

**CAPACITY BUILDING STRATEGIES FOR SUSTAINABLE FARMING SMMEs IN SOUTH
AFRICA**

By

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DEDICATION

I would like to dedicate this work to my family and friends, who have helped me both morally and physically to achieve this important task. A special thank to my wife (Theresia Nochebele Mmbengwa), my sons and daughters for their patience and encouragement. My mother (Sarah Mmbengwa), my sister (Sheila) and my brother (Remember Mmbengwa) deserve a lot of thanks for support.

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ABSTRACT

South Africa's land reform programme is faced with many challenges associated with its sustainability. It is widely believed that one of the major causes of the collapse/failure of farming SMMEs is lack of capacity in many aspects of running farming as a business. Critical success factors for these SMMEs are capacity, market accessibility, business management skills, effective extension services, adequate support programmes as well as adequate financial injection. Therefore, any entrepreneur in this business must have skills in both marketing and management, coupled with adequate support systems.

To address the above-mentioned problems, a comprehensive study of farming small, micro, medium enterprises (SMMEs), pre- and post-settlement support, the involvement of youth and women, accessibility of markets, linkages, small, micro, medium enterprises (SMMEs) institutional structures and other support services, was carried out.

An intensive desktop study which included amongst others reports from government, consulting agencies, development and training institutions was used. Workshops with experts, farming stakeholders, agricultural economics departments from universities, government officials and farming small, micro, medium enterprises (SMMEs) were conducted. Participatory action research methodologies were employed during workshop sessions.

Empirical evidences were drawn from eighteen case studies and surveys conducted by both Land Bank and National Department of Agriculture. Various tools of analysis were used to analyse different data sets used in this study. For instance, case studies used narrative coupled with strength, success, weakness, failure, opportunities and threats (SSWFOT) and ridge regression (RR). The data set from the Land Bank survey was analysed using GENMOD, MEAN, frequency (FREQ) and multiple logistic regression models. The data set from National Department of agriculture was analysed using frequency (FREQ) and multiple regression analysis.

Case studies revealed that micro and small scale farming enterprise severely lack important key success indicators such as sustainable markets, input supply; increased income, sustainable production, skills development and professional business operation. On the contrary, it was found that medium sized enterprises have adequate levels of important key success factors that are lacking in micro and small scale farming enterprise, but also shows a need to improve on sustainable markets and input supply. These cases also revealed that financial capacity depends on marketing capacity. Consequently unit increases in marketing capacity have a corresponding increase in financial returns.

The Land Bank survey revealed that perceptions of emerging farmers portray a lack of capacity and exposure. It also showed that skills, financial support, and infrastructure are important requisites for sustainable farming small, micro, medium enterprises (SMMEs). Extension support and sustainable production were found to be crucial for farming success in the emerging farming sector. It was also found that lack of understanding of the importance of formal markets; benefit of training and extension support may be the main contributors to the unsustainable nature of the emerging farming sector in South Africa. Therefore, this sector requires access to formal markets, extension support services and training in order to be profitable.

The National Department of Agriculture data set revealed that there are many more micro enterprises compared to their small and medium counterparts. In addition, women are most beneficiaries for agrarian development; their involvement surpasses that of men, youths and disabled people.

The results also indicate the training received to be insufficient, with much of the training being inappropriate for farming. There is a need to devise strategies to convert micro enterprises into small and medium enterprises with since a high conversion rate to small and medium levels can help to reduce poverty, unemployment and above all increase women's empowerment and thereby improving the socio-economic impact of these farming enterprises.

The results have good implications for the present and future owners of small, micro, medium farming enterprises. The study has formulated comprehensive and sustainable strategies as a guideline for agribusiness entrepreneurs, with the overall objective of eradicating poverty in rural areas and commonages through increased agricultural production.

Keywords: SMMEs, capacity, sustainability, unsustainability, markets, strategy, land reform, skills.

KAPASITEIT BOUSTRATEGIEE VIR VOLHOUBARE BOERDERS SMMEs IN SUID-AFRIKA

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SAMEVATTING

Die Suid-Afrikaanse grondhervormingsprogram het te kampe met vele uitdagings t.o.v. volhoubaarheid. Daar word wyd aanvaar dat een belangrike oorsaak van die ineenstorting/mislukking van boerdery klein-, mikro - en medium ondernemings (SMMEs) bestaan uit die gebrek aan kapasiteit in vele aspekte van die bedryf van boerdery as 'n besigheid . Kapasiteit, marktoegang, sakebestuursvaardighede, effektiewe voorligtingsdienste, voldoende ondersteuningsprogramme sowel as finansiële inspuiting tel as kritieke suksesfaktore vir hierdie SMMEs. Aldus moet enige entrepreneur in hierdie besigheid beskik oor vaardighede beide in bemarking en bestuur, gepaard met voldoende ondersteuningssysteme.

Ten einde bogenoemde probleme aan te spreek is 'n omvattende studie uitgevoer van boerdery SMMEs, voor-en na-vestiging ondersteuning, die betrokkenheid van jong mense en vrouens, toeganklikheid van markte, skakelings, die institusionele strukture van SMMEs en ander ondersteuningsdienste.

'n Intensiewe lessenaarstudie wat onder andere verslae uit regerings instansies, konsultasie-agentskappe, ontwikkelings - en opleidingsinstansies ingesluit het, is gebruik. Werkswinkels met deskundiges, boerdery-belanghebbendes, landbou-ekonomie departemente van universiteite,

regeringsamptenare en boerdery SMMEs is uitgevoer. Deelnemende aksie navorsingsmetodieke is gebruik tydens werkswinkel sessies.

Empiriese getuienisse is gehaal uit agtien gevallestudies en opnames uitgevoer beide deur die Landbank en Nasionale Departement van Landbou. Verskillende analitiese metodes is gebruik om verskillende datastelle wat vir die studie gebruik is, te ontleed. Die gevallestudies het byvoorbeeld narratiewes gekoppeld met SSWFOT en randregressie benut. Die data stel van die Landbank is ontleed met gebruik van GENMOD, MEAN, FREQ en veelvuldige logistiese regressiemodelle. Die datastel van die Nasionale Departement van Landbou is ontleed met behulp van FREQ en veelvuldige regressie analise.

Gevallestudies het getoon dat mikro- en kleinskaalse ondernemings ernstige tekorte openbaar in sleutel suksesfaktore soos volhoubare markte, beskikbaarheid van insette, verhoogde inkomste, volhoubare produksie, vaardigheidsontwikkeling en professioneel - kundige sake -optrede. In teenstelling hiermee is bevind dat medium -grootte ondernemings beskik oor voldoende peile van belangrike sleutelfaktore wat by die mikro- en kleinskaalse ondernemings skort, maar die medium-grootte ondernemings toon ook 'n nodigheid om te verbeter in terme van volhoubare markte en insetbesikbaarheid. Hierdie gevalle het verder aangetoon dat finansiële kapasiteit van bemarkingskapasiteit afhang. Aldus gaan eenheids verhogings in bemarkingskapasiteit gepaard met ooreenkomstige verhogings in finansiële opbrengs.

Die Landbank-opname het getoon dat die persepsies van opkomende boere 'n gebrek aan kapasiteit en blootstelling openbaar. Dit het ook getoon dat vaardighede, finansiële ondersteuning en infrastruktuur belangrike vereistes is vir volhoubare boerdery SMMEs.

Dis bevind dat voorligtingsondersteuning en volhoubare produksie krities belangrik is vir boerderysukses in die opkomende boerderysektor. Dis ook bevind dat 'n gebrek aan besef van die belangrikheid van formele markte, voordele van opleiding en voorligtingsondersteuning die grootste oorsake mag wees van die onvolhoubare aard van die opkomende landbousektor in Suid-

Afrika. Aldus benodig hierdie sector toegang tot formele markte, voorligtingsdienste en opleiding om winsgewend te kan wees.

Die datastel van die Nasionale Departement van Landbou het aangetoon dat daar baie meer mikro-ondernemings as klein en medium-ondernemings is. Verder is die meeste bevoorreedes vir agrariese ontwikkeling vrouens ; hul betrokkenheid oortref die van mans, jong mense engestremdes . Die resultate wys ook dat die opleiding ontvang onvoldoende is, met heelwat opleiding onvanpas vir boerdery. Daar bestaan 'n behoefte om strategiee daar te stel om mikro-ondernemings om te skep in klein - en medium-grootte ondernemings aangesien 'n hoe peil van omskakeling na klein- en medium-grootte ondernemings kan bydra tot die verlaging van armoede, werkloosheid en veral die verhoging van vroue se bemagtiging, en sodoende kan die sosio-ekonomiese impak van hierdie boerdery-ondernemings verbeter word.

Die resultate het goeie gevolge vir huidige en toekomstige eienaars van klein, mikro en medium (SMME) landboubedrywe. Die studie het uitvoerige en volhoubare strategie gefindeer wat kan dien riglyn vir landboukundige entrepreneurs. Die hoofdoelwit hiervan is die uitwissins van armoede in plattelandse gebiede en gemeenslaaplike gronde deur middle van verhoogde landbouproduksie.

Sleutelwoorde: SMMEs, kapasiteit, volhoubaarheid, onvolhoubaarheid, market, strategie, grondhervorming, vaardighede .

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LIST OF ACRONYMS

ACB	Agricultural Credit Board
ADB	African Development Bank
AET	Agricultural Education and Training
AGRISA	Agri South Africa
AUC	United agricultural co-operative
ASCCI	Association of Chambers of Commerce Industry
CAADP	Comprehensive African Agricultural Development Programme
CASP	Comprehensive Agricultural Support Program
CC	Close Corporation
CPAs	Communal Property Associations
CPF-SP	Community Project Fund-for Support Program
DBSA	Development Bank of Southern Africa
NDA	National Department of Agriculture
DLA	Department of Land Affairs
FAAP	Framework for African Agricultural Productivity
FAO	Food and Agricultural Organisation
GDP	Gross Domestic Product
GTZ	German Technical Cooperation
GEAR	Growth Employment and Redistribution Policy
IDRC	International Development Research Centre
ILC	Indigenous Land Fund
IRD	Integrated Rural Development
KZN	KwaZulu Natal
LRAD	Land Redistribution for Agricultural Development
MAFISA	Micro Agricultural Financial Institute of South Africa
NAMC	National Agricultural Marketing Council
NEPAD	New Partnership for African Development
PAR	Participatory Action Research
PBCs	Prescribed bodies corporate

PRD	Participatory Rural Development
QOL	Quality of Life Survey
RDP	Reconstruction and Development Programme
SADC	Southern African Development Communities
SARS	South African Revenue Service
SDC	Sustainable Development Consortium
SLAG	Land Acquisition Grant
SIS	Settlement Implementation Support Strategy
SMME	Small micro medium Enterprise
UNDP	United Nations Development Programs
UNESCO	United Nations Educational, Scientific and Cultural Organization
UN-HABITAT	United Nations Human Settlements Programme
UNICEF	United Nations Children's Fund

CHAPTER ONE

INTRODUCTION

1.1 GENERAL BACKGROUND

It is the goal of the South African government to see agriculture playing a pivotal role in socio-economic emancipation of the rural people and those living in commonages. The need to increase black entrepreneurs by 5% per year was echoed by the former State President Mr Thabo Mbeki in his 2008 State of the Nation Address. This was coupled with his reaffirmation of the Government's commitment to provide agricultural support services (State of the Nation Address, 2008).

The call from the former State President does not only demonstrate the importance of the agricultural sector in the South African economy, but it is also an indication of a broad South African commitment to renewal and non racialism. The African heads of states have made similar calls that were translated into a programme called "Comprehensive African Agricultural Development Programme (CAADP)" in 2002 (NEPAD, 2002, World Bank, 2007). The objective of this programme is to increase agricultural output by 6% per annum within 20 years from 2002 (NEPAD, 2002). To achieve CAADP objectives, the New Partnership for African Development (NEPAD) has designed a Framework for African Agricultural Productivity (FAAP/ NEPAD, 2006).

All these efforts were meant to position agriculture strategically as a development and growth tool on the African continent. This emanates from the realisation of the fact that most African countries have abundant natural resources and yet they have extensive poverty, particularly in rural areas.

In South Africa, the extent of poverty found in rural and urban areas is 70.9% and 28.5% respectively (Makhura and Wasike, 2003). These researchers pointed out that high population density is found in peri-urban areas (50.4%) as opposed to urban areas (49.6%).

Although percentages of those in urban areas are dominated by rural immigrants who come to urban areas to seek employment, it is important to note that they add to the percentage of urban poor.

Given the socio-economic profile of the South African population and the acknowledgement of the importance of agrarian development in other developing countries, South Africa started its land reform after the attainment of democratic rule in 1994. Agrarian reform in South Africa was based on the fact that very few black producers were actively involved in commercial farming. Bienabe and Vermeulen (2006) revealed that only 60 000 commercial farmers owned 87% of the total agricultural land and the remaining 13% of agricultural land was utilised or owned by subsistence farmers (NDA, 2001).

Attempts to correct this disparity through agrarian reform have lead to several challenges. Amongst other factors, the emphasis on redistribution of land without balancing it with capacity- building programmes has proven to be unsustainable and costly. About 50% of the land provided has not been producing significant marketable products (CDS, 2007; Kirsten et al, 2005).

Bienabe and Vermeulen (2006) and CDS (2007) have called for skills development strategies in the small-scale agricultural sector in South Africa. This call has been confirmed by several experts in different sections of the South African communities (CDS, 2007).

In fact, most of the beneficiaries of the agrarian development movement are becoming poorer than they were before they got involved in the land reform projects (Gundidza, 2008). May and Roberts (2000), who are quoted in the second Quality of Life Survey (QOL) of 1998, indicate that 78% of the

beneficiaries are within the category of those whose monthly expenditure is below R476, and 47% are classified as ultra poor citizens.

The above evidence suggests that the land reform objectives are far from achieving their intended purpose. Challenges generated by the land reform process need urgent intervention. Current literature shows that some of the indicators of the root causes of the problems are lack of skills, mentorship, access to markets, capital, training and effective extension services (Groenewald, 2003; Ortmann, 2005; CDS 2007; Ortmann and King, 2007; and Machethe, 1990).

During the conception of the land reform programme, farmers were grouped together on farms as collectives (Gray, Lyne and Ferrer, 2003). It was assumed that farmers would harness resources and buy farms or farming implements at market prices (Knight et al, 2003). In terms of the National Small Business Act (102 of 1996), most of these land and agrarian reform projects qualify as Small, Micro and Medium enterprises (SMMEs) by virtue of their financial and human resources turnover. Hence, in this study, they are referred to as SMMEs.

The purpose of this study is to formulate one or more comprehensive and sustainable strategies as a guideline for agribusiness SMMEs, with the overall objective of eradicating poverty in rural areas and commonages through increased agricultural production.

1.2 BACKGROUND

The South African government has made a commitment to eradicate poverty through land reform programme as the major contributing factor (Groenewald, 2008). The aforesaid programme's commitments to this objective were expressed by the formation of grants/products such as Land Redistribution for Agricultural Development (LRAD), Comprehensive Agricultural Support Program (CASP) and Community Project Fund for Support Program (CPF-SP).

These programmes are aimed at availing capital resources to the poor, vulnerable, previously disadvantaged and unemployed individuals in order to ensure that they have an opportunity to start their agricultural businesses.

Government departments such as Land Affairs and Agriculture were mandated to manage and procure the rolling up of such programmes (Gundidza, 2008). Farmer settlements and land reform units were formed specifically to deal with such programmes. The communities were advised to make applications as groups and individuals for such grants. These grants supposed to be allocated to individual groups with agricultural experiences, expertise and on the basis of willing buyer and willing seller principle. In addition, the commitment of the individual to contribute sweat equity and agricultural equipments were encouraged.

The application and approval of such grants depend on feasibility reports done by planners from the respective provincial land affairs departments (Groenewald, 2008). The approval of a feasibility report leads to the drafting of the business plan. The approved business plan, together with the feasibility report forms the basis for the success of the application. After the approval, the beneficiaries are informed of the decision by the Department of Land Affairs. Then the Department of Agriculture releases the finding and register the property as a legal entity.

The land gets transferred and the Minister is invited to an occasion where he/she hands the deed of transfer over to the beneficiaries. This process leads to the formation of agricultural Small Micro Medium enterprise (SMME'S) as described by the small business Act (No. 102 of 1996).

The departments involved during business planning encourage these SMME'S's to function as a formal business with a constitution, code of conduct, marketing, business and operational plan. The beneficiaries are mentored to understand the importance and implementation of these plans.

Due to the fact that the majority of applicants of such grants are sometimes old, illiterate and unemployed, these plans are too complicated and sophisticated for them to comprehend. It is often observed that such plans are shelved and or underutilised during business operations.

Consequently, many such businesses collapse and do not ultimately address the intended objectives of poverty eradication, reduction of unemployment and promotion of economic growth.

Contrary to the intended objectives, these SMME's fade away on a daily basis. This phenomenon is observed across many provinces in South Africa. Finding a solution to this problem is urgently necessary. The overall objective of this research is to find an efficient and systematic way of supporting these SMMEs, with the aim of producing models which will predetermine capacity requirements to sustain these businesses. The limitation of the study is that the environmental conditions are not the same for SMMEs through-out a whole province and across provinces.

Extrapolation will be done in order to predict the resource capacity for the SMMEs. Budgetary allocations differ among provinces and this influences the government structures and capacity.

1.3 MOTIVATION

The need for capacity building in the agricultural sector has been raised by many researchers (World Bank, 2007; CDS, 2007; Bienable and Vermeulen, 2006; Murray, 1997). The World Bank (2007) has made similar calls for the African states to invest in human capital in their developmental programmes.

The subsequent response by African heads of states in 2002 was a pledge to contribute 10% of their national budgets to agriculture within five years. This emphasises the commitment of the political leaders to bring about agricultural growth and development.

South Africa's commitment to agricultural development has been reiterated through a land reform budgetary increase announced by the Finance Minister in 2008 (Manuel, 2008). This is despite the fact that 50% of land reform projects are in the process of collapse due to a lack of, appropriate skills, understanding of agricultural concepts, inappropriate or inadequate business planning, adequate farming implements, road infrastructures, telecommunications, transport and appropriate education in black owned co-operatives (CDS, 2007; Kirsten et al, 2005; Ortmann and King, 2007; Machethe, 1990; Groenewald, 2003). Grouping of individual farmers, with diverse farming goals or backgrounds and orientation has also added to the above challenges (CDS, 2007).

