SOME PERSPECTIVES OF RURAL LENDING FOR THE RURAL PERIPHERY OF SOUTH AFRICA IN ORDER TO PROMOTE RURAL DEVELOPMENT AND SUSTAINABILITY: A FOCUS ON THE SERVICE AREA APPROACH

Anis Mahomed Karodia (PhD)
Senior Faculty Member and Researcher at the Regent Business School, Durban, South Africa
Shaheen Khan
Academic and Campus Manager at the Regent Business School, Durban, South Africa

ABSTRACT
This paper examines the possibilities of strengthening agricultural credit, which must culminate in the service area approach evolved by banks and cooperatives in some developing countries and, attempts to stress that effective monitoring of the system will help improve rural lending. In selecting and using this approach amidst other reasons, as one of the strategies in the new North West Province of the Republic of South Africa, the writer posits the current vehicle of rural lending in the form of the present Agricultural Bank, formed under the erstwhile Bophuthatswana state during the apartheid era of government must be wholly supported against the background that, it has service capabilities in place and that post 1994 the democratic South African government has followed the use of the Bank without any serious changes in respect of delivery. It has to however, be restructured in order to become a development bank, less reliant on government subsidies and commercially oriented in order to become a strongly viable, independent and self – sustaining rural lending institution. Its role as a conduit to administer funding via other lending institutions, the Noordwes (North West) Koperasie (Cooperative) and other cooperatives including possible linkages with commercial banks cannot and must not be under estimated, if the needs of the rural periphery of the North West Province are to be meaningfully addressed. The paper is not all encompassing but expands the conversation in this regard.

Key Words: Lending Institution, Cooperatives, Agricultural Credit, Monitoring, Erstwhile, Subsidies, Commercial, Rural Periphery, Economic and Rural Development

INTRODUCTION
The key function of a financial sector is to provide financial intermediation in the context of rural development programmes and, the historic imbalances to rural lending in the North West Province of South Africa, post democracy in 1994. In short a financial system that encourages savings and investment and matches lending and borrowing opportunities which will ultimately promote economic development. In this regard considerable emphasis has been placed internationally and particularly in the context of some of the developing nations on revitalizing the rural sector. This rural sector constitutes the backbone of the economy of the North West Province and has the immense potential of contributing significantly to the Gross Domestic Product (GDP) of the province. Due to the historical divide in funding black and white farming activities and initiatives in the North West Province; it is possible to stimulate greater economic

productivity in terms of addressing the problems of the past apartheid era and to focus upon the Service Area Approach (SAA) to rural lending in the province.

DISCUSSION

Various schemes of concessional flow of credit to the rural sector have been evolved in many parts of the world over a protracted period of time. The institutional mechanism involved three types of cooperative credit flow: primary cooperative credit societies at village level, central cooperative banks at the district level and state cooperative banks at the provincial level in the former Republic of South Africa. None of the former institutions favoured black farmers and, rural lending in the erstwhile Bophuthatswana state was limited to so – called commercial farmers, based on political patronage and did not impact meaningfully upon the rural periphery. With the increasing needs of the expanding and already expanded agricultural sector in new democratic South Africa and, in order to redress the imbalances of the past, the introduction and induction of commercial banks into the field of agricultural credit for historically disadvantaged communities must be strengthened in terms of a policy of "Social Control" that the new African National Congress government must attempt to formulate and relentlessly pursue nearly 20 years down the road to democracy. This was undertaken in India in 1967, nearly 20 years into its democracy and intensified with nationalization of 14 major commercial banks in 1969; in 1980 six more banks were nationalized. (The nationalization debate of banks and other sectors in South Africa must now be seriously debated and discussed). A later institutional innovation in 1975 was the establishment of the Regional Rural Banks (RRBs) with exclusive attention on specific target groups of weaker sections comprising small and marginal farmers, agricultural labourers and rural artisans. The writer posits that the significant aspects of nationalization world – wide have been:

- Rapid branch expansion, and
- Channeling credit according to plan priorities.

