

**Banking on Agriculture:
An Assessment of Absa Bank's Shared Growth Strategy for Agriculture**

**By
Dante Mashile, APR
205524515**

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Supervisor: Dr Mvuselelo Ngcoya

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DECLARATION

I, Dante Mashile, declare that the dissertation titled: *Banking on Agriculture: An Assessment of Absa Bank's Shared Growth Strategy for Agriculture*; is a result of my own investigation and research and that it has not been submitted in part for any other degree or to any other university.

Dante Mashile

14 November 2018

DEDICATION

This dissertation is dedicated to my Lord and Saviour Jesus Christ, who gave me an enquiring and analytical mind, my wife Nomkhosi Mashile and daughter Mohau Mashile for having afforded me the precious time to devote to reading, which enabled me to reach this milestone. My colleagues at Absa Bank: Lloyd Dlamini, Ipeleng Ntaye, Michelle Naidoo, Aarif Saib, Sean Fowler and Faisal Mkhize for their encouragement to follow my passion in reading for development.

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All of you inspired me to take on this great journey to discover the world of development from an economic, political, environmental, agricultural and social movement and project management perspective, among others.

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Abstract

The study assesses whether Absa Bank lives up to its Shared Growth Strategy for Agriculture. The objectives of this study are to examine how Absa Bank is supporting and contributing strategically to the development of the agriculture sector in KwaZulu-Natal (KZN); establish whether Absa's products and services are assisting black commercial farmer clients to escape from poverty and succeed in running sustainable businesses; to assess how Absa Bank is supporting black commercial farmers financially and non-financially; and whether Absa Bank's Shared Growth Strategy is realised through agricultural sector financing and advisory in KZN.

The research method was scheduled in-depth qualitative interviews with eight Absa clients, who are black commercial farmers. The study uses the multidimensional equity framework (MDEF) to assess the impact of Absa agricultural funding, assessing whether access to finance has transferred equity and empowered the clients. The MDEF shaped the interview content with clients to delineate whether they thought about equity issues beyond the current state of their businesses and at the same time government representatives interviewed reflected on the equity issues of the farmers' businesses in terms of longevity and sustainability. In examining Absa Bank's Shared Growth Strategy in specific reference to agricultural sector financing to black commercial farmers, it is clear that the funding system is not strategically focused to pay attention to this segment.

It was poignantly clear that providing finance to black commercial farmers was not sufficient, therefore there was a legitimate need to provide non-financial business support to the clients as well. These lessons can also be applied to other commercial banks who provide finance to agriculture and specifically black commercial farmers. Absa has not risen to the occasion in as far as using its technical expertise; in as far as the role of the bank in black commercial farming is concerned. Clients and government representatives, including industry body representatives, revealed that the bank should be more than just a financier.

The technical capability of the bank is in demand in agriculture, combined with the training and development of black farmers. The strategic challenge is to be differentiated in a competitive market by using enterprise development. The role of a bank in providing loan finance is not enough, therefore its clients, specifically black farmers emphasised the fact that a deeper engagement with Absa Bank was required in order for the relationship to be more nuanced. This is in line with the bank's strategy to shape its operations to help small and medium-sized businesses to succeed and grow through enterprise development, therefore the bank is expected to offer innovative financial solutions and business support services to small businesses. At the centre of this, is reinventing itself in order for more people to have access to financial services to achieve financial inclusion.

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CHAPTER 1

1.1 Introduction

Ernst Janovsky, retired General Manager of AgriBusiness at Absa Bank, announced in 2010 that emerging farmers, “who in the past may have struggled to obtain financing for lack of collateral, will also be in a better position to obtain loans based on both their asset value and the value of their produce. There is little doubt that Absa has to change its approach with the changing economic conditions in agriculture; the days of simply loaning money to farmers against their asset value are drawing to a close”¹ (Absa Media Release, 2010).

This dissertation examined whether this has been realised in the implementation of funding to Absa clients in the agricultural sector, specifically black commercial farmers in KZN. Financing black agricultural entrepreneurs has been a challenge and frustrating in a general context where little or no collateral was available to cede to a financial institution. This cession was meant to safeguard the bank from a credit risk perspective (securitisation of the loan finance). This was largely a one-sided protection of the bank’s rights from a credit agreement.

Numerous studies (see Dlamini and Simatele 2017) demonstrate that the non-availability of collateral was a foremost contributor to financial exclusion and those excluded entailed persons who were unable to produce the amount and kind of collateral acceptable to finance providers. Therefore, this study explores whether Absa Bank still applies collateral and asset-based finance in agriculture in the context of black commercial farmers.

¹ Absa Bank, “Absa Agribusiness to plough fertile ground with new approach to financing,” Media Statement, 13 July 2010. Available at http://www.agriculturalwriterssa.co.za/download/nr_20100713.pdf; accessed 20 September 2017.

1.2 Research problem

Black commercial farming is a neglected segment of the agriculture sector and therefore this dissertation focuses on this segment of the sector, specifically how Absa Bank engages, treats and relates to its clients who use its financial products and solutions to run successful and sustainable businesses. Subsistence farming and the small-scale farming segments of the agriculture sector have had much attention, while black commercial farming was neglected.

This dissertation problematises the issue of providing finance for agriculture and asks the question whether the role of a bank ends with providing loan finance alone. The agriculture sector is a primary sector of the South African economy and simply critical in ensuring that rural development and job creation is sustainable and impactful, however, there is limited collaboration between government, Absa Bank and industry bodies such as KWANALU to lift the prospects of the sector in respect of policy formulation and policy development, including implementation.

This dissertation highlights the neglect in as far as black commercial farming in KZN is concerned, especially as reflected specifically through Absa clients. This dissertation identified the problem with cooperatives, whether it is a viable structure to run and operate an agricultural business. It is arguably important that black commercial farmers need to receive the necessary technical and business support from agricultural organisations such as KWANALU, the Provincial Government Department of Agriculture and their bank Absa.

1.3 Research background

According to the Provincial Growth and Development Strategy (PGDS) of KwaZulu-Natal, which is the KZN government-led strategy with inputs from social partners in the province, agriculture is an important primary sector contributing approximately 4.4% to provincial Gross Value Added (KZN Government). The sector is critical for rural development and job creation in the province, which possesses salient advantages of land and labour resources, including ecological assets. KZN produces approximately 30% of national agricultural output and is recognised as a province with superior potential to contribute meaningfully to formal and informal job creation, while providing food security in South Africa.² The agriculture sector is regarded as having strong linkages with related manufacturing sub-sectors in the food, beverages and tobacco and wood and paper industries that are important for the provincial economy in respect of employment and export activities.

The KZN agricultural sector contributes 7% to total employment within all districts of the province besides the eThekweni Metropolitan area and Amajuba District Municipal area (Ibid). In terms of employment, the percentages vary across districts; for example, agriculture contributes more than 9% to total employment in the uMzinyathi and Harry Gwala District municipal areas, about 8% in iLembe and approximately 7% in Ugu, Zululand, uMkhanyakude and King Cetshwayo (previously known as uThungulu) (Ibid).

² Office of the Premier, Province of KwaZulu-Natal, "2035 Provincial Growth and Development Strategy." Available at <http://www.kznonline.gov.za/images/Downloads/Publications/ppc.pdf>; accessed 20 September 2017.

Statistics South Africa's Gross Domestic Report for the third quarter of 2017 accounted that the country's economy rose by 2.0% in the third quarter of 2017 (seasonally adjusted and annualised), down from an adjusted 2.8% in the second quarter. The agriculture, mining and manufacturing sectors were the main drivers of the expansion, while there was shrinkage in government services causing low employment numbers in the public sector.

The GDP figures demonstrated the largest quarterly jump in agriculture production since the second quarter of 1996. There was a noticeable increased production of field crops and horticultural products as main contributors to growth, with significant surges in the production of maize and vegetable products. This season's maize crop was anticipated to be the bulkiest on record. The Crop Estimates Committee has fixed commercial maize production for this season at 16.74 million tons, more than double the 7.78 million tons produced last year (2015/16), and higher than the recent record of 14.66 million tons harvested in 1980/81 (Stats SA 2017).

Agriculture pulled the growth rate on the rise and anchored the importance of creating an impetus in this primary sector of the economy.

1.3 The aim of the study

This dissertation analysed how Absa, as one of the leading financial services companies in the agricultural sector, was implementing its business strategy and empowering black commercial farmer clients. In addition, an assessment was made of the bank's role in supporting black commercial farmers financially and non-financially in line with the bank's Shared Growth Strategy adopted in 2016.

This strategy was largely implemented in Johannesburg and not launched in other South African agricultural provinces such as KZN, Western Cape, Limpopo, Free State and Mpumalanga. The typical approach in launching business strategy in the bank has been in Johannesburg, a parochial investment of resources in as far as taking the other provinces as important in the agricultural sector. There was no concerted direction to launch this strategy in the other provinces outside of Gauteng.

This strategy seeks to transform how the bank does its business, contributes to growth and supports communities where it does business. The strategy is anchored on three key focus areas, namely: Education and Skills, Enterprise Development and Inclusive Banking (Absa's Shared Growth Toolkit 2016)³. Financial inclusion is understood as inclusive banking, reaching those who were unbanked.

Regulators and legislators in South Africa have challenged financial services institutions to reconfigure themselves to reach those who were underserved by banks and financial institutions historically and simply because of the skewed market structure that is biased against a less affluent and rural client base.

³ Absa Bank, "Shared Growth: Education, Enterprise Development, Financial Inclusion," available at <http://cib.absa.co.za/CSR/Documents/2016-Shared-Growth.pdf>; accessed 22 September 2017.

1.5 Research objectives

The dissertation analysed agricultural financial and non-financial support and enterprise development by Absa to its clients, who are black commercial farmers:

- a) examining how clients were assisted to start, run and grow their businesses to generate income and create employment;
- b) determining whether the bank had fulfilled its commitment to offer innovative financial solutions;
- c) business development support services to small and medium enterprises (SMEs) in the agricultural sector with the intent to grow in the value chain; and
- d) inclusive banking (or financial inclusion).

The dissertation probed whether the product and service offerings of the bank helped in extending access to financial services to clients. ⁴

An assessment was made of whether Absa supported and contributed strategically to the development of the agricultural sector in KZN; establish whether Absa's products and services assisted black commercial farmers to escape from poverty and succeed in operating sustainable businesses. The dissertation determines whether Absa supported black commercial farmers financially and non-financially.

⁴ Absa Bank, "Barclays Africa commits to Shared Growth Strategy." Media Statement, 4 July 2016, available at; accessed 22 September 2017.

1.6 Research questions

The dissertation aimed to answer the following questions:

- Is Absa bank supporting and contributing strategically to the development of the agriculture sector in KZN?
- Do Absa products and services assist black commercial farmer clients to escape from poverty?
- What influenced Absa to support black commercial farmers from the rural areas of KZN financially and non-financially?
- Is Absa Bank's Shared Growth Strategy realised through agricultural sector financing and advisory in KwaZulu-Natal?
- Is Absa Bank using its expert voice in agriculture policy formulation and policy development in KZN?

1.7 The significance of the study

This dissertation, as much as it focuses on whether Absa Bank supports and contributes strategically to the development of the agriculture sector in KZN, also focuses on the fact that farmers who participated in the study are beneficiaries of the land reform that is currently underway in South Africa. Land issues and agrarian reforms are vital matters that developing countries need to address effectively and meticulously. The South African parliament is considering and exploring the expropriation of land without compensation in order to implement the use of land productively and specifically for agricultural production. This study can be one of the contributors to the current land reform policy formulation.

Absa Bank's products and services have been designed and used to assist its black commercial clients and it is anticipated that this study will cause the bank to review its product suite to fit the current needs of farmers. At a strategic level, the bank is to adapt and deepen its influence in supporting black commercial farmers from the rural areas of KZN financially and non-financially. Agricultural policy development and formulation is an area of strategic engagement, where Absa Bank's Shared Growth Strategy could find its expression and be realised. The expertise of the bank as a recognisable voice in agriculture policy formulation and policy development is clearly available for application.

1.8 Absa's financial products and services for the agricultural sector

Absa's Agricultural Standard for Wholesale Credit outlined the agricultural financing structure and products as follows (see Figure 1 below).

The term of any facility available to a client will be aligned with the lifecycle of the asset that is being financed. In the case of beef and dairy, the term is seven years, for beef the term is five years and pig breeding sows is five years.

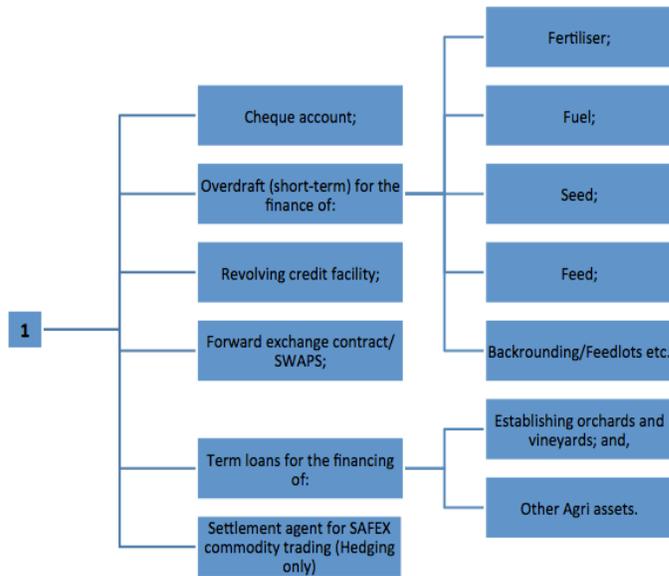
Table 1: Financial Products Available to Emerging Farmers

THE PRODUCTS AVAILABLE INCLUDE THE FOLLOWING	
Agri-bond loan	Finances the acquisition of, the improvement or the refinance of agricultural properties, normally with a 10 year-term with a fixed repayment structure or to a maximum of 15 years.
Agri-term loan	Finances the acquisition of agricultural assets, including livestock and is used for the amalgamation of debt (carry over debt). The repayment term is negotiable and varies from 12 months to 60 months, with the exception of breeding stock, which will be over a maximum of 84 months. The term will be aligned to the purpose of the loan or the life span of the primary asset.
Production credit facility	Finances the production costs directly related to the cultivation of the crop and input costs for livestock to be financed. These could include seeds, fertilizer, fuel, oil, weed killers, pesticides, storage costs and crop insurance premiums, hedging costs, interest on the loan, fodder, licks, dipping fluid and ear tags, among others. This is an overdraft facility that enables the farmer to pay for input costs, which is then settled in full after harvest.

Source: Absa Agricultural Standard for Wholesale Credit

The abovementioned products are specific to the agricultural portfolio; however, the following products could also be considered.

Figure 1: Absa’s other financial products available to farmers



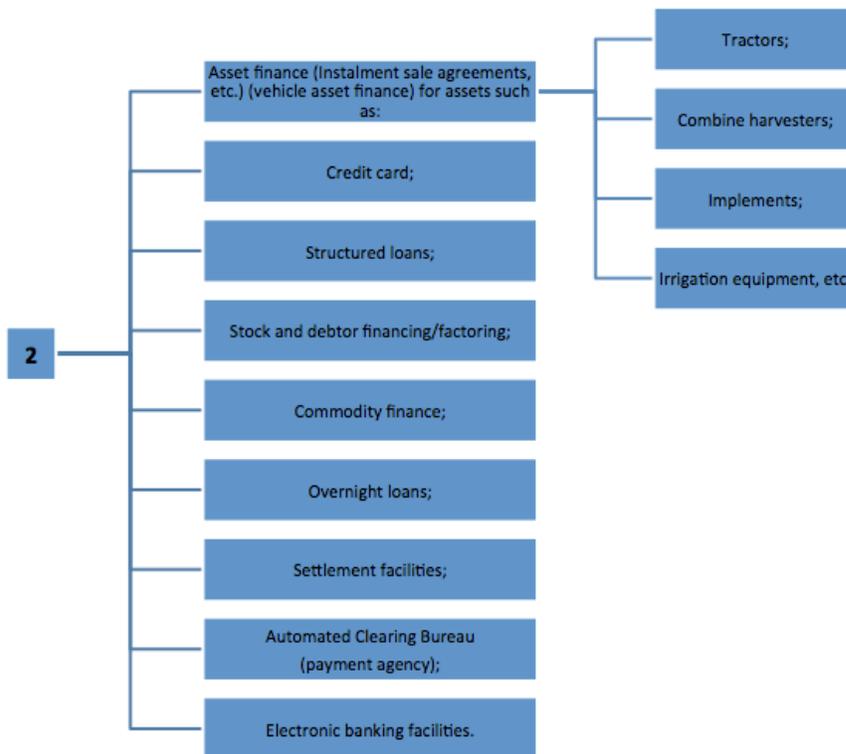
Source: Absa’s Agricultural Standard for Wholesale Credit

Swaps refer to an exchange of one financial instrument for another between the transacting parties, however, this interchange takes place at a fixed time, as stated in the contract. These instruments are not exchange-oriented and are traded over the counter, usually the dealing is completed through banks. They are also used to hedge risk of various kinds, including interest rate risk and currency risk. The two most common kinds of swaps that are traded in the market are currency swaps and interest rates swaps.⁵

⁵ <https://economictimes.indiatimes.com/definition/swap>

The South African Futures Exchange (SAFEX) is a subsidiary of the Johannesburg Stock Exchange specialising in derivatives. SAFEX consists of two main platforms, one for equity derivatives and the other for agricultural derivatives. Both platforms offer a suite of investment vehicles, however, agricultural derivatives are well known for their futures contracts based on maize.⁶

Figure 2: Absa's additional financial services available to farmers



Source: Absa Agricultural Standard for Wholesale Credit

⁶ <https://financial-dictionary.thefreedictionary.com/SAFEX>

Factoring is a financial activity in which the business sells its bills receivable to a third party at a discount to raise funds; therefore, the selling of all the accounts receivable. The seller makes the sale of goods or services and generates invoices for the same. The business then sells all its invoices to a third party, called the factor. The factor pays the seller, after subtracting some discount on the invoice value.⁷

1.9 Organisation of dissertation

In chapter two, I discuss the agricultural sector and its intended key objectives of contributing to economic growth in KZN and how that has fared holistically. The literature review does explore the extent to which the agricultural sector has enabled and changed the livelihoods of entrepreneurs and communities.

I present the theoretical tools grounding the study in chapter three. I adopted the multidimensional equity development framework (MDEF) because it shows how agricultural assets such as trees and forests are appropriated and more critically how important such assets are in turning the fortunes of individuals and communities into sustainable livelihoods.

The MDEF defines commercial entities or means of production transferred in the hands of entrepreneurs and how they translate into empowerment. The framework contextualises how assets are used to impact the lives of farmers. Agricultural produce is the currency of the economic process, which has a dimension of equity.

⁷ <https://efinancemanagement.com/sources-of-finance/factoring>

It is empowering that local people are conceptually brought in to the appropriation of commercialisation of equity through participatory parity. This means that local people have found a new process for commercialisation and are taking advantage of their knowledge to have a voice and agency; whereas participation parity highlights the need for people to get fair hearings and equally participate in legitimate platforms (Thompson 2009).

The dissertation examined whether black commercial farmers were given their rightful place to benefit from the natural resources or assets that they own. Entrepreneurship theory and philosophy was used to understand the agricultural sector in broad terms.

In Chapter 4, I present the research design and methods, including the selection of the sample, which are black commercial farmers who are Absa clients. In addition to these farmers, I also interviewed key players such as Business Unit Heads of the agribusiness in Absa Business Banking, the Head of KZN Department of Agriculture and Chief Executive of KwaZulu-Natal Agricultural Union (KWANALU), which is reflected in chapter five. I analysed the themes that emerged from the study and those findings are presented in chapters five and six.

In particular, the findings presented in chapter six focus on whether Absa supports commercial farmers to run successful and sustainable businesses in KZN. These findings are discussed in line with the multi-dimensional theoretical framework and entrepreneurship theories. Absa's Shared Growth Strategy and the validity of its implementation in the agriculture sector are also discussed in this section.

The analysis of findings is also in chapter six. It is here that I outline the lessons learnt in as far as how Absa funds black commercial farmers. This chapter is followed by chapter seven, which focuses on the recommendations arising out of the feedback and insights shared by Absa's black commercial farmer clients, government representatives, representative from agricultural chambers and heads of business units with a focus on agribusiness from Absa Bank are presented in the final chapter.

1.10 Conclusion

The following chapter will focus on the literature consulted to understand the agricultural landscape in as far as the representation of black people in the agricultural sector is concerned. Concepts such as small-scale farming and commercial farming are dealt with extensively. Land reform and access to credit and finance are explored in the next section. The deregulation of the agricultural market includes the absent role of the State in the active development of commercial farming for black people.

CHAPTER 2

2.1. Introduction

The chapter looks at the agriculture sector in various material, subsistence farming, small-scale farming to black commercial farming. Since this dissertation is largely focused on financing and access to credit for farmers; credit and loan finance will be discussed at length in this section. Agrarian reform and its associated challenges are also addressed. Government's role in agrarian reform is also put under the spotlight in as far as supporting the growth and development of the agriculture sector. The access of land and its use in respect of sourcing credit finance and loan finance is unpacked at a later stage. The role of traditional authorities in agrarian reform and agrarian development is also explored.

2.2 Literature review: the agricultural sector; is it for black people as well?

The agricultural sector in South Africa and in KZN in particular is peculiar after grappling with the historical context of relationships and power relationships that existed between white commercial farm owners and black farm workers. The relationship was notably described as paternalistic, not much was expected of this relationship, to say the least, it was baseline transactional.

The relationships were not open, transparent and mutually beneficial, lacking deeper engagement from black farm workers to contribute strategically to the production and operation of the farm. Those relationships were characteristically authoritarian and one-dimensional in the true sense of the word. In short, the agricultural sector did mirror the historical racialised relationships of the times.