The problems experienced by many agricultural small, micro, medium enterprises (SMME's) in South Africa have also been cited in other African countries (DBSA, 1999). These are lack of technical know how, capacity, effective organisation, whilst Pender (2000:1) highlighted the problem of low agricultural productivity due to limited access to appropriate technology.

Neshamba (2006) highlighted the positive correlation between access to markets and growth. Bryan (2006) concluded that small firms collapse due to a lack of available markets. This is despite the fact that SMME's are regarded as the generators of employment (Nesamba, 2006). SMME's with sustainable growth are the ones that generate employment (Storey et al, 1987; Westhead, 1988; Turok, 1999).

The question is, can we regard agricultural SMME's in South Africa as employment generators? It is clear that for these SMME's to have a meaningful contribution to the socio-economic situation in this country, there is a need for intensive and robust study on the capacity building strategies for sustainable agricultural SMME's in South Africa.

The World Bank (2007) complements this sentiment by providing examples of successful countries such as Brazil, India and Malaysia, that used capacity building strategies in Agricultural Education and Training (AET) as an integral part of their development strategies. Based upon these views, South Africa, by adopting these strategies, would benefit from this study. Other benefits would include the contribution of agriculture to the eradication of poverty through both good agricultural practices and employment in agro-processing enterprises (Christiansen et al, 2006).

1.4 PROBLEM STATEMENT

This study's critical importance is based on the status and the program of land reform and its subsidiary programmes that were designed to benefit the poor and vulnerable population in South Africa (Ministry for Agricultural and Land Affairs RSA, 2005). In South Africa, like any other developing country, agriculture still constitutes the primary source of income, status and security for millions of people (Prosterman and Hanstad, 2003) and (Ravallion and Chen, 2003).

The imbalances in the allocation of land, through separate development policies were recognized as constraints to South African agricultural productivity (Groenewald, 2004). Hence, the redress process through Land Reform. This process started in 1994.

The program anticipated benefits which include, ensuring broader participation of the South African population in agricultural production (in particular by historically disadvantaged individuals (HDI)), poverty alleviation, reduced social unrest and instability, reduced migration and better environmental stewardship and creation of wealth (Prosterman and Hanstad, 2003).

Under the Land Reform programme in South Africa, various sub-programs were developed to safeguard and promote the aforesaid benefits. Such products were the Settlement and Land Acquisition Grant (SLAG), Land Redistribution for Agricultural Development (LRAD), Community Project Fund-for Support Programs (CPF-SP), etc. These products were designed after drawing lessons from successful Land Reform programs in countries such as China and Peru (Ministry for Agricultural and Land Affairs RSA, 2005).

The LRAD grant was implemented by encouraging communities to form Communal Property Associations (CPA's), trusts and close corporations. These communities were given liberty to organize themselves to form such legal entities; hence the study refers to them as SMME's.

These type of SMME's were formed after drawing lessons from countries such as Finland, Poland, Yugoslavia, Mexico, Bolivia, Japan, Taiwan and South Korea, where Land Reform was well managed and produced successful individual family farms (Prosterman and Hanstad, 2000). The slight difference in the South African Land Reform approach is that this reform program emphasized grouping community members together to form entities.

This was despite the Lesson that can be learnt from countries such as Vietnam, Lithuania, Estonia, Latvia, Romaine, Albania, Bulgaria, Hungary, Kynogyzstan, Georgia, and Armenia, who deviated from such an approach and started distributing land to individual ownership or long-term use rights to farmers (Prosterman and Hanstad, 2003:10). This lesson is of utmost importance to South Africa because of the current challenges faced by the land reform program in the country.

It is well established that the majority of Communal Property Associations (CPA's), Close Corporations (CC) and Trusts formed through Land Reform are faced with sustainability problems and most of them are non-existent, whilst others are debt-ridden, with their beneficiaries owing substantial amounts of money to the financial institutions.

These and other problems are not empirically investigated and mitigated through systematic scientific interventions. Very little attention is given to these very important issues but instead more attention is given to the quantity of Land to be delivered in 2014 (Ministry for Agricultural and Land Affairs RSA, 2003:8).

Prosterman and Hanstad, (2005:8) warned that the neglect of Land Reform issues may lead to a potential economic crisis. Groenewald, (2004:674) also echoed the same sentiments. In Southern African Development Communities (SADC), particular reference may be drawn from the current economic and social collapse in Zimbabwe.

This research seeks to study factors that are critical to the success of Land Reform in South Africa by looking at SMME's formed by LRAD and suggest remedial strategies through capacity building programmes.

1.5 THESIS STATEMENT

It is widely believed that one of the major causes of the collapse/failure of farming based SMMEs is lack of capacity in many aspects of running farming as a business. The desktop study reveal that critical success factors for these SMMEs are therefore capacity, market accessibility, business management skills, effective extension services, adequate support programmes as well as adequate financial injections. Any entrepreneur in this business must have skills in both marketing and management coupled with adequate support systems. The entrepreneur must have passion for farming as well as the patience and resilience needed in successful farming.

The aim and the research objectives are listed below.

1.6 AIM AND OBJECTIVES OF THE STUDY

1.6.1 AIM

To create comprehensive, sustainable and appropriate capacity building models and strategies for agri-business based SMME's in order to contribute significantly to the eradication of poverty, reduction of unemployment in rural areas and commonages through creation of sustainable and market-driven agri-businesses.

1.6.2 OBJECTIVES

- To carry out the situational analysis on internal capacity (Skills, infrastructure, markets etc) and external capacity (extension worker support, commodity association support, market, training, Input suppliers linkages etc).
- To identify which key success factors give rise to the poor/successful performance of the enterprise in the same domain.
- To determine the impact/magnitude of the key success factors on business performance.
- To identify the reasons for the success/failure of the enterprise as influenced by identified key success factor.
- Assess levels of youth and women involvement.

1.6.3 SPECIFIC OBJECTIVES

- To determine the capacity of farming SMME's.
- To determine the causes of low productivity of these businesses.
- To determine the factors that affect sustainability of the afore-said businesses.
- To determine the involvement of the private sector in capacitating the businesses.

- To determine the impact of government's development support programs (CASP, LRAD and, CPF-SP).
- To develop models and strategies for successful SMMEs.

1.7 NULL HYPOTHESIS

Mentioned below, are hypothetical statements which were considered during the study:

- Pre- and post settlement support is inadequate
- Extension support capacity is weak and inadequate
- Market access and linkages is inadequate to sustain farming SMMEs
- Poor capacity of entrepreneurs cannot lead to the collapse of the business.
- Low productivity does not negatively impact on the sustainability of agri-business.
- Community based institutions are not supporting these businesses.
- CASP, MAFISA and CPF-SP do not have positive impact on the sustainability of the afore-said businesses.

1.8 CHAPTER OUTLINE

This study is primarily concerned of major causes of collapse/failure of farming SMMEs.

The study starts in Chapter 1 with a background of the agrarian development in South Africa and Africa as whole. The motivation, problem and thesis statements, aims and objectives of the study were outlined in this chapter.

Chapter 2 deals with the review of the literature, it starts by reviewing the historical overview of land reform in South Africa. The models of agrarian reform were also re-examined. The nature of agrarian SMMEs in South Africa was reassessed, this was coupled with their economic contribution and hence, their importance in the economy was presented.

The planning processes of the farming SMMEs was thoroughly analysed. Factors affecting the productivity of the farming SMMEs such as entrepreneurship, absences of the role models, group conflict, non-existence of value chains for farming SMMEs, inadequate pre-and post-settlement support, dependency and as well as farming SMME' s capacity were reviewed. Chapter 3 outlines the research methodologies utilized during the study.

In Chapter 4, the performance and the sustainability of the farming SMMEs was examined using the key success factors. These key success factors were evaluated using Guttman Scale measurements. The intention was to find out which key success factors plays an important role in ensuring efficient and sustainable performance.

The performance and sustainability of Land Bank customers was investigated in Chapter 5. The objectives of this section were to conduct a situational analysis by determining profitability, success, failures and reasons for success and failures, perceptions on the performance and that of their contemporaries and to further recommend areas for further improvements.

Chapter 6 examines the determinants of success and failure of emerging farming SMME clients of the Land Bank. The objective analysis of farm profitability showed that emerging farmers were unable to accurately identify factors that influence their profitability. According to the objective results, it was clear that extension support, sole proprietorship and business plan play a crucial role in ensuring that these SMMEs are profitable.

The socio-economic contribution of the farming SMMEs was investigated in Chapter 7. The objective of this chapter was to determine the capacity of farming SMMEs in contributing to the advancement of the socio-economic status of South Africa by looking at their contribution to the job creation and wealth creation. The summary, capacity building strategies and future policy to enhance farming SMME sustainability were presented in Chapter 8.

CHAPTER TWO

GENERAL LITERATURE REVIEW

2.1 BACKGROUND OF LAND REFORM IN RSA

Land and agrarian reform in South Africa has come as result of an attempt to resolve political, social and economic transformation (Mbeki, 2006; NDA, 2005; Karaan, 2006). This seeks to reconcile the country from the decade of separate development arising from the impact of the 1913 Native Land Act (Molefe, 2008; Kirsten and Van Zyl, 1999; Viljoen, 2006; Sibanda, 2001; Thirtle, Piesse and Gouse, 2005; Mbongwa, Vink and Van Zyl, 2000; Lahiff et al, 2007; Verschoor, 2003).

The dualistic nature of the agricultural sector is partly due to decades of separate development. The dualism in the agricultural sector has led to the large scale commercial sector taking a pivotal economic role (Verschoor, 2003; Molatlhwa, 1976; Chikana and Kirsten, 1998) whilst the subsistence small scale agricultural sector has been relegated to household food security with less or no economic contribution (Bienabe and Vermeulen, 2006). Hence, land reform in South Africa is perceived as fundamental to equitable economic growth, poverty eradication and food security (Karaan, 2006).

Prior to the 1994 elections, the African National Congress (ANC) stated that the Reconstruction and Development Program (RDP) were to redress the injustice in the historical denial of access to land for black people (Sibanda, 2001). This was demonstrated by the enactment of Land Right Act, No 22 of 1994 (Kirsten and Van Zyl, 1999).

Since the ushering in of democratic rule in 1994, land reform has been accorded a high priority as a means of promoting political stability (Mashatola and Darroch, 2003; Lyne and Darroch, 1997; Nieuwoudt and Vink, 1995; Van Zyl, 1994). The commitment by government and its social partners has demonstrated unwavering support for land reform to succeed and have an economic impact through the business entities it has produced (Mbeki, 2008; Zuma, 2007).

Although these commitments are reiterated in many public addresses, the importance of the agricultural sector is not sufficiently highlighted in the Growth Employment and Redistribution Policy (GEAR), although its contribution to South Africa's economic development and Welfare is substantial, namely R35 billion (Netshifhefhe, 2005; Nomvete, Maasdorp and Thomas, 1997).

The progress towards redistributing the land is slow (Karaan, 2006: 248). In addition, many entities that have benefited from the reform programme since 1994 have collapsed or are collapsing (CSD, 2007). This view confirms and complements the assertion that expansion of agrarian reform and rural development are highly complex (CSD, 2007).

Given that land reform is highly complex and necessary, it can give rise to either positive or negative economic scenarios such as in Zimbabwe (Moyo, 2004). Therefore, it is necessary to use more resources in order to achieve optimal results.

There is sufficient evidence supporting the fact that land reform in South Africa has given rise to many small, micro and medium enterprises. However, some of these enterprises are not viable or sustainable (CSD, 2007). Most such enterprises are located in rural and peri-urban areas and are operated by individuals, families and groups. The failure rate of such enterprises has been abnormally high; more than 50% has led to the bankruptcy of the beneficiaries, who are now living below the poverty line (CSD, 2007).

This scenario prevails despite the lessons drawn from agrarian reform elsewhere (Groenewald, 2004; CSD, 2007). According to Lewis (1954), the success of new agricultural development and settlement largely depends on a range of conditions such as the following:

- Choice of the right place
- Choice of the right settlers
- Proper physical preparation of the site
- Settler's capital
- Organization of group activities
- The land area per settler
- Conditions of land tenure

The questions that need to be asked in the current phase of land reform in South Africa are the following (Gundidza, 2008):

- What were the ideal conditions for the first land reform favouring the white Afrikaners, which led to successful sustainable commercial farming in South Africa?
- What sort of support and institutions drove the land reform processes?
- Can we learn from the first land reform programme to craft the second land reform programme led by democratic dispensation?
- What main approach, theory and philosophy were used to ensure sustainability?
- How was the issue of sustainability, capacity and pre- and post-transfer support dealt with?

The critics of land reform bring the following fundamental issues to the fore in current literature (Groenewald, 2008):

- That agrarian and land reform emphasized the empowerment of poor rural black people and excluded the rich and elite black people, despite the recommendation of Tomlinson Commission to establish class based agricultural development (Verschoor, 2003).
- It focuses peripherally on human capital and entrepreneurship (Groenewald, 2008).
- It does not seek to attract youth (Gundidza, 2008).
- It is failing to attract support in order to entrench black entrepreneurs (CSD, 2007).
- Its purpose is to ensure social-political stability (Karaan, 2006) rather than to build vibrant, sustainable, self-reliant business entities.
- Its livelihood improvement role is overemphasized at the expense of its economic role (Mkhabela, 2005). It should play a balancing role overall as well.
- Lack of farming expertise and experience is highly noticeable (Ortmann, 2005) and is cited as the main cause of failures. This is a persistent problem, despite the well-established evidence indicating the low level of experience and capacity of the beneficiaries (Dyke et al, 1992; Nothard, Ortmann and Meyer, 2005; Groenewald, 2004).
- Group farming and internal conflict are cited as challenges (CSD, 2007).
- Low agricultural productivity is another crucial factor in the failure of some SMMEs (Place, 2000).

All these issues are inherent in our land reform programme, despite our knowledge of how white farmers successful built commercial farms (Pauw, 2007). Today, many of our commercial farmers enjoy high incomes and compete successfully on the global markets. At the same time, many farming SMMEs find it extremely difficult to penetrate the global market or find niche markets locally, nationally and regionally.

2.2 HISTORICAL REVIEW OF LAND REFORM

In the least developed nations, agricultural development is considered a tool that unlocks the economic potential of these nations. Various researchers complement these notions by providing theories that indicate the role of agriculture as a pre-condition for broader development (Lewis, 1954; Rostow, 1960; Vink and DeHaese, 2002; and Verschoor, 2003). It is clearly articulated in the growth stage theories and structural change models that agricultural development forms the basis for any development (Verschoor, 2003).

This and other arguments have caused the 1994 South African Government to introduce a whole range of packages and products aimed at bringing the emerging farmers into the main stream economy to complement and consolidate the commercial agricultural sector, although evidence indicates that various policies have destroyed small-scale farming in South Africa (Verschoor, 2002; Brundy, 1979; Van Onselen, 1996; Van Zyl and Kirsten, 1998). It is important to examine agricultural development approaches and developments that precede 1955.

The 1913 Native Land Act and subsequent laws have severely inhibited the development of a viable small-scale farming sector (Molafihwa, 1976; Chikana and Kirsten, 1998; Verschoor, 2003). The summary of the Tomlinson Commission report was published in 1955.

The report's recommendations represented the first development strategy for small-scale farming in South Africa (Verschoor, 2003). It suggested a comprehensive integrated farmer support system to be implemented to allow small-scale farmers access to increased farm land, markets, financial support and quality extension support (Verschoor, 2003).

Between 1911 and 1955, viable small-scale farming was dramatically inhibited with the segregation legislation of 1910, 1911, 1913 and 1932; which effectively eliminated small-scale competition from the market (Verschoor, 2003; Bembridge, 1987). During these four years (1910, 1911, 1913 and 1932) period, extensive government support for white farmers was facilitated and implemented for more than 60 years. This had the effect of increasing their national output but at the cost of a decreased food security of the black population in South Africa (Verschoor, 2003).

The pre- 1994 government policies gave rise to the current challenges that is faced by current government, which necessitate the land redistribution and promotion of small-scale farming in previously disadvantaged communities. Today, small scale farming enterprises are constrained by the quality, quantity and accessibility of key inputs (Lipton et al, 1996). The farmers still lack support and opportunities to compete in agricultural markets (Van Rooyen, 1993; Perrel et al, 2001).

The period 1960 to 1970, marked South African agricultural development that mimicked international experience, which focussed on technical innovation to improve agricultural practices (Verschoor, 2003). The homeland-based development agencies, cooperatives or agricultural parastatal companies were established during this period (Verschoor, 2003). The policy in the early 1970's was based on the principle of community development extension which recognised local organisations (Bembridge, 1987).

In this period, the centrally managed capital-intensive project approach, also called disciplined farmer settlement or betterment planning, became the mainstay of agricultural development in South Africa, continuing until the late 1980's (Verschoor, 2003).

During the mid 80's and early 1990's the international focus was on macro-policy, structural adjustment, food security and employment generation (Verschoor, 2003).

The failure of development approaches implemented in the 1960's and 1970's has encouraged support for more participatory approaches (Roling, 1988; Chambers, 1993), which were adopted and encouraged by the Development Bank of Southern Africa (DBSA) in 1987 (Verschoor, 2003). The participatory approach gave rise to the Farmer Support Programme (FSP). This programme contributed to the confidence amongst the participating farmers (Van Rooyen et al, 1987; Singini and Van Rooyen, 1995; Singini et al, 1992; Adendoff, 1996).

From 1990, Participatory Rural Development (PRD) became the focus in South Africa (Carruthers and Kydd, 1997; Auerbach, 1998). Integrated Rural Development (IRD) re-appeared in order to address situations where capital, skills and employment opportunities created outside agriculture were inadequate (Verschoor, 2003). This (IRD) approach aimed at improving co-ordination, linkages and vertical integration (Mazambani, 2001).

The approach's recognition of inter-dependence of rural activity and the need for a holistic approach and associated complexity often rendered it impractical on the ground (D'Haese, 1995). However, elements of the approach were deemed useful in a rural development strategy (Verschoor, 2003).

During the early 1990's, a project-type approach and investments were made through ministries, parastatals and development agencies (Verschoor, 2003). Agricultural growth was evident during this stage.

It is this success story that caused the South African Agricultural Department to adopt this project approach as its framework for resuscitating small-scale farmers. Although the historical evidence of the early 1990's pointed to success with this approach, subsequent insights and current evidence gathered indicate a dramatic failure of the approach in South Africa (Verschoor, 2003; Carrunthers and Kydd, 1997; CSD, 2007).