By the same token the writer is of the opinion that, it would however, be myopic to consider the banking system as being primarily concerned with a mobilization of deposits and channeling credit to the desired sectors. A bank or banks do not have to only fill the credit gaps but must also provide other services complimentary to credit availability and must encourage very seriously entrepreneurial responsibilities. However, it must be understood by policy makers in the North West Province and the South African rural periphery that, there is still a large demand for rural credit and that, this demand will increase in the near future because of the expansion of agriculture and the ineptitude of government in the provision of agricultural and extension services. This demand would have to be met by the institutional system, that is currently charged with the responsibility and that special efforts would need to be made to reach a large proportion of small and marginal farmers who have been historically marginalized and completely disadvantaged. The absence of detailed planning, inadequate infrastructure support, the non – viability of required institutional support, an inadequate information base relating to marketing opportunities, and marketing networks have inhibited the development effort in the former Bophuthatswana and democratic South Africa post 1994.

Given the need to provide a thrust to food grains and livestock production in the North West Province and in many other parts of South Africa, a public sector bank in the form of the Agricultural Bank that was formed and developed in the former Bophuthatswana, during the apartheid era must now be seriously considered by the democratic government of South Africa. In this regard detailed studies in rural areas is long overdue concerning this possibility, in order to ascertain the impact of bank credit in increasing production, productivity and income levels of the rural population of the country. Such studies will highlight several weaknesses in the existing system of dispensing of rural credit. The relationship between bank credit and productivity in the former Bophuthatswana in respect of supply based and target oriented government sponsored schemes appear tenuous because of several deficiencies in implementation. There is thus a need to impart a greater thrust to rural lending involving an organized and concentrated approach to agricultural development through credit and other inputs. The writer in this regard has no illusion that a strategy and move towards concentrated lending will be necessary, important and feasible and can be achieved by adopting a Service Area Approach of designating special service areas to bank branches in rural and semi – urban in the North West Province. , in which the bank and its branches can operate for purposes of productive lending. It has been identified by various countries that such an approach would have significant advantages in assisting an orderly and planned development of the whole of an identified area and above all in monitoring and supervising credit and recovery.

The Service Area Approach involves five distinct stages in its implementation. These stages are as follows:

- Allocation of villages as service area, for each rural / semi – urban branch;
- Preparation of village profiles;
- Drawing up of credit plans on an annual basis;
- Coordination on an ongoing basis, between credit institutions on the one hand and field level development agencies (government, progressive and advantaged cooperatives, NGO's, Reconstruction and Development initiatives and so on), on the other hand for effective implementation of credit plans, and;
- A continuous system of monitoring the progress in the implementation of the credit plans and individual schemes, as also for recovery and proper recycling of funds.

Barring specialized branches which have better infrastructure and other facilities, each branch must be allocated between 10 and 20 villages as its service area. The allotment of villages must be regulated on the basis of such criteria as proximity of the branch, cluster of villages within the same tribal or adjoining tribal area, contiguity in geographical location and accessibility. Where branches of RRB's are allotted a service area, the lending to non – target groups will and must be taken care of by another designated branch which mist generally be the sponsor bank of the concerned RRB. Having allocated the service area of each branch, the branches must take up the exercise of preparing village profiles of their service area for assessing the potential for lending. Suitable guidelines must be issued by the central bank in conjunction with the commercial banks regarding the manner of preparation of branch credit plans, their aggregation into block and district plans and the monitoring of performance. Once branch credit plans have been prepared, these would be discussed at and, by the block government officials for finalization and aggregation into block plans. For this purpose, it is obvious that a Block Level Bankers Committee must come into being under the Service Area Approach and that, the leading commercial banks must be advised to initiate steps in this regard.

It is therefore, vital that all steps outlined above, with the possible efficient consideration for purposes of implementation across the nine provinces of South Africa must be very seriously considered by the government with the agricultural provincial departments and other development agencies. The preliminary items of work within a stipulated time framework, so as to pave the way for the possible introduction of the Service Area Approach across South Africa and, becoming operative in the North West Province, given its exposure and historic experience in respect of the formation of a rural lending bank in the form of the Agricultural Bank, under the erstwhile Bophuthatswana state. However, care must be exercised that no disruption in the existing arrangements and that, lending under government sponsored programmes would not suffer any setbacks.