The latter part of the 1980s witnessed an accelerated deregulation until 1994, with the dismantling of the various kinds of commodity-based state marketing schemes, with their forms of subsidies, which were instrumental to the survival of white farmers during apartheid.

The concept of a commodity marketing system is described as covering all the participants in the production, processing and marketing of an unbranded farm product such as cereal, coffee beans, sugar, palm oil, eggs, milk, fruit, vegetables, beef, cotton and rubber, including farm input suppliers, farmers, storage operators, processors, wholesalers and retailers involved in the flow of the commodity from initial input to the client. An example of a commodity marketing structure is the Citrus Board, which was subject to market fluctuations.⁸

The sector deregulation in South Africa was endorsed by the World Bank and filled the agricultural policy vacuum that the African National Congress failed to fill. The deregulation took place in order to ensure that the State does not play much of a role in the stimulation of the agricultural sector favouring a market-focused approach (Hall 2010, 176 and 182). Bernstein (2013) argues that agricultural co-operatives were converted into companies listed on the Johannesburg Stock Exchange, 'enabling them to reinvent themselves as private agribusiness corporations'. Similarly, Kheswa (2015) argues that commercial agricultural farming was largely subsidised by the state and enormously supported with extensive government machinery.

⁸ www.fao.org/docrep/004/w3240e/W3240E06.htm

Unfortunately, the black farm worker was excluded and less cared for in the agricultural development discourse, ensconcing the racialised system and networks of the agricultural sector historically. Commercial farms were viewed as strategic sites and locations of economic value and “social reproduction” that benefited from the arm’s length unregulated stance from the State. The State appeared not to have had a visible hand in regulating the industry, however, played a keen and discernible role in supporting the success of white commercial agricultural production. These commercial farms were private assets and deemed as spaces for empowerment for the white farm owner.

Kheswa 2015, 38; made the case that in the agricultural sector; the mixing of production and reproduction was so pervasive and real, ironically the farms were marked icons of the paternalistic relationship between the white farm owner and black farm worker; a family emerged from this. The concept of a family emerged where there was interdependency, however, this might not have been an equitable interdependency.

The balance of power was unequal, where the concept of racial paternalism was evident; on the one hand the white farmer was more privileged and on the other hand the black farm worker had no entitlements nor was he empowered at all.

It was extraordinary that white commercial farm owners were enabled to run successful businesses because of the assistance from the State in the form of ‘price, accessing and using natural resources, finance and capital, labour and local markets including foreign markets and foreign exchange’ (Kheswa 2015).

Ortman and King (2007) clarified that farming should be nurtured and supported by the State; undoubtedly confirming and contrasting the bleak challenges faced by black commercial farmers. The South African agricultural sector was divided into a well-developed commercial segment and a small-scale communal farming segment. Bernstein (2013) attributes some of these differences to the technical and spatial changes in commercial farming, which translated into the rising pace of farms being concentrated with the trade liberalisation of agriculture and the resultant removal of subsidies.

Ortman and King amplified the issues impacting the agricultural sector and the role of traditional authority in the appropriation and use of land continued to inhibit and restrict the formal ownership of land, constraining the use of land as an asset for commercial agricultural production. The elephant in the room is the land tenure system in peri-urban and rural areas.

Small-scale farmers have failed to qualify for credit as they could not present land as part of collateral. The smallholding farmer would have no prospects of succeeding because of having no ownership of land.

Kirsten and Van Zyl (1998, 552) problematises the definition of small-scale farmer in South African agriculture because there are two categories of farmers; subsistence farmers in the former Bantustans and large-scale commercial (mainly white) farmers. The small-scale farmer concept is generally value-laden, creates wrong impressions and is often seen in a negative light especially with labels such as backward, non-productive and non-commercial. This is also referred to as subsistence agriculture found former homeland areas.

(Ortman et al 2007) demonstrated that small-scale farmers would not emerge as a force to be reckoned with in the sector because of structural and compounding issues such as accessing markets and their huge dependence on informal arrangements for their produce to be consumed. The discussion of small-scale farmers is a contested terrain because of these terms lumped with the political agenda of land reform, which aims to reduce poverty and create employment in rural areas.

It is my view that small-scale farming can actually take place even in an urban setting, if this is understood from an economic empowerment perspective. I am persuaded that small-scale farming can drive accumulation from below in an economic context, where the farmer is able to produce for the market. In fact, that is the premise of this dissertation to posit for the commercialisation of agricultural production (Cousins 2010).

The trajectory of small-scale farming is anchored through the supply-side measure of government; however, this is not where it should stop. There is a debate that bottom-up movement can trigger the uptake of agriculture to a fully commercial state if the appetite prevails. In understanding the potential of the missing middle, this could give impetus to the promise of small-scale farmers who might seize opportunities afforded by the market, whereby rural development could enable food production by the rural people and inspire rural entrepreneurs who could mobilise resources for accumulation from below to reshape the agricultural sector. It is the structure of the economy that could be reconfigured, introducing new players from rural areas (Hall 2009 and Cousins 2007).

The missing middle is the space taken up by small-scale farmers who are truly commercial and can grow in size and output.

This dissertation focuses on individual farmers who were able to acquire and purchase land from white commercial farmers and the black commercial farmers, who are a differentiated segment of farmers who deserve attention from an analysis standpoint. During land redistribution and land reform, white-owned commercial farms were handed over to communities or black individual farmer entrepreneurs giving effect to accumulation from below. Kirsten and Van Zyl (1998) have refuted the neat differentiation of small-scale farming or smallholder farming.

It is my argument that the benefits of land and agrarian reform should improve the fortunes of small-scale farming, however, due to the nature of the agricultural sector; it is my contention that there is no need for small-scale black farmers to compete with large-scale commercial farmers or white commercial farmers. In fact, there is a better call for collaboration and partnership depending on the commodities that are produced by these farmers.

Aliber and Hall (2012) argue that agricultural strategy should be to grow the small-scale farmer to derive income from commercial enterprises by bolstering their existing production with the right institutional and policy support required. Fundamentally, small-scale farmers are part of the industrial strategy in respect of the downstream industry supply chain and marketing ushering the policy framework that affords scale and greater influence enabling accumulation from below. This can undoubtedly unleash sustainable growth and address the empowerment of the 'missing middle' small-scale farmer.

However, much of the literature placed heavy emphasis and discussion on smallholder farmers or small-scale commercial farmers rather than black commercial farmers (see Aliber and Cousins 2013; Ngcoya and Kumarakulasingam 2017). It is understandable that the focus is still on the emerging segment of agricultural production, however, this study focused specifically on the black commercial farmers who are clients of Absa Bank because the current debate seems to overlook the possibilities of black commercial farming as a terrain for business in the agriculture sector.

2.3 A concerted black commercial farmer focus

The literature reviewed in this dissertation covered small-scale commercial farming rather than large-scale commercial farming, where black farmers could play a role. The focus of my study therefore is on the gap in literature arising from the limited focus on black commercial farming as a strategic segment of the agricultural sector.

In particular, this study puts the spotlight on black commercial farmers who have been funded and supported by Absa in KZN, assessing whether Absa did positively impact black commercial farmers in order for them to be successful and run sustainable businesses after having received financial assistance (including non-financial support) from the bank.

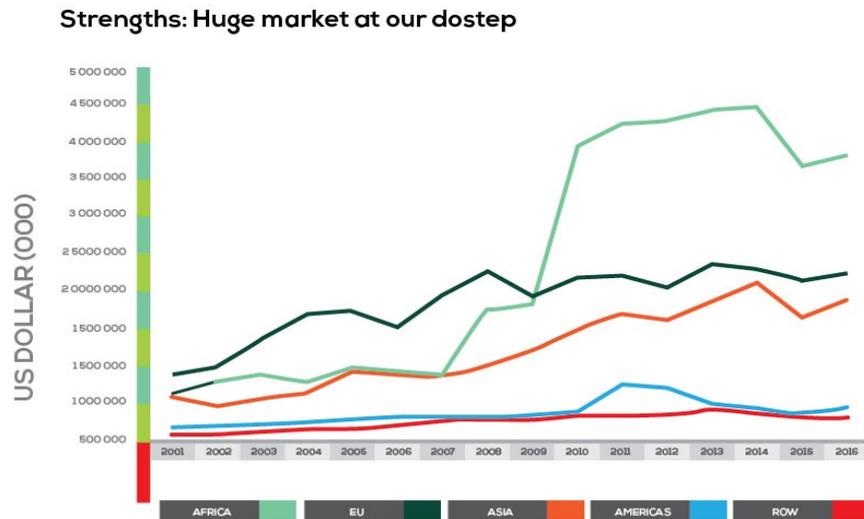
Ideally, small-scale farming is the foundation of the next level of commercial farming, medium-sized and large commercial farming. It has its role and place as much as medium-sized and large-scale commercial farming. I argue that providing small-scale farmers with the right resources and support can have a big impact on them growing their farms. It is not a natural progression that they will operate commercial farms.

Theoretically, small-scale farmers could graduate to large-scale commercial farming; however, agriculture is a domain of scale from an economic perspective.

Simela presented a paper on Agricultural value chain systems – *Where are the weakest and strongest links?* at the Development Finance Conference in Cape Town. She outlined that the agricultural asset appreciation grew by 9.6% between 2015 and 2016, highlighting that the total capital asset (including land and fixed improvements, livestock and machinery of the sector) was R421 billion. The gross investment in fixed improvements for the sector for the year ended 30 June 2016 decreased by 5.9% to R4.228 billion. The investment in machinery, implements and vehicles decreased by 6.7% and amounted to R9.357 billion. The livestock inventory was R353.6 billion less than in the previous year. The input costs appeared to be inhibitive to the sector, costs not keeping pace with the demands of increased stock requirements and ramped-up investment in equipment for production.

Simela 2017 further outlined that the total farming debt as at the end of June 2016 increased by 12.7% and was estimated at R144 billion compared with R128 billion at the end of June 2015. Current farming debt is estimated at R166 billion. This was evidence that South Africa was able to finance agriculture, the main players in providing the finance were the Land Bank, commercial banks, cooperatives and private investments, including government. In respect of trade, the agricultural sector has performed relatively well in the past 15 years, figure 3 below illustrates the returns over the period. Exports have outstripped imports from an agricultural income perspective.

Figure 3: Agricultural market globally



Source: Simela, Absa 2017

It is evident from Figure 3 that the export market is immense for black commercial farmers specifically in the European Union, Africa, Asia followed by the Americas and lastly the rest of the world.

The dominant themes that affect the agricultural sector are fundamentally economic, social and political in nature and, to a large extent, cover themes of rural development in general; however, there is a paucity of academic material weighing in on financial services in the agricultural sector. This dissertation projects rural development and economic development as taking advantage of the agricultural sector as a catalyst for rural economic development in KZN.

Using Absa as a case study, literature refers to corporate social responsibility, which examines the role of business in sustainable development. In addition, examining how Absa shapes its strategy in the agricultural sector and its role in supporting inclusive and sustainable economic development in KZN.

The dissertation seeks to engender corporate social responsibility that elevates inclusive and sustainable economic development, which uncovers factors that grant communities and stakeholders the ability to design, plan and implement their own development.

2.4 Land ownership and its use as collateral

This dissertation evaluated the amplified standing of small-scale farming in the agriculture sector in advancing the commercialisation of agricultural production by black farmers; which was identified as a means for households to be food-secured and have sustained livelihoods.

Aliber and Mdoba (2015) account that there are about 2.3 million black households engaged in subsistence production (households that farm to derive an extra or main source of food), 167 000 smallholder households (farming for the sake of drawing a main or extra source of income) and a few hundreds to a couple of thousands largely representing black commercial farming households. Literature flags that black commercial farming is not a large base, but Aliber and Mdoba (2015) argue that Stats SA's General Household Survey of 2014 did not provide a clear delineation between smallholder and commercial black farming households. The Stats SA's household income data pointed out that there were relatively few commercial black farming households.

This study explored the fact that development can be understood as: 1) the institutional environment for rural development (the private sector, communities, civil society, local government and sector institutions) and 2) the factors governing profitability of investments in agriculture. Therefore, for the sector to survive, it is essential that the nexus between these two factors be combined for the empowerment and promotion of black commercial farmers in totality.

Ortman et al 2007 referred to land allocation in agriculture as one of the major inhibitors of successful agriculture in rural areas because the land is owned and administered by the traditional authority, namely the amakhosi and the izinduna, among others. Unfortunately, 'no household can claim formal ownership of the allocated piece of land' in these communities. I therefore delve into issues of land ownership, especially as it plays a role in leveraging and enabling agricultural production in rural areas.

I focus on the difficulties for small-scale farmers to qualify for any credit to take advantage of the use of land for agricultural production. The land could not be used as collateral for credit application with the net impact that agriculture became an informal business practice, where no formal marketing contracts can be formalised.

The informality of agriculture in rural areas was and continues to be a dominant form of business (largely showing features of subsistence farming), few entrepreneurs would emerge as players in formal agricultural production. The produce from farms is therefore used for food security rather than for commercial purposes (Lahiff and Cousins: 2005).

In fact, other studies show that less than a tenth of all small-scale farmers in South Africa engage in agriculture for their main or additional source of income (Cousins 2013, 123).

What is notable about the agricultural sector is that it is strategically dependent on other related sectors of the economy functioning well, for it to benefit operators, farmers and entrepreneurs. Significant investment in public infrastructure and improvements thereof, including enhancements in the physical and institutional infrastructure, are vitally important to make the costs of running an agricultural business affordable. The associated input costs in the total value chain of agricultural production have a direct bearing on stimulating production and delivery of products from the farms. However, literature points out that agriculture is not viewed as a strategic local economic driver at a local municipal nor at a local government level (Nel 2001; see also Helmsing 2003).

I recall that during my service as Marketing and Communication Director and Mayoral Spokesman (2003) at Mogale City Local Municipality, I never witnessed the Integrated Development Plan nor the Local Economic Development strategies of the municipality place any focus on agriculture. Nor did I see any subsequent plans of municipalities referencing agriculture as a strategic sector of focus to drive economic development. Local economic development is quite broad and all encompassing, covering tourism, residential and property development, including entrepreneur development not to mention the agriculture sector. Ben Cousins (2014) argues that local government has been excluded in the spatial development frameworks that may incorporate agriculture in the long term.

At a public policy and legislative framework level, agriculture is understood to be a competency of national and provincial government; however, the delivery and implementation of policy objectives do transpire at a local municipal and local government level.

There is a policy disconnect and chasm in the intergovernmental system in the South Africa. The local sphere of government is and can potentially be the lead in driving down input costs associated with the infrastructure to assist in making agricultural businesses viable and sustainable. This is the arena of State intervention in easing the costs and pains for black farmers and the agriculture sector. Local economic development will not kick off without the agricultural sector; therefore, the sector needed to be accounted for and used as a basis to curtail poverty and underdevelopment in rural areas (Ben Cousins 2014).

2.5 Lack of capital and markets fail black farmers

There is general consensus in literature that access to finance is a major impediment to SMEs⁹, in which I include aspiring black commercial farmers. In a dissertation written by Saib (2015), he notes that SMEs have long regarded access to finance as a major problem (Turner 2008). The concept of access to finance means being ready to approach a commercial bank or a financier to access finance (understanding their requirements at a functional and process level). Mengistae (2010) amplifies this by stating that registered SMEs are unlikely to have access to credit. Credit and finance are used interchangeably in this dissertation.

⁹ The International Finance Corporation (2009) states that SMEs include registered businesses with less than 250 employees. Mahembe (2011) further argues that SMEs' definition alluded to the number of employees, to turnover categories or a combination of both. The National Small Business Act of 1996 allows for a variation of both, however, matching to the industry sector. In Section 1 of the National Small Business Act (NSB Act) of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 an SME is defined as: '... a separate and distinct business entity, including cooperative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy.'

SMEs' access to finance can be regulated by comparing the supply of financing to what is demanded by the sector and the responsiveness of the financing sector to the demands of the sector. The availability of finance to SMEs can be influenced by borrower-specific (internal factors) and systemic factors (external factors) (Beck, Demirguc-Kunt and Peria 2008).

Borrower-specific fundamentals cover managerial competencies, quality of business information, availability of collateral and networking, the low survival rate of SMEs and the complexity of separating the business owner's personal finances from that of the business (Barbosa and Moraes 2004). The SME's size also plays a role, the smaller the size the less likely an SME is to be successful when applying for finance (Mengistae: 2010) and the lesser the amount of finance an SME will apply for (Falkena, Abedian, Blottnitz, Coovadia, Davel, Madungandaba, Masilela and Ress 2004). Behaviourally, SMEs are also unlikely to apply for loans because of the perception that they would be rejected, without knowledge of the procedures or the pricing and interest rates associated with the loan (Chimucheka and Rungani 2011). Know-how of the business owner (Rudez and Mihalic 2007), the ownership of the SME (Falkena et al 2004), accessibility of information on finance (Falkena et al 2004) and the age of the SME (OECD 2007) are other borrower-specific factors.

(Ortman and King 2007) bemoaned the fact that smallholder farmers and SMEs in agriculture were largely challenged by constraints of having little access to capital, which directly impacted the implementation of rural development in South Africa. If rural development were to be successfully done, then the intergovernmental system should be reviewed for the benefit of the business owners (farmers), especially in the agricultural sector.

Smallholder farmers depend extremely on informal lenders (friends and family or micro-credit institutions) to meet their financing needs.

Unfortunately, commercial banks have had no appetite for providing credit to smallholder farmers and small entrepreneurs). In banking practice, this is identified as a developmental area that is too risky. Banks cited the high risks associated with such ventures.

Warranting a poignant assessment are Ernst Janovsky's comments that "Absa has to change its approach with the changing economic conditions in agriculture; the days of simply loaning money to farmers against their asset value are drawing to a close." Is this the current manner in which Absa funds black commercial farmers in general? Is Absa taking more risks when funding commercial agricultural businesses run and owned by black people?

Chibunda et al 2009; noted that the high risks that made commercial banks not provide credit to cooperatives were insufficient equity capital, further the egalitarian and voting rights apportioned in the cooperative structure (democratic decision-making processes), the lack of a visible majority investor, who might influence investment decisions, poor financial record-keeping and the high transaction costs in granting small loans. This meant that the granting of small loans was quite costly for a commercial bank compared with the return that the bank might require.

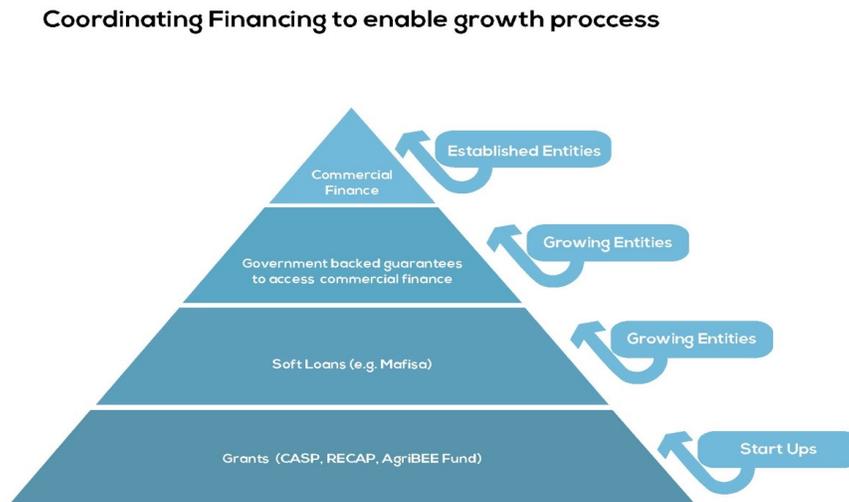
When debt capital was not available, this undoubtedly caused inertia in respect of investing in the growth of assets of the business, meaning that in the absence of debt capital or raising capital by rural farmers and cooperatives the alternative was to depend on government donations, grant funding and concessionary loans (Chibunda et al 2009). In effect, this creates an agricultural funding challenge; where the clarification of role-players in the sector is muddled, causing further confusion in the market as to who does what in funding black commercial farming or developmental agriculture. The segmentation of roles of each stakeholder, namely government, development finance institutions, commercial banks and micro-finance institutions, is not clear.

However, Simela 2017 argued at the conference in Cape Town that inclusivity was a critical aspect in the development and introduction of smallholder farmers, including black commercial farmers, to the mainstream value chains of the agriculture sector. There have been isolated pockets of successes, and these need to be increased through partnerships between commercial banks and development finance institutions to produce a blended (collaborative or co-funding) finance model and alignment with Broad-Based Black Economic Empowerment (B-BBEE) policy.

The difficulties of smallholder farmers and black commercial farmers accessing mainstream value chains are largely policy non-collaboration (policy non-coordination) between the different national government departments, skills, track record, credit rating, information about the clients, de-risking clients and a lack of comprehensive support (effective partnerships). In her attempt to address the financing challenge, she proposed that coordination between role players and agencies be established.

The diagram below outlines her proposal of coordination for funding smallholder farmers or black commercial farmers.

Figure 4: Absa’s proposal of coordination for funding smallholder farmers



Source: Simela, Absa 2017

¹⁰**Comprehensive Agricultural Support programme (CASP):** Aim is to provide post-settlement support to the beneficiaries of land reform and to other producers who have obtained land through private means and are involved in value-adding businesses locally and/or involved in exports.

¹¹**Recapitalisation and Development programme (RECAP):** Focus is on human development, infrastructure development and operational inputs on properties in distress and recently acquired properties through land reform redistribution, restitution and other programmes since 1994 as well as other agricultural properties in distress acquired without grant funding. The programme ensures that the enterprises are profitable and sustainable across the value chain in line with the business plan, which covers comprehensive development requirements of targeted properties over a five-year recapitalisation and development cycle.