The Strauss Commission of 1996 investigated issues pertaining to rural finances and proposed the continuation of an Agricultural Credit Board (ACB), which had for long provided substantial support to white farmers (CSD, 2007). The ACB represented a major direct intervention by the state in the provision of subsidized agricultural finance to commercial farmers, especially those in financial crisis. It could provide a long-term safety net to the emerging farmers.

Its termination in 1996 meant that emerging farmers did not have access to the same credit facilities that many of their commercial counterparts had had. This exposed this small-scale farming sector to a number of risks (CSD, 2007). Given this observation, the current government has come up with another financial product called the Micro Agricultural Financial Institute of South Africa, (MAFISA), which plays a similar role to ACB. MAFISA's aim is to improve access to credit for smallholder farmers (CSD, 2007). Apart from MAFISA, the government initiated the product called Agricultural Black Economic Empowerment (AGRIBEE), this product aims at empowering black middle class and elite who would like to venture into commercial farming enterprises.

Until 1998, the marketing of most agricultural products in South Africa was regulated by statutory law, largely under 22 marketing schemes introduced by the 1937 Marketing Act (CSD, 2007). This act was rescinded and replaced by the Agricultural Products Marketing Act 47 of 1996, which deregulated agricultural marketing and opened it to global market influences (CSD, 2007).

The National Agricultural Marketing Council (NAMC) was tasked to dismantle existing structures, as well as to manage and monitor state intervention. Thus, both commercial and small-scale agriculture in South Africa had to manage their markets themselves. The small-scale farmers were severely affected by this intervention; this development impacted negatively on their survival rate (DBSA, 2005).

In 2001, the government introduced Land Redistribution for Agricultural Development, (LRAD). During 2002 the Department of Land Affairs (DLA) undertook a review of the LRAD programme. The review, highlighting the delivery of the land to previously disadvantaged communities, was released in 2003. It reported the delivery of land reform as characterised by different approaches both within the DLA and in relation to the roles of other departments and institutions in land reform (CSD, 2007).

In 2005, the Land Summit proposed the establishment of a Ministry of Rural Development that should have all elements needed to unlock economically viable activities in rural areas. In 2008, the National Department of Agriculture (NDA) and Land Affairs (DLA) launched a Settlement Implementation Support Strategy (SIS Strategy) that advocates the re-organisation of support delivery systems for emerging farmers into area-based models (CSD, 2007; Xingwama, 2008).

After 2009 general election, the National Department of Agriculture was changed to National Department of Agriculture and Fisheries. These changes maintain the historical role of the department and only add fisheries which were the role of Water and Environmental Affairs Departments to the function of Ministry of Agriculture.

2.3 MODELS OF AGRARIAN REFORM

South Africa, like any other country in Sub-Saharan Africa, faces serious challenges to ensure that agrarian reform is successful and peaceful. The experience of neighbouring countries such as Zimbabwe, has taught a lot of painful lessons (Groenewald, 2004).

Although South Africa has had more than 10 years since commencing land reform, the programme is clearly facing numerous challenges. These challenges need very serious attention in order to find the right and appropriate solutions. It is important to learn from other countries that have had successful land reforms. Different models of land reform will be discussed briefly with the objective of finding the most appropriate ones:

2.3.1 Collective farming

This farming system has been influenced by the study of Marx and Lenin's theories on agriculture (Fenyés and Groenewald, 1976; Diouf, 1989). This type of farming is usually preceded by individual farming. The transition from individual farm enterprises to large-scale collective enterprises in the Soviet Union demonstrated the application of Lenin's theory (Fenyés and Groenewald, 1976).

Although collective farming has been practised with certain degree of success in the Soviet Union, Lenin warned that this type of model was not an easy process and that it could not succeed without State help (Fenyés and Groenewald, 1976). Newly formed collective enterprises could not function profitably in the early stages (Fenyés and Groenewald, 1976). This model has been applied in many countries, such as the former Socialist countries of Europe, Asia, Cuba and independent African states. (Fenyés and Groenewald, 1977; CSD, 2007; Verschoor, 2003).

Bulgaria had the most notable tradition of collective farming (Fenyés and Groenewald, 1976). The success of this model was heavily dependent on inputs such as adequate machinery and transport cooperatives. Czechoslovakia is another example where adequate machinery and support were supplied by cooperatives (Fenyés and Groenewald, 1976).

It was observed that collective farming has been an integral part of the general development policy in Socialist Governments and became more prominent after World War II. Its prominence in countries like Hungary, Poland and Czechoslovakia, was due to the fact that it was forced down on the people as was in the case of post 1917 in Russia (Groenewald, 2008). In the period 1945 to 1948, there was a substantial increase in collective agricultural enterprise (Fenyés and Groenewald, 1976).

The agricultural cooperatives in the collective farming model were established on the pattern of the Israel Kibbutz and Moshav cooperatives, and the Soviet style, namely Kolkhozy and Sovkhoz models (Fenyés and Groenewald, 1976). Categories of these cooperatives are discussed below.

2.3.2 Kibbutz

Kibbutz is a collective farm or settlement owned by its members in modern Israel. Children are raised collectively (<http://www.thefreedictionary.com/Israel>: accessed in April 2008). The first kibbutz to be established in Israel was Degania in 1909. These communal farming settlements were established to avoid the mistakes of earlier immigration. They were established under the motto of “work and believe”. This means that a kibbutz settlement is formed by people that have the same belief and who have decided to work together, that is, Labour Zionism (<http://en.wikipedia.org/wiki/kibbutzim>: assessed on April 2008).

Committees govern kibbutz life. The various parts of community life are dealt with by committees dedicated to that aspect. There are committees on finance, education and care (just to mention a few). They have a special meeting once a year where they confer and elect officers who take care of policies and other aspects of Kibbutzim life.

2.3.2.1 Ideology of the Kibbutz movement

The Kibbutz movement was founded by the generation of Israel from Second Aliya (Aliya is the Hebrew word for immigration to the land) who started Degania (the first Kibbutz). These pioneers were not religious and did not wish to import any type of religious practices. The movement was started through the inspiration of a unique Jewish work ethic, articulated by labour Zionists like Berl Katz Nelson (<http://en.wikipedia.org/wiki/kibbutzim>: Accessed April 2008).

Most Kibbutzim were founded in small, flat, low-lying regions of the country. Their objectives were the following:

- Kibbutzim wanted to create a new type of society where all would be equal and free from exploitation.
- They wanted to be free from working for others and from guilt of exploiting hired labour work.

This was born out of the idea that Jews would bond together, holding their property in common “from each according to his ability, to each according to his needs”. (<http://en.wikipedia.org/wiki/kibbutzim>: accessed in April 2008). Kibbutzniks were not classical as Marxists and Leninists. However, they remain a stronghold of left-wing ideology among the Israeli Jewish population. Although Kibbutzniks practised a form of communism themselves, they did not believe that it could work for everyone. Their political party never called for the abolition of private property; Kibbutzniks saw their Kibbutzim as collective enterprises within a free market system.

2.3.3 Moshav

Moshav is a cooperative Israeli village or settlement comprised of small farms (<http://www.thefreedictionary.com/Israel>: accessed on April 2008). Each family owns their own farmland and their homes, but purchasing and selling are done cooperatively.

There are a number of villages grouped around a central town in a Moshav. Within this central town, there is a secondary school, a concert hall, a theatre, etc. While the Kibbutz and Moshav are both cooperatives, there is a marked difference, especially concerning independence of the people involved. According to Moshav activity review report of 1996, Moshav is committed to its universal goal of poverty reduction.

It seeks to attain this goal through placing its focus on enrichment of human resources and institutional building. The above-mentioned focus enables individuals in Moshav establishment, to participate in the development of their own society through market-oriented agriculture, women in development process, environmental conservation, health care, micro enterprises and community development (Fedler, 1996)

2.3.3.1 Factors that influence success of MOSHAV

The success of Moshav is influenced by various factors. Such factors are mentioned and discussed below:

a) Human capacity and training

Human capacity building remains the main priority of Moshav (Moshav annual report, 2001). Highly extensive training programs targeting a variety of the population including field workers, senior decision makers, educators, principals, local and national education system supervisors, heads of

municipality and regional departments, planners of study programs, senior educational administrators, lecturers and university staff (Moshav annual report, 2001). It specializes in adapting educational systems to meet the demand of developing economies.

Moshav recognises the pivotal role of capacity building in the process of nation-building and state development by aiding the educational systems of developing countries to meet the challenges of technology in the 21st century (Moshav annual report, 2001).

b) International co operations

A key component in recent times is the concept of international development cooperation. This concept finds expression in the Paris Declaration on Aid Effectiveness and the Millennium Declaration 2000 (Moshav, 2007).

The cooperation demand for greater coordination and it is for that reason that the Centre for International Cooperation (Moshav), a department in Israel's Ministry of Foreign Affairs responsible for the design and implementation of Israel's international development program adheres to the goals international partnership. According to Moshav, (2007) the advantages of this partnership are:

- Better integrating Israel into the global effort to realize the Millennium Development Goals (MDG);
- Establishing Israel's standing as a qualitative partner in the efforts toward international development and humanitarian assistance;
- Improving the professional dialogue with the United Nations and its institutions.

These advantages led Moshav international soliciting international agreements with various organisations namely, International Organisation for Migration (IOM), UNESCO, Economic Commission for Europe (UNECE), HABITAT, World health organisation (WHO), World Meteorological

Organisation (WMO), UN institute for Training and Research (UNITAR), UN convention for combating Desertification (UNCCD), UN Environmental Program (UNEP), UN Development Fund for Women (UNIFEM) etc.

c) Moshav seeks cooperative projects with other development

Moshav's project programming seeks to advance the primary goal of capacity building in areas in which Israel has comparative advantages (Moshav, 2007). The main focus is on agricultural demonstration project. According to Moshav, (2007) the aim of Moshav projects are sustainability and replicability with the following objectives:

- Every Moshav project is accompanied by extensive capacity-building and training both in Israel and on the project site.
- Moshav is committed to long-term follow up activities in all its projects, including the posting of long-term expert consultants at project sites.
- Projects technologies are carefully selected to suit the needs and capacities of the local populations. Similarly, methodologies taught are designed to be easily replicable by individuals or collectives.

d) Community development, poverty reduction and gender equality

Moshav sees the three goals of community development, poverty reduction and gender equality as being necessarily linked (Moshav, 2007). Thus, since Moshav's early years, a strong emphasis has been placed on working with women at a grassroots level, promoting their participation in small-scale economic activities through capacity-building, community development and establishment of support structures for small and medium entrepreneurial activities. Moshav has collaborated with numerous international organisations in developing grassroots-oriented, community-driven programming, including capacity building programs in Israel and abroad and establishment of new business incubators and small business development centers (Moshav, 2007). Moshav's action in this field focuses on:

- Improving the economic situation of communities through training for effective community development and the encouragement of collaborative action, networking and cooperative building.
- Building and strengthening civil society through encouraging the participation of women in social action in all areas of society, developing women leaders and providing support for their entrepreneurship.
- Strengthening local NGOs by helping them develop, implement and sustain programming.
- Developing curricula for community leadership training.
- Establishing basic social service centres to provide assistance to local communities.

2.3.4. Kolkhoz

A Kolkhoz was a form of collective farming in the Soviet Union that existed alongside state farms (Sovkhoz). In a Kolkhoz, a member, called a Kolkhoznik, was paid a share of the farm's products and profit according to the number of workdays (<http://en.wikipedia.org/wiki/Kolkhoz>: accessed in April 2008). The Kolkhoz was required to sell their crops to the state at fixed prices, especially the price of grain. These prices were very low.

The Kolkhoznik were allowed to have a small area of private land and some animals. These members were required to do a minimum number of days of work per year on both the Kolkhoz and on other government projects such as road building. Farmers were tied to their Kolkhoz in what is often described as a system of "neo-serfdom" (<http://en.wikipedia.org/wiki/kolkhoz>: accessed in April 2008). Below are examples of Soviet style Kolkhozy:

2.3.4.1 Type I: United agricultural co-operative (AUC)

Members organise themselves into cooperatives and use both private and jointly owned machinery. In this model, each household has its own piece of land (Fenyés and Groenewald, 1976). This is similar to irrigation schemes in South Africa, where black communities farm collectively, but each household owns distinct land units. Remuneration of the members and expenditure were financed by a collective fund (Fenyés and Groenewald, 1976). In South Africa, the finance for farming operations is handled by a person appointed by a traditional council.

2.3.4.2 Type II

There is a partial integration of production, namely, joint crop production on collective land, including joint ploughing. However, livestock production is on an individual basis (Fenyés and Groenewald, 1976). Ploughing is collective, members are organised into working groups according to the needs. Remuneration is by cash and yield is distributed to members on the basis of the work done (Fenyés and Groenewald, 1976).

2.3.4.3 Type III

In this model there is a total integration of work. Both crop and livestock production takes place on a collective basis (Fenyés and Groenewald, 1976). Each family may own a small farm unit whose size is restricted to 0.5 ha of land, one cow, one or two pigs, a certain amount of water and certain buildings (Fenyés and Groenewald, 1976).

The members are remunerated in cash and in kind in proportion to the quality and quantity of the work done. Members who have made land available to the collective enterprise are compensated for it (Fenyés and Groenewald, 1976).

2.3.4.4 Type IV

This productive collective enterprise differs from Type III only in that the members do not receive compensation for common land use (Fenyés and Groenewald, 1976).

2.3.5 Sovkhoz

Sovkhoz is a state-owned farm. Under Stalin's collectivization in the USSR campaign, most farmers were forced into either a Sovkhoz or a Kolkhoz (<http://en.wikipedia.org/wiki/sovkhoz>: accessed in April 2008). A Sovkhoz would be organized by the state with workers who would be paid regulated wages. The system of internal passports prevented movement from rural areas to urban areas. Sovkhoz farms were the ones which were created by the state by confiscating large estates, while Kolkhozes farms were typically created by combining smaller individual farms together.

In summary, these farms were headed by a state-appointed director. Most important of all, capital investment for the Sovkhoz was funded by the state budget. These farms were in a much better financial position than Kolkhoz. They were also better capitalized and funded. There were considerable differences in the output patterns between collective and state farms. State farms were viewed as more productive and more profitable than collective farms (<http://en.wikipedia.org/wiki/sovkhoz>: accessed in April 2008).

2.3.6 Individual farming

This type of farming is mainly practised by the majority of white farmers. Black farmers are more inclined to collective farming (Fenyés and Groenewald, 1977). The funding system of the government encourages collective farming by providing a large grant based on the number of people involved in the farming enterprise.

The importance of individual farming is rated low by the government policy despite its comparative advantages over collective farming, such as minimum internal conflict, bankability and less financial risk involved (Fenyés and Groenewald, 1977). For this model to succeed a certain amount of supervision is desirable.

Other factors that may lead to the success of this model include proper marketing infrastructure, links to input suppliers, financing of production, and services such as mechanical ploughing and advice (Fenyés and Groenewald, 1977). It is advised that for this model to function efficiently and effectively, it is worthwhile considering structuring a system similar to the Israeli Moshav or Shitufi.

2.4 NATURE OF AGRARIAN SMMEs IN SOUTH AFRICA

All provinces in South Africa indirectly encourage collective farming by providing grants on the basis of the number of people involved and sweat equity. The key motivation for collective farming stems from the fact that individual farmers can, by cooperating, collectively raise funds in the form of land grants to buy the land of their choice (Knight et al, 2003).

This is because most of the agrarian land beneficiaries do not have collateral, and because they are too poor to afford the land individually (Gray, Lyne and Ferrer, 2004).

This situation will prevail unless the criteria for allocating grants are changed in favour of individual entrepreneurs, class and expertise. This would bring about a balance between class-based farming enterprises and small-scale group farming in South Africa (Gundidza, 2008).

A critical analysis of this model indicates that some groups present themselves falsely in order to acquire land grants without farming (Gundidza, 2008). This observation is confirmed by high attrition levels after projects have been funded. Committed farmers will persevere with farming, whereas non-committed farmers drop-out. A number of agricultural enterprises are SMMEs.

2.4.1 Definition of SMMEs

There is currently no universally agreed upon definition of small, micro and medium business enterprises (Ladgan, 1999; Kroon, 1998; Longenecker et al, 2003). However, there have been many efforts to define these businesses in terms of the number of employees, sales volumes and value of assets (Longenecker et al, 2003; Nieman et al, 2004; Ladzani, 1999).

In South Africa, the National Small Business Act 102 of 1996 amended in 2004 (Annexure 3) provides qualitative and quantitative characteristics in an attempt to define small, micro and medium enterprises in all the sectors of the economy (ASCCI, 2007; Nieman et al, 2004; Le Roux et al, 1995; Ladzani, 1999).

The qualitative characteristics that the enterprise must have are:

- Be a separate and distinct business entity
- Not be part of a group of companies
- Include any subsidiaries and branches when measuring the size
- Be managed by its owners
- Be a natural, sole proprietorship, close cooperation, or company, or co-operative

The qualitative criteria are presented in the schedule to the Act and classify businesses into micro, very small, small and medium using the following guidelines in respect of different sectors of the economy (Nieman et al, 2004).

- Total full-time paid employers
- Total annual turnover
- Total gross asset value (excluding fixed property)

2.4.2 Categories of SMMEs in agricultural sector

In the South Africa agricultural sector, the categorisation of business enterprises into size and volume is done in terms of subsistence, semi-commercial and commercial enterprises. These categories do not clearly distinguish small, micro and medium enterprises as defined by the National Small Business Act 102 of 1996.

Therefore, the SMME definition in agricultural enterprises or the agricultural sector in South Africa differs from the common definition of the SMME. They are categorised as subsistence, communal, commonages, semi-commercial and commercial enterprises, regardless of their size.

Farming SMMEs arising from Land Redistribution for Agricultural Development (LRAD) and Land Restitution face a lot of challenges, such as a lack of well-defined shareholding status and contribution to farming activities. Despite the challenges, farming SMMEs are considered a cornerstone to development, job creation and food security. Such categories are enumerated below:

2.4.2.1 Survival enterprises

The income generated is below the poverty line. There are no paid employees and asset values are very small. These are basically subsistence farmers (ASCCI, 2007). Nieman et al (2004) further categorised these entrepreneurs in terms of lack of economic independence and little involvement with other entrepreneurs within their social network (individualism).

They have no access to markets, are unaware of their own potential, some are illiterate and few are involved in income generating activities. Atkinson and Buscher, (2006) indicated that such households have few alternative sources of income (social grants or pensions) and are likely to continue using livestock to buttress basic food security needs.