In Kerala, India under the Service Area Approach, a total of 618 216 villages which include wards have been allocated among 42 158 bank branches – rural and semi – urban branches and urban branches having sizeable rural lending (Chona, 1991: 245). The particulars although dated is used as an example of the possibilities that encompass this reality for South Africa. The particulars are reflected hereunder as follows:

TABLE 1: Types of Banks involved in Rural Lending in India – Branches, Villages and Average

	No of branches	**No of Villages Allocated**	**Average Per Branch**
Public Sector Banks	**26 016**	**336 382**	**14**
Private Sector Banks	**2 489**	**15 252**	**6**
Regional Rural Banks	**13 653**	**236 592**	**17**
Total	**42 158**	**618 216**	**14**

Source: Chona, J. Reserve Bank of India, 1991

Continuing from the above, which indicates that a strategy focused on rural lending should be considered by government and can be achieved in South Africa and the North West Province, considering successful international experience. This however will require implementation modalities, accompanied by necessary modification before any implementation is undertaken. Given the constraints and imbalances created by the past, the writers will endeavour to capture some parameters from international literature and, will also include some thoughts on the crucial and complex question in terms of lending. The parameters that require consideration are as follows:

- Allocation of village;
- Model villages;
- Accent on integrated development; and
- Possible imbalances among branches.

ALLOCATION OF VILLAGE

In the allotment of villages, special weight must be given to specialized branches such as agricultural development branches of banks. Thus within the public sector banks in India, the average number of villages allotted to branches if State Banks was 18 per branch as against 14 for other public sector banks (Chona, 1991: 245). Chona, 1991: 244) further adds as follows: “This was due to a larger allocation made to the agricultural development branches, keeping in view the better infrastructural facilities available with them and the greater involvement in rural lending by them as a single bank as compared to other banks. It is also shown that out of 42 158 branches covered under the Service Area Approach, 5 823 or 14 percent of the total were allocated more than 25 villages per branch. This number went up to 7 615 branches or 18 percent of the total, if the responsibility for catering to the credit needs of the non – target group in the Service Area allocated to RRB’s is taken into consideration. The national average of India was 14, 6 and 17 villages per branch of public sector banks, private banks and RRB’s respectively, which indicates that there is a heavier load distribution on RRB’s. It must be recognized that in certain districts in the context of India that, there might be only RRB branches operating and thus the national average could be higher than expected.” In the writers’ view, in respect to the North

West Province, it would be one of reducing the allocation per branch to a manageable level and centers for opening additional bank branches must then be identified. It will be necessary for banks to make every effort to open the branches as early as possible in a strategy toward rural lending. In areas were fully fledged branches would not be viable or if there is an absence of infrastructure, it would be necessary to consider having satellite / mobile branches. Commercial banks must be approached to provide such infrastructure and also be engaged in making their infrastructures available to the rural periphery for normal banking services and more importantly commercial banks will have to be engaged in order to provide a sustained and coordinated "Extension Banking System in terms of their contribution to agricultural development but more importantly towards social responsibility" (Karodia, 2013: 4).