AgriBEE Fund: Is a support programme started by the Department of Agriculture, Forestry and Fisheries conceptualised primarily as a programme to support previously excluded black farmers to participate in ordinary economic activities with a view of enhancing the transformation agenda in the sector.

¹²**Micro Agricultural Financial Institutions of South Africa (MAFISA) scheme:** Provides financial services to smallholder producers in the agriculture, forestry and fisheries sector with the objective of addressing the financial services needs of smallholder producers in the sector. The scheme includes production loans, facilitation of saving mobilisation and capacity building for member-owned financial institutions (intermediaries).

¹⁰ <http://www.nda.agric.za/docs/CASP/casp.htm>

¹¹ <http://www.ruraldevelopment.gov.za/services/358-land-redistribution-and-development/922-recapitalisation-and-development#.Wil0XNJ973g>

¹² <http://www.daff.gov.za/daffweb3/Branches/Administration/Development-Finance>

Later, I discuss the segmentation of role-players in providing finance to farmers. The tragedy is the lack of enduring partnerships and co-funding opportunities for the benefit of black commercial farmers.

2.6 South African black commercial farmers need support

Darroch and Mashatola (2003) and Sanderatne (1986) argue that when a sugarcane grower (or in our case, a black commercial farmer) owns a large farm, the farmer is regularly well prepared to settle his financial obligations, which, if the capital is borrowed, would include loan repayment in a speedy fashion because of the capability to benefit from economies of size and/or scale. Medium-scale farmers who owned large farms can decrease the average cost per unit of output sold by stretching fixed annual machinery, labour, interest and management costs, and information and transaction costs in the formal credit market, over more output. It is true that larger-size farms have the ability to profit from lower average cost.

In a case study of 83 medium-scale sugarcane farmers, who accessed a graduated mortgage loan repayment scheme funded by Ithala Bank in KZN, it was validated that larger-size farms might also be those managed by black commercial farmers who possessed specialist skills (relatively greater ability) required to produce on a larger scale (Pasour 1981). Management, interest, information and transaction costs were likely to be the most pertinent fixed costs for the sugarcane growers as most of these growers contract out their sugarcane harvesting operations. Mbowa and Nieuwoudt (1998) ventured that smaller sugarcane farms in KZN (under eight hectares) require notably more resources to produce valuable output than larger farms.

With the assistance of Ithala Bank providing mortgage bonds, in relation to this study the agri-bond is the closest product to the mortgage bond, to the black farmers and the off-take player being the miller, who established a medium-sized farming scheme benefiting black commercial farmers who are sugarcane farmers, proved the viability of commercial farming that is anchored with all the support of the bank and the millers.

This scheme was one of the earlier models that demonstrated the importance of a tripartite arrangement and collaboration between a mill in the form of Tongaat Hulett, operator or a farmer and a financier being Ithala Bank. The mill secures the market for the black farmer, the financier provides the funding based on the volumes of production from the farmer and the farmer adheres to the contractual agreement in respect of the volumes required by the mill. Contract farming arrangements are identifiable schemes referenced as one of the defining models used to bring black farmers into commercial agriculture.

2.7 Credit finance for agriculture and black farmers

At a development finance conference in Cape Town in October 2017, Mokoka Sebola intimated that access to agricultural finance was one of the topmost problems that inhibited Africans from sustaining themselves economically through agricultural projects and agricultural businesses. This was not a uniquely South African challenge (IFC 2013). In current economic conditions, agriculture has contributed 5% to GDP compared with the 1930s where the industry's contribution was pegged at 20%.

Sebola (2017) decried the fact that amid these depressing performance growth rates, black commercial farmers were contributing less than 1% of the entire agricultural contribution to South Africa's GDP. In effect, black commercial farmers were in real terms insignificant players in the industry, which was showing much decline over the years. Despite land policy formulation constructed by government, black commercial farmers remained the segment of the agricultural industry that was underdeveloped and susceptible to economic challenges compounded by the fact that their businesses might not be sustainable. The dearth of mentors in the farming industry need to be implemented with urgency and this dissertation focuses on this later.

Chisasa and Makine (2013) recognised that agricultural credit was one of the strategic means by which small-scale farmers could bolster their capital base because without capital it was fundamentally difficult to be productive and have sustainable businesses; this might pose a threat to the very basic function of providing livelihoods to households. Capital is the cornerstone of any successful business; however, it facilitated acquiring assets such as investments, stocks and other assets that are more long term. Capital had the potential to significantly benefit small-scale farmers in the future.

Chibunda, Ortman and Lynne 2009 argued that there was no evidence of small-scale farmers being able to access capital, further witnessed by women farmers operating and running cooperatives and ghettoised in those establishments leading to their failure, as many studies show. The discourse on capital for a small-scale farmer and large commercial farmers could help build and improve their operations and establish a base for generating revenue and wealth.

The theme of credit finance is part of the discourse, including the role of commercial banks, which could assist small-scale farmers and black commercial farmers to multiply their capital base. As Verhoef (1992) demonstrates, especially during colonial and apartheid rule, government has historically been the dominant player in providing credit to farmers, which was a reflection of the private financial institution's reluctance to invest in rural markets and agricultural production (of small-scale farming). This was evidenced in the failure of the market in sponsoring small-scale agriculture, exacerbating the sustainability of black small-scale farming and black commercial farming.

Chisasa and Makine 2013 articulated the fact that small-scale farmers were unable to qualify for credit because of little or no collateral, therefore weakening the strategic input of agricultural funding and credit would have had in positively improving the developmental impact on agricultural output. The challenge to commercial banks is: why use traditional commercial lending practices in adjudicating credit risk in respect of agriculture? Agriculture is not a typically mundane business activity and therefore the use of collateral in the sector to moderate credit risk may not be useful in developmental and financial terms. The net result is that this led to financially excluding entrepreneurs who therefore cannot take charge of their lives and give the economy a boost from a growth perspective. The argument is to go back to the basics in seeing the role of agriculture to enhance economic growth and development.

Chisasa and Makina, 2013 recorded that large commercial banks have contributed over 20% of the total credit to the agricultural sector in 1978 and over 67% of credit by the year 2008. In the final analysis, this means that in the 40 years of credit finance for agriculture the picture has not been attractive and compelling enough. What was not addressed was the quality of funding afforded the agricultural sector. Therefore, commercial banks assisted relatively well to agricultural funding.

The Absa case study featured in this dissertation unpacks how the bank has assisted and supported its black commercial farming clients in KZN. Sahu and Rajasekhar (2006) describes the broad categories of costs in agricultural credit and financial systems to cover financial, transaction and risk costs, however; I would add developmental costs, which were in the background ahead of the front-end credit and financial requirements of clients. I argue for a renewed approach to credit finance that looked at development finance (highly risky) and credit finance (less risky) in respect of agriculture. Literature also shows that a lack of credit would have had a negative impact on rural development and the sector as a whole, translating into a negative impact on the credit applicant and the entire farm. In credit finance terms, risk management was the basis of credit decision-making by banks. With sound risk mitigation measures agricultural projects in rural areas could be adequately supported and be sustainable.

However, as I stated in my introductory chapter, literature was silent on finance and black commercial farming businesses. Credit finance is an important instrument to facilitate the support to farmers, coupled with non-financial assistance.

In examining Absa Bank's Shared Growth Strategy's potential to achieve financial inclusion, literature paints a scenario where bank credit has had a positive net effect on agricultural output when advanced to businesses. However, it is notable as well that small-scale farmers do not rely exclusively on farming for their livelihood. Their livelihoods are supplemented by other economic activities outside of farming (Hull 2012; Neves and du Toit 2013). The majority of rural people were dependent on government social grants, including pensions, child grants and disability grants.

Collins and Marduch (2007) describe flexibility in credit management as the use of credit whereby a balance was established between the business and personal needs of farmers. The concept of the utility of credit was either for consumption or productive use; meaning as much as it was important to source credit for business; credit was equally essential for personal purposes. This paints a concerning picture for the sustainability and longevity of farming in rural areas. Without agricultural credit finance, rural development is a far-fetched ideal; if small-scale farmers are not enabled and empowered with all the financial and non-financial support, they cannot move along the value chain to become viable commercial farmers.

The personal and business were never separate existential concepts. The well-being and success of the farmer at a personal level had much positive impact on the success of the enterprise at the end of the day. The predisposition of farmers was largely setting up the attainment of financial stability and this was feasible when they were able to run successful businesses. This then translated into reducing the risks through various interests such as establishing a rural base called home and diversifying their source of livelihood.

In their study on funding agriculture in developing countries, Burgess and Pande (2004) show that State-led finance programmes were key mechanisms used during the post-colonial period in developing economies and these were meant to address priorities such as growing the agricultural sector and small industries, including exports. The test is whether government would equally take up a leading role to diversify the banking services (through regulatory and legislative means) into rural areas for the benefit of agriculture. They conclude that banking services need to be expanded in rural areas with an objective to ascertain that growth does benefit agriculture. The concept of financial inclusion and its discourse has brought into sharp focus the provision of financial services and extension of access to banking and financial services.

Therefore, it is not surprising that there is a growing body of work examining the role of financial services in rural development, or as Hull (2012) aptly puts it, “banking in the bush.” Bringing banking services to rural areas is a strategic objective in rural development and a focus area to remove barriers of access to financial banking services, meaning that the delivery of financial services would include quality of service, fees and trust. When this has been adequately rolled out, then this might have a direct bearing in reducing poverty as well (Dupas et al 2012).

Hull (2012) identified major constraints that impact the agricultural sector from an SME agribusiness perspective; these were a lack of investment in public infrastructure and little access to profitable markets compounded by distances to reach urban areas. When infrastructure services are readily available, this is linked to the proximity of the business to key locations in the urban setting.

Businesses in urban locations are generally going to perform far better than those in poor rural areas. Therefore, agribusiness SMEs not located closer to developed markets were dependent on social capital, which afforded them some survival capacity and growth (see Clover and Darroch 2005). The growth of the agricultural sector should be anchored by a policy programme led by government and commercial banks taking risks to support the sector, which has a promise to advance black economic empowerment.

Unfortunately, government has had a timid approach to adopting a full-on State interventionist programme in agricultural development confirming a neo-liberal approach to development. When government takes on a proactive approach in as far as agricultural support is concerned, developmental returns are guaranteed. Both government and the private sector should find a balanced risk approach to promote black commercial agricultural businesses in KZN; combining the strengths of both the private and public sector to establish a solid foundation for black commercial farmers. Loan collateral is at the heart of entrepreneurs succeeding to qualify for bank loans. SMEs of any size fail to take advantage of their operations when they are unable to acquire loan funding for expansion, therefore loan collateral is problematised in this dissertation because it is one of the major inputs to create sustainable black commercial agricultural production. KZN needs entrepreneurs in the agricultural sector because they are a social treasure demonstrating capability to create new organisations and economic activity.

De Klerk and Fraser (2013) highlight the fact that in South Africa there were no specific laws or regulations that were geared towards articulating the approach in terms of agricultural finance, which has left a policy vacuum in addressing the role and purpose of agricultural finance. In this dissertation, a public policy gap was identified as an area needing attention to strengthen agricultural finance/credit finance¹³ in view of defining the role of banks in this regard.

2.8 Contractual agreements

In this sector, contractual agreements (entered with the off-take client) are an example of collateral used by farmers to validate their application for funding from banks. Banda (2012) argued that contractual agreements were not the be-all-and-end-all for improving smallholder farmers' market access.

A case was made for alternative marketing channels for smallholder farmers, including the fact that contracting prices were not superior to other prices in alternative (non-formal) markets. Some farmers were able to realise competitive prices for their produce in non-contractual arrangements. Banks find comfort from a risk perspective to use contractual agreements (also known as off-take agreements) as a form of collateral to fund against the production of a farm.

¹³ Islamic finance presented an untapped opportunity to companies (SMEs) and individuals seeking to invest and benefit from Islamic finance. Islamic finance as a financing model that adhered to the principles of Sharia Law, which was the moral code and religious law of the Islamic religion, disallowing the charging and acceptance of interest, which was known in Arabic as *riba* on loans (Saib 2015; Jamaldeen 2012). Islamic finance replaced interest charging with an instrument termed profit loss sharing, according to Dar and Presley (2001), is the contractual pact between two or more transacting parties, which permits them to pool or join up their resources to invest in a project or business operation to share in its profits and losses. In Islamic finance, the bank and the entrepreneur or farmer have an equal stake in the results of the business. In regards to losses, both the financier and the entrepreneur (farmer) lose, while in profit both parties share in originally agreed percentages (Farooq 2006).

Banda cited an example of an Agricultural Black Economic Empowerment Policy initiative of the South African government where smallholder farmers in the Winterveld region entered into contractual agreements to supply Gauteng hospitals with vegetables. This initiative was aimed at empowering black smallholder farmers and providing them with access to markets. The contractual arrangements did not extend to the fresh produce market and one of the renowned retail supermarket chains.

Title deeds or other forms of assets were not used by smallholder farmers as collateral for commercial bank funding of their farming operations, expressing their fear of losing their assets if they defaulted on loan repayments. Commercial banks were viewed as *mashonisas* (a colloquial term) describing usurious loan sharks (Banda: 2012).

Banda problematises contract farming by stating that the average gross farm income for a contracted farmer was lower than that of the non-contracted farmer. Theoretically, a contract agreement regularises income for a farmer, however, that does not guarantee competitively better income over a period.

In essence, the average gross income for a contract farmer should be more stable than that of non-contracted farmers. In addition, the contracted stable gross income provides comfort and security for banks in respect of funding.

In the Winterveld case, smallholder farmers were keen to participate in the formal markets, however, they desired to witness the subsidisation of market and agent fees coupled with the use of existing market infrastructure such as the Tshwane Fresh Produce Market. Contractual agreements needed to be supplemented by incomes from other non-contractual markets. That was the reality there. The risk in this instance is being singularly exposed to one client who is defined in the contractual agreement. Large-scale commercial farmers were viewed as suppliers of the fresh produce market because of their capability to deliver large volumes and high-quality produce.

Banda 2012 refutes the conventional view that large-scale commercial farmers are capable to supply corporate clients such as fresh produce markets, however, that does not mean smallholder farmers may not be able to fulfil the same delivery obligations. In addition, they would have the capacity to absorb market and agency fees if exposed to these. A critical point was that contracted farmers in the Winterveld, specifically smallholder farmers, could have used their contractual agreements to access financial credit.

Dubb (2012) further elaborated on contract farming as a model that was identified as a pro-poor instrument used to draw small-scale farmers into agro-food supply chains often driven by capital intensity and high barriers of entry. Contract farming was labelled as a best economic model where small-scale farmers could access markets, technology and financial services. A critical point was that originating companies of the contract agreement reduced their involvement in production and labour concerns. The criticism against contract farming was that it had unequal power relations between farmers and processors or retailers.

Reardon et al 2001 warned that contract farming might displace decision-making authority from the farmer to the downstream player, namely processor, distributor and retailer. The empowerment of farmers might not be realised where the net position is that farmers might become quasi-employees.

This dissertation highlights that literature has ignored issues of finance for black commercial farmers; and that there is no existing case study examining the role of a single bank. My insider role and access to bank material and easy access to its clients, means that I can provide a unique and unprecedented perspective.

2.9 Conclusion

The next chapter focuses on the theoretical framework that underpins this dissertation, pointedly how the multi-dimensional equity framework is applied in the agriculture sector. The framework highlights how assets in the agriculture sector can be used for empowering processes and experiences. The discussion with farm owners in as far as embracing and engaging with worker equity instruments in their businesses is explored. The Broad-based Black Economic Empowerment policy and legislative framework is unpacked within the multi-dimensional equity framework. The empowerment features of the framework are discussed in the next chapter.

CHAPTER 3

3.1 Introduction

This chapter focuses on the multi-dimensional equity framework as a theoretical framework in the context of the agriculture sector. The theory has been used largely in environmental and climate change sectors. The framework deals with issues of assets, equity and transaction agency of communities, including empowerment. It is highlighted in this section that relationships are more than transactional and equally elevate the importance of communities and rural people as part of the meaningful discourse for sustainable livelihoods and development. The concept of equity in respect of representation and participation is explored later.

3.2 Theoretical framework: Multi-dimensional equity framework

The theoretical framework professes that equity-centred approaches to empowerment and transformational progress for individuals and communities is possible considering that equity frameworks have hardly been used in agrarian studies. However, equity as a concept has become an increasingly powerful explanatory tool in ecological economics and climate change studies (see among others Konow 2001, McDermott et al: 2013, Corbera et al. 2007; Pascual et al 2010). This framework is appropriate for this dissertation because it contextualises how assets are distributed, shared and used to impact the lives of farmers.

The multi-dimensional equity framework (MDEF) views assets as a means to assist people to obtain equity that can multiply into capital and empowerment to develop. Assets are tangible as well as intangible with the utility to ensure that there is a creation of wealth in the process. Land, environment and rivers are notably accepted as assets in the framework. The discipline of the framework is mainly to seek justice and parity among those who work the land and those owning the land.

Agricultural produce is the currency of the economic process, which has a dimension of equity, fittingly empowering that local people are brought in to realise the economic benefits of farming. The framework argues for rural people to own a rightful place in the economic process and production in order to benefit from the natural resources that they own. The framework underscores the meaningfulness of the public participation of rural people and farmers in the development of agricultural policies, including credit policy.

In particular, as set out by McDermott (2013), the MDEF is robust in at least three dimensions: a) the distributional aspect that addresses the distribution of benefits and costs; b) procedural aspects of equity refer to decision-making; and they are linked to c), contextual equity, “which incorporates the pre-existing conditions that limit or facilitate people’s access to decision-making procedures, resources and, thereby, benefits” (McDermott et al 2013:416).

Regarding the procedural aspects of equity, the MDEF helps to underscore the meaningfulness of the public participation of rural people and farmers in the development of agricultural policies, including credit policy. Regarding participation, one of the key questions to ask is: What did Absa do when receiving feedback from its clients on its credit policy-making process?

The dissertation theorises whether access to resources did in real terms benefit farmers to obtain capital, speed up decision-making, enhance and bring to bear specialised knowledge to the agricultural sector and influence decision spaces (invited and uninvited) in regard to effecting transformation.

Empowerment is important in South Africa, as one of the major transformation projects in the country; hence the MDEF theory is applicable in the case of Absa in how the bank engages with black commercial clients. Empowerment and Broad-Based Black Economic Empowerment in farmers' businesses examined how the entrepreneurs embraced employee share ownership schemes in their businesses.

Furthermore, the framework integrates three additional concentric parameters to examine equity, namely: a) who? (that is who deserves to be a subject of equity, therefore addressing the targets, or social scale of equity); b) why? (the purpose or goals of equity); and c) how? (or the ways in which the preceding parameters (what, who, why) of equity is determined? (McDermott et al 2013:419).

However, we need to ask what, in fact, is equity? Because oppression is contextual, it follows that throughout human history understandings of fairness, justice and equity have varied across time and space (Pascual et al 2010). However, although it is hard to distinguish equity from justice and fairness (Konow 2001), I have adopted a definition proffered by Corbera et al. (2007: 589), which sees equity as relating to “the distribution of socio-economic factors and goods in a society according to an agreed set of principles or criteria.”

In the context of South Africa’s historically vile agrarian history, equity must be seen in comparative terms. In other words, “it is principally concerned with relationships between people and with their relative circumstances” (McDermott et al 2003:417). Specifically, in the case of this study of Absa’s Shared Growth Strategy, a MDEF helps us ask whether Absa’s clients are better off after their engagement with the bank than before.

McDermott (2013) contends that equity should be viewed at the individual, household and community level, alongside the value chain, international, ecosystem and intergenerational context. Equity is more than legalistic, epistemologically taking on more than an economic tag and meaning, whereby many generations are effectively touched. The framework aligns with corporate social responsibility theory, whereby equity may have a social dimension and perspective. Equity has much bearing in respect of distribution, justice and capacity building plus empowerment for farmers; therefore, it is this perspective that undergirds the empowerment of communities and bestows them with authority over natural assets in their environment.

Therefore, in this dissertation, Absa's efforts in the agricultural sector were examined in respect of how this translated into social equity and social capital.

This approach is useful to my study because it is multidimensional and takes seriously the complexities of poverty. As I indicated in the previous chapter, poverty is multidimensional (it is economic, social, political, cultural, etc.).

Qwabe (2014) advanced a view that rural development focused on the total rural context, including farming and non-farming initiatives or projects, therefore the availability of basic services, infrastructure and health services coupled with equity could not be ignored. A MDEF assists to examine the benefits of equity from a funding perspective. The framework foregrounds participatory parity, whereby fairness can be generated in the allocation of resources and instils dispute resolution in a democratic context that elevates development.

Therefore, in assessing Absa's programme, the question to ask is not only whether the clients have benefited economically, but also the conditions of their participation and the underlying empowerment in working with Absa.

3.3 Why not corporate social responsibility?

I could have used corporate social responsibility as a conceptual lens to interrogate Absa's Shared Growth Strategy, therefore acknowledge that the strategy goes far deeper than just demonstrating that the bank is a responsible corporate by funding black farmers. Williams 2014, highlights Walton's definition that "a corporation is a social and political entity as much as an economic unit".

Therefore, when Absa initiated its Shared Growth Strategy, it was anchored in the conceptual and policy frames of corporate social responsibility (CSR) by which it sought to demonstrate its corporate citizenship mantle and enhance its reputation for being ethical. In other words, this was designed to present the bank's noble stance to take on social problems experienced in the environment where the bank operated (Williams 2014).

I find CSR limiting as an analytical tool. I find literature on corporate social responsibility limited to the non-commercial aspects of an organisation and this motivated me to consider how the Shared Growth Strategy is applied in the provision of funding to black commercial agricultural clients (Developing a Citizenship Strategy for Barclays Africa Group Shared Growth Plan. Exco presentation, June 2015). Absa has tried to redefine itself in how it does business to improve community well-being through strategic choices of funding black farmers by granting them loans and affording them the organisational resources to change their lives. This is more than CSR and the bank's responsibility goes beyond mere funding in this regard (Kotler and Lee 2005).

