Factors distinguishing the choice of moneylenders and non-moneylenders in Moletji District (Limpopo Province)

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FACTORS DISTINGUISHING THE CHOICE OF MONEYLENDERS AND NON-MONEYLENDERS IN MOLETJI DISTRICT (LIMPOPO PROVINCE)

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ABSTRACT

There has been a growing existence of informal financial institutions in both rural and urban areas of South Africa. The objective of this paper is to identify factors influencing the choice of informal financial service providers in the peri-urban areas of South Africa. Data from 193 respondents was subjected to Analysis of Variance to identify the significant factors distinguishing the clients of moneylenders from the non-moneylenders. The results show that personal characteristics such as age, education, occupation and marital status explain the choice of moneylenders. Gender is not a distinguishing factor, implying that both male and female have the same choice pattern. Clients choose certain services due to low interest, quick service and the fact that they are acquaintances. Monthly income, rather than other, also explains the choice of moneylenders over non-moneylenders. The results of the analysis suggest pertinent issues for consideration in institutionalizing informal service provision within the mainstream sector.

1. INTRODUCTION

There is an increasing evidence of the existence of informal financial institutions in the rural, peri-urban and urban areas of South Africa. The general perception is that these institutions exist only in rural areas where there are no formal institutions like commercial banks. The Strauss Commission (1996) identifies a range of informal activities in the rural areas of South Africa but does not explore how they operate at retail level.

Sabapath (1994) found that informal finance is heterogeneous and dynamic. This means that informal financial institutions are diverse in character. It also entails that they differ in criteria for membership, the conditions for obtaining credit and the use of credit or savings by the client. Each informal financial institution is unique in the sense that the people running informal financial institutions decide how the institution must operate. It follows that informal financial activities differ from district to district and province to province. This paper attempts to explore the analysis of the factors distinguishing the choice of informal financial servies, particularly moneylenders and non-moneylenders in a peri-urban area, and in particular focus on the Moletji district in Limpopo province.

2. REVIEW OF INFORMAL FINANCIAL SERVICES

Moneylenders refer to those informal financial institutions that are partly regulated and have established contracts for their clients. Coetzee (1997) indicates that in agriculture these lenders are often fellow farmers or businessmen with surplus funds (savings). Some are professional moneylenders; for them it is their main occupation and a source of income .On the whole there is a perception that moneylenders are exploitative and that is why many people will not obtain credit from them.

Non-moneylenders are those informal financial institutions that are not regulated by government. Their services are based mainly on mutual trust they have with their clients and include membership-driven providers (stokvel & burial societies), family & friends, and local business people. Many of the loans provided by these involve low or no interest or collateral; they may be large or small; and may have open-ended repayment arrangements (Adams, 1989)

The aim of this study is to distinguish the client of the financial services on the basis of individual socio-economic factors, the reasons for choosing the

financial service, and income. Larson *et al* (1994) studied the advantages for borrowers of financial services from informal providers to those from formal financial providers. He found that most of the borrowers chose informal financial services because of easy access, variable loan size, flexible repayment schedule, personal atmosphere, low level of transaction costs, varied guarantees, convenience and the very short period needed to obtain loan approval. On the other hand Zeller (1993) applied a univariate probit model to analyse the determinants of applications for informal credit. He found that the probability of applying for informal credit significantly increases with the age of applicant, with his education level, occupation and the position of individual in the household. Gender of the individual did not affect the application process of the individual.

3. STUDY AREA, SOURCE OF DATA AND METHODOLOGY

The data for this study was gathered from 193 respondents who represent households in thirteen villages of Moletji district of Limpopo. This area receives an annual rainfall of 250-350mm and the system of land ownership in the district is communal. This entails that the individual residents have the right to use communal land for cultivation and grazing. Mixed cropping is mainly practiced under dry-land conditions.

