

The Catalytic Role of Finance in Agricultural Transformation

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South Africa's agricultural sector cannot be transformed through conventional lending alone. The Agriculture and Agro-processing Master Plan (AAMP) presents a compelling vision for the sector, but the financing process required to achieve this vision remains unclear and underdeveloped, needing innovative ideas. The session facilitated by Sino and joined by four panellist from different institutional finance perspectives, reflected on the gaps within agricultural finance and the importance of establishing structured collaborations between the public and private sector, with blended finance as a gateway to ensure that emerging farmers are part of the conversations around transformation. Gili Dhlamini (BASA) started the session by emphasising BASA's commitment to improving agricultural finance and enabling banks to act as catalysts for growth.

Dr PG Strauss of VKB, highlighted the importance of de-risking investments and building value chains that make lending commercially viable, arguing that finance must follow an existing and demonstrated demand, and agribusinesses bear the primary responsibility for identifying market opportunities and constructing the infrastructure that gives lenders confidence. Failure to finance and create value chains, they may has implications for food security.

Daneel Rossouw of Nedbank's response reflected on the structural constraints commercial banks face; noting that banks' first obligation is to shareholders, which means risk management governs various lending decisions. At present transformation finance sits outside the risk profile that commercial lending models are designed to absorb. Therefore, emphasising that partnerships with government and development finance institutions are not optional they are the basis by which commercial banks can meaningfully participate.

Leona Archery of AGDA argued that government is best placed to absorb first-loss risk, which is the essential pre-condition for unlocking private sector participation. The blended finance programme is the clearest expression of this logic, but it requires significant expansion and a substantial reduction in its administrative barriers. A challenging question she posed to the room was; "how do you create a pipeline of bankable farmers?" The answer requires active cultivation, coordinated investment in farmer preparation, and institutional structures that are designed to support applicants through the process and not merely evaluate them at the end of it.

Sakhumzi May of the Land Bank noted that the institution has served as the 'unofficial test subject' for blended finance in South Africa. The scheme's R2 billion pipeline converts at only 28-35% not because projects lack merit, rather due to lack of effective administrative and legal groundwork that wasn't laid prior to starting the projects. Bankability and paperwork remain barriers.

Barriers preventing scale-up:

- First, bureaucratic complexity: blended finance application systems are too lengthy and complicated, and the absence of a structured pipeline means potential applicants either never engage or fail at documentation stages that could have been addressed with modest upfront support.
- Second, paperwork and missing documentation: water licence gaps and absent land rights records account for the majority of project failures at the assessment stage. This is a fixable problem, but fixing it requires investment in preparation before applications are submitted.
- Third, and most critical is the absence of demand and value-chain structure. Finance cannot create a market. Without a value chain connecting production to a credible buyer, no amount of financing will produce a sustainable enterprise and the responsibility for creating that demand structure falls on agribusinesses, not on lenders.
- Fourth, commercial banks are structurally conservative, they are not built to absorb transformation risk, and without risk-sharing mechanisms, expecting them to do so may lead to predictable failure.
- Fifth is the pre-planning funding gap: feasibility studies, environmental assessments, water licensing, and business plan preparation all require time and money before a project can approach a lender. For most emerging farmers, this phase is entirely unfunded and results in incorrect information or incomplete processes.

Opportunities and recommendations:

The panellist highlighted opportunities that could improve if not transform finance in the sector. These included;

- Vertical integration to improve margins and productivity through strengthened value-chain demand creation to ensure sustainability.
- Partnerships across banks, agribusinesses, retailers, and government.
- Expanding blended finance with streamlined processes and broader participation programmes, with reduced administrative backlog.
- Government to lead in de-risking high-risk and rural infrastructure projects.
- Investing in farmer training and pre-planning phases to improve bankability, while ensuring that processes are in place to support farmers throughout the entire process.

The session's central message was that financing agricultural transformation requires moving beyond conventional lending toward a collaborative ecosystem approach. Success will depend on value-chain development, blended finance, ESG capital, public-private partnerships, and institutions willing to take catalytic roles in de-risking and enabling investment. Commercial banks remain important, but transformational growth will require coordinated action from DFIs, government, development banks, and private-sector partners.