MODEL VILLAGES

The guidelines that will emanate from this strategy must emphasize the all important fact that, it is vital that there be a move towards a system of micro – level planning and to this end the branch manager must become a focal point of a designated service area. This would also make it possible for the branch to effectively monitor the end use of credit and assess its impact on production, productivity, income levels and the inroads (positive or negative) of reconstruction and development programmes upon beneficiaries. The strategy could lend itself in terms of asking or posing the question as to what kind of problems could crop up and how they could be tackled, such that the underlying thrust of the Service Area Approach becomes a focal point in the successful implementation of a programme aimed at bringing about a significant qualitative improvement in rural lending. It is also vitally important that the credit plan should not only be village specific but also beneficiary specific under different activities. The inclusion of non – viable activities to meet quantitative targets should not be resorted to. Efforts should be directed to the identification of certain villages in the command area of a branch as growth centers / focal points which could be developed as model villages by creating new opportunities for their growth. The researchers posit that the newly structured bank in the North West Province together with the reconstruction and development programmes must take the necessary steps after 20 years of South African democracy to push and drive the Service Area Approach and become an example for agricultural departments in the other eight provinces to emulate because, it has some of the infrastructure inherited from the erstwhile Bophuthatswana and, therefore, can lead frontally by example. It must also take the lead to initiate and to assess district credit potentials. The potential linked credit plans (PLP'S) must be widened and improved upon in terms of the current data available and more importantly their disaggregation subsequently into block credit potentials (BCP's). The PLP's represent a major innovation in methodology for the realistic assessment of credit feasibility with due emphasis on the viability of activities. However, historically disadvantaged new entrants should not be determined on the basis of viability only, but more importantly, guided, nurtured, trained, monitored and supported at a base level of entry into agriculture with preferential rates of lending and borrowing by the state and the state's commitment to the amounts it is prepared to write off in the development process, in order to redress the imbalances and the empowerment process of the rural periphery. The PLP's should thus prove a useful reference document not only for the aggregate district and block credit plans but also for the micro – level Service Area Plans. It must be remembered that the service areas are but parts of the block and district, albeit with certain distinguishing features of their own, which in any case will be reflected in respective village plans. In short, plans must not become meaningless, but must be related to the potentials available in the service area.

ACCENT ON INTEGRATED DEVELOPMENT

The essence of credit planning under the Service Area Approach must be the thrust given to integrated development through full exploitation of the skills and the resources available and which must be created in the assigned or designated area. It is obvious that a routine exercise cannot achieve this end. There should be greater stress on live case exercises and games used for this purpose would impart the needed realism in interpretation of information available in the village profiles. Apart from poverty alleviation and other government programmes, the Services Area Approach should consciously plan and attempt to achieve channeling of credit for diversification of the rural economy. It has to be endeavoured to attach an importance to the emergence of market oriented strategies for agriculture in the rural periphery. Processing and marketing systems must be upgraded in areas of agricultural production in the rural periphery with a view of securing benefits of value added products to the historically disadvantaged farming community. Growing unemployment in the North West Province and South Africa as a whole (Plus / minus 45 percent or more unemployment, depending on the sources referenced) particularly in the rural areas makes it imperative to accelerate the pace of rural industrialization.

This qualitative change called for in rural development and agricultural needs for the rural periphery should be reflected in service area plans and, therefore, in the performance budgets of the bank and its branches charged with this responsibility within the nine provinces of South Africa, with oversight and monitoring by the central government.. It has been argued by various researchers that the allocating of service area villages among different branches was made on ‘as is where is’ position. According to these researchers some banks appeared to entertain a feeling that due to the Service Area Approach in their area of operation has shrunk and thus the growth of lending has been affected. One thing that is clear is that the area of o9peration of all the banks put together has remained unchanged and yet there has been shrinkage in the area of operation individually. Overlapping and multiplicity in the different areas has been replaced by exclusive jurisdiction.

IMBALANCES AMONG BRANCHES

Service area planning is a bottom – up micro – level planning process and therefore, necessarily presupposes inter – branch transfer of resources, both financial and human. The bank /s are thus expected to take steps to match the financial and human resources of the branches with potential for credit in the service area of each branch. It has been shown that the apprehension entertained by some banks, about limited opportunities for lending are more physcological than real. What is needed is a realistic assessment of potentials as speedily as possible. The controlling offices will and must be charged with the responsibility and above all to play a major role in dealing with imbalances among branches.

However, it has been shown in many cases, that this does not seem to be happening perhaps for lack of the needed role perception on the part of controlling offices. Monitoring the implementation of service area plans is an aspect on which controlling offices will have to bestow considerable and significant attention. It has been reported that even though credit plans are prepared village – wise, in actual implementation, lending in many cases is concentrated in a few nearby villages. This cuts at the very root of the service area concept. In this situation, it will become the responsibility of the controlling officers to monitor implementation of village credit plans at least on a random basis. The mechanism of doing son through the normal or usual reporting system and / or periodic visits to branches will have to be developed by each bank and its main branches. Further, it is essential that controlling officers should look into deviations between the credit planned and credit disbursed and satisfy themselves that such deviations are justified in each case and remedial measures initiated.