 In addition to the questionnaire semi-structured interviews and informal discussions with the respondents were also used with the aim to elicit more and better information. The questionnaire was structured to gather general information on eighty-three moneylenders and one hundred and ten non-moneylenders (stokvels, burial societies, local businessman, family and friends). Since the population is mostly homogenous, households were selected randomly in the form of a circle within the villages (Leedy, 1997).

The typical household consists of four members. The majority of the respondents have obtained secondary school qualification and almost half of the people interviewed have a monthly salary. About 43% of the respondents borrowed money from moneylenders and 57% of the respondents had borrowed from non-moneylenders.

In this study, the Analysis of variance (ANOVA) was run on a SPSS program to compare distinguishing characteristics. Three sets of the results are presented relating to: socio-economic factors, reasons for using informal financial services, and income. The procedure highlights the factors that are assumed to distinguish the clients of informal financial service providers in the study area. ANOVA provides F-tests of the difference in the means of the two groups compared (Paterson,1993). Furthermore, it provides means and standard errors for each variable. The same technique was also used by Morokolo *et al* (1999) to analyze the savings behaviour and motivations to save of resource-poor farmers. ANOVA is used to test the null hypothesis that the socio-economic factors of clients of moneylenders and non-moneylenders positively influence the choice of a financial source

4.   EMPIRICAL RESULTS

4.1   SOCIO-ECONOMIC FACTORS

The characteristics of clients of moneylenders are compared with those of non-moneylenders. The non-moneylenders include stokvels, family and friends, burial societies and local businessmen. It is anticipated that clients of moneylenders will posses more formal properties since the moneylenders are regulated to some extent. The results (in table 1) show that the identified factors, with the exception of gender, significantly distinguish between the clients of moneylenders and non-moneylenders. The attributes such as age, education and occupation are significant at the 10% level of probability whereas marital status is significant at the 5% level of probability. The clients of moneylenders tend to be young professionals on average (38 years old) who are more educated than those who use non-moneylenders. The average age of this last group is 48 years.

Another reason for their preference for moneylenders could also be that education correlates with being employed, which is one of the criteria for loans from moneylenders, and thus this group automatically qualifies as moneylender clients. Moneylenders prefer to provide professionals with credit because they meet their requirements such as having a bank statement, a bankcard and a permanent job.

Table 1: Mean comparison of the socio-economic factors distinguishing the clients of moneylenders and non-moneylenders.

Factor		Moneylenders	Non-moneylenders	F-stats
N		*83*	*110*	
AGE		38	48	29.136***
Gender	Male	0.4940 (0.0552)	0.4636 (0.0418)	0.173 NS
	Female	0.5060 (0.0552)	0.5364 (0.0477)	0.173 NS
Education	Primary	0.0121 (0.0534)	0.2455 (0.04122)	23.044***
	Secondary	0.3737 (0.0534)	0.6445 (0.0458)	14.986***
	Tertiary	0.6145 (0.0538)	0.1091 (0.02986)	76.024***
Occupation	Pensioner	0.0000 (0.0000)	0.2636 (0.0422)	29.408***
	Blue-collar	0.1084 (0.034)	0.4364 (0.0475)	27.699***
	Professional	0.8795 (0.036)	0.1636 (0.0354)	194.154***
	Unemployed	0.0121 (0,0121)	0.1364 (0.0328)	10.015***
Marital status	Married	0.6386 (0.0531)	0.4909 (0.0478)	4.222**
	Single	0.3614 (0.0531)	0.5091 (0.0478)	4.222**

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % =**, 10%= *)
Not significant = NS. The values in brackets represent the std.error.

It must be noted that some moneylenders have established contract papers that clients have to complete before they are given credit, although these contracts are not as complicated as those used by the formal sources of credit, such as banks. Incidentally, this is another reason why those with little or no education would go for non-moneylenders where there are no written

conditions but where the loans are mainly based on trust and confidence in the borrower.

