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May 2026

Why better access to agricultural finance is crucial for inclusive growth

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Many black smallholder and emerging farmers struggle to access the finance crucial for developing their businesses. The result is persistent inequality in the agricultural sector. What can be done to make it more inclusive?

Farming, like any other business, requires adequate start-up capital to finance production, manage risks, and expand operations. Access to credit is associated with bigger farms, more productivity, and more income from the farm. Yet many black smallholder and emerging farmers struggle to access credit. This imbalance reflects persistent structural challenges that continue to limit the participation of black farmers in the mainstream agricultural economy.

In South Africa, the total value of agricultural debt owed to financial institutions exceeds R200 billion. This level of investment plays a critical role in enabling farmers to procure seeds and fertiliser, adopt modern technologies, process, package and market their products, and scale their enterprises.

A study of smallholder farmers in KwaZulu-Natal and Mpumalanga by Nomonde Jonas and Mzuyanda Christian found that loan approval is associated with an increase in farm size by approximately 55.5 ha, and an increase in farm income of . almost R2.9 million. Access to credit is therefore not a luxury, but a fundamental pillar of a productive and competitive agricultural sector.

However, access to agricultural finance remains deeply uneven, with established white commercial farmers receiving the largest share.

One of the most significant barriers is the issue of collateral. The same study of smallholder farmers found that “farmers who owned land were 1.84 times more likely to have their loan application approved compared to those who did not.” However, many emerging farmers, particularly those who have benefited from land reform programmes, do not have formal land ownership or title deeds that can be used to secure loans. Without collateral, financial institutions are reluctant to extend credit, regardless of the farmer’s production potential. In addition, poor or non-existent record-keeping further undermines farmers’ ability to demonstrate their financial performance and repayment capacity. Financial literacy also remains a concern, with many farmers lacking the knowledge and skills needed to manage credit effectively and engage confidently with lenders.

There is also a cultural dimension. Farmers are often reluctant to take on debt. Many prefer to rely on personal savings or operate within the limits of available cash. Of the 223 smallholder farmers that were interviewed in the study by Jonas and Christian, only 62 had applied for credit at a big bank or the Land Bank, and even fewer, 11, had successfully secured a loan. Another [study](#) of agricultural credit markets found that “fewer smallholder farmers demand credit from commercial banks than informal lenders (savings clubs, friends, cooperatives, family, Government)”. While this approach may reduce exposure to financial risk, it can also constrain growth and limit opportunities for expansion. In a capital-intensive sector such as agriculture, relying solely on personal funds is rarely sufficient to sustain long term development.

Emerging farmers, especially those involved in land-reform projects, face compounded challenges. Many do not maintain detailed production records or separate farm business accounts. As a result, they struggle to access credit not only from commercial banks but also from state-owned institutions such as the Land Bank. Without proper documentation and financial systems, it becomes difficult for lenders to assess risk and provide appropriate support.

Encouragingly, there are innovative approaches emerging within the private sector. During recent [visits](#) we made in 2025 to 18 relatively successful land-reform farms across the country, conducted as part of a collaborative project between the Agricultural Research Council and the Department of Rural Development and Land Reform, some encouraging practices were observed. Two of the most successful farms we visited leveraged government support alongside private savings or commercial finance to achieve mechanisation, market integration, and financial credibility. In areas such as Mooi River in KwaZulu-Natal, farmers reported that private agribusiness companies such as [TWK](#) are providing production inputs on credit to their loyal customers. These farmers receive seeds, fertilisers, and other essential inputs at the beginning of the season and repay the costs after harvesting and selling their produce. The other sensible initiative is the [Buhle-Mondi Farmer Development Project](#), where smallholder farmers received fully-fledged training on technical farming aspects as well as record keeping and financial management, after which they are given loans at prime less 4% and repayable over three years.

These and similar initiatives represent an important step towards improving access to finance for emerging farmers. They are built on trust, long-term relationships, and a clear understanding of production cycles. Importantly, they also allow farmers to build a credit history that can eventually open doors to more formal financial services.

Beyond improving access to finance, these initiatives also contribute to broader sector development. They reduce pressure on government support programmes, like the Comprehensive Agricultural Support Programme (CASP) and the Blended Finance Scheme, which are often overstretched and unable to meet the growing demand for assistance. At the same time, they encourage farmers to develop better financial discipline and cash flow management practices.

The role of government support, while essential, must also be carefully considered. Grant-based assistance has played a vital role in supporting farmers, particularly in the early stages of land reform. However, it can sometimes lead to unintended consequences, including [dependency and a sense of entitlement](#). This has been observed in various contexts, where farmers become [reliant](#) on external support rather than building self-

sustaining enterprises. In 2003 the government subsidised maize production through the Massive Food Production Programme, aiming to revitalise arable field cultivation in the former homelands. The government paid roughly 60% of the total maize cost and smallholder farmers paid the remaining 40%. The programme was ultimately unsustainable, however, collapsing as soon as the government support ended, [leaving many farmers in debt](#).

For South Africa's agricultural sector to become more inclusive and dynamic, farming must be understood not only as a means of producing food, but also as a [business](#) that requires strategic investment, financial planning, and continuous reinvestment of profits. Access to credit, when used responsibly, can serve as a powerful tool for growth and transformation.

Emerging farmers need support building the necessary financial management skills, maintaining accurate records, and understanding the benefits and risks associated with credit. At the same time, financial institutions and agribusinesses must continue to develop innovative models that accommodate the realities faced by these farmers.

Ultimately, bridging the agricultural finance gap is not just about increasing the availability of credit. It is about creating an enabling environment where all farmers, regardless of background, have a fair opportunity to participate, grow, and contribute to the economy. By combining practical support, financial education, and inclusive financing models, South Africa can move closer to a more equitable and prosperous agricultural future.

References

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