The strongest reason not to employ CSR as a conceptual framework is its association with the discourse called CSR-washing, which is defined as a frame of reference questioning whether companies can be trusted to engage and respond honestly to urgent non-commercial issues such as environmental and social issues that affect the business (Kotler and Lee: 2005). Over the years social, environmental and sustainability reporting suggested that a significant number of managers considered the validity of this reporting.

Newel (2005) states that the concept of citizenship conjures the view that corporate entities and organisations have an obligation to return something of benefit to the communities impacted by the activities of companies. However, in the absence of legally and compelling regulation to establish the basis of this unwritten formal, and sometimes informal agreement, the extent of keeping to that norm and fulfilling the promise is left to the discretion of the management of those companies.

That discretionary action and value, affords a licence to chase profit and the advantage to unlock future blocks on profit seeking. Studies have not formally pinpointed a financial result and contribution of “value-creation” to environmental, social and sustainability reporting, however, the assumption exists that if mundane financial reporting does make a marginal financial contribution to the company, then the non-financial reporting have a material contribution (Gray 2006: 806).

Traditionally, businesses would not consider external factors as important to the business; however, corporate social responsibility is the strategic effort by a business to address socioeconomic and environmental issues that may have an impact on the organisation. CSR-washing then is a subverted practice of CSR. It is the false application of CSR in an effort to improve a company's competitive standing. The dissertation examines whether Absa has truly lived up to its Shared Growth objectives and tests the veracity of implementation in order to authenticate its impact at a client level (Pope and Waeras 2015).

The MDEF's weaknesses are related to the fact that it is process-orientated and might be misconstrued as being legalistic in application. Its strengths can be viewed as weaknesses if beneficiaries are not patient. Time is a major challenge of the MDEF. Generally, policy decisions are the prerogative of the elite, as much as the MDEF asks pertinent questions such as what is the process for decision-making in framing initiatives. That does not guarantee that the process to influence decision-making will be consultative (REDDNET 2011).

MDEF is a worthwhile framework, however, the goals, targets and content of the initiatives are typically set having excluded the customers, clients or stakeholders who may be directly and indirectly affected. MDEF deals with equity and this is not addressed at an ideological level. It appears that equity in the broader social context is an ideological battle. When looking at the impact of risk management in respect of black farmers in this dissertation, it is clear that risk management is viewed singularly from a bank's perspective and interest. Risk management has a direct impact on ensuring that equity is realised in an agricultural business.

The MEDF is philosophical in nature, which can weaken its impact when dealing with equity holistically. I have noticed that during interviews with farmers, government representatives and agricultural industry representatives the scale of equity after probing was considered at an individual, household, community, value chain, regional, national and global level. Superficially, equity would not have been considered at multi-levels. I reiterate that the strengths of the MDEF can be subverted and become its weaknesses because of the time needed to implement an initiative or a change programme (Ibid).

In conclusion, the MDEF is more robust than CSR. As McDermott et al (2013: 416) point out, “by spurring debate around the fundamental ethical values at stake, this framework can guide analysts, policymakers and planners towards more open and inclusive processes for defining equity, along with affirmative efforts to engage the marginalized.” In short, in this dissertation the Shared Growth Strategy is viewed as more than corporate social responsibility; it assesses how the bank does its business in respect of lending, setting prices and managing risk and above all whether the bank’s strategy is equitable, both procedurally and in terms of outcomes. Considering that the study is focused on black farmers, clients of Absa Bank in the agricultural sector, the tenets of entrepreneurial theory are embraced and unpacked in the next section.

3.4 Conclusion

The next chapter deals with the research methods used in this dissertation leaning strongly on a post-positivist approach. Qualitative interviews were held with the subjects of this dissertation to retrieve the rich information and data from them in line with their experience and background in the agriculture sector. The narratives of the dialogue and discourse on the agriculture sector were captured through content theming and content analysis. Documents from the bank were sourced carefully to get baseline information on the focus on the agriculture sector.

The sample and the limitations that were encountered when implementing the study are discussed in the next section. The KZN agriculture landscape is discussed, including a segmentation of what produce is found in the different regions of the province. My position as a researcher in respect of positional location and standpoint within the bank is also dealt with in the next chapter. Questions of subjectivity and bias are addressed as well.

CHAPTER 4

4.1 Introduction

The chapter outlines the research techniques used to retrieve data from participants in the study and clients of the bank, representatives from government and representatives from the agriculture industry organisation. Qualitative methods of research are discussed in this section, including data analysis sourced from the structured interviews. The sample techniques and choices, including the limitations of the study, are elaborated on later.

4.2 Research methodology

Methodology is commonly understood to be a field of knowledge that captures the knowledge that deals with the overall principles of the generation of new knowledge, referring to the foundation and the philosophical norms that underlie any natural, social or human science scholarship, whether enunciated or not (McGregor & Murnane 2010).

The post-positivist paradigm is the foundation of this dissertation; the paradigm is defined by McGregor and Murnane (2010) as a set of norms, concepts, values and practices that forms a way of viewing reality. It is through this paradigm that the strength of inductive reasoning and attempts to reveal power relationships are at display (McGregor and Murnane 2010). Inductive reasoning is a key part of this research because it accepts that there is no one striking narrative of what we refer as truth and it is up to the researcher to find the location of truth in a given context. Recognition of manifold truths allows the researcher to use diverse tools and observations for examination.

Ryan 2006, 20; states that “truth is constructed through a dialogue; valid knowledge claims emerge as conflicting interpretations and action possibilities are discussed and negotiated among the members of a community... We talk about issues raised during interviews, the participants’ reactions and our interpretations of these interwoven ideas”. The ideas reflected in interviews point to new ways of understanding the researched subject and participants or players actively become part of the shared reality and shared meaning of what is being studied.

Reality as viewed by post-positivists is moulded by ethnic, cultural, gender, social and political values and arbitrated by power relations (McGregor & Murnane: 2010); meaning all observations are theory-laden (belief-orientated) and that scholars are naturally biased by their cultural views and world perceptions. The researcher’s values have to be laid bare in the open and be actively aware of them. McGregor and Murnane (2010) argue that reality is created within the social context and therefore the pursuit of the context is essential, mandating the researcher to be rooted in the context. In this manner, the connection between the researcher and participants is dialogic, transactional and dialectic at a foundational and association level (McGregor and Murnane 2010).

I used the abovementioned concepts to address the nub of the study; understanding at a fundamental level whether the bank has supported black farmers effectively in financial and non-financial terms. The narrative and voice of clients and key stakeholders in the sector is reflected.

This study challenged me deeply, especially where I had to confront the almost accepted norms of funding for black commercial farmers and how financial terms, words and phrases are used ordinarily and daily without scrutiny. The power of words demonstrated how even in financial words there is a value-laden thread. The farmers' life histories (family background, education, life outlook) were sourced as part of the research methodology.

4.3 Sampling of participants for the study

A purposive sampling technique was used to select participants in the study. This technique, according to Teddlie and Yu (2007), involve choosing certain units founded on a specific purpose rather than picking those randomly. Each of the respondents was selected based on the knowledge type that they possess and identified as applicable.

I used a purposive sampling method in this study, where Absa bank's relationship bankers and the heads of business units assisted me in refining the sample and clients that I needed to interview. The unit of analysis was black commercial farmers who are clients of the bank. This narrowed my sample size greatly. According to Absa Business Banking in KZN, a tally of black commercial farmers is not kept.

The sample size was to interview 10 Absa black commercial farmers in KZN in various commodities; however, because of time constraints and one farmer holding a full-time teaching position in addition to running a farming business, interview meetings were rescheduled several times. I managed to have one-on-one interviews with eight individual farmers (two interviews with Idube Forestry and two interviews with Khanyakude Sugar Estates).

Clients were selected from rural areas; this was significant for this study. One client was in the business banking segment called growth with an annual turnover of up to R20 million and five clients were in the premium segment with annual turnovers of R100 million. This demonstrated that these black commercial farmers manage significant and major businesses (Absa Business Banking segmentation guidelines).

4.4 Data collection

Qualitative research is the analysis of the why and the how of human behaviour. It is appropriate for this study because it is associated with post-positivism (McGregor and Murnane 2010). Three qualitative methods were used namely; structured interviews, participant observation and content analysis. Table 2 below guided the research development and tracking of the themes of the study.

Table 2: Research questions framework

Question	Evidence needed	Method to collect evidence
How has Absa finance helped farmers to succeed in their farming business?	Narratives on the lives of the farmers, their memories and recollections of the impact that Absa funding has had on their businesses. Narratives of the impact of Absa funding in respect of farm workers.	a) Life histories from farmers b) Narratives of the farms c) Structured interviews with farmers d) Anecdotal stories of farmers
Did Absa products and services assist them to escape from poverty?	Narratives of farmers in escaping from rural poverty. Narratives of farmers in creating sustainable livelihoods in rural communities.	a) Interviews with farmers, co-partners and shareholders
What networks does Absa give to farmers in order to facilitate the production and sale of their produce?	Absa-related associations, relationships, retail supermarkets that the farmers rely on to assist in growing and selling their crops	a) Interviews with farmers, chambers of commerce and agricultural sector organisations
What kind of support does Absa provide to farmers to succeed?	Opportunities provided for farmers to gain knowledge about farming systems and market opportunities among others.	Interviews with agricultural chambers of commerce namely KWANALU and government. Interviews with farmers

Does Absa have a voice in the agriculture policy framework supporting agriculture finance for farmers?	Has Absa made submissions to the types of laws, bylaws, structures and processes that enhance funding of agriculture in KZN?	a) Interviews with HOD of Agriculture in KZN b) Interviews with farmers. c) Interviews with KWANALU. d) Review of secondary documents such as policy documents, Absa strategy documents, etc.
How does Absa's credit risk affect the support of clients in the agriculture sector?	Types of Absa credit policies, structures and processes that enhance or impede agricultural finance	Interviews with Absa Agriculture Heads of Business Units Interviews with clients. Interviews with Head of Agriculture in KZN. Absa credit policy on agriculture documents

This chapter intended to give an overall view on the research methodology and approach of the study, including its philosophical foundations and the sampling methodology and choices thereof.

Research methods and tools are explained further in the next section.

4.5 Research methods

The design of the study was largely qualitative interview-based, the approach was taken to assist in answering the research questions:

1. Is Absa bank supporting and contributing strategically to the development of the agriculture sector in KZN?
2. Do Absa products and services assist black commercial farmer clients to escape from poverty?
3. What influenced Absa to support black commercial farmers from the rural areas of KZN financially and non-financially?
4. Is Absa Bank's Shared Growth Strategy realised through agricultural sector financing and advisory in KwaZulu-Natal?
5. Is Absa Bank using its expert voice in agriculture policy formulation and policy development in KZN?

In the frame of a case study context, an interview procedure and etiquette was developed in order to have a consistent sequence and approach to interviews. Consistent wording was adopted in all interviews, meaning that each question was asked in the same way to each participant to reduce bias. This was effective and generated a consistent kind of theming and content mapping for the study (Shroff et al 2007, 244).

The qualitative research approach afforded me the immense opportunity of delving deeper into the length and breadth of experiences of the bank's clients in the agriculture sector. The interface with the clients opened my eyes to the challenging and yet incredible world that shapes the farmers' lives. Farming is their world and I got to experience this, though in a limited manner.

I acquired access to Absa's records (officially afforded permission to access the information and data) in respect of funding black commercial farmers. The records retrieved were 2015, 2016 financial records of clients, 2015 and 2016 agricultural client value proposition and strategy, 2015 property valuation reports of clients' farms (the client base of Absa black commercial farmer clients are 12 out of a business banking client base of over 10 000 entities/companies), 2016 Barclays Africa Group broad-based black economic empowerment fact sheet and the bank's 2015 South Africa's B-BBEE, 2016 Shared Growth strategy including Citizenship scorecard, 2017 annual financial reviews of clients for credit applications, Absa Enterprise and Supply Chain Development – Value Chain Lending Standard for Agriculture Sector, Agriculture Standard – Wholesale Credit, 2017 call reports on clients' businesses and 2015, 2016 Barclays Africa Group's integrated report. I was able to source the KZN Department of Agriculture and Rural Development's State of Readiness for Planting Season 2017/2018 Report.

4.6 Qualitative methods of data collection

The data sourced from the agriculture business unit, government, clients and the bank as a whole assisted in following, tracking and addressing the objectives of the study. Records included non-financial data and information as well. Data collection covered field observations in the areas of operations of Absa clients, textual/contextual analysis from company literature and books, annual reports and strategic documents.

These documents were strategic because they gave me great insights into the agriculture sector, including the principles that govern the funding of agriculture operations. I was privileged to have had such access and this was because of my nine-year employment tenure within the bank at both Head Office in Johannesburg and Durban. This gave me great insights in terms of accessing the relevant documentation to assist me with the study.

In KwaZulu-Natal, I served in the regional executive management committee of the bank and that gave me access to key individuals who had direct dealings with the agriculture sector.

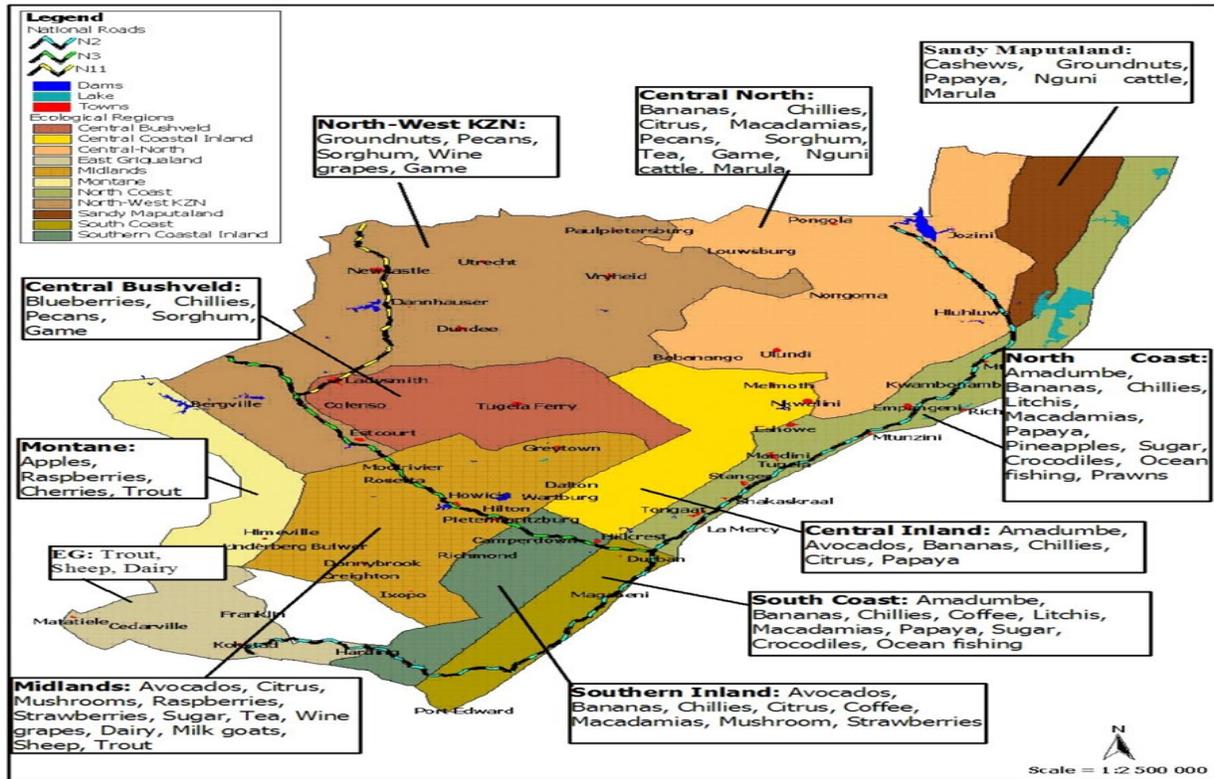
My insider role and profile made it much easier to even set up qualitative interviews with clients who are serviced by relationship bankers in the business banking segment of the bank, including conducting interviews with the business unit heads in agri-business. I had a privileged status within the bank to have had such unfettered access to data.

I undertook qualitative data analysis after engaging with the black farmers in planned qualitative interviews through relationship bankers, who own the client/bank relationship. With strict rules of client/bank relationship, I engaged with clients through the banker relationship. Immediately after the introductions, I was able to engage freely with the clients since a rapport and context was created.

I conducted qualitative interviews at the farms, giving me a view of the farmers' lives and their environment. Through these qualitative meetings and engagement, knowledge holders and narratives emerged, whereby knowledge was co-produced and debriefed on agricultural funding as disbursed by the bank and challenges faced by farmers in the agricultural sector, which is dominantly informed by technical and systematic knowledge (Taljaard et al 2013).

The map below illustrates the overall agricultural sector's potential in KZN. I used this map to plot where the black commercial farmers are located in their respective regions and towns. In addition, contextualising what commodities they are producing and could potentially produce.

Map of KZN Agricultural potential



Source: KZN Department of Agriculture and Rural Development (September 2017)

The map above shows where in KZN major farming activity is located. The selected black commercial farmers' businesses can also be located in the regions and towns where they lead and run their businesses. The map is also an agricultural market/sector segmentation approach by Provincial Government.

There are 11 regional agricultural markets or districts in KZN. The regional distribution does not follow the 10 district municipal boundaries of local government or local municipal boundaries.

Table 2: Absa black commercial farmer client's profile

Name of farmer	Produce	Size of farm/land	Location	Potential produce
<p>Michael Pillay (47) Desainagar Fresh Produce 1 Indian, male Brief history The farm business is owner-managed by Michael (son) and Charles Govender (father) team.</p> <p>Michael's family began vegetable farming in 1864 with Charles and Clive being the third and fourth generation involved in the business. Farm is in Killarney Isles in Camperdown.</p>	<p>Main produce are cabbage, lettuce, coriander, cauliflower and broccoli, spinach, green peppers. Additional crops are turnips, beetroot, brinjals, curry leaves, thyme, parsley, mint, chillies, leeks, spring onions, parsley and mint</p>	<p>110,42 hectares (Absa financed)</p>	<p>Farm is in Killarney Isles in Camperdown within Mkhambathini Local Municipality forming part of uMgungundlovu District Municipality.</p>	<p>Avocados, bananas, citrus, coffee, macadamias, mushrooms and strawberries.</p>
<p>Lawrence Pather (37) Yallip Harvesters 1 Indian, male Brief history He lives in Tongaat with his family. He has been in farming for more than 30 years with his father.</p>	<p>Sugarcane</p>	<p>112 hectares, 85 hectares planted with cane (Land Bank financed) 124 hectares of new farm (Land Bank financed)</p>	<p>Both farms are in Kearsney, Stanger in KwaDukuza Municipality forming part of iLembe District Municipality</p>	<p>Amadumbe, bananas, chillies, litchis, macadamia, papaya, pineapples, crocodiles, ocean fishing and prawns</p>
<p>Geoffrey Moloi (57) BS Sibiyi Mpumalanga Farm 1 African, male Brief history He is a sole owner of the farm. Previously employed by Tongaat Hulett. He was part of the programme that formed independent black sugarcane growers with Tongaat Hulett scheme.</p>	<p>Sugarcane</p>	<p>145,46 hectares (from Ithala Bank and transferred to Absa finance).</p>	<p>Farm is in Tongaat, in Ndwedwe Municipality.</p>	<p>Amadumbe, bananas, chillies, litchis, macadamia, papaya, pineapples, crocodiles, ocean fishing and prawns</p>

<p>James Fallon (51) Faith Montsho (34) Idube Forestry 1 White, male 1 African, female Brief history James matriculated in 1984, at Potchefstroom High School for Boys.</p> <p>He thereafter completed a National Higher Diploma in Forestry, at Saasveld (NMMU) in George in 1990. He joined Mondi in 1992, moving throughout the Natal operations. James is the founder of Idube Forestry. He is the current majority shareholder in the forestry business since 1996. From 1996 to 2004, James was involved in Silviculture and Harvesting operations in Richmond, Baynesfield, New Hanover and Greytown for Mondi.</p>	<p>Timber Silviculture</p>	<p>32 000 hectares</p>	<p>Mondi Estate in Richmond, Greenhill. Called</p>	<p>Avocados, bananas, citrus, coffee, macadamias, mushrooms and strawberries.</p>
<p>Muntu Khanyile Mpho Moeti Khanyakude Sugar Estates 2 African, males William Jeffreys 1 White, male Brief history Matriculated at Kearsney College. He has been managing the farm for the past 12 years.</p>	<p>Cereals Sugarcane</p>	<p>548 hectares</p>	<p>iNyoni</p>	<p>Amadumbe, bananas, chillies, litchis, macadamia, papaya, pineapples, crocodiles, ocean fishing and prawns</p>
<p>Joshua Mokgatle (66) Joshua Mokgatle Farms 1 African, male Brief history Joshua was an Associate consultant for the Centre for Development Research and Facilitation. In July 1998, he was an SABC Group Chief Executive and held senior roles at the SABC in Radio and Operations in KZN as well. In 1978-1982, he was a minister of Religion with the Uniting Reformed Church of SA Vryheid and Mpumalanga (KwaZulu-Natal)</p>	<p>Sugarcane Livestock</p>	<p>First farm where his house is built (136 hectares) Portion 33 of 1174 Umlaaspoort (230 hectares) Portion 15 of 3 Crookes Farm (480 hectares) Uitzhoek farm (540 hectares).</p>	<p>Richmond</p>	<p>Avocados, bananas, citrus, coffee, macadamias, mushrooms and strawberries.</p>

4.7 Structured interviews

I conducted 12 structured interviews in total with the Absa clients, representatives from government and the agricultural union KWANALU in KZN. In the spirit of post-positivist paradigm, the study unearthed the transitory power that the bank and clients had in the domain of agricultural funding.