2.4.2.2 Micro-farmers

These farmers or enterprise owners have other sources of supporting their livelihoods such as livestock trading and part-time jobs (Atkinson and Buscher, 2006). ASCCI (2007) categorises these entrepreneurs in terms of their inability to have the turnover that is sufficient for VAT registration and that they are usually not registered for tax or accounting purposes. Nieman et al, (2004) define them in terms of number of employees, and that they have difficulty in getting loans from the banks.

2.4.2.3 Emerging small-scale farmers

These are small-scale commercial farmers, who for example, may have a bank account, access to loans, and are farming on their own. They also prefer to farm on a larger scale to make some profit (Atkinson and Buscher, 2006). They are well-educated and have adequate collateral and hence eligible for a loan (Nieman et al, 2004; ASCCI, 2007).

2.4.2.4 Proto-capitalist farmers

These are farmers or business people who may have other livelihoods, but would like to go into commercial farming on a full-time or large-scale basis (Atkinson and Buscher, 2006; Nieman et al, 2004). For them, livestock and capital accumulation is important (Atkinson and Buscher, 2006).

These farmers are not included in the land and agrarian benefit package. This discrimination is based on the perception that they are categorised as rich, yet they fall within the historically disadvantaged groups. According to Atkinson and Buscher (2006), these are the farmers who are supposed to be the focal area of the land reform success strategy.

2.5 THE NEED FOR ECONOMIC CONTRIBUTION BY FARMING SMMEs

The agrarian development programme has contributed enormously to the formation of small, micro and medium enterprises (farming SMMEs). It is estimated that there are approximately 14 million smallholder farmers who can be categorized within the SMMEs (CSD, 2007; Verschoor, 2003; Bienabe and Vermeulen, 2006; NDA, 2001).

These SMMEs were formed in order to address the land ownership gaps that existed prior to 1994, when 87% (i.e. 102 million hectares of agricultural land) was under the ownership of about 55000 white farmers (Bienabe and Vermeulen, 2006) compared to 17 million hectares owned by 1,2 million black farmers.

These discrepancies are also noticeable by looking at three to four percent of the contribution to Gross Domestic Product (GDP) by large commercial farmers (NDA, 2002; Mashotola and Darroch, 2003) whilst the small scale counterpart's contribution is marginal.

It is well documented that jobs created by large-scale commercial agriculture amount to approximately 1,6 million (Nomvete et al, 1997) with 10.5% additional jobs outside the agricultural sector (Van Rooyen and Esterhuizen, 2000; Mashatola and Darroch, 2003).

The value of commercial agricultural production in 2007 was R76 billion and contributed R34 billion to GDP (Agric Companies, 2007). It is known that agro-processed products contribute 8.1% of the total GDP (Bienabe and Vermeulen, 2006). These do not include the SMMEs' contributions.

Current trends indicate that small-scale agricultural businesses are formed in order to fulfil livelihood requirements rather than economic objectives. This might be as a result of their social orientation (Fenyese and Groenewald, 1977). It is extremely important that small-scale farmers should venture to start taking farming beyond livelihood.

2.6 IMPORTANCE OF SMMEs IN THE ECONOMY

The importance of SMMEs is increasingly recognised in many countries (Sithole, 2006). Small businesses are exploding across the globe despite their limited resources and support (Ladzani, 1999; Le Roux et al, 1995). Literature indicates the significant role played by SMMEs in different sectors and countries (Ladzani, 1999). In the USA, 25 million small businesses continue to be a potent force in the dynamic economy (ASCCI, 2007; Logenecker et al, 2003).

It is recorded that small businesses provide more than 52% of the private work force and are the principal source of new jobs (Ladzani and van Vuuren, 2002; Scarborough and Zimmerer 1996; Longenecker et al, 2003). It is further noted that these businesses generate more than 51% of the private sector contribution to GDP (Longenecker et al, 2003). Le Roux et al (1995) ascribed much credit for the success of countries like Japan, Korea and Germany to their strong SMME sectors.

Japan's SMMEs account for the bulk of the country's business establishment, providing vital support for employment and regional economics (Ministry of International trade and Industry, 1997; Ladzani and Van Vuuren, 2002). In Taiwan, SMMEs account for about 98% of the national GDP. In this way, they make significant contributions to economic prosperity, create numerous jobs and promote social stability (Annual Report, 1983; Ladzani and Van Vuuren, 2002).

Many African countries are also changing their economic policies with regard to small business enterprises. In South African Developing Communities, there are moves to promote the development of SMMEs (National Economic Policy Research Unit, 1995).

In South Africa, the White Paper on National Strategy for the Development and Promotion of Small Business (1995) has led to the enactment of the National Small Business Act 102 of 1996, which made a lot of impact on decisions by SARS and the Treasury to set flexible conditions for small business to flourish (Ladzani and Van Vuuren, 2002).

The association of SADC chambers of Commerce and Industry (ASCCI, 2007) has mentioned that 95% of the businesses in South Africa are small enterprises. Many entrepreneurs in South Africa are in small, medium or micro-enterprises. They contribute 50% of total employment in the country. Their contribution to the country's GDP is about 35% (ASCCI, 2007).

2.7. PLANNING OF SMME'S IN THE AGRARIAN SECTOR IN RSA

In the business sector, planning is regarded as one of the most crucial factors that determine the future success of any enterprise. Inadequate planning coupled with other factors has led to the high failure rate of many businesses throughout the world. Therefore, it is crucial that before starting any business, an entrepreneur should be engaged in vigorous and thorough planning (CSD, 2007, Groenewald, 2004).

South African land reform is a crucial process that has led to the formation of many agricultural small, micro and medium enterprises (SMMEs). This process has not been marked by in-depth planning due to the fact that land reform aims at delivering 30% of the agricultural land by 2014 (Viljoen, 2006 CSD, 2007). This intended rapid delivery process has impacted negatively on planning. Planning is not regarded a necessity (CSD, 2007).

Consequently, SMMEs formed in the process of land reform support have had a very high failure rate. The government does not realize that speeding up land delivery should be complimented with thorough planning processes to avoid these failure rates.

In some cases the government loses money it provides for land purchase (30% of the value of the land) when land repossession occurs due to default payments. This situation may have negative outcomes (Groenewald, 2004).

When planning for land reform and resettlement of communities, it is critical to acknowledge the risk environment confronting beneficiaries and households, and to factor these into the settlement planning process (Cernea, 1997).

Experiences of the FAO-supported programmes in the Philippines and Australian land reform have confirmed that the mix of training and planning plays an important role both in capacity building and in the success of agricultural enterprises (CSD, 2007). In Australia, land is handed over to beneficiaries only if there is evidence that shows that vigorous business and development planning has been done (CSD, 2007).

In Australia, professional assistance in the form of planning, consultation, facilitation, design, development of management structures, capacity building, business planning, technical assistance, funding and implementation, is provided by the Indigenous Land Fund (ILF) (CSD, 2007).

In Zimbabwe, the Phase 1 land resettlement programme was successful because significant support services and investment in infrastructure were emphasized (CSD, 2007). On the contrary, in South Africa's land reform programme the emphasis has been on quantity of land transferred (CSD, 2007).

Although the Phase 1 resettlement programme in Zimbabwe was regarded as successful, particularly in Mashona-land Central, it was also criticized as overly technocratic, state centred and top-down (CSD, 2007; UNDP, 2002). This was followed by the Phase II programme that aimed at redistributing land to small- and large-scale farmers, moving away from providing land to the landless and poor (CSD, 2007).

The evolution of land reform in other countries, especially Zimbabwe, constitutes a valuable lesson for many nations in Africa, and South Africa in particular. This is because there was a combination of unplanned and planned land reform phases. The result of such categories also points to the impact on the economy, political stability and livelihood.

With the objective of having a politically stable, well-managed, redressed, non-racial and democratic society, South Africa's land reform should (in order to avoid bad experiences) infuse planning in the implementation of the land reform processes. There are critical issues that need to be dealt with during planning, such as pre-selection of beneficiaries, feasibility studies, business planning, the use of the business planning for financial and operational purposes, capacity building of beneficiaries and extension services.

Although some of these aspects were considered in other projects or entities during the planning phase, researchers have found that planning for these SMMEs in South Africa, has generally been "top-down", and without sound consultations with beneficiaries, resulting in a lack of ownership (Verschoor, 2003; D'Silva and Bysouth, 1990; Botha and Coetzee, 1993; Van Rooyen, 1994).

Kirsten and Van Zyl (1999) also complained of the tedious nature of the planning processes accompanied by inadequate planning around farm models and lack of appropriate support to beneficiaries once they have acquired land under the programme. In order for the agrarian reform in South Africa to achieve sustainable viable and vibrant SMMEs, planning should be prioritized and done professionally. Well-planned SMME development processes ensure the efficient use of resources and good decision-making processes (Leisa, 2006).

A good planning process will ensure that SMMEs do not experience a high failure rate. Ladzani and Van Vuuren (2002) mentioned that many small businesses emerge, but a considerable number of them fail. Some fail in their infancy and others within a few years after start-up. The failure rate can be attributed to lack of preparedness and failure to estimate accurately the cost of starting and running one's own enterprise (Macleod, 1995). Therefore, good planning should be regarded as an investment; because it is the cornerstone for the success of any enterprise.

An attempt by the Tomlinson Commission of 1955 to introduce and popularize the concept of betterment planning has not received the high priority it deserves in agricultural development in South Africa (Bembridge, 1987). The emphasis of the Commission on better planning in SMME development practices makes the report most relevant for the current challenges where most agricultural entities are failing.

2.7.1 Pre-selection of beneficiaries

This phase is one of the most critical stages of enterprise development. This phase can potentially influence the subsequent success or failure of all other stages of enterprise development. It involves the identification of well-balanced committees to drive the process to its finality. These committees should look at the design, framework, economic imperatives, participation of beneficiaries and viability before the enterprise development starts.

In South Africa, the Department of Land Affairs initiate this process (DLA, 2005). The pre-selection committee in different provinces meets regularly to evaluate the applications. These committees are composed of the Department of Land Affairs and Agriculture staff, no external staff members are allowed at this stage. The external stakeholders, such consultants or other institutions are only invited to participate after beneficiaries are selected in order to commence with planning processes.

The committee should ideally seek membership of neutral external staff members such as successful commercial farmers across the racial divide, and representatives of universities, agricultural colleges and of development agencies in order for the pre-selection process to be balanced (Groenewald, 2008). There has been no reason why these external stakeholders should not be involved in the pre-selection phase. Therefore, it is important for both departments to insist on their involvement. Secondly, most of the Land Affairs staffs are neither agricultural project management experts nor development specialists.

The majority were drawn from social science disciplines and have no expertise in project development (Gundidza, 2008). Hence, they can gain a lot of knowledge and exposure if they work closely with experts in the field of agriculture, development and project management at the earliest stage of project/enterprise development. The involvement of retired professionals in project management, agriculture and development studies could also be an option. The current state of affairs leaves much to be desired in terms of professional inputs into the pre-selection phase.

2.7.2 Selection of beneficiaries

Prominent economists like Gary Becker, TW Scholtz, J Arthur Lewis, Francis Fukujana and JA Groenewald have stated that beneficiary selection is crucial for the success of the enterprise (Groenewald, 2004 and Karaan, 2006). They believe that human capital and entrepreneurship are the real basis for economic development, the performance of individuals and firms (Karaan, 2006). Guzman (1994) stated that the entrepreneurial quality of an SMME owner is a critical factor for an SMME's ability to overcome barriers.

Various studies have established the positive impact of an owner's experience level on firm success (Dyke et al, 1992). These authors also highlighted the positive link between owner's experience and small firm success (Nothard, Ortman and Meyer, 2005).

Jack (2001) found that higher levels of education lead to success rates for new business ventures. Furthermore, education has a positive impact on business growth (Nothard et al, 2005). This relationship is due to the link between higher education and the increasing use of information, collected data, computer technologies and assistance (such as extension services, development officers and other organizations).

It has also been found that education improves an entrepreneur's decision-making ability by improving his/her understanding of the industry environment and changes, and therefore enabling him/her to adjust more rapidly and accurately (Huffman, 1974).

Bates (1990) showed that businesses owned by highly educated entrepreneurs remain in operation for longer periods than those owned by less educated entrepreneurs. Welch (1978) added that educated people face lower information costs because they are able to assemble and interpret information at their disposal.

Beneficiary selection of land and agrarian development in South Africa has been premised on poverty eradication strategies. Poverty profile, unemployment and the experience of working on farms were some of the criteria used for beneficiary selection. Though critically important, education, collaterals, business experience, support systems, links to value chains and business networks do not receive any priority at all.

In order to enhance farming SMMEs performance, agricultural practitioners from different provinces throughout South Africa, should be enlightened on the importance of these criteria. The notion that anybody can farm as long as he carries a national identity card and belongs to a previously disadvantaged group is unrealistic (CSD, 2007). The following are some selection strategies employed by the Department of Land Affairs to encourage agricultural SMME formation.

2.7.2.1 Voluntary selection by communities

In the past various provinces of South Africa, communities are encouraged to group themselves into farming SMMEs (Leisa, 2006) and then identify the land on sale. They then negotiate with the seller to find out whether he/she is willing to sell the land to them through LRAD processes. If the seller agrees, then the group will proceed to make an application to the Department of Land Affairs (Kirsten and Van Zyl, 1999).

Upon receiving the application, the Department of Land Affairs calls these group members for interviews. The interviews are normally with the area's designated planners, not with the committee. It is the planner who writes the motivation for the Preparation Committee which is constituted by the Department of Land Affairs and Agriculture. If the project is recommended by such a Committee, it is then handed over to the business planning committee, and if such a committee recommends the approval, then the project is approved (Kariuki, 2004).

This voluntary selection method is not without its short-comings (Randela, 2005). Some groups are formed from individual beneficiaries who have been given inaccurate information about land reform projects and the Department of Land Affairs is not in a position to correct them due to capacity problems. In addition, this process can be very lengthy and opportunities get lost (Groenewald, 2008). Evidently these short-comings lead to high attrition rates from these projects. It is important for the Department of Land Affairs to develop a mechanism to mitigate these challenges in order to ensure smooth and faster formation of farming SMMEs (CSD, 2007).

In numerous cases these SMMEs are formed in the run-up to national elections. This is because political parties and activists use land and agrarian reform as a way of canvassing support from the poorer communities, thus creating an impression that ownership of the land with adequate support will be provided to beneficiaries if they support the said party (Lahiff et al, 2007). In simpler terms, land reform has been used as a canvassing tool in poor communities (CSD, 2007).

These problems need to be corrected through robust selection criteria and structures. Failure to develop firm selection criteria may result in intense group conflict. Evidence to date has also indicated that most of these SMMEs are heavily affected by group dynamic problems (CSD, 2007). This is partly because misleading information was used to form the enterprise and the members of the group do not trust each other.

2.7.2.2 Selection through family lines

The South African government, through the Department of Land Affairs, has encouraged rural communities to consider farming SMMEs along family lines (Gundidza, 2008). This mode of selection is favoured against the voluntary community selection due to its potential to link group dynamics and tension. This is because families and relatives have been living with each other for a long time:

They know each other's weaknesses and potential. Consequently, they are capable of electing the best leadership and management for the enterprise based on their previous interaction and accurate information (Groenewald, 2008). Yet, in the previous mode of selection, management and leadership is quite difficult to select due to lack of information about the nominated person.

Various farming SMMEs formed as result of family lines has demonstrated a certain level of sustainability, although some are unsustainable because of inadequate skills and expertise (Groenewald, 2008). Should proper selection criteria that emphasize an educational level and skills capacity be inculcated into the selection model, this type of SMME could be one of the sustainable enterprise types in the agricultural sector in South Africa.

2.7.2.3 Selection based on gender

One of the modes of selection that has gained enormous appreciation is the grouping of community members based on their gender. Female groupings have been seen to be dominant in farming SMMEs in South Africa. It is also understood that due to high poverty levels amongst the women in the rural areas, more women resort to agriculture in order to feed their children and families. In other words, most of the women that are involved in agriculture are doing so for food security purposes (Leisa, 2006). Another reason is the promotion of women's inclusion into agricultural enterprises to redress the gender imbalances (Levin, 1996).

Few projects are formed by men alone. This is because men are known to be more uncompromising than women and fight for leadership positions wherever they are involved (Gundidza, 2008). Projects dominated by men, often spend productive time dealing with internal conflict. Consequently, the majority of the SMMEs formed by men are less sustainable compared to those formed by women or the SMMEs that are dominated by women.

The marginalization of women during the apartheid era has indirectly affected these SMMEs because most of these women do not have a good education. Their illiteracy level and skills have always had a bearing on the viability of their enterprises (Neshamba, 2006).

It is therefore important that these groups, when formed, need to be linked to universities or other capacity building institutions to enhance their capacity (Groenewald, 2008). Where such groups are under the mentorship of institutions such as a university, progress is easily noticed. Evidence suggests a positive relationship between training and farm productivity (Bryan, 2006).

2.8 FEASIBILITY STUDIES FOR FARMING SMMEs

A feasibility study is a general examination of the potential of an idea to be converted into a small business enterprise (Nieuwenhuizen et al, 2003). This examination is done in order to determine the levels of investment, risk and return (CSD, 2007 and Nieman et al, (2003) added that the focus should largely be on the ability of the entrepreneur to convert the idea into a business.

The following aspects should be included into the study (Nieman et al, 2004):

- Market assessment
- Revenue potential
- Operating costs
- Financing costs
- Tax implications
- Foreign exchange controls
- Risk and sensitivity analyses

The feasibility reports done by the Department of Land Affairs in many provinces do not include all these important key success factors. In cases where some of the aspects are covered, it is found that only a desktop study was conducted.

Another feature of the feasibility studies conducted by the department includes the beneficiaries farming experience, farm infrastructures, location of the farms, their sweat equity and livestock. Very little attention is given to market opportunities, operating costs, risks and tax implications.

2.9 BUSINESS PLANNING FOR FARMING SMMEs

The SMME business toolkit by ASCCI (2007) defined a business plan as a tool designed to help entrepreneurs to find and explore opportunities. Longenecker et al, (2003) define a business plan as a written document that sets out the basic idea underlying a business and related start-up considerations.

It also provides a way to analyze potential opportunities continuously (Niemann et al, 2004; ASCCI, 2007). Business planning is a process of seeking answers to important questions about your business. Such answers should be based on real and up to date information which can be translated into action plans.

Wickham (2004) reiterated the importance of business plans for entrepreneurs and further indicated that the process of creating a formal business plan consumes both time and resources.

A good business plan ensures that entrepreneurs can establish the business with confidence (Nieman et al, 2004). A business plan is also essential in determining the resources required, obtaining resources and successfully managing the resulting venture (Nieman et al, 2004).

