	38 (24.8)
Interest rates charged are very low	7 (4.6)	51 (33.3)	95 (62.1)	
Repayment terms are more flexible	2 (1.3)	41 (26.8)	71 (46.4)	39 (25.5)
Loans provided are too low	91 (59.5)	52 (34.0)	5 (3.3)	5 (3.3)
Services are not sustainable	71 (46.4)	69 (45.1)	11 (7.2)	2 (1.3)
Interest rates too high due to high transaction costs	62 (40.5)	64 (41.8)	22 (14.4)	5 (3.3)
There are no guarantees that loans will be accessed	57 (37.3)	65 (42.5)	24 (15.7)	7 (4.6)
Not much information is provided	12 (7.8)	65 (42.5)	72 (47.1)	4 (2.6)
No business skills provided	9 (5.9)	77 (50.3)	60 (39.2)	7 (4.6)
Almost all clients are bad payers	6 (3.9)	6 (3.9)	31 (20.3)	110 (71.9)
Borrowers may decide not to repay	3 (2.0)	11 (7.2)	83 (54.2)	55 (35.9)

Figures in parentheses are percentages, SA-Strongly Agree; A-Agree; D-Disagree; SD-Strongly Disagree

Table 4: Multiple regression analysis showing relationship between socio-economic characteristics and attitude towards formal and informal financial markets

Variables	Attitude to formal financial market	Attitude to informal financial market
	B(SE)	B(SE)
Constant	11.83(3.78)***	23.95(3.22)***
Farming experience	1.21(0.50)**	0.37(0.42)
Age	8.74E-02(0.66)	0.25(0.56)
Gender	0.302(0.74)	0.50(0.63)
Marital status	-0.255(0.48)	-0.40(0.40)
Educational level	0.766(0.44)*	0.27(0.38)
Ethnic group	-1.43(0.83)*	-0.15(0.70)
Land ownership	1.65(0.42)***	-1.76(0.36)***
Type of dwelling	1.21(0.48)**	-0.15(0.41)
Type of enterprise	0.35(0.58)	971E-02(0.49)
R	0.43	0.43
R square	0.19	0.18
F	3.64	3.46
p	0.00	0.01

* Significant at 10%; ** Significant at 5%; *** Significant at 1%

Discussion

Majority of the farmers (70.6%) have been in this business for a period longer than five years. This bears testimony to the fact that farming is mainly practiced by older people. The study therefore confirms the hypothesis maintained by other researchers that people venture into farming when they retire from urban areas. The age distribution per age category shows that the agricultural sector is dominated by elderly people who view the sector as a retirement destiny for them. The majority of the respondents (54.9%) are between 51 and 65 years of age, and this confirms the fact that the youth is not so much interested in agriculture. Table 1 shows that 77.8% of farmers are men in spite of all efforts by government to introduce programmes tailored made for women to enter the agricultural mainstream such as Women in Agriculture and Rural Development (WARD). A small number of respondents (22.2%) are women whose role in agricultural development is high and not even recognised by the sector in general. Table 1 further shows that the education level of farmers with post secondary qualifications remains extremely low (2%) in the farming community, and this could mainly be due to the fact that the sector is dominated by older people. Although the number of those with grade 8-12 is high (43.1%), most of them do not have matriculation certificate. According to Jari (2009), people with higher educational levels are more able to interpret information much better than those who have less education or no education at all. Wangai (2011) also asserts that educational level is found to be an important element with a positive impact on a small scale entrepreneur's demand for credit. Its strength's impact is said to increase with educational attainment, suggesting that entrepreneurs with higher education level were more inclined to apply for external funds as opposed to those with lower education level.

Most of the respondents (73.9%) use communal land to farm, with only 11.8% owning it, while some

rent this land from the government (14.4%). The results on land ownership can be ascribed to the policies of the apartheid system prior to 1994 which did not allow black people to own land or even occupy and use productive land which was reserved for white people. The Native Land Act of 1912 is to blame for this skewed land ownership South Africa finds itself under, and the land reform programme implemented after 1994 also failed to redistribute land to blacks as per the goals and objectives of the current administration. The Northern Cape is known for its livestock production, and almost all the respondents on this study farm with it, both small and large and large stock is the most predominant enterprise, hence 70.6% are cattle farmers. Small stock is produced in the District but less of it (28.1%) is produced as opposed to large stock. The study reveals that 58.2% of respondents stay more than 150 kilometres away of credit institutions, with only 3.9% staying within a radius of 100 kilometres from such institutions. Table 1 categorises lending institutions as preferred by farmers at various levels. Most of the respondents (58.8%) do not enjoy the services of commercial banks, with 41.2% saying they do borrow from such institutions. Borrowing from family (64.7%), friends (45.8%) and loan sharks (30.7%) are the most popular sources of informal credit that farmers rely upon in times of need. Zeller et al (2002) asserts that informal borrowers are able to urgently finance their required expenditures quickly at fewer or no transaction costs at all. According to Zeller (1994), the risk of loan recovery is at a minimal level since lenders only lend their financial resources to those they are close with or form part of their social network within which contracts can be enforced. Table 2 presents the constraints facing farmers on formal financial institutions. Out of the 8 listed constraints, prominent constraints are stringent collateral requirements (86.3%), distant financial markets from farmers (80.4%), and high transaction costs (65.4%).

Table 3 shows a list of 30 attitudinal statements towards informal financial markets. The respondents were asked to rate the statements using 5 Likert scale as follows; 1 (strongly disagree), 2 (Disagree), 3 (Uncertain), 4 (Agree) and 5 (Strongly agree). The actual mean is 3 due to the rating scale and a mean of greater than 3 denoted a positive attitude while a mean less than 3 denoted negative attitude towards informal financial markets. The results revealed an overwhelming general positive attitude by farmers towards informal financial markets. The most prominent attitudinal statement as ranked by the farmers were more responsiveness to the needs of emerging farmers (88.9%) loans provided are too low (93.5%), and services are not sustainable (91.5%). Conversely farmers were not favourably disposed towards informal financial markets in terms of almost all clients are bad payers (91.9%), interest rates charged are very low (95.9%), collateral not regarded as the main requirement (84.6%) and turn-around time is short (81.4%).

Table 4 shows that the socio-economic characteristics were significantly related to attitude towards formal financial markets (F-value of 3.642, $p < 0.05$). Three independent variables were significant at 5% on attitude towards formal financial markets, and they were farming experience ($t = 2.41$), land ownership ($t = 3.86$) and type of dwelling ($t = 2.50$). These findings imply that the more experienced farmers become, the more they participate on formal financial markets. The better the type of houses and more land farmers own, the more they participate in formal financial markets. Two independent variables were significant at 10%, and they are the education level ($t = 1.71$) and the ethnic group ($t = -1.71$). This implies that as farmers become more educated they actively participate on formal financial markets, but their ethnic group does not change their attitude towards formal financial markets. The table further shows that one socio-economic characteristic was related to attitude towards formal financial markets (F value of 3.46, $p < 0.01$). A significant relationship at 5% was observed between land ownership (-4.84) and attitude towards informal financial markets. This implies that as farmers own more land their attitude turns towards informal financial markets. This means that the other independent

variables do not necessarily have a bearing on farmers' attitude towards informal financial markets, i.e. the improved education level will not necessarily change farmers' attitude insofar as the informal credit market is concerned.

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