It was powerful to have observed how the insights of clients were instrumental in providing sound feedback. In addition, interviews were conducted with four Business Unit Heads of Absa Agriculture in KZN and one Agribusiness Development Manager (holding also the portfolio of Vice-Chairperson of the Agribusiness Chamber nationally), responsible for transformation agriculture or BEE agriculture at Head Office in Johannesburg.

This was important because Dr Langelihle Simela, Business Development Manager and Vice-Chairperson of the Agribusiness Chamber, provided interesting insights in the overall contribution of Absa. She was a key participant from that perspective. KWANALU CEO participated in the study. The views of such organisations in how they understand and view Absa's role in funding the sector is captured.

The study applied methodological traditions of inquiry that explored a social or human problem in the sector of agriculture and development in KZN, plotting the complex interrelationship of Absa Bank, testing and analysing the bank's strategic words, reports in agriculture, gathering and assessing detailed views of clients' experiences and representatives from sector organisation.

Interviews were conducted with the Head of KZN Department of Agriculture and a Project Manager from the Agribusiness Development Agency.

De Klerk et al (2013) accounted that agricultural productivity was limited by factors and practices that were beyond the control of farmers, such as low public sector expenditure on agriculture, producer incentives, marketing structures, extension services, water management, research and development support.

Interviews teased out government's view on Absa's role in growing the sector and specifically empowering black commercial farmers in KZN. Black commercial clients that were interviewed are listed below.

Table 3: Absa bank black commercial agriculture client list

Black Agriculture client name	Contact person	Business Banking Segment	Area
BS Sibiya Mpumalanga Farm	Geoffrey Moloji	Commercial	Tongaat
Desainagar Fresh Produce	Michael Pillay	Commercial	Killarney
Khanyakude Sugar Estate	Mpho Moeti Muntu Khanyile	Commercial	iNyoni
4 Yallip contractors & harvesters	Lawrence Pather	SME	Stanger
Joshua Mokgatle	Joshua Mokgatle Farms	Commercial	Richmond
Idube Forestry	James Fallon Faith Montsho	Commercial	Richmond

The list of government representatives and KWANALU representative interviewed is as shown below.

Table 4: List of Government officials and industry representative interviewed

Stakeholder name	Contact person	Position
Jacob Lereko	Jacob Lereko	KZN Head of Department of Agriculture
Boyce Nthane	Boyce Nthane	Project Manager Agriculture Agribusiness Development Agency
Lucile Sacks	Lucile Sacks	Chief Executive Officer of KwaZulu-Natal Agricultural Union

Table 5: List of Absa Bank business unit heads interviewed

Business Unit Head name	Contact person	Business Banking Segment	Area
James Platt	James Platt	Head of Performance and Risk Business Banking	Durban
Maxim Forjore	Maxim Forjore	Head of Commercial Asset Finance	Durban
John Samuels	John Samuels	Agri-economist Head of Agriculture KZN	Pietermaritzburg

4.8 Standpoint theoretical perspective

Harding 1995. 337, developed a standpoint theoretical perspective, which argued that a researcher had an unmasked objectivity, therefore it was impossible to pretend that the researcher did not have wishes in the development of a science or a discipline whereby it was demanded that there was a separation of thinking from feeling. According to her, this was simply an unrealistic expectation. As she argued, “Objectivism defends and legitimates the institutional and practices through which the distortions and often their exploitative consequences are generated”.

Therefore, objectivism is the safe premise from which institutions, typically financial institutions, including government, have had to hide from the social scrutiny that opened robust dialogue. The standpoint theoretical view is appealing in this dissertation because it refutes the value-neutrality or non-political nature of inquiry. Therefore, it liberates me to welcome the subjective nature of my research and acknowledge my own biases and interests in pursuing this kind of research.

I was exposed to policies and practices that inform the process followed in terms of how decisions were made by Absa’s agribusiness unit in funding its clients. In addition, I was exposed to policy makers in government examining the veracity of policy formulation. I used the standpoint theory to understand the social relations of black commercial farmers and Absa Bank, including the role of government in regulating the agricultural sector in KZN.

Although I was employed in the banking sector, I never operated as a traditional banker and did not think like a banker, however, I had an appreciation of the influence my role had in the bank in as far as reviewing Absa's role in the agricultural sector. I was privileged to be afforded this opportunity to critically appraise the role of Absa in the sector.

I examined whether the social and economic relations have enabled or limited what should have been a mutually beneficial ecosystem of relations for the benefit of black commercial farmers.

Harding (1995) argued that "an observer or researcher is not expected to act as if s/he was not a social person or separated from those s/he studies, but instead critically to distance from the assumptions that shape his or her own spontaneous perceptions and convictions." I internalised the issues covered in this study and my thoughts were limited by my location with my cultural assumptions.

My educational training is in journalism, arts, telecommunications and regulatory policy with interests in development, economics, political economy, trade and industry. I am a complex individual with various interests and development is what has shaped my outlook on life and academic discipline. I developed an interest in agriculture through the development studies of my postgraduate studies.

I was intrigued to unpack how Absa Bank fared in respect of supporting black commercial farmers financially and non-financially. I understood the power and impact a financial services institution may have on the agriculture sector. Engaging with Absa clients who are black commercial farmers and the relationship bankers who serve them as clients, was a worthwhile experience as a researcher.

As a senior leader of the bank in KwaZulu-Natal, I was privileged to have had insider access to strategic documentation and key individuals to grant me access to clients and their respective portfolios. I have changed my outlook on agriculture and have much appreciation of the clients of the bank who operate in the sector. As a researcher, I understood my vulnerability in entrusting and opening myself up to the influences and worldviews of clients, government representatives and industry representatives.

The challenge was dependent on the availability of relationship bankers and clients, even when I was available. This humbled me greatly because I understood their input in shaping this research. Clients gave great insights in their experiences of Absa's approach to agricultural funding.

They were strategically positioned to contest the dominant approach of understanding agricultural funding and the importance of reviewing the terms of funding subject to trading, economic and climatic conditions.

Absa clients are very knowledgeable about their businesses, markets and operating environment. The deliberations were robust and insightful in regard to their feedback. The clients were two Indian male farmers, four African male farmers, one White farmer and one African woman farmer. There was little representation of African, Indian and Coloured (Black) woman farmers. I learnt that the commercial agricultural sector does not have many women players or young players.

4.9 Content and thematic analysis

Coupled with participant observation and structured interviews, I retrieved literature and documentation of the business performance of both the clients and the bank. I chose this as a tool to delve deeper into my observations made during the interviews. The content of the interviews was recorded and transcribed as well as coded for thematic aggregation. I was exposed to research data from both verbal interviews and written content from official documentation. I was the only researcher who travelled to meet with clients (accompanied by relationship bankers in this case), government representatives and industry bodies on agriculture.

Thematic and content analysis was used in this study to pick up themes and culminate in findings and recommendations for Absa to consider. This analysis assisted me to have a wide sense of framework in which to determine the tone, insights and experience of Absa clients, government representatives and business unit heads in regard to the mechanics of the bank's agricultural funding to black commercial farmers. Three qualitative methods were used namely: structured interviews, participant observation and content analysis.

The purpose of the chapter was to give a global feel of the research design for the study, qualitative methods used to acquire and collect data, including the sampling approach and identification of interviewees/participants for the dissertation.

4.10 Data analysis

The following are the key emerging data and themes from the study:

- Enormous generational experience in farming
- Family background in farming was extensive
- Family participation and involvement
- Private sector role as an off-take client is prominent
- Financial loans and support by banks and development finance institutions dominant
- Customised financial products for farmers
- Relationship with the bank is top priority for the farmer
- Supplier and contract agreements with off-take clients is an important theme.
- Empowerment of workers on the farm
- Diversifying agriculture produce
- Export market access
- Generational transfer of business a challenge
- Land reform – opened up opportunities for black commercial farming
- Employee share ownership scheme
- Value chain participation
- Business support and training of farmers
- Purchasing farms
- Sustainable businesses

Coding revealed the following words:

- Finance
- Absa
- Local community
- Sugarcane
- Land reform
- Agri-bond
- Paid up
- Overdraft
- Land Bank
- Paid up
- Replanting
- Purchase another farm
- Expansion
- Own farm
- Absa and government
- Smallholder farmers
- Neglected
- Black farmers succeed
- Workshops on finance business management
- Change
- Standard Bank
- Mills
- Off-take agreement
- Renew contract
- Drought
- Overdraft
- Recapitalisation

- Absa lacking
- 10-year repayment
- Flexible
- 20-year repayment
- Assist
- Interest rates high
- Black commercial farmer

4.11 Limitations of the study

The study aimed to interview 10 of Absa Bank’s black commercial farmers. However, eight interviews were concluded because of time limitations and the availability of the balance of clients.

I could have interviewed two other farmers who are white in the South of KZN, who would have assisted the study in counterbalancing their client/bank relationship and experience.

The recruitment of farmers for the dissertation was based purely on the nature of commodities that they were producing to aim at achieving a mix of farmers who operate in an environment that are well known for specific commodities. Most of the farmers produced sugarcane and as a result, it is a dominant commodity in KZN.

4.12 Conclusion

The next chapter deals specifically with black commercial farmers who tell their stories of being clients of Absa Bank and representatives from government, management within Absa Business Banking who reflects on the attitude and strategic choices the bank made in funding agriculture, specifically black farmers. An industry perspective is also shared later.

The loan financing instruments of the bank are explained and discussed in the agriculture sector, including how agriculture financing is segmented by Absa Bank. Central to the chapter is the qualitative views of clients on how they have experienced the bank holistically. The commodities explored in the next section varies from sugar, livestock and vegetables to forestry. Issues of land reform are discussed, including how the private sector can be a key role-player in advancing meaningful community participation in a business venture in forestry.

CHAPTER 5

5.1. Introduction

The next section deals with the narrative of agriculture finance as viewed from the black farmers' perspectives and lens. Agriculture at a commercial level was generally not associated with black individuals. The struggles, achievements and passion of the farmers come through the narratives. The leadership of Absa Business Banking is also reflected in the next section.

Policy development in the agricultural sector is explored at a provincial level and this covers land reform, trade issues and financing of production. Business support and non-financial support, which is aptly called enterprise development, is addressed in this chapter.

5.2 Black commercial farmer views and their business narrative

Absa Bank's business banking clients are segmented in the following manner. I shall delineate in which segment the individual farmers fall.

Table 5: Absa’s financial segmentation of business banking clients

ABSA BUSINESS BANKING CUSTOMERS ARE SEGMENTED AS	
SME	0 - R 20 000 000
Commercial Growth	R 21 000 000 - R 100 000 000
Premium	R 100 000 000 - R 1 Billion

Source: Absa Business Banking segmentation

5.3 Vegetable farming by Desainagar Fresh Produce

Desainagar Fresh Produce CC is a farming operation comprising about 110 hectares, managed by Michael Pillay.¹⁴ The farm is located closer to the national road network, off the N3 Highway onto the Umlaas/Umbumbulu R603 main road located approximately 4.6 km from Camperdown. Within the distance of over 9 km the farm is easily reachable. This is one of the key competitive features of sustainable farming operations, being closer to the main access roads to markets. (Darroch and Clover 2005, 240). The farm is in the Mkhambathini Local Municipality area; the nearest town is Camperdown, which is approximately 12 km from the farm. The type and condition of the access road is an average gravel road, which is reasonably easier to drive on.

The Umlaas River forms the boundary of most of the farm; hence a good water supply is available. All the vegetable land on the farm is irrigated, with previously unused land now also adequately used. About 77 hectares of water rights is, however, available.

¹⁴ Michael Pillay and all subsequent personal and business names used in this dissertation are pseudonyms.

Michael, 47, the owner and manager of the farm, invested funds to make improvements at three different points along the main farm road with a homestead and outbuilding located near the entrance to the farm, the main homestead, outbuilding and pack shed located near the centre and another homestead approximately 200 metres from that. A large dam, which also provides water for irrigation, is located near the entrance to the farm in the north. All homesteads are enclosed with electrified fencing. The property is registered with the Department of Water Affairs to draw water from the Umlaas River for irrigation purposes.

This is a well-managed vegetable farm. The grazing veld (allows neighbouring farm owners to use parts of the farm for grazing) is in a relatively good condition as a result of average rainfalls during the summer and autumn season. The farm is, however, too small to operate as a cattle farm. Most of the farm is planted with vegetables. Agricultural activities in the area are mainly focused on sugarcane and vegetable farming, and pig, dairy and chicken farming.

Desainagar Fresh Produce is a farm and an asset that is productive with the assistance of Absa Bank. It has been able to deliver an annual turnover of R4 800 000 (Michael Pillay 2017, personal communication confirmed by his business banker). Outside of supplying the retail supermarkets (primary market), the farm does sell its produce to municipalities' fresh produce markets and sale room markets. In Absa's business banking segmentation, Desainagar Fresh Produce is a small medium enterprise because it has a turnover of under R20 million.

In these secondary markets, Desainagar Fresh Produce is a price taker, which means that the margins are moderately thin. With vegetable farming being a highly competitive business, it is challenging that an emerging farmer is not able to influence the restructuring of pricing in both the primary and secondary markets. Michael is one of Absa's black commercial farmers, who has been in sugarcane farming (during the early years of his farming career) with his father.

As a family they have been in farming early, however, were constrained by the fact that they did not own land then. Absa funding assisted greatly in purchasing the farm for vegetable production, this transformed their (family and workers) prospects and livelihoods.

He was received loan finance of R7 million from Absa in the form of an agri-bond, which is a 10-year property loan that assisted him in purchasing the property. He has been an Absa client since 2015 and was impressed with the manner in which the bank has contributed to the acquisition of the farm as an asset for agricultural production. The farm has 60 workers, including drivers; producing cabbage, lettuce, spinach, coriander, cauliflower and broccoli. The produce, which is first-grade vegetables, is largely sold to retail supermarket chains Pick n Pay and Shoprite Checkers Freshmark in KZN.

He has an off-take agreement (contract farming); the agreement is for a period of one year and reviewable annually, with Shoprite Checkers, whom receives 80% of his produce. In the literature review, contract farming or off-take agreements are not the best of instruments for black commercial farmers, more so for the commercial agricultural sector, because there is a high concentrated risk of the originating retailer or main contracting party making demands on goods and services of high quality and standards of delivery, which affords the offering party much influence and leverage.

The terms of the off-take agreement are technically set and defined from the perspective of the originating party. The black commercial farmer is an extension of the delivery and logistical machinery of the retailer. It is commendable that the off-take agreement is set and reviewable over a period; however, the balance of power between the two parties is not equal. In literature, Dubb (2012) deliberated that contract farming was identified as a pro-poor instrument deployed to attract small-scale farmers; in this case I refer specifically to black commercial farmers into agro-food supply chains often driven by capital-intensity and high barriers of entry.

The barriers of entry are largely access to financial services, capital requirements to start a farming business and the technology needed to meet set requirements from the mill (corporate client), who might demand a certain quality of produce from the farmer. The market is available; however, the barriers are that of access to financial services, access to capital and access to technology to meet the service and contractual provisions pertaining to the quality of the product.

Absa is content to fund based on the foundation of an off-take agreement that has a set term, including the fact that the bank takes security of the asset (farm) from a risk perspective. At a fundamental level, the bank is securitising its exposure to a maximum by taking comfort in the asset being an off-take agreement and at the same time the farm being the additional security for the bank for its risk exposure in funding the farmer.

The bank should extend its role further to become a partner to the black commercial farmer in respect of extending the off-take agreement to a longer term, which in the case of Michael, is five years fixed. This is because of the concentrated risk of the supply being for one client, namely Shoprite Checkers. Pick n Pay has added more requirements in respect of the farm upgrading the packing house for the farm to meet the demands of the new volume of orders from the retailer. That would have a major impact on the farm's operational cashflow. Michael is facing a challenge with Absa's property loan repayment of R70 000 monthly, which he required to take on this new requirement from the retailer.

The feedback from Michael was that Absa's agri-bond was not competitive in the market because he was squeezed from a cashflow perspective, meaning that the Land Bank was viewed competitive and attractive to him because the Land Bank was offering a longer-term period to farmers like him. The Land Bank was offering black commercial farmers 30-year term loan financing.

Desainagar Fresh Produce does not have any employee equity share scheme as defined by B-BBEE legislation. Michael advised that he was not ready to look at any employee schemes or change of (shareholders) equity at this point because he wanted to acquire the remaining 50% of the farm from his father and pay off the agri-bond before looking into any schemes.

It is the tenacity and passion of entrepreneurs like Michael (his background in sugarcane farming with his father provided him with the reference point to forge ahead) who has the energy and commitment to run sustainable businesses, specifically in the agricultural sector. He confirmed that Absa, as a financier, has contributed to his workers escaping from poverty and creating a sustainable livelihood.

This resonates with the MDEF, which posits that an asset can be used to derive value and equity from it to empower role-players (individuals, family, workers and community) to have the assurance of sustainable livelihoods. The distributional aspect of the framework comes to play here in regard to all direct role-players deriving the benefits from a well-run business.

Considering the feedback from Michael, Absa was not supporting and contributing strategically to the development of the agricultural sector in KZN and being an expert voice in policy making. This was an area of much improvement and new focus for the bank at a provincial level.

The bank's products and services were deemed to be assisting the black commercial farmer client to escape from poverty, which enabled Michael to succeed in running a sustainable business. Absa is not supporting black commercial farmers both financially and non-financially in reviewing the operational needs of the farmer, in addition to taking the lead in empowering the client with technical knowledge covering financial management and business management, including risk management associated with farming.

In respect of the MDEF, Desainagar Fresh Produce led by Michael has not embraced equity-centred approaches to empower his employees and transform the way the business is run. Although the potential to unleash progress for his employees exists, he alluded to the fact that he was still at an early stage now. The business has contributed to the community where it operates.

The farm (or asset in MDEF terms) is used for Christian camping and weekends; the hall at the entrance to the farm is offered free to local community members for wedding ceremonies. The ecological beauty of the farm offers amazing scenery for wedding ceremonies; in fact, this is an appropriate wedding venue. Michael is able to derive additional income by renting out the venue for weddings to affluent individuals who want a serene and environmentally magnificent location for wedding.

I have been in farming for a lifetime. My grandfather and my father including myself have been in farming for a long time (sugar cane). However, we have not owned land. We have been leasing land all the time. Farming has been in the family. We have always been leasing and renting land for farming, so owning the land was the biggest challenge.

The farm as an asset is a utility transferring benefits to the owner, workers and communities. The asset is communally (distribution of the benefits) shared and is used to impact the lives of all players in the area. It is profound to note that the asset is distributionally serving a deeper purpose than just being a farm (educational, civil, entertainment and economic among others) that addresses the distribution of benefits and costs – the less affluent get to use the farm for free for weddings, the extra income levied against affluent individuals who want to stage their weddings there.

Michael recognises the power of equity in deepening the multiple utility of the farm. His workers are an integral part of the growth of the business, which was evidenced when he shared that retail supermarkets are signing him up for additional volumes and quantity of vegetables. MDEF emphasises how meaningful the worker participation of rural people and farmer is in the development of agricultural policies, including credit policy.

Through the framework, it is evident that Absa has empowered entrepreneurs in farming to be players in this sector, which traditionally excluded black operators. The weakness in Michael's case is the fact that he did not embrace employee share ownership schemes on his farm yet.

He has equity, namely a viable farm that he uses for multiple revenue streams and he has been empowered to be a positive source of influence and contribution in the local community in creating employment. This provides a firm foundation of social scale of equity and I venture to define this as social capital. ¹⁵According to the OEC, social capital is networks woven or knit together with shared norms, values and understandings that enables cooperation within or among groups.

¹⁵ <https://www.oecd.org/insights/37966934.pdf>

What is amplified is that networks are actual links between groups or individuals and these networks cover friends, family networks, networks of former colleagues, communities and so on. The success of his business has translated into establishing a viable social capital base in the community and locally.

Desainagar Fresh Produce demonstrates how relationships between people and with their circumstances point to the entrepreneurial capability of its owners to create a livelihood for workers, family of the owner and reduce the impacts of unemployment in the area. The bank's Shared Growth Strategy, using the MDEF, assists in witnessing the direct and indirect impact Absa has had on the lives of its client. The positive net effect of equity is evidenced in the story told by Michael and the potential for intergenerational impact.

5.4 Yallip Harvesters in the sugarcane sector

The company Yallip Harvesters & Carriers is a cane farming and contracting operation based in Stanger on the KZN North Coast. Lawrence Pather is the owner of the business and has been banking with Absa since 2008. In 2012, the client purchased a cane farm in the Fawsley Park area, financed through the Land Bank and has since developed the farm property. The farm is 112 hectares in extent and has 85 hectares planted with dry-land cane. The current farming operation yields approximately 3 500 tons of cane per season.

Due to the drought, however, this did drop to 2 500 tons in 2015. The client does contract work, including planting, fertilising, cutting and hauling of cane to the mill for farmers in the area. The client is paid through a cession with the mill. This is evidence of the balance of power of relationships, tipping in favour of the corporate client, being the mill.

In addition, showing the over-securitisation of the banking and client relationship, where the bank is guaranteed repayment of its loan.

Lawrence (37) is based in Tongaat in the KwaDukuza municipal area. Although he has been a client of Absa Bank for more than 10 years, they primarily financed his vehicle assets, while the land is financed by the Land Bank. This confirmed the fact that the Land Bank was winning business from black commercial farmers in respect of using land for agricultural production. Absa was not demonstrating its competitiveness in respect of being the preferred land financier. He is passionate about sugarcane farming and agriculture because this has been a family endeavour for over 30 years.