2.10 CURRENT BUSINESS PLANNING CHALLENGES FACING FARMING SMMEs IN SOUTH AFRICA

Several challenges have been identified pertaining to business plans and business planning processes of farming SMMEs across provinces (CSD, 2007; Verschoor, 2003). Below is a list of some of the challenges identified:

- a) Top-down planning processes without the sound consultation of beneficiaries, resulting in a lack of business plans ownership (D' Silva and Bysouth, 1990 Botha and Coetzee, 1993 Van Rooyen, 1994).
- b) There is a general reluctance to spend time and money on the facilitation of the beneficiaries into understanding of their business plan (Swanepoel et al, 2004).
- c) Service providers who developed business plans are generally not engaged in the implementation of the business plans that they have developed (CSD, 2007). This is also confirmed by a review by Agri-Africa consultants in Western Cape in which it was found that consultants lack continuity in executing plans beyond grant approval (CSD, 2007).
- d) Many business plans lack inventiveness or pragmatism (Gundidza, 2008).
- e) Consultants are not held accountable for their business plans once the project is implemented (Agri-Africa Consultants, 2005).
- f) There is often pressure to produce a bankable business plan to attain a positive decision on the grant. This makes the entire business planning process subjective. (Agri-Africa Consultants, 2005).

2.11 FACTORS AFFECTING THE PRODUCTIVITY OF FARMING SMMEs

Pender (2001) and Place (2000) are amongst the researchers that have highlighted problems of low agricultural productivity in farming SMMEs. These problems are the result of various factors that need serious attention in order for these SMMEs to succeed and grow. The following are some of the identified factors:

2.11.1 Entrepreneurship

Entrepreneurship is the emergence and growth of a new business for the purpose of making a profit (Nieman et al, 2004). It is also present when an existing firm moves into a new field that can complement its performance or exploit a new opportunity (Groenewald, 2008).

Furthermore, Dollinger (1995) defines entrepreneurship as the creation of an innovative economic organisation under risky and uncertain conditions. It is also referred to as creating opportunities and pursuing them regardless of the resources (Timmons and Spinelli, 1990).

Unlike the agricultural SMME sector, the commercial agricultural sector is guided by entrepreneurship theories. Commercial farmers are classified as innovators, early adopters, the majority, or late-comers (Randela, 2005). In South Africa, very few SMMEs are founded on the basis of entrepreneurial characteristics listed below.

- Internal locus of control
- Creativity
- Risk taking
- Innovation
- Perseverance

- Passion
- Independence and autonomy
- Need for achievement
- Commitment

The critical question is: Can farming SMMEs in South Africa be transformed into entrepreneurial ventures with profitability and growth being a principal objective?

Given the fact that the majority are struggling and collapsing, one can assume that most of these businesses were formed without considering the attributes listed above. Can something be done to ensure the encapsulation of entrepreneurial venture characteristics during their formation?

Ladzani and Van Vuuren (2002) argue that entrepreneurial skills can be taught, but that entrepreneurial skills training are relatively new in South Africa. The South African government, through the Reconstruction and Development Programme (RDP) placed a major emphasis on entrepreneurial awareness and training.

The important question is, does the Department of Land Affairs and Agriculture in its quest to assist communities to form farming SMMEs, place emphasis on entrepreneurial venture creation? This is because entrepreneurship training should be seen as one of the basic requirements of starting and running a business (Ladzani and Van Vuuren, 2002).

2.11.2 Absence of the role models in the farming SMME sector

One of the most important factors influencing entrepreneurs in their career path is their choice of a role model (Kuemmerle, 2002). People need role models in their everyday lives: a living role model (e.g. Hernman Mashaba, Richard Maponya, Pam Golding) in their communities (Niemen et al, 2004).

Role models can be parents, brothers or sisters, relatives or other entrepreneurs (Hisrich et al, 2005). These people can also serve in a supportive capacity as mentors during and after the launch of a new venture (Hisrich et al, 2005)

The absence of credible role models in the farming SMMEs sector limits the success of some enterprises which may need this kind of support. The sector needs supportive systems that will eventually be able to generate successful business people, who may serve as role models for the agricultural entrepreneurs and the community in general. For entrepreneurs to be successful, they need strong support and advisory systems in every phase of the new venture (Hisrich et al, 2005)

2.11.3 Group conflicts

It is well documented that in South Africa, the government seriously promotes group farming in the small-scale agricultural sector (CSD, 2007), although it is widely reported that group conflicts threaten the survival, sustainability, productivity and profitability of such enterprises (CSD, 2007).

Grouping farmers together does not guarantee them land ownership (Verschoor, 2003). In addition, most of these farmers get their land with poor infrastructure and unreliable markets (Verschoor, 2003). All these factors contribute to more frustration amongst the group and consequently, their expectations are dashed and this eventually results in lack of trust towards each other, and commitment or motivation is reduced or disappears completely.

More problems relating to the sharing of profit and products between committed and non-committed beneficiaries exacerbates the tensions. This has ultimately led to the collapses or dysfunction of many SMMEs in South Africa.

2.11.4. Non-existence of value chains for farming SMME'S

The linkage to a value chain is very important for the success, productivity and profitability of any enterprise. The absence of farming value chains for SMMEs has contributed to the failure of a number of SMMEs (Verschoor, 2003). This is illustrated by the shortage of input suppliers, markets, infrastructure and agents in the sector (CSD, 2007; Verschoor, 2003).

Verschoor (2003) characterised farming SMMEs as enterprises that operate from sub-optimal production because of poor infrastructure, unreliable markets, absence of a transport system, import distribution and financial services (Chikanda and Kirsten, 1998). Without a well-planned value chain and reliable systems, these SMMEs will not be able to contribute optimally to the economy and the welfare of their members.

2.11.5. Inadequate pre- and post-settlement support

There is not adequate pre- and post-settlement support in terms of inputs, proper planning, training, mentoring, monitoring and evaluation. This contributes immensely to the inefficiency of the SMMEs and hence reduces productivity.

2.11.6. Dependency

Farming SMMEs are heavily dependent on government institutions for various services. This is because a number of these entities have inadequate capacity to create their networks and value chains, due to their lack of business experience, skills and expertise. The dependency of these SMMEs, results from poverty and lack of education (CSD, 2007).

2.12 FARMING SMME CAPACITY

The capacity of an SMME plays a pivotal role in ensuring the viability and sustainability of the enterprise. Farming SMMEs in South Africa, particularly those formed through land reform, have been heavily constrained by lack of capacity. Kirsten et al (2005) reported that an absence of support, after-care, conflict management amongst the beneficiaries, lack of farming skills and knowledge are common symptoms of lack of capacity.

These authors found that 51% of SMMEs did not know the content of their business plans, 70% did not establish any relationship with the members, 72% of SMME members have not received any marketing training and the SMMEs receive 47% of their technical advice from the provincial Departments of Agriculture (CSD, 2007). Given the above, how does one define capacity that affects SMMEs?

2.12.1 Definition of capacity

Morgan (1993) defined capacity as the ability of individuals, groups, institutions and organizations to identify and solve problems over time. This includes the management of resources, knowledge and processes employed by individuals, organizations, institutions and groups to achieve their goals. Capacity comprises the staffing, physical infrastructure, technology, financial resources, strategic leadership, programme, process management, networks, linkages with other organizations, monitoring and evaluation abilities (IDRC, 2002).

2.12.2 Capacity building

IFPRI (2005:3) referred to capacity building as an effort to generate knowledge, skills and expertise in order to enhance analytical capacity that may assist in increasing agricultural productivity and sustenance. Capacity-building strategies help in determining the farming business's competitive advantages (Nell and Napier, 2006).

2.12.3 Importance of capacity building for farming SMME'S

Lessons learnt from other countries such as Australia, Zimbabwe, Mozambique and the Phillipines have demonstrated that capacity building plays an important role in the sustainability of SMMEs especially those that are formed through land reform (CSD, 2007).

A review conducted by the Indigenous Land Fund (ILC) in Australia revealed that 58% of the groups that were assisted in forming SMMEs lacked appropriate skills and knowledge to manage the acquired property, 29% had limited commitment to manage the land and 33% were embroiled in community conflicts (CSD, 2007).

Vast portions of land transferred to indigenous people in Australia were of poor quality, heavily eroded and generally unproductive (CSD, 2007). CSD (2007) stated that capacity building, management competencies and production management were not given high priority in Australian land reform and these weaknesses led to the failure of ILC and the inability of beneficiaries to use the land optimally.

Following an analysis of its performance, the ILC has since revised the structure of its programme, established a capacity-building function and refined the operational planning requirement for the implementation framework. This gave rise to the formation of prescribed bodies corporate (PBCs), with a specific mandate (CSD, 2007).

In Zimbabwe, an assessment report prepared by the Zimbabwean Auditor-General in 1993 noted that besides political related problems, the government extension services did not have the capacity to service the already established SMMEs (Chitsike, 2003).

Zimbabwean's fast-tracked resettlement got people onto the land without proper planning regarding finance, human and technical resources (CSD, 2007). Lack of these capacity elements consequently rendered Zimbabwean farming SMMEs formed through land reform ineffective, due to lack of good service delivery (CSD, 2007).

In Mozambique, the IMF review of implementation of the Poverty Reduction Strategy and Plan (PARPA) in 2003 stated that the problems with the condition of Mozambiquean highways has discouraged private-sector investment, thereby slowing down the development of rural markets for agricultural inputs and products (IMF, 2003).

Rural trading is therefore beset with problems of transport availability, at costs that make Mozambican trading comparatively expensive. A number of studies have identified market access and prices as the most important deterrent from agricultural production (CSD, 2007). The directorates that handle land reform in Mozambique are generally characterized by a very low level of human, physical and financial resources (CSD, 2007).

The above evidence reflects lessons that can be drawn from other countries with the objective of a smooth SMMEs formation through land reform. In the light of the above, the importance of capacity building cannot be overemphasized. The questions that need to be answered are what kind of capacities do entrepreneurs need to process at during and after the formation of these SMMEs?

2.12.4 Types of capacity that affect farming SMMEs

Various types of capacities need to be identified and used to guide the SMME planning, implementation and support in the after-care phase. These are categorized as internal and external capacities. The internal capacity refer to the capacity that should be dependent on the SMME itself, whilst the external capacity will depend on external structures, institutions, service providers and government departments.

2.12.4.1 Internal capacity

Human, infrastructure, financial and management capacity were identified as important for the determination of internal capacity.

2.12.4.2 Human capacity

According to human capital theory (World Bank, 2007), education and, by implication, Agricultural Education and Training (AET) influence agricultural productivity in the following ways:

- Formal education enhances farmers' ability to choose optimum combinations of farm inputs and farm outputs (allocation effect).
- Training enhances farmers' ability to acquire and adapt new technologies, thereby reducing innovation time lags (innovation effect).
- Training fosters the capacity to exploit new market opportunities (Idachaba,1997; Atchoerena and Gasperini, 2003) (market efficiency effect)

- Formal education affects performance and success through enhanced worker productivity.

The strengthening of human capital and the production of knowledge are the most important elements in agricultural development strategies (Hang, 1999). It has been noted that agriculture leads growth in many parts of rural Africa, but investment in human capital and infrastructure leads agriculture (World Bank, 2002). Investment in human capital education and vocational training, extension services with the emphasis on low external input technologies and so on may have the greatest social returns (Pender, 2000).

In contrast to the need for capacity building as enunciated in the quoted literature, South African empowerment strategy leading to the formation of SMMEs through land reform has promoted asset acquisition instead of human capital formation and entrepreneurship (Karaan, 2006).

This is confirmed by Mampholo and Botha, (2004) who found 24.4% of the land reform beneficiaries to be highly illiterate, whilst 8% had tertiary education and 68% had grade 1 – 12. Tony Blair's Commission for Africa (2005) also argued that weak capacity is a major problem in most African countries, and described weak capacity as issues that relate poor information, technical inefficiencies and lack of money (Blair, 2005).

2.12.4.3 Infrastructural capacity

Adequate and improved physical infrastructure such as roads and telecommunication facilities could help in facilitating agricultural trading by facilitating access to markets and inputs, thereby reducing transport and communication costs (Ortmann and King, 2007). These authors found that Swayimana producers in KwaZulu-Natal (KZN) have to cope with poor physical infrastructure (roads, telecommunications, transport), resulting in lack of market access for these SMMEs. Inadequate infrastructure has been cited as the main obstacle for development in Africa (ADB, 1999).

The need for provision of infrastructure is most important. Rural households, who are particularly dependent on farming, tend to benefit more from better access to service infrastructure (Hazell, 2005). For example, households closer to the nearest towns tend to have a greater proportion of participation in agricultural markets than those that are further away (Makhura and Wasike, 2003; Shinns and Lyne, 2005).

2.12.4.4 Financial capacity

Most of the land reform beneficiaries are poor or extremely poor; access to own financial capital is non-existent (CDS, 2007). Provision of grants to very poor beneficiaries needs to be well planned. Thus, a grant provided should provide a financial reserve until the enterprise has reached the break-even point.

To this end, the government should design the selection according to what Lewis (1954) suggested. This entails that a settler should have his/her own capital in order to mitigate some risks that may be encountered in the business. To select beneficiaries on the basis of poverty profile, without considering the sustainability of the enterprise, is self-defeating.

2.12.4.5 Management capacity

Management capacity is one of the factors that play an important role in achieving the competitive advantage (Nell and Napier, 2006). The management should have qualities to develop policies such as human resources and a financial operational policy. The management team should also consider delegation of jobs, tasks, activities or actions as a form of building management capacity of the workforce (Nell and Napier, 2006).

These authors also recommended that a farmer uses contractors, consultants and advisers as strategy to increase management capacity. It is clear that without a sound financial backup, the farming SMMEs would not be able to build their management capacity without assistance from government.

This complements the finding of Van der Walt (2005) that black agricultural cooperatives fail due to poor management capacity, coupled with lack of education. CSD (2007) reaffirmed this by indicating that there are major gaps with respect to management skills in the farming SMMEs formed through land reform.

2.13 EXTERNAL SMME CAPACITY

Besides its own capacity, the SMME relies on capacity from other organizations, institutions and government departments to enhance its internal functions. This capacity plays a role in supporting the enterprise. In the agricultural SMME sector, the following are of significant importance:

2.13.1 Extension capacity to serve the SMMEs

The role of extension agents is much debated but little documented (Francis and Rawlins-Branan, 1987). This tends to reduce extension to the transfer of technical information, ignoring its social and economic role (Ballantyne, 1987; Francis and Rawlins-Branan, 1987).

It is generally accepted that the role of these workers should include teaching the farming SMMEs how to increase their productivity (Ballantyne, 1987). The question remains whether extension officers are capacitated to render these tasks given the level and type of their education (e.g. some of them may have a degree in crop science, but very little knowledge on management and marketing), lack of farming skills and inadequate infrastructure are some of the factors impacting negatively on the success of SMMEs.

Bembridge (1987) found that less than one in four extension workers can be considered to have sufficient knowledge to be able to perform their tasks effectively. He also found considerable deficiencies in the quality of extension staff in terms of technical support and administrative control (Bembridge, 1987).

Many extension workers lack the necessary knowledge and skills in technology and management to disseminate useful information to farmers (Bembridge, 1987). Fremy (2000) reported that extension services all over sub-saharan Africa are woefully inadequate in terms of numbers, training and the needed infrastructure and other necessities.

Farming SMMEs in South Africa are limited in financial management and extension personnel. Extension officers are unable to provide these SMMEs with informed guidance on financial and management matters (Groenewald, 2004).

Drawing from a variety of the reports, it may be concluded that extension workers are failing to meet the expectations of the agricultural business community in South Africa (URS, 2006; CSD, 2007). Therefore, the extent to which the extension service has capacity to serve the agricultural community in South Africa remains an important challenge.

2.13.2 Capacity of other secondary institutions

Various institutions such as Colleges of Agriculture, Universities, Development banks, Non-Government Organizations and international institutions should provide support to SMMEs (Gundidza, 2008). Their capacities have a direct influence on the profitability and sustainability of these agricultural businesses as is the case with commercial counterparts (Gundidza, 2008).

Weak linkages between training institutions and farming SMME's need to be addressed and buttressed (Groenewald, 2008). Experts in specific commodities should be linked to farming SMMEs dealing with that particular commodity in order to obtain first-hand information (Groenewald, 2008).

2.13.3 CONCLUSION

In this chapter it has been demonstrated that land reform in South Africa is a consequence of separate development policies that took precedence prior 1994. It was also well established that success of agricultural development and settlement largely depends on conditions described by Lewis. These conditions prescribe the capacity for farming SMME's to be profitable and sustainable. For these conditions to be realised, the models for agrarian reforms must be carefully selected and implemented.

In the process of choosing these models, international experiences must be taken into account. Furthermore, the nature of farming SMMEs plays an important role in determining the type of capacity needed. In addressing the capacity requisite of the farming SMMEs, a due diligent and a comprehensive planning processes should be done in order to avoid a number of challenges.

To overcome these challenges, the following should receive attention:

- a) Business planning needs to be a participatory process, where beneficiaries are accorded the opportunity to participate in the whole process.
- b) Beneficiaries should first be provided with business planning training before embarking on their business planning development.

- c) The top-down approach to business planning must be discouraged through policy and legislation.
- d) Service providers who are contracted to do business planning should be the ones to do the implementation and after-care support. Should the service provider fail to implement the plan, the Department should review the desirability of employing the provider in future, thus the services rendered by provider should be monitored and evaluated done before another contract is signed with them.
- e) These consultants should also be used to do planning concerning the marketing of products and where necessary, providing aid in establishing marketing arrangements, for example, for fruit and vegetables with processors, traders and/ or exporters.
- f) Extension officers, scientists and technicians should be provided with business planning and marketing training.
- g) Independent institutions, such as universities and government departments should be contracted to evaluate the output of the service providers and the welfare of SMMEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3. 1 INTRODUCTION

The purpose of this chapter is to provide a clear and detailed description of the research design, methodology, analysis, limitations and ethical considerations followed in the research.

The study is a descriptive study involving both quantitative and qualitative research gathered from questionnaires, case studies, participatory research and action research. A descriptive study amongst others attempts to explain the reasons for the characteristics of the population by examining samples of the population (Cooper and Schindler, 2003).

Evidence-based systematic review methodologies will be employed as shown in Figure 3.1.