The Service Area Approach first began as an experiment in decentralized credit planning and certain expectations revolving around the concept pertain to the following:

- Organized and planned mobilization and development of resources based on continuous assessment of potential in a homogenous and compact area of say 10 to 20 villages assigned to each rural / semi – urban branches;
- Eliminating diffusion of resources and duplication of efforts by delineating the command area for each rural and semi – urban branch of a commercial bank including the regional rural bank (The new Agricultural Bank post 1994 in the North West Province of South Africa);
- Integrating the role of cooperatives, regional rural banks and commercial banks in delivery of credit through the preparation of a credit plan for each service area with the objectives and enlargement of rural incomes on a durable basis;
- Securing commitment and empathy for the rural community, in the rural banker; on the one hand and effective coordination with other development agencies at the field level on the other.

The first part of this paper emanates from interaction with various role – players and discussions held over a rather short period of time, as convenor (Chairperson) of the North West Departmental Restructuring Implementation Task Group on Finance. It is also the expressed opinion of the principal author and not the task group as such. However, the writers are confident that given the historical imbalances and the need to address these imbalances – the Service Area Approach to Rural Lending probably offers one of a number of tangible solutions to rural lending strategies in the North West Province and probably across South Africa. This is further strengthened by the all embracing reality and fact that the North West Province has a proven Agricultural Bank with modern infrastructure, experience, training personnel and expertise which could be harnessed and must be utilized across the country. However, before this can be undertaken the present North West Agricultural Bank must be streamlined, restructured and reoriented to meet the demands of rural lending. It stands to reason that the North West Agricultural Bank can play a very meaningful role towards sustainability and agricultural development, provided that ac balance between the amount of government subsidy it will receive to fulfil its developmental role and for how long this subsidy will be made available, opposed to the fact that the current Agricultural Bank in the North West Province, will have to charter a commercial terrain in order to survive and become self – sustaining. A balance between these two features is the crucial factor.

Its viability and utility cannot be undermined nor under – estimated on the basis that discussions with the Land Bank, Development Bank of Southern Africa, the Agricultural Credit Board, commercial banks, the Noordwes Koperasie and other large cooperatives, together with the BRICS countries should begin, in order that the North West Agricultural Bank can and could serve as a conduit and vehicle, for rural development, agricultural development and sustainability, to deal with poverty and inequality. This is also premised on the view that wasteful duplication is too costly to charter, considering that an institution like the North West Agricultural Bank is already in place with over three decades of experience. The new bank for want of another name could play a significant role in terms of the Service Area Approach and therefore, to this end there has also to be a conduit for reconstruction and development programmes and, it would make sound economic sense to use its capabilities to monitor, evaluate and implement certain reconstruction and development programmes.

FACTORS AFFECTING ACCESS TO CREDIT

Consistent with the discussion undertaken thus far, some of the factors inhibiting small farmer access to formal credit, including credit – based lending policies, formal tenancy contracts, and extended processing procedures and tribal barriers, will be discussed in broad terms. “The existence of capital market imperfections in the rural areas of developing countries has engaged the attention of a number of economists and other social scientists (Griffin, 1979: 4 – 5; Ladman and Adams, 1978: 43 – 50; Lipton, 1976: 543 – 53; Ruttan, 1986: 1 – 8; Braverman and Guasch, 1988: 1253 – 67; Eswaran and Kotwal, 1986: 482 – 98). An important feature of this market is that access to credit is far easier for some groups than for others. Following technological change and a greater need for credit to small farmers to facilitate their adoption of technology, the question of small farmers’ effective access to credit institutions was and is of crucial and historical significance in the former Bantustans and other smaller and large countries in the so – called developing world and particularly in Africa. It was argued by policy – makers in such countries that increased production and credit were essential for the generation of adequate growth of production and for changing the composition and distribution of population in favour of deficit producers.