It is to be expected that people who stay with their partners spend more that those who are single. It follows that people with partners borrow relatively large amounts from moneylenders. The gender of the clients does not significantly distinguish between the groups of users of the various informal financial services. This is in line with Zeller's (1993) 'findings. This particular finding rejects the null hypothesis that gender as a socio-economic factor of clients would positively influence the choice of a financial source.

4.2. CONDITIONS OF FINANCE

Borrowers have different reasons for choosing a particular informal financial service. Among the reasons, borrowers use certain services because of their convenience, low interest and quick service. In some instances they use a particular source because it is the only option. The results (in table 2) suggest that the reasons "quick service" and "knowing each other" distinguishes the clients of moneylenders and non-moneylenders and are both significant at the 1% level of probability whereas low interest is significant at the 10% level of probability.

Table 2: Mean comparison of the conditions of finance distinguishing the clients of moneylenders and non-moneylenders.

Reason	Moneylenders	Non-moneylenders	F-stats
N	*83*	*110*	
Convenience	0.7590 (0.0472)	0.7273 (0.0426)	0.246^{NS}
Low interest	0.6145 (0.0538)	0.4818 (0.0478)	3.373*
Quick service	0.5663 (0.0547)	0.0727 (0.0248)	79.156***
Know each other	0.0000 (0.0000)	0.1545 (0.0346)	15.015***
Only option	0.2289 (0.0464)	0.2636 (0.0422)	0.303^{NS}

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % =**, 10%= *
Not significant = NS. The values in brackets represent the std.Error.

The reasons "only option "and "convenience" are not significant. However, most of the respondents (75%) chose to obtain credit from moneylenders mainly because they are more convenient than non-moneylenders. Convenience in this case might have to do with the size of the loans that the moneylenders offer. On the other hand, the group of clients who use non-moneylenders as the only option is larger than those who use moneylenders. This could be attributed to the fact that non-moneylenders are more considerate and more accessible: they lend money at any time of the day whereas most of the moneylenders operate during office hours.

4.3   INCOME

The monthly expenditure of individuals depends on their income. More often than not people exceed the limits of their income and as a result they need to borrow money in an attempt to augment their income. The results in table 3 indicate that the variable monthly income significantly distinguishes the clients of moneylenders and non-moneylenders at the 1% level of probability. Other forms of income do not significantly distinguish the clients of moneylenders from those of non-moneylenders.

Monthly income influences the choice of lending institution. Table 1.3 indicates that the average monthly income of the clients of moneylenders is higher (R3 053) than that of the non-moneylenders (R1 575).

Table 3: Mean comparison of the monthly income as a factor distinguishing the clients of moneylenders and non-moneylenders

Item		Moneylenders	Non-Moneylenders	F-stats
N		83	110	
Income	Monthly Income	3053.1325 (131.1625)	1574.8491 (128.3719)	63.304***
	Other Income	286.7470 (40.8466)	229.9091 (34.5708)	1.136^{NS}

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % =**, 10%= *)
Not significant = NS. The values in brackets represent the std.Error.

7. CONCLUSION

The increasing presence of informal financial services has called for new outlook to management of finance in South Africa. The results of this study provide some patterns of behaviour of clients of informal service providers. The results suggest that several socio-economic factors are important in the choice of the type of informal service provider. For example; age, level of education, type of occupation and marital status are important determinants for the choice between the financial services of moneylenders and non-moneylenders. Being male or female did not distinguish the users of moneylenders and non-moneylenders. This implies that provision of informal financial services can be targeted to certain social classes in the particular area. The study also found that income influences the choice of a moneylender. The clients of moneylenders are younger, earn more and are better educated than those of the non-moneylenders. The results also reflect the necessary attributes for product development. For example, the rate of interest, timing of service and acquaintance (or trust) play a role in financial services.

The results suggest that to improve financial services, there is a need to consider clients preferences and socio-economic condition. This contributes to both regulatory process, as well as product development.

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