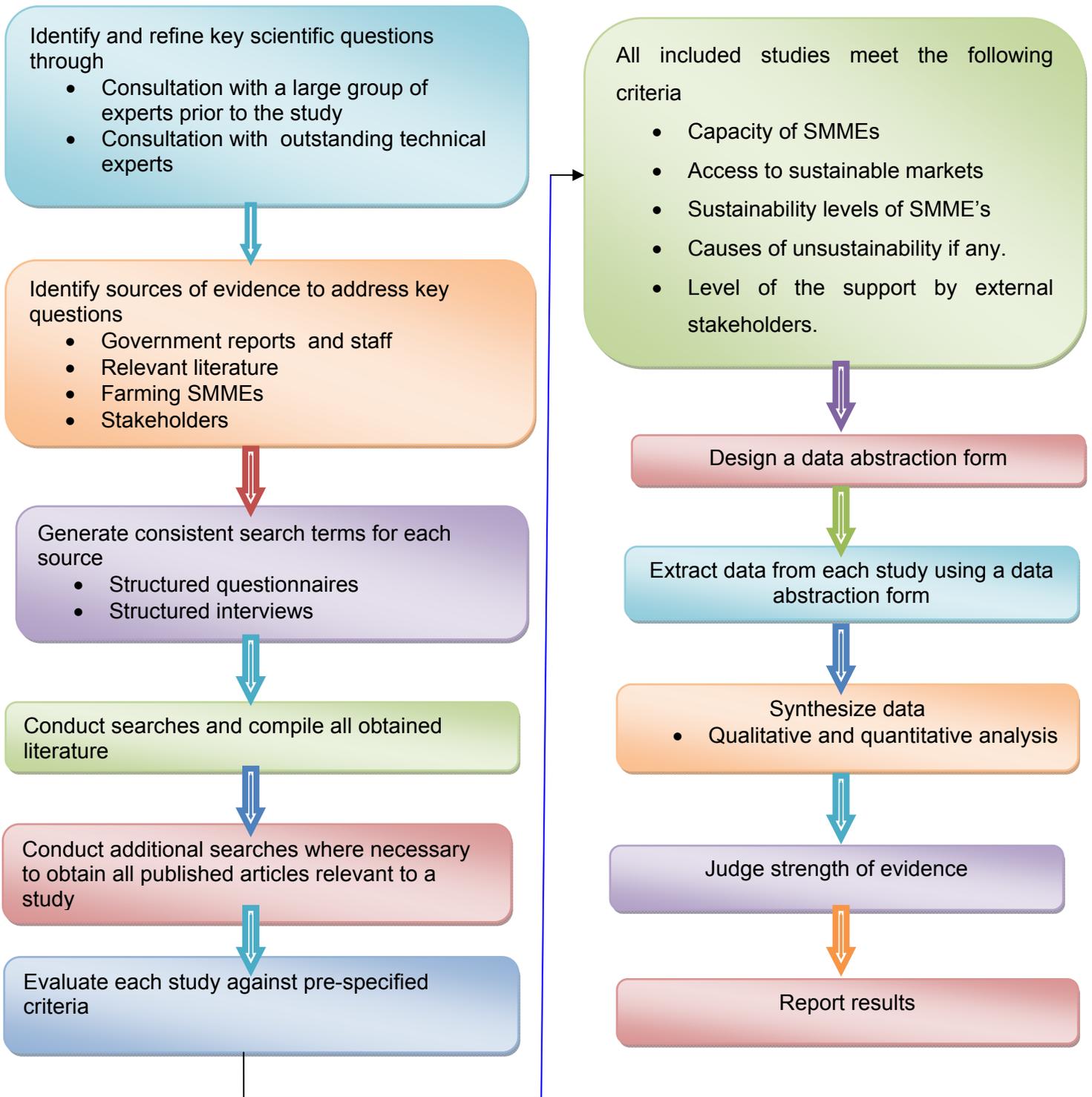


Figure 3.1 Systematic Review Methods
Source: Gundidza, 2008

3.2 RESEARCH DESIGN

Cooper and Schindler (2003:146) refer to research design as a blueprint for the collection, measurement and analysis of data. The design helps the researcher to allocate his/her limited resources by choosing appropriate research instruments.

In a nutshell, the research design encompasses the following:

- An activity– and time-based plan
- The research question
- Sources and type of information needed
- Framework for specifying the relationship amongst the study's variables
- Procedures for every research activity

For the purpose of this research the following research designs were chosen.

3.2.1 Desktop study

The methodology involves the use of the internet, online journals and emails. The merits of a desktop study are that there is a pool of accessible data on the internet, it is cost-effective vis-à-vis primary data, there is no need for designing and undertaking a field research study and many different sources are available.

The procedure followed to evaluate secondary data is illustrated in Figure 3.2.

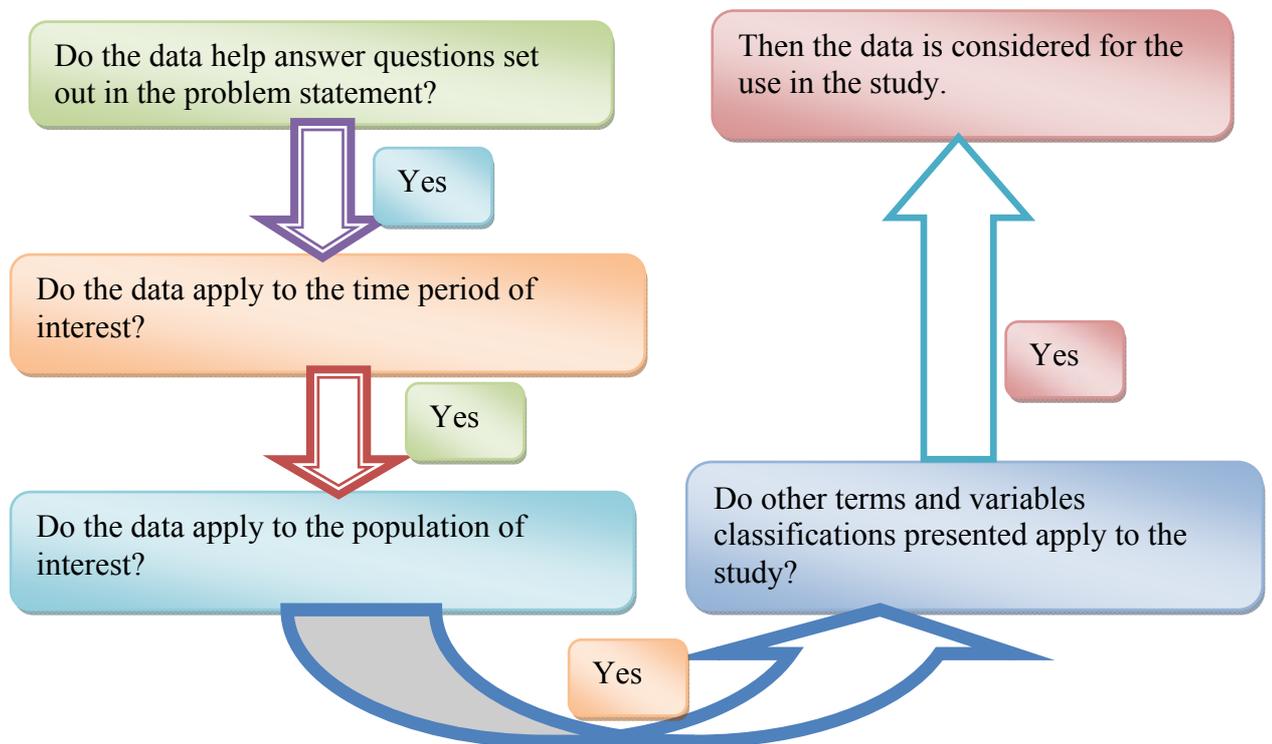


Figure 3.2 Evaluating secondary data

Source: Opfer: 2005

An intensive desktop study was conducted on the assumption that knowledge accumulates and that people learn from and build on what others have done. Scientific research is a collective effort of many researchers who share their results with one another and pursue knowledge as a community (Neuman, 2003:96).

The desktop study has the following objectives:

- to demonstrate a familiarity with a body of knowledge and establish credibility,
- to show the path of prior research and how a current study is linked to it,
- to integrate and summarize what is known in an area, and
- to learn from others and stimulate new ideas.

An intensive desktop study was carried out using government reports, scientific journals, the internet, books, magazines and conference proceedings.

3.2.1.1 The use of secondary data in this study

Secondary data was used to construct the literature review and models. According to Opfer (2005), model building is about specifying relationships between two or more variables, whilst literature review is done to establish the scientific gaps that exist in the body of knowledge.

The constructed models were tested through participatory action research methodology involving experts in the industries, institutions of higher learning, financiers and high profile government staff

3.3 PARTICIPATORY ACTION RESEARCH (PAR)

The exploration of the future through public participation began three million years ago in Africa as the groups of humans clustered together gazing at the evening sky while contemplating their fate (Glen, 1994). In the 1960's and 1970's, more modern participatory methods were developed like Charrettes, Syncons and various forms of computer-mediated communications (Glen, 1994).

These methods were developed for a cross-section of public and/or professional communities to identify issues, future possibilities and common aspirations. In addition they were also developed to bolster the bottom-up approach towards development, after realising the failures of the top-down approach of (particularly) the 1970's.

According to an UNDP document entitled “Participatory assessment and planning for sustainable livelihoods” (SEPED/BDP DRAFT 1), these methods encapsulated the inherent capacities and knowledge systems of rural and urban publics, advocated for more inclusive procedures for policy making, project planning and focused on community-level actions. The main goal of these progressive efforts was poverty reduction and the empowerment of vulnerable groups. Participation denoted involvement of a significant number of persons in situations or actions that enhance their well being.

Participatory Action Research (PAR) has become known for its success in community development projects around the world (Brunner and Guzman, 1998 Maguire, 1987). The objective of this methodology is to increase participation, empowerment and inclusion of the community with the aim of building its capacities, to produce knowledge, action useful to community needs and goals (Mc Taggart, 1991 Papineau and Kiely, 1996). Critical reflection is a crucial step in each PAR cycle (see Figure 3.3).

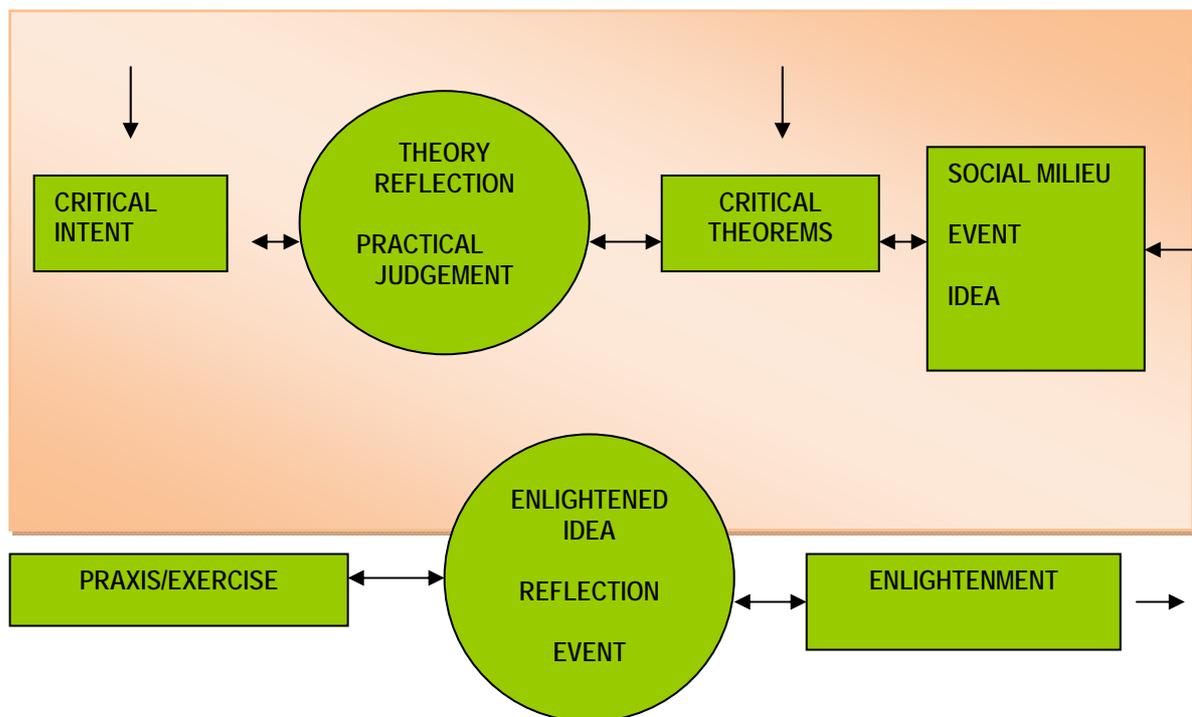


Figure 3.3 Critical Emancipatory Action Research

Source: Hodge: 2004

Grundy (1987:154) describes how this approach promotes emancipatory praxis in participants. He refers to how it promotes the critical consciousness that reveals itself in political as well as practical action to effect change. There are two goals for the researcher using this approach. The first is to increase the closeness between the actual problems encountered by practitioners in a specific setting and the theory used to explain and resolve the problem (Hodge, 2004). The second goal, which goes beyond the other two approaches, is to assist practitioners in identifying and solving explicit fundamental problems by raising their collective consciousness (Holter and Schwartz-Barcott, 1993:301). The development of critique leads makes the mediation of theory and practice possible.

This action-orientated critique has three phases: theory, enlightenment and action (Habermas as quoted in Grundy, 1982:358). Emancipated strategic action follows from the disposition of critical intent (Grundy, 1982:358). Critical intent is the disposition that motivates action and interaction at all stages of emancipatory action research, and is particularly important in the development of the theoretical perspective, which informs and underpins a project (Grundy, 1982:358).

Critical intent has a social consciousness in that it is a disposition towards the critical assessment of the extent to which the social milieu impedes the fostering of the good (Grundy, 1982:358). This mode of emancipatory action research does not begin with theory and end with practice, but is informed by theory and is often in confrontation with the theory that provides the initiative to undertake the practice (Grundy, 1982:358). The dynamic relationship between theory and practice in emancipatory action research entails the expansion of both theory and practice during the project. When a person reflects upon theory in the light of praxis or practical judgment, the form of knowledge that results is personal or tacit knowledge (Hodge, 2004).

This tacit knowledge can be acquired through the process of reflection. The interaction of theory and practical judgment through the process of reflection, with the input from critical intent, leads to critical theorems (Habermas as quoted in Grundy, 1982:359). The second function that Habermas distinguishes in the mediation of theory and practice is the organisation of the process of enlightenment in which critical theorems are applied and tested in a unique manner by the initiation of processes of reflection carried out within certain groups towards which these processes have been directed.

These group processes of reflection will give rise to enlightenment in the form of authentic insights (Habermas as quoted in Grundy, 1982:361). The development of “critical theorems” and the process of enlightenment result in the true praxis, because it is action that is freed from the dominating constraints of the environment (Habermas as quoted in Grundy, 1982:361). Grundy (1982:363) has a diagrammatic representation of the above discussion.

Knowing-why, the source of moral action is often called practical judgment (Hodge, 2004). Technology transfer results in a making action and is product related. Prognosis results in a scenario-building or exercises, and is therefore product centred. The “Idea” in the interaction is personal, subjective and never fully formed; it is rather constantly being formed and influenced by the situation (Grundy, 1982:357).

3.3.1 Weakness of Participatory Action Research (PAR)

Like all participatory methodologies, PAR has its own weaknesses. These include that it requires more time, energy and commitment to undertake the activities compared with other research approaches. A high level of trust is needed between those participating, and this requires some time to develop.

Another problem relates to the fact that when people with different levels of power, status, influence, cultural practice, tradition and knowledge come together, the ideal of participation becomes problematic (Mc Taggart, 1991:170). In order to remove these barriers, the researcher encouraged participants to freely express their opinions, to interject and interrupt at any stage of his presentation. The meetings aimed at critiquing the research problems presented through research models.

3.3.2 Rationale for the use of Participatory Action Research (PAR)

Finn (1994) outlines three key elements that distinguish participatory research from traditional approaches to social science: people, power and praxis. It is people-centered (Brown, 1985) in the sense that the process of critical inquiry is informed by the participants. It also recognises the inseparability of theory, practice and critical awareness of personal-political dialectic. Furthermore, it clearly articulates the value-based-social justice and transformation of those contemporary socio-cultural structures and processes that support the generation of participatory democracy, injustice and inequality (Sohng, 1995).

This method challenges practices that separate researcher from the researched, and promotes the forging of a partnership between researchers and people under study (Freire, 1970, 1974). Both researcher and participant are actors in the investigative process, influencing the flow, interpreting the content and sharing options for action. Ideally, the collaborative process is empowering through the following:

It brings isolated people together around common problems and needs, validates their experiences as the foundation for understanding and critical reflection, and presents the knowledge and experiences of the researchers as additional information upon which to critically reflect.

These are the merits that were considered to be of higher priority and relevance when choosing this research methodology.

3.4 CASE STUDIES

In case-study research, a researcher examines in depth many features of individuals, groups, organizations, movements, events or geographic units (Neuman, 2003 Cooper and Schindler, 2003). Intensive investigations were conducted on farming SMMEs formed by individuals or groups that are categorized as successful or non-successful. Participatory action research (PAR) was employed in the case studies. Eighteen farming SMMEs across six provinces in South Africa were identified and classified as either successful or non-successful and reasons provided. The objective of this case study was to demonstrate a causal argument about how general social forces shape and produce results in particular settings (Walton, 1992:122).

3.5 METHODS USED FOR DATA COLLECTION

The data was collected with the aid of Land Bank, National Department of Agriculture and Commercial Cooperatives personnel using the methods outlined below.

3.5.1. Method used by Land Bank (Land Bank 2007)

Primary objectives of the study

- To determine the problems that developing farmers, who are land bank clients/funded are facing.
- To determine the reasons for their success and failure (defining failure as incapability to meet financial obligations e.g. defaults).

- To determine what a bank can do to keep these developing farmers financial viable.

Sampling design

Stratified randomised design was used as the sampling design.

Sampling procedure

The following sampling procedure was used to select the farmers:

- A list of all developing farmers (Land Bank clients) was obtained.
- The population of developing farmers was 4,600.
- This was categorised in terms of Land Bank national branches (27 in number).
- Branches are unequal.
- Double accounts were rectified.
- Ten per cent (universe) of the developing farmers were selected (sample size was pre-determined by the Land Bank research directorate at head office).
- Another criterion used was short-term, medium and long-term loans provided to the client.
- 140 personal interviews and focus group *sessions were conducted*.