He took over sugarcane farming from his father, who retired seven years ago. The farming operation has been sustainable largely because of the long-term supplier agreement that he has with Tongaat Hulett, spanning 10 years on his old farm of 124 hectares and 50 years on his second farm of 411 hectares. Both Tongaat-based (Kearsney) farms are financed by the Land Bank. He tried to consolidate an agri-bond transaction with Absa, unfortunately based on cashflow calculations the transaction was not successful. He is intent on having one consolidated agri-bond with the bank.

Contract farming or off-take supplier agreements emerge in this case, as well as the distinct instrument for black commercial farmers to gain access to the market through Tongaat-Hulett. Lawrence argued that the supplier agreements were a valid model to support the sustainability of his business. He has 30 years remaining in his second farm supplier agreement. In respect of the primary supplier agreement, he serves Tongaat Hulett and his secondary market is black sugarcane growers.

This is typically an existential pragmatism in the life of a black commercial farmer, who supplies one or two major clients and have secondary clients to spread the risk in as far as access to markets is concerned. The major risks of running a sugarcane harvesting business are external risks and shocks such as drought, weather and climate change, described as externalities.

I was nearly bankrupt because of the drought. The 2010 drought period was bad. I sold my van and car just to keep the farm going and to be able to pay staff. The 2013 drought was tough as well. Weather has been unpredictable. We have insurance but not for drought. We are insured for fire. Drought is not covered by insurance.

Lawrence was nearly impoverished by these externalities in the 2010, 2013 droughts. He sold his van and vehicle to keep the farm operating and pay the salaries of his workers. This is the resilience that is discussed earlier in the dissertation about entrepreneurs being resilient amid trying phases in their businesses. Farming being a risky business is an industry that demands a certain type of entrepreneurs who are visionary and creative in overcoming obstacles for their businesses and the industry.

The collaborative forum that farmers such as Lawrence are exposed to, is through a body called Darnall Farmers Association, where they are updated on new trends of farming, rising above the challenges of climate change, among other factors.

The unintended consequences of policy contradiction where the South African government was importing sugar from Brazil, Swaziland and India, were inadvertently impacting the local sugar industry negatively. Lawrence referred to the dumping imported sugar in the local market causing local farmers not to sustain their produce and as a result he had diversified into macadamia nuts and tee-tree oil to generate income in these commodities.

Yallip Harvesters employs 130 workers during peak periods of production and once the mill closes, it has 30 direct and permanent workers. The daily commitment is to produce 30 tons of sugarcane and workers primarily cut cane and fertile the ground, among other functions. Absa Bank funded Lawrence's vehicles for transporting the sugarcane of his clients and from his farms. The business has had a turnover increase from R4.1 million to R4.7 million (or 19%) for financial year 2016 (Lawrence Pather 2017, personal communication confirmed by his business banker). The double-digit rise in turnover demonstrates the sustainability of the medium-sized operation.

Yallip Harvesters has an overdraft facility and vehicle asset finance for two trucks mainly provided by Absa, which in real terms is a limited exposure to this business despite its success over the years. Lawrence is an example of entrepreneurs being the main drivers of success and leading their business with knowledge, talent and education (formal and informal), including experience.

The discipline of entrepreneurship and operational delivery against a formal supplier contract agreement confirms that loose structures such as cooperatives are a far cry from the milestones achieved by a black commercial farmer like Lawrence (Tse 2015).

In reaping the rewards of hard work and doggedly focusing on running a sustainable business, Lawrence attempted to implement a B-BBEE structure for his employees; however, this did not take off because of the mentality of workers in this sector being much more seasonal and temporary in their work tenure. Employees in this sector do not embrace fixed-employment contracts, which the national Department of Labour seeks to enforce. From an MDEF perspective, the operation is geared to empower workers; however, the structure of the market is not suited for the transformational force and culture Lawrence wants to implement. Management decision-making resides with his supervisors and they have been entrusted with finding the right employee base to meet the demands of production at a given time.

Absa Bank has lived up to its strategic goals of Shared Growth, meaning the bank used its expertise and machinery to get the workers and leadership of the business out of poverty; however, this is a coincidental by the bank. There was no deliberate strategic choice to affect this. If this was a deliberate and strategic effort, the results might have been much more impactful.

The labour policy framework of national government does not apply well in this sector, equally so is the imposition of minimum wages, which puts much constraint on running a cash-positive farm. The squeeze is felt in respect of the importation of sugar, which tightens the income margins.

Lawrence bemoaned the fact that all the external factors which were beyond his control were making sugarcane farming less desirable and with the rising input costs, the operation might eventually become less profitable. He appraised that Absa's expert voice is absent in agricultural policy making where it could influence government, including shaping the long-term longevity of the industry.

The role of a funder is seen as being a partner in the development of agriculture. Replanting after drought is an area that Absa might occupy; providing a fertile ground for farmers to be able to bounce back after a traumatic drought period.

Lawrence confirmed that Absa was supporting and contributing strategically to the development of the agriculture sector in KZN as an expert voice in policy making and expected the bank to take up its leadership role and go beyond being a financier. His assessment was that the bank's products and services were assisting the farmer and his workers to create a livelihood and reduce the impacts of poverty. However, the bank is falling short of supporting black commercial farmers financially and non-financially in as far as conducting development training in financial management and business management, including new ways of farming, is concerned. He pointed out that Absa needed to engage with professional bodies and industry bodies to uplift the knowledge of farmers.

In respect of Lawrence's business, the MDEF underscores the agency that he has through his operation to engage with industry bodies to negotiate and reshape the challenge of the imbalance in sugar trade locally where imported sugar is displacing locally produced sugar. The farm, which is his source of equity, is used to contextually demonstrate the negative impact of imbalanced trade to establish fairness, justice and equity. He demonstrated his agency to take advantage of the diversified opportunities of producing other commodities for the export market, basically taking charge of the negative impact of the trading conditions and turning it around to achieve sustainability of his business.

The access to resources has afforded him to benefit from being able to reach out to banks, industry bodies, decision-making structures and effectively influencing spaces where decisions are made and spaces where power resides.

5.5 Sugarcane grower in the Tongaat area

Geoffrey Moloi is a seasoned farmer in the sugarcane sector with 20 years' experience. He is the first-generation sugarcane grower in his family. He operates BS Sibiyi Farm Mpumalanga from Stanger, in the Kearsney area. The farm is easily reachable as you travel north on the N2 until the Stanger turn-off, where a left turn leads towards the town.

At the corner of the R102 and the R74 travelling approximately 8 km, at the next right turn, the farm is located almost directly opposite the turn-off to the Fawsley Park area, with the Kearsney Manor located at the entrance to the farm. The farm is in the Ndwedwe Local Municipality area. The access roads are tarred and in reasonably good condition. The property consists of a single farm portion, which is used to produce sugarcane.

The farm is developed with a small main homestead, in addition to a manager's house and additional labourers' quarters. The rainfall in the last few months has been more than adequate for sugarcane farming. The property does appear to have been managed properly within the last while with the sugarcane in good overall condition. Geoffrey is an alumnus of Tongaat Hulett, stemming from the black sugarcane growers set up by the company in 1996 after spending some time within the company rising to a management position. BS Sibiya Farm Mpumalanga is used for cane contracting and haulage through its ownership of 5% equity in Dorinkop Farm Haulers.

The impressive thing about Geoffrey is his acumen to be involved in the agricultural value chain, specifically in the transportation of goods and produce. This equity affords him the capability to be a strategic player in the value chain of the agricultural industry.

Tongaat Hulett and Darnall Mill are his contractual clients, with long-term supplier contract agreements. Geoffrey founded the business and the farm is valued at R5.4 million. He has an agri-bond with Absa of R1.09 million, including an overdraft facility of R250 000 that he might use during off-peak season. The attestation from the client is that he runs his banking accounts very well. There was a drop in turnover caused by the drought impact over the past season. The recorded turnover of the past year was R1 762 000. (Absa financial statements and cashflow statements of client 2016, confirmed by Geoffrey in personal communication). His sugarcane is distributed to local markets in KZN, mainly Stanger and Durban. He has been a client of Absa Bank for more than 13 years. Initially, he was financed by Ithala Bank through an agri-bond; however, this was moved to Absa.

Geoffrey shared that because of being impressed with the relationship and client service provided by his relationship banker at Absa; it was logical that he moved his agri-bond to the bank. He voluntarily initiated the transferring of his agri-bond to Absa, a decision he attests that was the best for his business. He describes his banking relationship with Absa as proactive and beneficial in as far as addressing his business needs. He criticised Absa regarding its fixed 10-year term of the agri-bond in that it was restrictive and not long enough to unleash the cashflow of the business. He was not fazed by the contractual term of the agri-bond, confirming that this was reasonably structured and he was aiming to pay it off.

Tongaat Hulett has entered into a long-term supplier contract agreement with Geoffrey for 50 years since 1998, with 19 years remaining of that agreement. The term affords the bank and him the assurance that he is guaranteed a market to service and supply. The sugarcane industry is an open market and due to the prevailing challenging market conditions, farmers are diversifying to other commodities. Tee-tree is the commodity that he is currently invested in, anticipating a harvest in March 2018. The export market is a new avenue of revenue for him.

With the dumping of imported sugar in the local market, Geoffrey confirmed that this has caused anxiety among local farmers where the competitive landscape outpaces the local product. Lack of import parity pricing is the main weakness of the sugar trade, where government is not levying import tariffs. The policy inertia by government in respect of sugar tax is further causing the local industry to be choked by factors outside of the span of control of the farmer.

As a sole proprietor, he has employed three employees on a direct permanent basis and when required, he adds capacity by employing 15 seasonal workers to ramp up production. The empowerment of his workers is what is close to his heart and he tried to implement a B-BBEE scheme for his employees. The attitude towards black economic empowerment is positive, however, the critical area is to educate his workers on its material benefits. This is an area that the bank could strategically enhance and assist with. The caring and empowering demeanour expressed by Geoffrey about his workers is evident in his description that his workers are perfect for his business.

Since agriculture has a workforce that is unskilled or semi-skilled, the value-adds of business education, financial literacy and other key development areas needed to be deployed. The role of Absa is further relevant in this regard.

The banking relationship that he has had with Absa was a mutually beneficial one. The challenge for Absa is making sure that it rid itself of the perception that when farmers face difficulty, it will be quick to repossess the land (property or asset) of a farmer. This is dispossession that is viewed as a potential nightmare by farmers.

We are slowly getting into a BEE employee scheme. There is still need for of education. On the farm we have supervisors. We need to educate our workers and encourage and come on board to understand BEE employee share ownership. We will keep on trying. I wish that one day if it happens, I can get a small plot for my workers, even it means I buy it for them. This is the kind of legacy I would like to leave for them. If they look after me, I will look after them. I have perfect permanent employees. I must have big dreams for them in the future.

Geoffrey is comparatively better positioned as a farmer to advance equity ownership of his workers in the structure of his business. It was apparent that he has applied his mind in respect of implementing this. He was a beneficiary of a worker empowerment scheme to be a farmer through the Tongaat Hulett contract farming scheme. He would most possibly devise a methodology to empower his team of workers to be independent farmers through his experience and technical expertise.

According to Geoffrey, the obligation of a farmer is to repay the agri-bond and then keep the credit record intact. This is in line with the National Credit Act, which provides for the awarding of credit based on the test that the borrower is able and can afford repaying the loan, including the means that the borrower can sustainably repay the loan at reasonable interest rates.

The role of Absa was spelt out clearly by Geoffrey: to engage at a deeper level in providing education for his workers so that they were able to manage their finances well. This was viewed as an area of intervention by the bank. The bank has not risen to the occasion of influencing policy making as an expert policy voice in agriculture. The role of the bank is to be a partner in the development of the agricultural industry.

Engaging with the local industry association was identified as paramount. Technical capability and financial instruments and discipline regarding after-sales care is the immediate contribution viewed as practical inputs the bank can make in the total funding of the agricultural industry.

I am unambiguous that Absa changed my life and my agricultural business, and has changed the lives of his employees. We are empowered to escape poverty and now have secured livelihoods.

Tongaat Hulett is one of the leading sugar producers in South Africa, chosen to partner with black commercial growers to increase cane quality and yield. The company also provides a cane ripening subsidy. It is notably clear that the company has ramped up sugarcane supplies to its operations with various cane supply programmes that include the development of indigenous sugarcane farmers.

There is a disconnect in the development of black sugarcane growers, in that Absa has not factored this into its broader non-financial support programme for black commercial agricultural clients.

The non-financial support would cover sales and marketing, risk management, human resources management and operational management among others.

The support of black sugarcane growers is viewed by clients as the backbone of this segment of the sugar industry. With Absa's infrastructure in working with corporate entities from a supplier and procurement development programme, the role of the bank may be relevant and meaningful in deepening its contribution to the agriculture sector and sugar industry.

A partnership between Tongaat Hulett, Absa and local municipalities would be relevant in as far as positively impacting the communities that surround these cane growing operations. This is an area of further development and review in Absa's agricultural strategy and financing of black commercial farmers, who are the bank's clients. The areas of engagement would be to tease out the best approaches to ensure sustainability of the black sugarcane growers, considering cane development in communal areas.

In terms of the MDEF, it follows that Geoffrey has used his farm to turn the assets into a lever to participate in the value chain of agriculture by transporting and logistically being involved in the movement of sugarcane to other clients. By so doing, he diversified the revenue streams of his business. Though he is the sole proprietor of the business, he considers distributing the benefits of the business to his employees. However, he has registered his criticism against Absa regarding its credit policy; this resonates with the framework where there is meaningful public participation of a farmer appraising the credit policy of the bank.

This chapter identified a gap in as far as financing, transport, procurement of inputs and harvesting of cane from communal areas to contribute to KZN provincial government's objective of rural development and job creation, is concerned.

5.6 Forestry in Richmond

James Fallon (51) is the founder of Idube Forestry and is still the current majority shareholder of the forestry business since 1996. James was a member of a forestry business called CLC Contracting from 1996 to 2004. The company then was general contractors who handled the silviculture and harvesting operations in Richmond, Baynesfield, New Hanover and Greytown for Mondi. In 2003, two of the four shareholders decided to sell off the operations to James and Terry Kwalo because they wanted to take up a contracting opportunity in Mozambique. James took the Richmond operations, with a focus on the silvicultural side of the business.

In 2004, James formed Idube Forestry, of which he at this stage was the only member. In the years that followed, pressure was mounting from the corporates to comply with BEE, and so James divided the business into three entities, Alvosec CC, the administrative entity, Idube 1 CC, this was the transacting entity for Mondi and Idube 2 CC, currently dormant. With the sale of the Mondi Plantations to the Land Trust, Mondi brought Idube and the Land Trust around the table three years ago to forge a working relationship as well as a new ownership agreement within the trading company of Idube Forestry. Mondi Zimele is the small business development company of Mondi Ltd in South Africa, adding value through making available equity, loans and business development support to employment, creating small businesses within the Mondi value chain and surrounding communities. Mondi Zimele had been keenly participating in the negotiations and pledged their support from a training, contract and business perspective.

Absa structured the Idube Forestry deal where R15.5 million from the bank will consist of a five-year term loan, R1 million overdraft facility to replace an existing facility, and primary banking to be switched to Absa (currently with FNB). In a nutshell, this Black Economic Empowerment transaction will settle the current asset finance of R9 million and the balance of funds will be used to repay any shareholder loans and/or payout of dividends to existing shareholders, including the revaluation of existing fixed assets of the company.

At the heart of this forestry transformational deal is the fact that James, currently owning 92.5% of Idube 1, Idube 2 and Alvosec respectively; is selling his shares in Idube 1 (where he will dilute down to 46%) to six other parties who will own 9% each. Three of these parties are land-owning trusts from a land restitution process. From the transaction, a contract agreement between Idube 1 and Mondi will be extended to cover the period of the loan and ceded to Absa.

James, as previous owner, would still maintain his stake in Idube 1 at 46% and continue to manage the business affairs for the duration of the bank's debt. The previous shareholder and owner is not cashing in and disappearing, leaving the new owners on their own. Idube Forestry has been able to secure three big clients, Mondi, Richmond Fire Protection Association and the R&B Timber Group. Idube Forestry currently has its operation on the Mondi Estate in Richmond, called Greenhill. The company works very closely with the landowners and community members and all the staff (560 permanently employed staff) are from the communities. The communities are being brought into the business as shareholders, for sustainability reasons and complying with the new BEE requirements.

Their equipment is in good condition and they generally sell off after four years and replace, all their trucks are on full maintenance lease with fleet management company Equstra. In KZN, there were not many specialised silviculture businesses; therefore, competition was not a major concern. The contractors bestow one another much respect. The manner of operation was to solidify the company's position as a well-established enterprise and make good the off-take contract and agreement, then it would be easy to secure long-term supply to Mondi. Idube Forestry's contracts run for six years at a time.

Banks have not been forthcoming in providing unconventional commercial banking services to such transactions. Absa challenged itself to not be generic and mundane, by choosing to mitigate the risk differently where the asset was looked at differently, specifically assisting in how that asset grows and the training and development of the workers/people. Mondi being the main contractor created sustainability for the community and the bank. The solidifying of the off-take agreement of over five years made the entire transaction attractive.

The collaboration with the community trusts, which were part of the land claim, also gave the entire deal formation credibility. It would be a successful land claim and land restitution transaction with a B-BBEE component. James described the involvement of Absa in this transaction as the bank that is listening, and its success was that synergy was struck among all players, agreeing on the way forward.

It was the first time that a bank was ready to deal with the intricacies of the deal. Idube Forestry produces gum, wattle, pine, eucalyptus, 32 000 hectares of the farm is 60% used for growing trees and 40% of the farm is earmarked for conservation under the Forest Stewardship Council, which is a competitive advantage in the export market.

Faith Montsho (34) is one of the black shareholders and part of management of Idube Forestry, living in the Richmond area. She started working in the company in 2007. She said this deal was very exciting for her as a black woman from a rural area. This opportunity was described by Faith as unlikely to happen in this area. It is a small town. It is a transformational deal, which has brought a big change in her life from being an employee to be a director and an owner of a business. Matshepo Maloka (2.5%), Mmakhumo Molele (2.5%), Lehlohonolo Morake (2.5%) and Faith Montsho (3%), including the community trusts, own the company. They were not asked to pay for the shares; they were given the shares based on their hard work and determination to run the operations of the company effectively. Notably, the granting of shares to black management was voluntarily done.

Banks are generic; generally, their term loans do not necessarily work and do not fit this industry. The discussion with Absa has been how best do we mitigate the risk of the business and thereafter dealt with growing assets, value, people of the business. Training the workforce was extensively discussed with Absa. We are fortunate that in this business, we have a contractor who has created sustainability for the community and the bank. We have an off-take of five years with Mondi. The bank has come on board to assist with the education and training of the workers and therefore collaborate with the Community Trusts after the conclusion of the land claim.

Faith has learnt the technical disciplines of a forestry business, including safety, human resources, book keeping and fleet management. She started off as a junior clerk and moved into management of the business. She is being regarded as a role-model by her daughter and her community. Another black owner of the business is Mmakhumo Molele, who started off as a general worker and has become a senior manager having worked in the business for over 15 years.

The company promotes from within and are developed internally, which is a commendable approach to people development. Idube Forestry has become the training base for students who want to be exposed to practical forestry training, including the training of unemployed matriculants (Grade 12). This was a land claim initiative; fortunately, the estate did not go all the way to the land claim being contested in the courts. Mondi believed that they should get involved with government and communities and formalise an agreement with all claimants. Mondi, as a huge landowner, got involved with the valid and rightful claimants. The three trusts were part of the share ownership structure. The land claim process and negotiation did not pose any threat to the deal. This deal will be a model to follow in that it has a land claim, B-BBEE component and a main contractor.

In respect of the MDEF, equity and empowerment are two identifiable factors noticed in this case whereby the workers have become shareholders in the business and are deriving the benefits of running and being involved in Idube Forestry. With the incorporation of community trusts after the conclusion of the land claim process, the community-based forestry operations were incorporated into the Idube Forestry operations, which are the essence of the MDEF.

5.7 Sugarcane production in iNyoni

Khanyakude Sugar Estate is a sugarcane operation based in the iNyoni area of KZN. It is a farming operation defined as one of the first BEE deals done in this area with Absa according to Muntu Khanyile, the chairman of Khanyakude Sugar Estate, with more than 20 years' experience in sugarcane farming. He has been banking with Absa for almost 10 years and has maintained an excellent banking record.

The previous owner, William Jeffreys, is the manager of the farm, which is 524 hectares, of which 463 hectares are planted with dry-land sugarcane with the balance consisting of roads and river. Muntu purchased two farms through Absa more than 11 years ago. The structure of the business at a shareholder level comprises 20 shareholders, all members of the local community in the iNyoni area. Khanyakude Sugar Estate has in the past cut between 19 000 and 22 000 tons of cane a season. This operation has an experienced management team and is equally located in a prime sugarcane area.

Muntu undertook a strategic move from Darnall Mill to Gledhow Mill, which worked out favourably for Khanyakude Sugar Estate because Darnall was recently experiencing breakdowns at the mill, which then have a negative impact on the client. In addition, there is a short distance between the farm and the mill, which reduced transportation costs.

However, Muntu was severely impacted by the drought where the tonnage of the farm dropped to 9 400 tons in the 2015/16 season. Absa has insurance cover that is geared towards production and does not insure against drought. The client did show recovery in the 2016/17 season where the estimated tonnage did increase to 11 000 tons. The client has surpassed the budget that was submitted for the 2016/17 season. The last cashflow submitted in May 2016 showed an estimated income of R5.9 million to be generated during the period April 2016 to March 2017. The client does work closely with Sasri and Canegrowers, who advise them on growing conditions, expected tonnages and budgeting.