Increasing evidence suggests that the above efforts seldom benefit poorer farmers, since the primary advantage has accrued to large – scale farmers (Karodia, 1990: 13 – 16; Murray, 1992). It has been stated that this was due to the fact that a small proportion of the total number of farmers in rural former Bophuthatswana and other Bantustans of South Africa, received loans from institutions and, among those with access to formal credit, a very small group of the landed elite, monopolized a major share of the total volume of credit disbursed. The literature on formal credit contains several important explanations for the fact that formal credit is used to a lesser extent by small and potential small borrowers. “It has been argued that the urban – biased policies pursued in low income countries have led to the lower allocation of formal credit to the rural poor in many developing countries” (Lipton, 1976: 543 -53). “Credit is invariably rationed in terms of the ability to offer collateral (Von Pischke et al, 1983: 98; Biswanger and Silliers, 1983: 5 – 21). The lack of collateral, as well as the higher perceived risk of small farmers because of a lack of diversified resources, leads to a bias against them in credit allocation.

Similarly, interest rate restrictions imposed by governments in the former homelands and other developing countries inhibit and have inhibited lenders from charging higher interest rates on borrowing, but induced higher demand for credit from the large borrowers which compelled institutions to ration credit in such a way as to exclude small – scale farmers from the formal credit market. The presence of dishonest borrowers was and is another feature of the elite and, therefore, governments within the South African homelands and other developing nations were forced to write off large loans because they were and are part of their favoured constituencies. Also patronage, arbitrariness and corrupt practices pursued by financial institutions under the control of governments in general, enabled by interplay of political and social factors, further limits and limited the small – scale farmers’ access to credit. This suggested and suggests that mere physical access to formal credit by formal institutions as was propounded by the government of the former Bophuthatswana and other developing nation states, in terms of easy accessibility to farmers of small and marginal holdings in relation to their needs, was and is a ploy to appease political functionaries.

Further, the dominance of large – scale farmers and the elite in the decision – making bodies of the former Bophuthatswana institutions and, similarly in other developing countries, especially cooperatives and the Agricultural Bank, appear to have influenced the officials in the disbursal of credit in favour of large – scale farmers and their allies. Besides, their dominant economic and social status also seemed to have increased the probability of willful default of loans from these institutions. The appeal is that justice must prevail and, therefore, policies have to direct resources to small – scale farmers for equity reasons, in order to reduce the influence of large – scale farmers and the elite in credit institutions. In addition, effective measures ought to be taken to improve the productivity of small farmers through proper supervision and guidance and by ensuring timely provision of adequate amounts of credit and other inputs.

CONCLUSION

The paper opens up an important issue in terms of policy reform in respect to rural lending that is urgently required by the South African government and other developing nations. The question of RRB's must be researched comprehensively in order to learn from good agricultural practice in other countries that are using the RRB's as a development vehicle. In this regard alternative policy approaches to the problem of rural lending, growth, poverty, and inequality in so – called developing nations must be explored more thoroughly by the South African government and its agricultural institutions. The need is not for one or two isolated policies but for a 'package' of complimentary and supportive policies. Developing countries that aim to reduce poverty and excessive inequalities in their distribution of income need to know how best to achieve their aim. In other words what kinds of economic and other policies might be adopted to reduce poverty and inequality while maintaining or even accelerating economic growth? It is hoped that policy makers would formulate agricultural policies that could meaningfully address growth, poverty, inequality and uneven development.

To the extent that these attributes are achieved, they should lead to better quality of lending to the historically disadvantaged rural populations and other sectors of agriculture in the provinces of South Africa, solely in terms of higher productivity, income and above all, the efficient recycling of credit and lending procedures. There is no doubt the approach of Service Area, if utilized by new modalities of Agricultural Banks in South Africa and the African continent, will take root and is bound to improve the quality and necessity of rural lending. Rural lending and agricultural development institutions is therefore, a must for South Africa and its nine provinces and must be engineered in a parastatals mode and commercial ethos, in order to avoid the stifling bureaucracy of governments. There must be more control, accountability and sustained governmental and political support, in order to promote the general welfare of all the peoples of South Africa and the so – called developing world.

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NOTE: The bibliography is limited because the first part of the paper was produced in 1994 without a bibliography and the thrust therefore emanates from thoughts crystallized by the authors and the use of Chona's work. The second part of the paper synthesizes the views of an array of researchers and, this is reflected in the paper and the bibliography.

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