3.6 METHOD USED BY NATIONAL DEPARTMENT OF AGRICULTURE (NDA. 2006-7)

Primary objectives of the study:

- To create a reliable database for agricultural businesses.
- To determine the actual status of emerging farming enterprises.
- To determine the capacity requirements of individual enterprises.
- To develop a system that promotes and supports agricultural co-ops and self-help groups (projects).

The planning of the project was done in 2005. In 2006 the questionnaire was designed (see Annexure 5). The Directorate, Agricultural Development Finance (ADF) was tasked with the responsibility for the designing of the questionnaires. The corporative development support unit (CDSU) within ADF was mandated to finalise and implement the survey questionnaires.

The CDSU used nine national co-ordinators to distribute the questionnaires to the extension officers, who then conducted personal interviews with emerging farming enterprises in their localities. All businesses were considered in the interviews.

Sampling design

All farm businesses were considered for study. No selection was done.

Sampling procedure

The following sampling procedure was used to select the farmers:

- All extension workers throughout the country were encouraged to be involved in the collection of data.
- The data was collected from August 2006 to September 2008 (2-years period).
- Personal interviews.

3.7 METHODS OF ANALYSIS

This study has used both qualitative and quantitative methods of analysis. Each method used is described below.

3.7.1 Qualitative Analysis

- **Narrative Analysis:**

The Narrative analysis was used to reflect the natural unfolding realities of case studies for farming SMMEs through descriptive pictures. The objective was to present or reveal the social realities as experienced by members in a field setting (Neuman, 2003:448). This was combined with ideal types analysis.

- **Ideal types:**

Max Weber's ideal types (contrasts context and analogies) have been used by many qualitative researchers (Neuman, 2003:450). These are models or mental abstractions of social relations or processes. Neuman (2003:450) refers to these types of analysis as the device used for comparison.

The study used key success factors and types of capacities as basis of comparing farming SMMEs in the same domain. The objective was to interpret the impact of key success factors in their unique context.

3.7.2 Quantitative Analysis

- **Regression Analysis:**

Regression analysis was part of statistical methods used to conduct statistical analysis. This stem from the fact that this type of technique can efficiently describes complex relationships. A regression model allows the user to describe a dataset, to estimate population parameters, to infer and forecast (O’Sullivan et al 2008: 455). The R^2 reports the variation in the variables that is explained by the variables included in the model.

- **The GENMOD Procedures**

The GENMOD procedure fits a generalized linear model to the data by maximum likelihood estimation of the parameter vector (SAS, 2008). This procedure estimates the parameters of the model numerically through an iterative fitting process. The dispersion parameter is also estimated by maximum likelihood or, optionally, by the residual deviance or by Pearson’s chi-square divided by the degrees of freedom. Covariances, standard errors, and p-values are computed for the estimated parameters based on the asymptotic normality of maximum likelihood estimators (SAS, 2008). It uses a CLASS statement for determining which variables in the model will define classification levels.

- **Frequency procedure of SAS**

The FREQ procedure is a descriptive as well as a statistical procedure that produces one-way to n-way frequency and cross tabulation tables. Frequency tables concisely describe the data by reporting the distribution of variable values. Cross tabulation tables, also known as contingency tables, summarize data for two or more classification variables by showing the number of observations for each combination of variable values.

3.8 LIMITATIONS

It has been highlighted by many experts that most government reports are abridged and articulated the views of the political heads of such departments would like to see. In the research, the views expressed in such reports are often regarded as authentic without questioning their authenticity. However, some views expressed in those reports might be misleading.

3.9 ETHICAL CONSIDERATIONS

When the research work plan was finalised the process of ethical clarification had began (Kvale, 1996:109-118). It was very important that the respondents should give the researcher the informed consent to participate (Henning, 2004:93). For most business research, oral consent was sufficient (Cooper and Schindler, 2003:123).

The objective of obtaining informed consent was to ensure full disclosure of the procedures of the proposed study before requesting permission to proceed with the study.

With regard to this study, the following informed consent procedures were followed:

- The researchers introduced themselves to the identified participants,
- A brief description of the research topic was done,
- The geographic location where participants were interviewed was described,
- The parties involved in the research were disclosed,
- The purpose of the research was disclosed,
- The participants were promised anonymity and confidentiality,
- The respondents were told that participation was voluntary,
- They were also told that they were free not to respond if they felt it was not proper to do so.
- Thereafter, permission was granted to proceed.

All these steps were taken in order to ensure that the respondents did not suffer physical harm, discomfort, pain, embarrassment and loss of privacy. This was accomplished by explaining study benefits, respondent's rights and protection and finally their informed consent was obtained. Where possible, their intellectual property rights were protected.

CHAPTER FOUR

CASE STUDIES: PERFORMANCE AND SUSTAINABILITY OF FARMING SMMEs

“Sustainable Agriculture can be defined as an integrated system of plant and animal production practices having a site-specific application that will over the long-term: Satisfy human food and fibre needs, enhance environmental quality and the natural resource base upon which the agriculture economy depends, make the most efficient use of non-renewable resources and on-farm resources and integrate, where appropriate, natural biological cycles and controls, sustain the economic viability of farm operations, and enhance the quality of life for farmers and society as a whole” (NDA, 2008:36).

4.1 INTRODUCTION

Performance and sustainability are essential elements of any business operation (Nell and Napier, 2005). However without clear and consistent performance measurement instruments, coupled with monitoring and evaluation systems, it would be difficult to evaluate the strengths and the weaknesses of the business (Drennan and Pennington, 1999:97).

While performance is critical for all components of business enterprises, SMMEs depend on the performance levels of their managers or owners rather than on the performance of the entire business entity (Pett and Wolff, 2007:1). This reliance on managers or owners makes SMMEs susceptible to business and financial risks. Therefore to ensure the sustainability and improved performance of SMMEs, managers or owners need to design an objective method for assessing their business operations, or adopt an existing one (Mampholo and Botha, 2004:169).

The balanced scorecard (BSC) is one of the performance management tools that can be used with success by SMMEs (Fletcher et al. 2004:2). However this tool is fairly unpopular in the farming SMMEs sector in South Africa, as its value has been masked by a lack of information.

Very few managers or owners of farming SMMEs know that they can use the BSC to evaluate the business in terms of customer, internal business process, innovation, learning and financial perspectives. Gumbus and Lussier, (2006:408) have identified a number of advantages of the BSC for businesses.

The following could be of particular importance for farming SMMEs:

- a) tracking of business performance
- b) provision of business focus
- c) alignment of goals to business activities
- d) accountability by managers

The existence and application of the BSC could help an entrepreneur to diagnose various business problems and subsequently attend to them without delay. In this way, the sustainability of the business can be monitored.

The development and availability of key success factors in the farming SMMEs is under-researched and poorly documented, and the literature offers very little information. As a result of these shortcomings, the current study focused on various sector role players in order to identify the eleven most important key success indicators in the farming SMME sector.

Wikipedia, (2009) defines key success indicators as financial and non-financial measures or metrics used to help an organisation define and evaluate how successful it is, typically in terms of making progress towards its long-term organisational goals. Key success indicators are a key part of measurable objectives, which are made up of benchmarks, targets and time frames. Therefore it is important that each business identifies its success indicators.

In identifying these indicators, the enterprise should take the requirements of the business processes and qualitative/quantitative measurements of the results and goals into account.

Due to the fact that fewer farming SMMEs use key success indicators in their business, the study identified key success indicators through focus sessions and participatory approaches with farming stakeholders.

The following key success factors were identified:

- asset build-up or portfolio (ABU/P)
- sustainable markets (SM)
- sustainable production (SP)
- input sources (IS)
- increased income (II)
- sustainable employment (SE)
- ability to service debt (ASD)
- adequate infrastructure (AI)
- potential to grow/expand (PTG/E)
- policy on human capital development (POHCD) and business operation (BO)

For any farming enterprise to be successful, these key success factors have to be in place and integrated into the business. In many cases, the success or failure of a farming enterprise can be attributed to the presence or absence of one or more of these key success factors (Nell and Napier, 2005). Previous studies indicate that ownership of the whole value chain is minimal in most farming SMMEs that are not successful or that are on the brink of collapse (Nell and Napier, 2005, CDS, 2007).

4.2 OBJECTIVES OF STUDY

- To identify key success factors that give rise to the poor or successful performance of the enterprise in the same category
- To determine the influence of key success factors on business performance
- To identify the reasons for the success or failure of the enterprise as influenced by the identified key success factors

To achieve these objectives, a tool was developed (Annexure 2) and 18 case studies were carried out with the aim of conducting internal and external situational analyses. The methodology as described below was followed.

4.3 METHODOLOGY

Hereunder the data set and methodologies are described. The measurements and parameters for success and failure of the farming SMMEs were designed, with the objective of estimating the degree of adequacy of the key success indicators. On the basis of the aforesaid estimates, the individual farming enterprise was evaluated. This was followed by the SSWFOT analysis (Table 4.5 and 4.6). Finally, a statistical analysis involving ridge regression was conducted in order to determine the correlation between financial capacity as a response variable and four explanatory variables, namely human capacity, marketing capacity, infrastructural capacity and production capacity.

4.3.1 Data description

This research used the data obtained from six provinces in South Africa. The SMMEs were identified using a snowball research technique. Only SMMEs that are more than three years old were considered for the study.

The sample consisted of 18 farming SMMEs comprising the following commodities: pig, poultry, vegetable, fish, grain, citrus and mixed farming (Table 4.1). These enterprises represent all categories of SMMEs, namely small, medium and micro enterprises.

4.3.2 Participatory action research (PAR)

The reasons for using participatory action research (PAR) were outlined and elaborated on in Part II of chapter 3. They include the practices that separate the researcher from the participants and the promotion of a partnership between researchers and participants (Freire, 1970, 1974). Both researchers and participants are actors in the investigative process, influencing the flow, interpreting the content and sharing options for action.

Prior to the meetings with individual farming SMMEs, nine meetings were held with various stakeholders throughout the country. Meetings were held with representatives of the GTZ, FAO, the Department of Agriculture, the University of the Free State, the University of Pretoria, AgriSA, the Land Bank and the agricultural colleges to discuss the key critical success factors that influence the success or failure of the farming SMMEs.

An extensive list of factors was established, which was subsequently evaluated by experts, leading to the prioritisation of the main key success factors/indicators. Various questionnaires were developed and critiqued by experts with the purpose of formulating a questionnaire that encompassed all these key success factors.

4.3.3 Focus sessions

36 focus sessions and workshops were organised with individual farming SMMEs in six provinces, namely Limpopo (LP), Mpumalanga (MP), the Free State (FS), North West (NW), Gauteng (GP) and the Eastern Cape (EC).

These focus sessions were organised in order to discuss the key success factors, their weighted influence or lack thereof in these farming enterprises, reasons for either their adequacy or inadequacy, and corrective measures taken by role players.

4.3.4 Measurement instruments

Measurement is a fundamental activity in science (De Vellis, 2003:2). The measurement instruments used in this study were derived from the information provided by and knowledge of both participants and role players. To evaluate performance in terms of the key success factors, the abovementioned focus sessions were conducted with the aid of the tool for evaluating farming SMMEs (Annexure 2). Because indicators were measured by a simple yes or no, certain, do not know or uncertain, the Guttman scale measurement was found to be an appropriate measurement of scale (Neuman, 2003:205).

In the evaluation processes, the following scores were assigned:

0 = very poor performance

1 = poor performance

2 = better performance

3 = good performance

4 = excellent performance

5 = outstanding performance

The evaluation processes were followed by determining essential types of capacities associated with the key success factors. To determine these types of capacities, the following formulas were used:

$$FC = \sum ABU/P + ASD + II/3$$

$$HC = \sum POHCD + PTG/E/2$$

$$IC = \sum AI + BO/2$$

$$MC = SM$$

$$PC = \sum SP + IC/2$$

Where:

FC = financial capacity

HC = human capacity

IC = infrastructural capacity

MC = marketing capacity

PC = production capacity

The above formulas were derived from the key success factors mentioned below:

- asset build-up or portfolio (ABU/P)
- sustainable markets (SM)
- sustainable production (SP)
- input sources (IS)
- increased income (II)
- sustainable employment (SE)
- ability to service debt (ASD)
- adequate infrastructure (AI)
- potential to grow/expand (PTG/E)
- policy on human capital development (POHCD) and business operation (BO)

4.3.5 Parameters for the success and failure of farming SMMEs

Nell and Napier, (2005:1) refer to success in farming as a “journey full of challenges and opportunities. To be successful in farming, the modern farmer or management team needs to adapt swiftly and with accuracy to changes in the immediate and global (industrial) environment. Successful farming, therefore, involves a precise feeling for the current farming business and where the business enterprise is headed. The question is whether the direction in which the farm intends to move in future is indeed the desired one that will allow the farmer or farming family to ensure sustainable success or achieve their goals.”

In view of the difficulties in measuring success and failure in the farming SMMEs in particular, the majority of which lack harmonised business goals, the parameters for success and failure were derived from their performance during the evaluation of the key success factors. It was found to be broadly acceptable that those SMMEs that attained overall scores of 50% and above in the evaluation should be deemed successful in achieving a desired outcome, while those that achieved overall scores below 50% should be deemed to have failed in achieving an acceptable standard.

Table 4.1 Summary of farming SMMEs case studies

CASES	GENDER COMPOSITION	NO. OF OWNERS	ASSETS VALUE	CATEGORY	COMMODITY	PROVINCE	YEAR OF
							ESTABLISHMENT
1	Male	1	>R90 000	Micro enterprise	Pig production	LP	2006
2	Male	1	>R100 000	Micro enterprise	Citrus	EP	1993
3	Four females and five males	9	>R120 000	Micro enterprise	Livestock and vegetables	FS	2003
4	Six females and two males	6	>R120 000	Micro enterprise	Vegetable production	MP	2000
5	Female	1	>R120 000	Micro enterprise	Poultry and vegetables	NW	2002
6	Female	1	>R120 000	Micro enterprise	Grain	GP	2005
7	Male	1	<R150 000	Small-scale enterprise	Fish and vegetables	LP	1989
8	Male	1	<R150 000	Small-scale enterprise	Citrus	EC	1991
9	Four females and five males	9	<R150 000	Small-scale enterprise	Livestock and vegetables	FS	2003
10	One male and nine females	10	<R150 000	Small-scale enterprise	Poultry and vegetables	MP	2000
11	Six females and two males	8	<R150 000	Small-scale enterprise	Poultry	NW	2000
12	Male and female	2	<R150 000	Small-scale enterprise	Poultry and vegetables	GP	2006
13	Male	1	<1.2m	Medium enterprise	Citrus	LP	1990
14	Male	1	<1.2m	Medium enterprise	Citrus	EC	1990
15	Female	1	<1.2m	Medium enterprise	Grain and livestock	FS	2005
16	Female and male	2	<1.2m	Medium enterprise	Poultry and vegetables	MP	2004
17	Female and five males	6	<1.2m	Medium enterprise	Poultry and vegetables	NW	2006
18	Female	1	<1.2m	Medium enterprise	Vegetable production	GP	1998

4.3.6 Analysis

Both qualitative and quantitative analyses are presented below. Qualitative analysis involved the narrative and SSWFOT analysis, while quantitative analysis involved the regression analysis.

4.3.6.1 Qualitative analysis

18 (n=18) individual farming enterprises were categorised as either small, medium or micro enterprises (see table 4.1). In this section, narrative, ideal types and SSWFOT analysis were used to reflect the trends. SSWFOT analysis was specifically used to describe both internal and external characteristics of farming SMMEs (Table 4.5 and 4.6).

4.3.6.2 Statistical analysis

Data considered in the current study comprised one response variable, namely financial capacity, and four explanatory variables, namely human, market, infrastructure and production capacities, all of which were continuously expressed. Preliminary analysis of the data indicated that province and business type were not important predictors of financial capacity. Thus, the multiple linear regression method was used for analysis, since the objective of the study was to determine the relationship between the financial capacity and the four explanatory variables. The following model was fitted to the data:

$$y = X\beta + e \quad (1)$$

where y is a vector of observations on financial capacity, β is a vector of unknown parameters due to human, market, infrastructure and production capacities, e is a vector of residuals and X is an incidence matrix relating explanatory variables to the response variable. The model assumes that residuals have zero expectation and are independently and identically

normally distributed ($\mathbf{e} \sim N(\mathbf{0}, \mathbf{I}\sigma_e^2)$). Furthermore, the model assumes that the explanatory variables are not correlated. When the assumptions of the model are satisfied, the multiple linear model provides the best linear unbiased estimates (BLUE) of $\boldsymbol{\beta}$. The BLUE of $\boldsymbol{\beta}$ is given by:

$$\mathbf{b} = (\mathbf{X}'\mathbf{X})^{-1} \mathbf{X}'\mathbf{y} \quad (2)$$

When the assumptions of the model are not met, estimates of the parameters cannot be accurately made and inference may be affected. For example, when the explanatory variables are correlated, the regression coefficients from the multiple linear regression models are associated with high standard error and the individual t-test and overall F-test may give different results. To ensure that the assumptions of the model were not violated in the current analysis, collinearity diagnostics were conducted on the data. Collinearity means that the explanatory variables are correlated. Thus, the correlations among response and explanatory variables were computed. The variance inflation factor and its inverse or tolerances were calculated. In addition, the condition index and eigenvalues were also computed.

The results from the collinearity diagnostic checks indicated that the explanatory variables were collinear. Thus, the ridge regression model was used to analyse the data. Ridge regression is known to perform better than the ordinary least square (OLS) method when explanatory variables are collinear. The ridge regression model is similar to (2), except that a constant is added to the diagonal of the coefficient matrix:

$$\mathbf{b}^r = (\mathbf{X}'\mathbf{X} + \mathbf{I}k)^{-1} \mathbf{X}'\mathbf{y}$$

where k is the ridge constant and is obtained from visual inspection of the regression trace. The estimates of regression parameters (\mathbf{b}^r) from the ridge regression model are biased but more precise than those from the ordinary least squares.

4.4 RESULTS AND DISCUSSION

As outlined in section 4.2, the study's research objectives were to identify key success factors that give rise to the poor or successful performance of the enterprise in the same category, to determine the influence of the key success factors on business performance, to identify the reasons for the success or failure of the enterprise as influenced by the identified key success factors and to prescribe solutions. In achieving these objectives, the scores of the key success indicators were assessed amongst the peer farming SMMEs. Descriptive statistics of the research variables, ridge regression analysis and Pearson correlation coefficients between response and explanatory variables were also performed.