The client expects a near to normal season ahead with a tonnage of 20 000 tons expected. As at January 2017, the revenue posted for the year was at R7.48 million with cane comprising the bulk of the revenue, generating R6.5 million (Absa financial statements 2016, personal communication from Muntu). It was notable that the business demonstrated good recovery from the drought assisted by low debt levels. The cashflow of the business does show sufficient repayment ability.

Gledhow mill is a primary client of Khanyakude Sugar Estate with an off-take agreement spanning 10 years. According to Muntu, this is a great term for a contract farming agreement. The agri-bond financed by Absa has been fully paid up, including a R3 million overdraft. He is considering purchasing another farm; however, he was not choosing Absa for the transaction. Muntu reflected that Absa's term in respect of agri-bonds was totally unhelpful, especially when as a farmer he went through difficult times caused by the drought.

He argued that the Land Bank was aggressively offering black farmers competitive and longer terms for repayment. Absa was a difficult bank to deal with. The repayment terms offered by the Land Bank and Ithala Bank were pegged at 20 years. The flexible approach to agricultural funding was strongly highlighted.

A different approach to agricultural funding was urged by Muntu, who championed the fact that black commercial farmers needed all the assistance at a funding level. It was discovered that the client did not know that Absa financed assets such as implements, tractors and other equipment related to agriculture. This pointed to the lack of integrated servicing of a client, with the objective to service holistically.

Absa will not be losing anything if it is pragmatic with repayment schedule of the loan. During off-season I should get a break on repayments instead I borrow from overdraft to pay the monthly agri-bond payments. Absa has to relook this.

During the drought period, Khanyakude Sugar Estate survived through the bank overdraft and government grants to assist with replanting, purchasing manure, implements and tractors. With the recapitalisation and drought relief assistance and acquiring 70 000 tons of manure, the farm survived.

The client and relationship banking service received from Absa Bank was the saving grace that Khanyakude Sugar Estate was still, by choice of Muntu, a client of the bank. The use of language for servicing a client, especially in agriculture, was flagged as critically important. IsiZulu and isiXhosa is not used by Absa and as a result this created a lack of connection with the client. The cultural nuances and building of trust is not possible when the client is serviced by a non-African who is not able to speak isiZulu and isiXhosa.

The agriculture department is challenged because it has few employees that speak isiZulu and isiXhosa, which makes it difficult to connect with black commercial farmers. It therefore follows that there are few black employees who safeguard the interests of clients. Currently there have been white farmers who have been privileged and extensively so. The local agriculture business unit structure is not geared towards championing black commercial farmers to the next level. The department is led by one individual who is linked to the business banking Management Committee. Language has a net effect on affording the client the opportunity to express him or herself.

The funding received from Absa assisted Muntu and his fellow shareholders and workers to escape from poverty and run a sustainable business. As for the fact that they received funding through Absa, he expressed that the relationship was cordially good. He emphasised that Absa and government must focus on smallholder farmers because that was where growth would emerge. It was evident from the literature review that small farmers were neglected, and this was echoed by him. When smallholder farmers are taken care of, black farmers will succeed.

Muntu challenged Absa to assist black small farmers by hosting training and development workshops on financial management and business management, among other themes. This would be a great investment in building a solid base of good farmers and farmers becoming great role models in their communities. In line with the MDEF, Muntu had invested strategically in the empowerment of workers in order for them to have shares in the business. The means used by the workers to acquire shareholding was through government grants and own equity.

Each employee owns 148 shares of the company. In total the farm employs 120 workers, therefore about 17 760 shares are directly owned by the farm workers. He has five managers and supervisors. The key manager that was present during the interview was 30-year-old Mpho Moeti. From an MDEF perspective, the distributional capacity of the asset characterises the true empowerment of employees and enhances social equity. Muntu explained that he understood quite early that good practice in farm operations and business management was to involve his employees in the equity ownership of the business. This is truly a unique application by a black commercial farmer to transfer part ownership of the business to his employees, becoming part owners of the enterprise.

The total community and owner of the farm benefits from the distributional benefits accrued from the asset, the land used for agriculture.

5.8 Diversified farmer Joshua Mokgatle, who reveres the expertise of Absa in Agriculture

Joshua (66) runs a diversified farming operation in Richmond, which has a combined portfolio of four farms that produce maize, cattle and sugarcane. The former Group Chief Executive of the South African Broadcasting Corporation had always resisted to be confined to space from his residential property, mission station and farming business. His professional and business journey has always been about space. After the 1994 elections in South Africa, he knew that he belonged in farming. While regularly analysing All Media Product Survey findings for broadcasting planning; he noticed people were abandoning rural areas to improve their lives in the cities. Unfortunately, cities were not ready to absorb them; hence the proliferation of shacks. He understood that there would be challenges of disease and poverty in the country. His belief was not to talk about this anymore as a broadcaster, but to get into that space and farm. Joshua's vision about farming was to produce food. "I thought that was my first intervention" (Mokgatle 2017).

In attempting to purchase a farm, he sold his residential property in Waterfall, Hillcrest in exchange for a farm in Richmond. This place did the type of farming that he was familiar with such as mealies, livestock and cultivation of vegetables, among others. Unfortunately, no commercial bank agreed to fund him. An independent lawyer assisted him by registering a bond to fund his first farm purchase. The size of the firm farm was 135 hectares, where he planted maize and did cattle breeding; subsequently he acquired three other farms, namely Portion 33 of 1174 Umlaaspoort (230 hectares), Portion 15 of 3 Crookes Farm (480 hectares) and Uitzhoek farm (540 hectares).

He milled maize into mealie meal supplying Northern Zululand rural areas. His neighbour assisted him with the milling production of mealie meal with clients placing orders for unground maize to be used for planting. He also owns three other sizeable farms. Joshua has a standing arrangement, however, not through a supply agreement, to supply sugarcane to Illovo Sugar (who initially did not want to enrol him as a supplier). The growth of his sugarcane business pushed him to expand and purchase additional farms to expand his livestock segment of the business as well. The second farm purchase was made possible by Absa; ironically FNB, his bank, referred him to Absa for his agriculture funding. On his third farm acquisition Absa was sceptical about his expansion and growth granted that his income was not growing exponentially.

Absa turned down his application to purchase a neighbour's property (third farm). The fourth farm purchase he jointly concluded it with his neighbours through a trust. Unfortunately, Absa's funding decline caused Joshua to move his farming business portfolio to Standard Bank, despite over the years maintaining excellent relations with Absa. Absa had assisted him with the purchase of vehicle assets for his businesses.

His agri-bond with Standard Bank was at R12 million. The interest rate priced with the agri-bond was too high from Standard Bank. The State Attorney approached Joshua to consider selling one of his properties for restitution. The selling price from restitution was appealing and his 716-hectare farm (second farm) was sold. He used the funds to settle the bond. As a result, his total farming enterprise is not geared and is debt-free. All assets in the business are freehold and belong to his company.

My experiences that I have gone through have been tough; however, I thank God for this. I will not leave farming. Sugarcane farming is not profitable. The structure of the market is not right. Sugar consumption is on the rise. I have not come to a point where I would abandon farming in favour of street lights. I have ploughed all I have into farming because of my conviction and belief in myself and my family.

Approximately 80% of the sugarcane goes to Illovo Sugar millers; located in Eston; in terms of livestock, the cattle are sold to AAM auctioneers located in Mooi River, Eston and Lions River, including retail outlets. Approximately 20% of the business is cattle. Maas is a derivative product from the cattle used for butter.

The butter is manufactured on the farm and the market for the butter has grown. Joshua said that he could start a dairy business and produce butter, which was recently ordered at 25 000 units by Save retail supermarket. He might have to source capital for butter manufacturing and was unambiguous that Absa would be considered in this next phase of his farming business. In his farming business, he employs 30 permanent workers and 40 seasonal workers.

Absa's relationship with Joshua was an excellent one despite him leaving the bank administratively. He discusses the strategic direction of his business with Absa; unlike with Standard Bank. In his view, Absa needed to enter the space of facilitating black commercial farmers accessing grant funding. This is a gap to create linkages between the department of agriculture and land affairs to enable black farmers to succeed in their farming businesses.

Absa has information about its clients and knows its client's needs and can advise expertly. The bank would be more credible and is reputed with the Department of Agriculture and Department of Land Affairs. The bank is capable of handling and dealing with the finance operations and that could link up with these departments' systems. This could assist black farmers challenged with application and compliance for grant funding application. Grant funding approval should be slick and meaningful.

These funds should not be returned due to being unused. Joshua made the call that Absa should be approached to provide the financial status of clients seeking and applying for grant funding. The bank is to provide the true picture of businesses' financial health and associated due diligence. Joshua asserts that the shortcoming in the farming industry is the failure of banks to trust blacks that they can also own land as whites did and the suspicion that government grants are abused by blacks.

In recent times, the establishment of a state bank was mooted; Joshua supports that; however, he argues that Ithala and the Land Bank may form a state bank. Absa should step up and fill the unoccupied space in farming finance. Absa needed to extend its banking infrastructure to supply services to black commercial farmers and not be stuck with the ideology rather than a business decision. The ideology not to assist black commercial farmers is strong; creating a sense of belief that blacks cannot farm and that government is wasting grant funding.

Absa is still harbouring hatred, resentment, for government to extend funding to blacks so that blacks can be assisted to afford buying white-owned land. I pick this sentiment in my interface with banks. Absa should step up and close this gap.

Government may disburse grant funding; complemented by Absa's expertise as a consultant and transaction specialists in respect of purchasing land. Joshua confirmed that Absa helped him greatly and empowered his staff to have banking accounts in which their salaries and wages are paid.

My balance sheet is currently valued at R30 million because of the bank's decision to support an inexperienced farmer at the earlier years of the business. Absa assisted him to run a sustainable business and helped his employees to escape from poverty.

Joshua's experience is distinctive in the following manner:

- He runs a successful agricultural business despite having firmed contract agreements or supplier contracts with his clients buying his produce. Literature points to the importance of a contract agreement that is entered into by an off-take private sector company and the farmer. A contract agreement guarantees a regular relationship to supply the produce, however, the agreement is set with the pricing structure and this is fixed for a period. The contract agreement is centrally one of the items that are used by banks to secure agricultural funding to its clients.
- He demonstrated that even with an informal supply arrangement it is possible to run a sustainable business operation. He has extensive networks and that stands him in good stead in accessing markets.
- Markets for his agricultural business are not formalised, contradicting the very basis that banks look for to provide funding.
- He has paid up the agri-bond and is not geared at all.
- Informal supply agreements derive more income for his business.
- His butter manufacturing took him by surprise as the next growth phase.

In Joshua's case the equity, which is land, multiplied into further acquisition of land as the business grew and expanded where the farmer and his household operated in the value chain, making a meaningful contribution to generations to come. It is abundantly clear that equity has translated into more than an economic benefit; however, generations are meaningfully touched through the farming business.

The assets, such as the farming business, extend the benefits associated with distribution and capacity building by empowering the farmer and the workers. From a multi-dimensional equity framework perspective, we can see how the benefits of equity are translated from a funding perspective. Therefore, it is easier to assess that Absa's programme has had a positive impact on the client's business and life, underlying the experience of empowerment after engaging with Absa.

5.9 Conclusion

The next chapter presents the findings of this dissertation from the structured interviews with all participants. The MEDF is used to uncover the gaps and highlights of the study in the agriculture sector. An inquiry of equity is explored in the following section with a critical appraisal that farmers had with Absa Bank. Business support and non-financial support as concepts within enterprise and supplier development are fully teased out. The section examines the credit policy in respect of black commercial farming or farmers at length and how that links up with the strategic objectives of the bank.

CHAPTER 6

6.1 Introduction

The narrative of black commercial farmers is shared deliberately and holistically in the next section in as far as how loan finance has transformed and shaped their businesses at their current commercial stage and testing whether Absa Bank has a role to assist in the expansion of their businesses.

The chapter unearths whether the concept of equity is elusive or reachable in the agricultural sector, which is a strategic sector of the KZN provincial economy. Themes such as land ownership, lack of collateral, insufficient financial position and poor credit record of a black farmer are constraining factors in the growth of black commercial farmers.

6.2. Discussion and analysis on black commercial farmers and Absa: A Multi-dimensional Equity Approach

Using a multi-dimensional equity approach, the study's objectives were to examine how Absa was supporting and contributing strategically to the development of the agricultural sector in KZN; to establish whether Absa's products and services were assisting black commercial farmer clients to escape from poverty and succeed in having sustainable businesses; and to assess how Absa was supporting black commercial farmers financially and non-financially. A few key themes emerged from my research and they pertain to: a) procedural dimensions of equity, b) accidental alignment of Absa's financing of black commercial agriculture with the bank's Shared Growth Strategy, c) lack of appreciation of contextual equity, and d) missed opportunities in shaping the provincial policy and practice agenda in KwaZulu-Natal.

6.3 Lack of procedural dimensions of equity: The case of Absa Bank's Enterprise and Supply Chain Development

Absa Bank noted that funding black commercial farmers was not going to be a straightforward commercial banking transaction; therefore, an Enterprise and Supply Chain Development: Value Chain Lending Standard for the Agricultural Sector (or ESD)¹⁶ was developed to strategically guide the bank to provide access to affordable development finance for SMEs in corporate value chains. The value chains included the supply or distribution of goods and services to or on behalf of a corporate. The weakness of this standard is that it is broad in scope even though it focuses on the agricultural sector.

The design and implementation of the ESD seems to flounder when examined through the lens of my multi-dimensional equity framework. It fails to meet the procedural dimension of the MDEF. There is no indication anywhere in the documents that I reviewed that Absa engaged its clients in any meaningful way in the development of the ESD. In other words, the conception of the ESD standard or plan was driven internally and from the top by the bank itself. Secondly, the implementation of the ESD seems to follow conventional rules that would apply to all clients. There is no attempt to develop an empathetic and exceptional treatment of this special category of black medium-scale commercial farmers.

¹⁶ Absa Enterprise and Supply Chain Development – Value Chain Lending Standard for Agriculture sector. 2017, page 2. It provides guidelines in handing support to entrepreneurs in the sector.

Therefore, in the plan's design, it is concerning that the bank articulated in the standard that it could partner with a corporate entity that was willing to work with the bank to support SMEs in their value chains with technical and operational services to manage performance risk and to assist with business development support to the SMEs. This appeared like business as usual, however, as evidenced in the feedback by black commercial farmers from this study; this was not actually done.

In the case of black commercial farmers interviewed it was evidently clear that the corporate or client to the farmer provided an off-take contract to the farmer. However, the bank did not play any conceivable role in the business development support of the farmer. The characteristics of an off-take contract met all the criteria as outlined in the standard:

- a) that the corporate must be in the private sector; and
- b) that the Enterprise and Supply Development (ESD) Programme could be set up in any industry acceptable to Absa policy to mitigate business and reputational risk when setting up an ESD programme, with the approval of the Reputational Risk Committee before finalising the agreement.

Problematic also, is the exclusion of government in entering an ESD programme. The critical challenge is that government has grant funding for the acquisition of land for smallholder farmers, black commercial farmers and cooperatives to use land productively for agriculture. The developmental impact of Absa's ESD programme would be limited only to the identified private sector and not realise its fullest contribution to the government-led or public sector-led off-take agreement segment.

According to the bank, the ESD programme was geared towards black SME farmers, especially those who were unable to obtain sufficient finance for their business needs using traditional lending assessment methodology because of a lack of collateral, insufficient financial position and poor credit record. However, again in contrast to the MDEF approach, the bank reserves its right not to fund the transaction if a farmer who does not own land intended to get into capital-intensive agricultural production without a guaranteed off-take agreement.

In the literature review, it was explored that the lack of ownership of land, lack of collateral, insufficient financial position and poor credit record of a black farmer constrained the growth of black commercial farmers in successfully running sustainable businesses.

In the literature review, the off-take agreement is the basis to access the market for the black commercial farmer. This off-take is renewable as per agreement between the mill and the black commercial farmer. In the case of Joshua, the agricultural operations continue without off-take agreements and the security of supply is intact despite this. The bank's role in using its influence to source and firm up the off-take agreement on behalf of its client to help the securitisation of the funding of the agriculture business is critical.

It was evident from the discussions with clients that black commercial farmers expected the bank to play a much bigger role than just being a funder. At the same time, it is in the spirit of the ESD standard that the bank is permitted to assist in the business development or concluding an off-take on behalf of the black commercial farmer.

This chapter argues that Absa's Agricultural Standard on Wholesale Credit does not adequately address the collateral element as a strategic guideline towards the funding of black commercial farmers or SME farmers. The standard stipulates that collateral should be taken to cover existing exposure and to reduce risk, enabling discussions and negotiations for the most acceptable collateral available.

The standard opens the discussions and negotiations for obtaining sufficient security to broad interpretation. The overriding principle is that sourcing of collateral may never influence sound credit assessment. This is further complicated by the assertion that the client's financial position, creditworthiness, integrity, repayment ability and competence remain the most important factors for sound credit decisions. Based on the principles stated in the standard the bank's role in the advancement and successful supporting of black commercial farmers financially and non-financially could be a far-fetched strategic objective to achieve.

The interviews with black commercial farmers demonstrated that the agricultural products served to them were term loans, agri-bonds, production loans and overdrafts. When considering the suite of products, the bank has; it begs the question whether the agricultural bankers review the needs of clients periodically to provide the necessary bespoke or additional products over and above what was offered to the clients. There was no demonstration of the sophisticated nature of products servicing black commercial farmers.

This chapter highlights that black commercial farmers were not advised by Absa, an authorised financial services provider and a registered credit provider, of the available asset financing products that were available to assist their businesses. It was apparent that there was no mention of insurance or investment products that could have been provided to the farmers. The critical element is to ensure that these clients are able to use their enterprises and assets to create wealth and protect their wealth for the next generation. This is the essence of sustainable funding giving effect to sustainable businesses.

It is not for lack of example that Absa has failed to do this. The bank has the capability to scope a customised Islamic agricultural finance product to assist in the support of black commercial farmers (Absa 2011), and perhaps provide the bank with a competitive edge to address what Ernest Janovsky referred to as a challenge to “emerging farmers who in the past struggled to obtain financing for lack of collateral”; and secondly to aggregate available funds within the bank to create a competitive advantage in terms of value for the bank and its clients. In this case, Absa will be differentiated, translating into leadership in the agricultural sector (Porter, M 1985).

Again, if Absa was strategically serious about black emerging farmers, in case of this study black commercial farmers, then the focus should be on accelerating the development of managerial skills for its black commercial farmer clients and assisting in setting up an equity fund to assist emerging farmers in raising own capital.

It was urgently required that Absa ring-fenced funds for the purposes of an equity fund. There was a greater responsibility for successful white commercial farmers to mentor their black counterparts. The equity fund should be viewed as collateral and the loan repayment term that is structured flexibly. During the first five years, the repayment goes into the fund, and the remaining balance gets repaid.

Coupled with other available equity funds (collectively called empowerment funds), such as Thembani Guarantee Fund, which offers finance between R50 000 and R10 million to SMEs operating in Southern African Development Community countries where Absa operates, USAID and Absa Development Credit Funding (offering funding to SMEs from R50 000 to R6 million) and the Women Empowerment Fund (offering funding to SMEs that are women-owned from R50 000 to R6 million), the issue of funding for black commercial farmers could be resolved (Absa Alternative Funds product document 2017). With the input of other commercial banks, funds could be pooled together to set up one equity fund. Historically, government was unable to source funds for land reform. This fund could assist strategically with the delivery of land reform and get people to use their land productively for agriculture.

6.4 Accidental alignment of Absa's Shared Growth Equity with agricultural finance

It was also evident from my engagements with Absa's Business Unit Heads that the implementation of agricultural funding was not deliberately aligned with the Shared Growth Strategy. In hindsight, if there was any alignment it was mainly unplanned. Business Unit Heads in Agriculture within the bank conceded that it was accidental that the funding provided to black commercial farmers aligned with the Shared Growth Strategy because that was not a deliberate attempt and intent in the provision of finance to the clients.

I attribute this to the fact that the Absa Head Office launch of Shared Growth did not filter through to the South African provincial arm of the bank, specifically in KZN. The strategy of any organisation is leadership-led and cascaded through the divisional areas of the organisation, including ensuring that it is familiarised with clients, stakeholders and clients of the organisation. This is one area in the implementation and launch of strategic direction of the bank to relook.

Ironically, after I had described the bank's strategy, clients remarked that Absa was living up to the objectives of the Shared Growth Strategy, which was aimed at helping small and medium-sized business to succeed and grow through enterprise development, offering innovative financial solutions and business support services to small businesses. According to the strategy, Absa should ensure that more people have access to financial services to achieve financial inclusion. Absa was seeking to provide underserved and unbanked communities with convenient and affordable digital access to financial services. The overlooked aspect of funding by Absa to black commercial farmers was that the entire workforce on the farm was not provided with personal banking services. There was an inconsistent application of full banking services to the black commercial farmer, workers and shareholders of the enterprise. The shortcoming was the fact that funding was provided for agricultural production, and the individual farmer as a client and workers, including shareholders, were not serviced by the bank.

The bank's clients whom I interviewed confirmed that Absa Bank's products and services assisted them and their employees to create and enhance their livelihoods. The bank's finance has had a positive impact on the lives of the individual entrepreneur farmer and their families, including the communities located near the operations of the farm. Nonetheless, my interviews with the farmers revealed emphatically that Absa has not adequately supported black commercial farmers non-financially.

Doing business differently would also involve providing a suite of services that are not normally associated with financing agriculture. The clarion call from the clients was that the bank needed to focus on training and developing its clients on the technical skills of financial management, marketing and business management, among other focus areas. Clients were not aware of Absa Bank's Shared Growth Strategy, which they understood very well when I summarily explained the objectives to them.

The same sentiment was expressed by key informants in the policy space. As a senior official in the Agribusiness Development Agency (ADA) told me, "the success of black commercial farmers was possible if they were empowered with information about how to access markets, and training and development in how to run successful and sustainable enterprises. The success of black commercial farmers was not anchored on money only. Therefore, Absa should assist farmers both financially and non-financially as espoused in their Shared Growth Strategy."

6.5 Contextual equity

The bank's avowed commitment to shared growth notwithstanding, my research has revealed that in practice Absa has been singularly looking at its financing of individual black farmers and not considering the macro picture of the sector in which the farmer operates. This seems to contravene one of the key tenets of the multi-dimensional equity approach; namely, taking cognisance of the pre-existing context that limits people's access to assets, resources and benefits (McDermott 2013). Equally, the products and services of Absa were considerably average, and clients' experiences were aligned to what they would expect from a bank.

It is true that banks have an obligation to their shareholders and that financing agriculture is a cut-throat business. However, if the bank is truly committed to an equitable business model as espoused in its Shared Growth strategy, it will have to swim against the tide of business as usual. My interactions with some senior managers in KZN highlighted the difficulty of this approach. For example, a senior economist at Absa reflected that agriculture was driven by a complex set of economics. "With the ever-increasing input costs on an annual basis, farmers were compelled to maintain a certain productive level of rise in profitability by 3% annually. The net result was that a farmer should grow bigger every year."

According to Prof Karan from Stellenbosch University South Africa would have 12 000 farmers in 2040, declining from a current figure of 37 000 primary commercial farmers today (Samuels personal communication and reference 2017). There would be consolidation and buyout of farmers in the pursuit of scale. This is what Samuels calls “the harsh realities of agricultural economics”. This raises an important question: is it possible to subscribe to this complex set of economics that demands that “a farmer should grow bigger every year” and also support black SME commercial farmers hampered by the burdensome remnants of apartheid history? (Samuel 2017)

The baseline features of funding from a bank are quick turnaround times, review of overdraft limits on an annual basis and tracking repayment of agri-bond or production loans monthly. In other words, Absa Bank was not responsive to challenges beyond the farmer’s control such as drought impact, extension of the agri-bond term to be competitive in the market, that is going over 10 years, supporting land restitution and land claims to get productive capacity of land for agriculture and agricultural finance, training and development of black commercial farmers in running sustainable and competitive businesses, and elevating the expert voice of the bank in policy formulation in the agriculture sector in KZN. It would therefore appear that Absa is not making a significant contribution to reversing the prevailing apartheid legacy in agriculture.

Contextual equity is all about combining distributive equity (sharing among stakeholders of costs, risks and benefits resulting from resource management decisions and therefore representing primarily the economic dimensions of equity) and procedural equity (referring to fairness in the political processes that apportion resources and resolve disputes by applying representation, recognition/inclusion, voice and participation in decision-making) by taking into account the pre-existing political, economic and social conditions under which people engage in procedures and benefit distributions and which limit or enable their capacity to do both.

In addition, contextual equity incorporates individual capabilities (such as education, political recognition), access (to natural resources as well as to capital, labour, market networks among others) and power (to gain and maintain access to resources).¹⁷

Taking contextual equity seriously requires that the bank “incorporates the pre-existing conditions that limit or facilitate people’s access to decision-making procedures, resources and, thereby, benefits” (McDermott et al 2013:416). However, more often than not, instead of taking the initiative to alert its clients to resources and benefits, senior bank staff seemed to put the onus on the feet of the black farmers themselves. For example, when I asked the Commercial Asset Finance Business Unit about the bank’s joint venture with John Deere Tractors to offer subsidised rates to purchase tractors, a senior official agreed that that scheme has not benefitted black commercial farmers. As he put it, “There has not been a take up of the scheme by black commercial farmers.” (Maxim Forjore 2017).

¹⁷ www.espa.ac.uk/files/espa/A%20Framework%20For%20Defining%20Equity.pdf

Absa has attracted conventional clients; these clients historically were not emerging farmers and were not black commercial farmers. The Commercial Asset Finance business unit hosted Farmers' Days in areas where black commercial farmers were neither able to attend nor aware of them. White farmers have used and accessed this vehicle-funding scheme extensively, and black farmers tended to purchase tractors/equipment with cash without taking advantage of the scheme. This is an example of the bank failing to take into account issues of contextual equity.

Although Absa has supported established farmers, the bank has not contributed to any noticeable number of new entrants to the market. It was widely noted in literature that new entrants in the agricultural market find it very difficult to start up. Therefore, without a substantial amount of own capital (equity), any new entrant to the market would find it hard to succeed.

This was enunciated by the MDEF that the basis of creating worth and being productive was through access to capital, which was an asset that facilitated the path to develop and multiply other sources of productive capital to gain sustaining livelihoods. Taking contextual equity into account would also require that Absa does its business differently when it comes to land. South Africa's multiple agrarian questions will undoubtedly not be solved until the land question is resolved. When talking about commercial agriculture, most of that land is in white hands and there is very little land in rural areas that can be turned into large commercial farms.

Innovative strategies will have to be employed. Some of the Absa clients I interviewed had already done that. For example, both Michael and Joshua purchased unproductive land from white farmers and are now successful black commercial farmers. However, many aspiring farmers (small and medium-scale) farm in traditional areas where issues of ownership and tenure are not consonant with financing prerogatives.

Therefore, as one of my key informants averred, Absa needs to relook its risk and credit attitude towards untitled land to support rural development at a holistic level (Nthane, B 2017). Absa needs to engage strategically with the Ingonyama Trust, the titleholders of most of the land in KZN. The bank would have to engage with the traditional authorities, guided by the Ingonyama Trust and the KZN Agriculture Department. The bank was challenged to incorporate non-titled land as part of collateral in the formulation of Absa's credit policy to enable agricultural funding in rural areas and uplifting the practice of black commercial farming. Absa and ADA should not compete in the agricultural sector but collaborate with one another.

6.6 Missed opportunities in provincial agricultural policy and practice

It emerged strongly from the dialogue with clients that Absa was supporting and contributing strategically to the agricultural sector, however, my interviews with key players in the policy space in KZN revealed that the bank was not making a deeper contribution at a provincial level.

Indeed, both the bank's clients and key stakeholders in both government and advocacy organisations agreed that Absa Bank (and financial institutions in general) was not using its expert voice in agricultural policy formulation and development in KZN. Even though policymaking was government's prerogative and responsibility; the counsel from clients was that the bank needed to take much more responsibility in providing input towards the policy development objectives of government. Interestingly that was the same feedback provided by the senior civil servants in the KZN Department of Agriculture. KWANALU represented by Lucile Sacks recommended that Absa Bank use its expert voice in agricultural policy formulation and development in KZN to enhance the reputation of the bank in the market.

Jacob Lereko, Head of the Department of Agriculture in KZN, was emphatic in asserting that Absa is one of the financial institutions whose contribution to the agricultural sector is not heard nor known. Indeed, as a senior government technocrat Jacob confessed that he was not aware nor heard of Absa's Shared Growth Strategy. To highlight Absa's absence, he argued that in his previous role as Deputy Director-General of Agriculture in KZN, he led a project that packaged support for black farmers and unfortunately Absa was one of those financial institutions that did not come to the party.

In respect of the bank's products and services, it was clear that he had little knowledge of it. It was evident that Absa has not reached out to government on agricultural dialogue and engagement.

However, by comparison, he was able to express his knowledge of the products and services of Ithala Bank, Standard Bank and the Land Bank, including the development finance institutions of government, the National Empowerment Fund, Industrial Development Corporation, among others. Jacob was not convinced that Absa was playing an important role in the development of the black commercial farming sector. Absa is one of the big banks, and the bank is the official bank of KZN Provincial Government, which means that Absa was viewed and chosen by the political and executive leadership of the government as a strategic partner.

The support of black commercial farmers was seen and expressed by Jacob as a transformation agenda, which both government and Absa should be driving. Government intended to build irrigation schemes in KZN, which would require capital investment. Primary agriculture and its value chain, including other related industries, needs to be accessible to black commercial farmers over and above what is traditionally available. That is, they could take advantage of agro-processing and support in terms of vehicle asset acquisition in the form of tractors and fertilisers, among others, was an area where government sought to empower black farmers. The land reform programme as a policy objective of government was meant to help people get back to the land. The programme was good with noble intentions, however, met up with unintended consequences; those bringing people on the periphery of the economy to commercial farming.

The policies of government have been lacking in as far as bringing the beneficiaries up to speed with the skills, including financial skills to assist them with the new responsibility of owning property to be used for agriculture. Government typically would return the land to its beneficiaries and never thought about the model of farming on the other side of the land reform transaction.

In the banking sector, land ownership was a contentious issue in respect of bank's credit and risk appetite in the agricultural sector. Jacob was categorically clear that Absa's credit appetite has been poor and found wanting in this sector. There were various categories of land reform, namely: 1) land that is owned by government: the appetite of the bank was low in terms of accepting that as collateral. Indeed, Absa did not recognise this as collateral. It was noted that farmers do not get the necessary support from banks. 2) Restitution of land to community: in this scenario one or two people could be interested in using the land for agriculture and does not have title. Absa was dismal in its funding response.

Absa was challenged to develop a transformative funding approach to the agricultural sector and specifically black commercial farming. The bank needed to recognise and acknowledge that land reform was a strategic and political objective of government and that Absa had to structure its funding to be aligned with and work within government's perimeters of supporting black commercial farmers. Jacob was firm in confirming that Absa needed to relax its funding criteria, particularly in this sector of the economy. Not doing so would, in effect, exclude potential applicants for farming funding, leading to financial exclusion which would nullify the Shared Growth objective of financial inclusion (Lereko, P 2017, personal communication).

Like the Absa clients I interviewed, several key informants in government and also in advocacy organisations cited non-financial support as another area where the bank could make inroads.

As one of them put it:

This non-financial support could translate into how to write business plans, which were largely done by consultants. The sharing of information is lacking in the agricultural sector, this was exacerbated by the collapse of stakeholder forums which were hosted at a municipal level addressing entrepreneurship development. Agricultural forums at municipalities were not functioning optimally; it was where local municipalities had to incorporate the agricultural sector in its planning processes such as Integrated Development Plan and Budget. The KZN government prioritised the formation of cooperatives as an institutional and structural framework to enable agriculture. It was clear in the literature review that cooperatives may not necessarily be the viable organisational structure and institutional framework to anchor agricultural development. In the paper I argue that local municipalities do not have the necessary competency and political will to engage and have discourse on agricultural development (Nthane 2017).

At a policy discourse level, it was conceptually relevant that Absa participate in the establishment of agricultural forums to engage with local municipality decision-makers and reach individuals at a deeper level. These forums should be regularised to meet quarterly and align with Local Economic Development forums. In respect of making Absa visible and relevant, the challenge was for the bank to make choices in as far as establishing a programme to develop agricultural production at municipal and district area level, linked with the local economic development plans of local government.

In effect, this would radically change the marketing and stakeholder relations engagement approach of Absa to identify Local Economic Development (LED) Forums as structures to engage with, primarily in municipalities that were banked by Absa. One of my key informants bemoaned the fact that these LED forums did not have information on agriculture. In the current format, the LED forums were not successful because government assigned junior officials who could not take decisions at those forums. The sharing of information and technical expertise in these forums is critical.

In a multidimensional equity framework, participation as a theme is projected as important and, in this study as well, this calls for Absa to be a custodian of transformation in banking finance for agriculture and black commercial farming. This is a strategic and a policy choice for the bank. Government representatives have echoed this sentiment as well. Empowerment as a theme was in most instances articulated by clients that when embedded in the business, it would translate into the empowerment of workers, community and owners of the business. This is true empowerment that is organic, and transformation as aligned with the multidimensional equity framework.

This redefines the relationship of owners, workers and communities where there is co-dependency and mutual respect of the contribution each have in the longevity of the business.

To conclude this chapter, Absa has not risen to the occasion in as far as using its technical expertise, a theme that emerged strongly in as far as the role of the bank in black commercial farming is concerned. Clients and government representatives, including industry body representative, reflected in the deliberations that the bank must step up and be more than a financier.

The technical capability of the bank is in demand in agriculture, coupled with the training and development (this was a primary theme) of farmers.

It was interesting to note that during the dialogue and deliberation, training and development were urgent themes to be addressed by Absa, including agriculture finance that is relevant, empowerment of farmers with the right products, flexible terms of funding black commercial farmers, including the appreciation of land as an asset which is communally owned (Ingonyama Trust-owned land) to unlock black commercial farming.

6.7 Conclusion

The ensuing chapter will close the dissertation with realistic and achievable recommendations to the Absa Bank. The discourse on the Shared Growth strategy of the bank is further flashed out against its financing operations in agriculture. The Government and industry player KWANALU have amplified their voice in as far as contributing towards agricultural development in KZN.

CHAPTER 7

7.1 Introduction

The role of a commercial bank or financial services organisation such as Absa Bank is critically appraised in the next section. It is naturally acceptable to have credit policies that express the implementation of Enterprise and Supply Development, however, consistently remain a conventional bank. The section reflects on strategic priorities agreed for the bank and how these are experienced by its clients.

In a competitive environment and sector such as agriculture, the concept of relationship management and client relationship management brings to the fore how this can be leveraged for differentiation. After products and services have been offered to clients, is that enough in the current market?

7.2 Brief summary of the research objectives and major findings

The study assessed whether Absa Bank was living up to the objectives of its Shared Growth Strategy for agriculture in helping black commercial farmers to succeed and grow through enterprise development. I wanted to examine how Absa is supporting and contributing strategically to the development of the agriculture sector in KZN, establish whether Absa's products and services are assisting black commercial farmer clients to operate sustainable businesses, and assess how Absa is supporting black commercial farmers financially and non-financially.

Before discussing findings that pertain to Absa specifically, there were some important themes that pertain to black commercial farmers in general. The first important thread that is running through this study is that farmers did not graduate from subsistence (or simply small-scale agriculture) to commercial agriculture. They were either brought in through family ties or were already working in commercial agriculture or some other higher level in an important corporate entity (e.g. Mokgatle).

It speaks to debates about equity and about what Cousins (2013) calls “accumulation from below” versus “accumulation from above”. From my findings, it seems as if hoping that black farmers will amass enough wealth and resources “from below” to graduate to “commercial farmers” may be romantic and miss the various segmentations of this sector.

Secondly, literature is clear that small-scale farming in South Africa is gendered (see for example O’Laughlin (2009); small-scale agriculture is considered black and female. The picture painted is quite bleak and demotivating. However, in my study, nearly all the black commercial farmers are male, with the exception of Idube Forestry. Therefore, in this sector, we need to take the gender question seriously as well. The third important thread is that access to markets was an important issue for all the farmers but like small-scale farmers, black commercial farmers must define their markets. In most cases in agriculture and business, the focus has been the formal markets. However, it became apparent in the case of these farmers that they were able to supply the formal markets and informal markets.

Finally, the role of the banking sector in assisting farmers to deal with the difficult weather conditions was a theme that the farmers emphasised. The fundamental point from a finance point of view is that the bank has insurance products and coupled with that the risks of the business can be better mitigated to assist the farmer to emerge stronger. Farmers commented that Absa can institute a payment holiday when farmers are impacted by adverse weather conditions.

7.3 Drawing logical conclusions from the data that was interpreted

Regarding their relationship with Absa, farmers overall rate that ordinary in as far as assisting them with innovative financial solutions, noting that the bank was salvaged by the relationships bankers, who kept the relationship with the bank alive. On the innovative aspect of products and services, this was simply generic and not particular to the agriculture sector. Indeed, Absa's Heads of Business Units admitted that nothing bespoke or unique was on offer.

Overall, Absa did not optimally live up to the objectives of the Shared Growth Strategy as set out; when rolling out finance to support black commercial farmers the bank did not consider this in a deliberate manner. Indeed, as I discussed in the previous chapter, the securitisation in agricultural finance in the form of cession of collateral will cause Absa not to fully realise its Shared Growth strategy objectives in KZN because most of the available land for agriculture is owned by government or the traditional authority in the form of the Ingonyama Trust. In effect, most potential commercial farmers would be excluded from being supported by the bank financially and non-financially.

Therefore, reviewing the collateral issue would achieve the objective of financial inclusion providing affordable (pricing, interest rate and term) and accessible financial services to underserved and unbanked communities. Black commercial farmers interviewed were all from rural areas, where there was representation of branch infrastructure of the bank, including other automated and digital banking services. Some clients urged Absa to engage more regularly with their shareholders and workers to offer personal banking services, including other related services to make their lives easier. The essence of banking is to have a multiplier source of revenue over and above the primary transactional relationship with the client.

In respect of the multidimensional equity perspective, Absa did not effectively empower the farmers holistically, though it assisted the farmers to acquire land for agriculture in some cases. It was through this study that black commercial farmers had the opportunity to review the finance disbursed to them for commercialisation purposes and to grow their equity. The framework underscores how meaningful client/public participation of farmers is in the development of agricultural policies, including the credit policy of Absa. The study is anchored on this theme and counsels that for the bank to be relevant and competitive it needed to strategically and operationally review its agricultural financing model. In this instance, Absa needed to regularly engage with black commercial farmers to understand their financing needs, more importantly to understand the business of its clients.

Absa needed to appreciate that equity covers the individual, household and community, along the value-chain, international, ecosystem and intergenerational context. The broadened understanding of equity is more than legalistic, taking on more than just an economic tag whereby many generations are effectively touched. In my analysis, the bank has not done well in this regard in respect of black commercial farmers and their businesses.

I have noted that the farmers interviewed were two Indian males, three African males and one African female, and one White male from the commercial agriculture segment. The distribution was largely in the Stanger, Tongaat region, followed by Richmond. These areas are predominantly rural in character. Absa's exposure to the agriculture sector has been predominantly white and commercial in nature, specifically in the South of KZN.

The bank has largely built its client base through the white commercial farming segment. It is imperative that the distribution of its client base is balanced or diversified to include black commercial farmers from other regions of the province. Otherwise the bank would reinforce the historical racialised structure of agriculture.

The summary of the insights is:

- Clients and government did not view Absa favourably in as far as supporting and contributing strategically to the development of the agricultural sector in KZN. The assessment was that the bank can do more and better.
- The reflections and critical appraisal from clients was that Absa's products and services did assist them to escape from poverty and enabled them to have sustainable businesses.

- Business Unit Heads, black commercial farmers and regulators/policymakers from KZN government were unanimous in their view that Absa needed to improve its support of its clients (farmers) financially and non-financially through enterprise development and training.
- There was an overwhelming view from clients and Business Unit Heads that Absa had to raise its support in contributing strategically to the development of the agricultural sector in KZN. The Head of KZN Agriculture was critical of the bank's nonchalant absence in engaging with government, driving the growth of agriculture in the province and advancing black commercial farming.
- Absa's products and services were undoubtedly favourably rated as having assisted black commercial farmers and their workers to escape from poverty. This reaffirmed the importance of the agricultural sector as a major driver to achieve rural development.
- Absa management confirmed that the agricultural sector was a strategic sector in business banking; evidenced by the dedicated resources structurally. However, the assessment was that the bank could ramp up its non-financial support to black commercial farmers. The same sentiment was echoed by representatives from KZN government.
- Absa Bank's Shared Growth Strategy was realised through agricultural sector financing; however, this was unintended and not premeditated in implementation. Clients and regulators/policymakers were not aware of the Shared Growth Strategy until the strategy was explained to them.

- Clients, Business Unit Heads and government representatives intimated that Absa was not using its expert voice in agricultural policy formulation and development in KZN. At a regional level, this was not evident at all. Ironically, at national level, Absa is a leading contributor to policymaking in the sector; however, this is not practised at a provincial level.

7.4 Recommendations

Inputs and insights from clients, business unit heads and agricultural industry bodies, including regulators from government, are as follows:

1. Absa to play an active role in the promotion and funding of black commercial farming in KZN.
2. Absa to review its agri-bond term to more than 10 years.
3. Absa to establish an equity fund to address the raising of own equity and work with government to solicit grant funding as a mechanism to alleviate the challenge of own equity contribution.
4. Absa to embrace that funding to black commercial farmers can be done even when the land is not titled.
5. Absa to implement business support and enterprise development coupled with agricultural funding.
6. Absa to actively be the expert voice in policymaking in agriculture.

These recommendations have resonance to other banks and commercial funding organisations, including development finance institutions who are state-owned. It is suggested that both Absa Bank and financial organisations that provide loan finance and grant funding in the agricultural sector can take lessons from the recommendations. Industry bodies such as KWANALU and Provincial Department of Agriculture can draw insights from the findings and recommendations presented in this dissertation.

7.5 Limitations of the study and suggestions for further research

The study was limited to analyse and examine the role Absa Bank played in the agriculture business of black farmers, who are its clients. The focus was to test whether the bank lived up to its Shared Growth strategy, especially providing far more than just loan finance; in other words, business support in the form of non-financial backing.

The study was limited to KZN specifically and did not cover other provinces where agriculture is one of the important provincial economic drivers such as the Free State, Mpumalanga, Eastern Cape and Limpopo among others. The aim was to interview 10 black commercial farmers and due to time constraints and the availability of clients, only eight farmers participated.

7.6 Conclusion

It was the hope of Ernst Janovsky that emerging farmers will not fail to obtain financing because of a lack of collateral or security. Emerging farmers will be in a better position to obtain loans based on both their asset value and the value of their produce. It is vital that loan finance is pegged on asset value and the value of what is produced, this will be transformational and empowering for black farmers and farmers in general. Absa Bank undoubtedly has formidable clients as discussed in this dissertation who are bold, visionary entrepreneurs passionate about farming. The voices of these farmers echo Janovsky's sentiment strongly that Absa has to change its approach to agriculture that it is not feasible and competitively advantageous to just loan money to farmers against their asset value (Absa Media Release 2010).

The strategic appraisal of Absa clients is instructive and profoundly clear in as far as changing the way in which the bank approaches the agricultural sector, specifically black commercial farming in KZN. These insights are clear lessons for the bank and can enhance the business relationships with its clients in the sector.

End.

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