4.4.1 Performance of the key success indicators in small-scale enterprises

The performance of key success indicators in any enterprises including small-scale farming enterprises is of critical importance in assessing their capacity to sustain their competitiveness and survival. In this regard, success indicators were used to demonstrate the performance of small-scale farming enterprises under investigation. The profile provided by the outcome of the investigation was analysed. The results of the key success indicators are shown in table 4.2 and illustrated graphically in figure 4.1. The narrative analyses of these results is presented below:

a) Assets build-up/portfolio (ABU/P)

Assets are key to providing a safety net, climbing the economic ladder out of poverty and leading towards a better, more financially stable life (Bread for the world, 2009). Other than wealth creation, small-scale farming enterprises in South Africa are known for being established in order to safeguard livelihood or food security for the household.

This study examined whether some small-scale farmers have realised the importance of wealth creation and started building an assets base or portfolio. In an attempt to investigate wealth creation through small-scale farming, variables such as insurance, machinery, immovable property, savings and bonds/shares were measured using the Guttman scale. The results revealed that out of six enterprises three scored highly (80%), two scored 60% and only one scored 40% on aggregate (table 4.2).

The picture that emerges clearly shows that the livelihood orientation in small-scale farming is gradually changing. In contrast, the good assets build-up/portfolio of these farming enterprises might be a result of assets inherited from the previous owners, as most of these farms were purchased through land reform grants. For these farmers to maintain these favourable assets portfolio, it is necessary that they be trained to maintain and use them efficiently and effectively to enhance their competitive edge.

b) Sustainable markets (SM)

Sustainable markets are necessary to ensure adequate cash flow for any business. The concept of sustainable market refers to any structure that allows buyers and sellers to exchange and pass on goods, services and information from one generation to another (Wikipedia, 2009). For the markets to be sustainable, a variety of different systems, institutions, procedures, social relations and infrastructures are put in place. Small-scale farming enterprises in South Africa have been perceived to be highly constrained by a lack of sustainable markets (Clover and Darroch, 2005).

In view of this challenge, this study investigated the capacity of small-scale farming enterprises using the following variables: supply contracts, linkages with marketing agencies, potential market growth, ability to establish niche markets and identification of competitors.

According to table 4.2, only one out of six enterprises had all these variables in its business, two enterprises had only 40%, followed by one with 20% and the remaining two had none of these variables. This picture indicates that crucial elements of sustainable markets are lacking in small-scale farming. Yoba, (1997) warned that the farmers participating under poor marketing circumstances could not graduate to become fully fledged commercial farmers.

Access to necessary sources of information empowers farmers to trade efficiently. Düvel and Terblanché, (2004) stressed that for emerging farmers to be successful, marketing access is of critical importance. In order to have sustainable health cash flows, farmers should have access to sustainable markets at all times.

c) Sustainable production (SP)

Improved and sustainable productivity in agriculture plays a central role in economic development (Groenewald, 2004). Sustainable production refers to a process of combining various immaterial and material inputs of production so as to produce products for consumption for one generation to the next (Wikipedia, 2009). Technology plays a key role in improving productivity and raising production output. Enterprises can increase productivity in a variety of ways.

The most obvious methods involve automation and computerisation which minimise the tasks that must be performed by employees (Wikipedia, 2009). An increase in sustainable production can influence society more broadly, by improving living standards and creating incomes (Wikipedia, 2009).

The growth in aggregate supply allowed increases in aggregate demand and decreases in unemployment, at the same time stabilising inflation. Based on the abovementioned importance of sustainable production, the key elements that can improve sustainable production, such as the availability of computer technologies, modern software, quality products, ability of business to attract trained personnel and linkages to experts, were measured using the Guttman scale.

The results revealed that only two enterprises managed to score the maximum of 60%, followed by a 40% score from another two enterprises, with the remaining enterprises only managing to score 20% and below. These results indicate that small-scale farming requires technological and expert support in order to ensure its sustainable production capacity.

d) Input supply (IS)

Input is a term that denotes either an entrance or changes which are inserted into a system and which activate/modify a process (Wikipedia, 2009). In case of a process description/model, input is closely connected with the concept of output. Inputs are variables that are known and outputs are those that are unknown.

Access to affordable input at short distance from the point of production is necessary for efficient and effective production (Hart and Burgess, 2005). Hence it plays an important role in ensuring profitability and sustainable production. To measure the access to input supply, this study investigated the following variables: access to supply contracts, benefit of buying inputs at affordable prices, access to sustainable transport and raw material supply.

The results indicate that only one enterprise out of six managed to score the maximum of 40%, while the rest scored 20% and below. This scenario implies that the majority of small-scale farming enterprises have a low capacity to access input.

This result is in agreement with the results found by Hart and Burgess presented at the South African Society for Agricultural Extension (SASAE) Conference of 2005. Stevens, (2005) also found that small-scale farmers lack sufficient suppliers. In this regard, it may be correct to assume that the critical lack of input supply may be the main problem for the survival of these enterprises. It appears that addressing input supply may help resolve the high attrition rate of small-scale farming.

e) Increased income (II)

The need to provide for increasing returns over time automatically implies the ability to attract capital, both owned and borrowed (Groenewald, 2004). Furthermore, this author reflected that the development of small-scale farmers depends on revenues obtained by selling products at prices which render production profitable.

Therefore, small-scale farming enterprises are expected to generate adequate revenues in order to survive. Revenue-based models are critical for increased income because they focus on generating, maintaining and increasing revenues.

These models are uncommon to farming SMMEs. This makes profit evaluation in small-scale farming enterprises in South Africa quite difficult. For the purpose of this study, the following variables were identified as crucial for increased income: equitable income, sustainable yearly income, ability to receive expected revenue, good net income/profit and ability to provide attractive salaries/wages.

The results revealed that out of six enterprises considered in this study, only one enterprise managed to score 80% on these variables; the rest of these enterprises scored 40% and below. This implies that the majority of small-scale enterprises do not have a sound cash flow. On this basis, their sustainability is no doubt a recipe for collapse.

f) Sustainable employment (SE)

Poverty, inequality and joblessness are key challenges to the South African economy. Small-scale farming has been credited for poverty reduction and creation of sustainable livelihood in poor rural areas of the former bantustan (ANC, 2007). With regard to the contribution of small-scale farming enterprises to the creation of sustainable employment, very little information has been documented.

The study identified the following in order to ascertain whether small-scale farming in South Africa has the capacity to provide for sustainable employment: ability to employ workers, ability to retain workers, ability to pay wages on a monthly basis, ability to train workers and ability to provide a pension.

The results revealed that only one out of six enterprises was able to fulfil 80% of these obligations, followed by one enterprise that scored 60% and the rest scoring 40% and below. The fact that at least two out of six scored above 50% may be indicative of the potential for small-scale farming to provide sustainable employment given adequate support and mentorship.

g) Ability to service debt (ASD)

The ability to service the debt capital is an indication of the soundness of the enterprise's financial state. Debt capital is money that has been borrowed and must be repaid at some predetermined date (Longenecker et al. 2003). To investigate the ability of small-scale farmers to service their debts, the following variables were measured in terms of the Guttman scale: ability to collect revenues, ability to pay debts, ability to secure credit and listing with the credit bureau.

The results revealed that the majority of small-scale farming enterprises do not have debt repayment problems. These results may indicate this phenomenon because these enterprises are less creditworthy in terms of the banking practices in South Africa. They may as well be discouraged from taking credit from the financial institutions. In addition, the results may reflect that small-scale farming may rely on government grants as a source of financial injection rather than on credit or loans.

h) Adequate infrastructure (A/I)

According to Coetzee et al. (2004), infrastructure involves both physical infrastructure (communication, transport and roads) and institutional infrastructure (market information, security, research and animal disease control). Parts of rural South Africa and indeed practically all of Africa are very poorly served by roads (Groenewald, 2004). Small-scale farmers are found mostly in remote areas where there is a severe lack of adequate infrastructure.

According to Kgantsi and Mokoene, (1997), a lack of properly maintained roads, telephones, fencing, water and electricity makes it very difficult for farmers to run their operations. This is an obvious and severe stumbling block for agricultural development (Groenewald, 2004). Other infrastructural deficiencies that have to be overcome relate to communications, health and water supply (Groenewald, 2004).

Given these observations from these researchers, the following variables were identified to find out whether small-scale farmers have adequate infrastructure: availability of production infrastructure, linkages to good road networks, adequate equipment, availability of cell phones and other communication infrastructure. The results revealed that 33% of the small-scale enterprises are still functioning without adequate infrastructure.

These results might indicate that those enterprises that are closer to the urban areas have better infrastructure compared with the rural ones. This might also reflect the infrastructure inherited from previous white farmers, who sold their land to black farmers through land redistribution.

i) Policy on human capital development (POHCD)

Small-scale farmers in rural areas are often highly illiterate (Coetzee et al. 2004). These farmers have to cope with all the problems related to their limited resource base, their limited experience with farming, their very often lower levels of schooling and their lack of association and contact with the various institutions serving modern commercial agriculture (Groenewald, 2004). According to Groenewald, (2004), this emphasises the need for human capital development in the form of extension, adult education and training and other advisory services.

Wikipedia, (2009) described human development as an attempt to create an environment in which people can develop their full potential and lead to productive and creative lives in accordance with their needs and interests. To this end, agricultural education and training (AET) should, in conjunction with research institutions, play a central role in building the capacity of entrepreneurs. Without strong linkages to these institutions, it would be difficult to attain human capital development. In agriculture as in any other economic sector, purposeful research is needed to keep or render producers or traders competitive (Groenewald, 2004).

To find out whether small-scale enterprises take human capital development seriously, the following variables were investigated: availability of business succession plan, youth involvement strategy, attendance of local, regional and international conferences, attendance of short learning programmes and membership of association.

The results indicate that 67% have 80% exposure to human capital development activities and 33% have 60% exposure to such activities. This indicates an adequate human capital development involvement.

This picture does not suggest that no further human capital development activities are required. It may suggest that well-planned and monitored human capital development may make a significant contribution to capacitating small-scale farming enterprises. Currently there is no national, provincial, district and local municipality skills development database that provides information regarding the type of training received by small-scale farmers. This poses a serious threat because a training service provider can duplicate the training received by beneficiaries.

j) Potential to grow/expand (PTG/E)

Business growth requires investment of capital and other resources (Neshamba, 2006). This author highlighted that as more workers are hired, additional machinery and equipment and other resources will be required including working capital as well as human capital. The ability to build on success, for example by expanding should the entrepreneur be able to and desire to do so, is vital for future prosperity (Groenewald, 2004).

The abovementioned author believes that probabilities of success will logically be maximised if the bulk of early efforts is expended on those activities and locations offering the highest probability of success, coupled with activities expected to increase the probabilities of success in other activities, areas and fields.

Constraints include time schedules, financial constraints, manpower constraints and institutional limitations. Sequences of events and actions at different locations and of different magnitudes may be viewed as the activities involved in the process.

Growth of the business may be measured by financial ratios (Gray et al. 2004). Due to the lack of financial records in small-scale farming, the potential for these enterprises to expand their business was measured by using the following variables: access to markets, access to growing markets, marketing information, human development policy, availability of strategic plan, vision and mission.

The results revealed that small-scale farming has a maximum of 40% prospect for growth. This is not surprising because these enterprises lack sustainable markets, production, cash flow and input sources. Neshamba, (2006) found that 75% of high-growth owner-managers have thorough knowledge of markets in which they sell their goods and services compared to low-growth firms. This clearly illustrates that there is a strong relationship between marketing and growth.

Furthermore, limited strategic planning, vision and mission together with a lack of differentiated strategy were also found to characterise the low-growth firms (Neshamba, 2006). Therefore, it is necessary that appropriate support be designed to reinforce the marketing efforts of these enterprises in order to enhance their growth potential.

k) Business operations (BO)

Business operations are those ongoing recurring activities involved in the running of a business for the purpose of producing value for the stakeholders (Wikipedia, 2009). Business operations encompass three fundamental management imperatives (i.e. generating recurring income, increasing the value of business assets, and securing the income and value of the business) that collectively aim to maximise values harvested from business assets.

For the purpose of measuring business operations of small-scale farming where essential information is inadequate, the following variables were identified: availability of an office, recordkeeping systems, the use of a management information system and the availability of an operational manager in the business. The results revealed that 67% of small-scale farmers lack proper business operation systems and facilities.

This implies that small-scale farmers require assistance in ensuring that their business operations are efficient and effective. Nesamba, (2006) recommends that firms associated with low growth require strategies which include, amongst others, motivation, counselling, management teams and establishment of control systems.

4.4.2 Summary of small-scale farming results

According to the results, small-scale farming enterprises perform extremely poorly with regard to the following key success indicators: input sources (IS), sustainable markets (SM) and sustainable production (SP). It would appear that the growth potential of the enterprises under investigation is constrained by their low cash flow. Their contribution to sustainable employment seems to be marginal, and their business organisation (BO) requires attention.

Key success indicators indicative of a moderate profile include asset build-up/portfolio (ABU/P) of 67% and adequate infrastructure (AI) of 57%, while their human capacity (POHCD) of 73% and 70% ability to service debt (ASD) appear to be sufficient (figure 4.1). Debt servicing applies only if the enterprise has some debts. It was found that in many cases, small-scale farming enterprises did not qualify to borrow any funds and therefore had no obligation to service any debt.

Table 4.2 Summary of the performance of small-scale farming enterprises

SMALL-SCALE ENTERPRISES											
KEY SUCCESS FACTORS/INDICATORS	S1		S2		S3		S4		S5		Score
	Score	%	Score	%	Score	%	Score	%	Score	%	
PERFORMANCE											
1. Asset build-up/portfolio (ABU/P)	3	60	4	80	3	60	4	80	2	40	4
2. Sustainable market (SM)	0	0	2	40	2	40	1	20	0	0	5
3. Sustainable production (SP)	0	0	2	40	2	40	3	60	1	20	3
4. Input sources (IS)	1	20	0	0	1	20	1	20	0	0	2
5. Increased income (II)	1	20	2	40	1	20	1	20	1	20	4
6. Sustainable employment (SE)	2	40	4	80	2	40	1	20	1	20	3
7. Ability to service debt (ASD)	4	80	3	60	5	100	1	20	4	80	4
8. Adequate infrastructure (A/I)	5	100	2	40	3	60	4	80	0	0	3
9. Policy on human capital development (POHCD)	4	80	3	60	4	80	4	80	3	60	4
10. Potential to grow/expand (PTG/E)	0	0	2	40	1	20	1	20	0	0	2
11. Business operations (BO)	3	60	3	60	2	40	2	40	0	0	2

Key: S1 = first small-scale enterprise, S2 = second small-scale enterprise, S3 = third small-scale enterprise, S4 = fourth small-scale enterprise, S5 = fifth small-scale enterprise and S6 = sixth small-scale enterprise

On this basis, it was not surprising that their debt servicing ability was overstated. The overall results indicate that small-scale farming enterprises lack 64% of key success indicators. The picture that therefore emerges clearly indicates that the potential of small-scale farming for growth and sustainability is constrained by inadequacy of key success factors, particularly input supply, sustainable markets and production capacity. To transform these enterprises, it may therefore be expected that development institutions and government should provide interventions which will aim at rectifying these factors.

As regards the 36% of success indicators which were adequate, the only observation worth mentioning is that key success indicators such as assets build-up/portfolio (ABU/P), ability to service debt (ASD) and policy on human capital development (POHCD) need to be consistently monitored in order to get a reliable outcome.

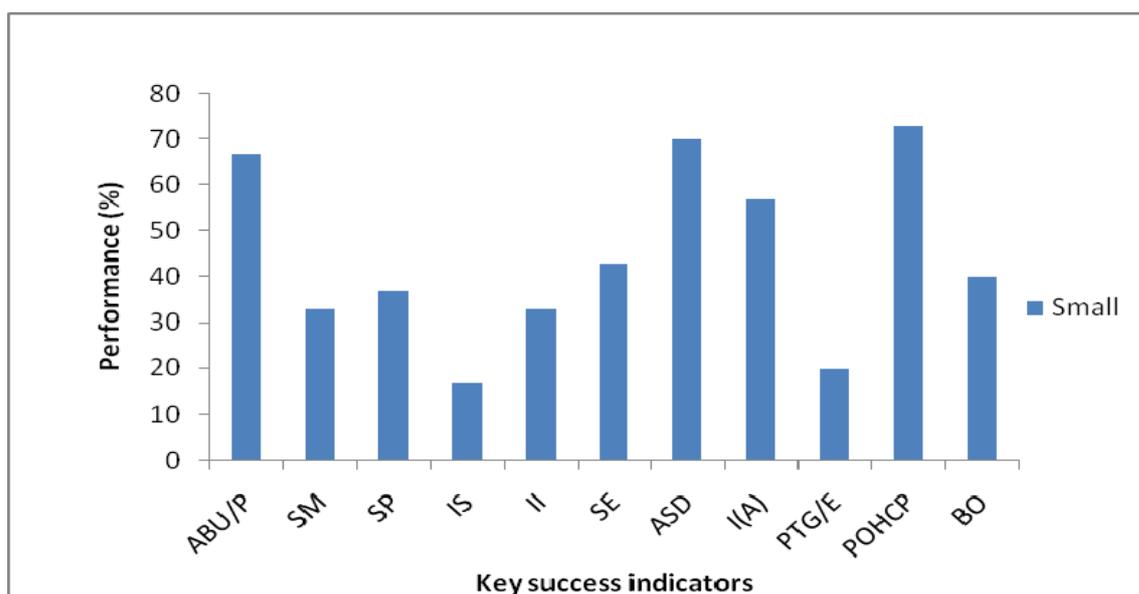


Figure 4.1 Key success indicators for small-scale farming enterprises

Keys: ABU/P= Assets build-up/portfolio , SM= Sustainable markets , SP= Sustainable production , IS= Input supply , II= Increased income , SE= Sustainable employment, ASD= Ability to service debts, I(A)= Adequate infrastructure, PTG/E= Potential to grow , POHCP= Policy on human capital development , and BO= Business operations.

4.4.3 Performance of micro-scale farming enterprises

The concerns regarding basic needs, food security, failure of growth strategies, divergence in development patterns and increased joblessness have led developing countries to initiate and develop micro enterprises in order to meet the objectives of poverty reduction, improvement of livelihood, employment generation and empowerment of women. In 2005, the South African government initiated an agricultural micro-finance fund called MAFISA in order to empower micro-level producers, processors, the working poor, micro-entrepreneurs and emerging farmers (MAFISA, 2005).

Wikipedia, (2009) defined a micro enterprise or micro business as a type of small business that is often unregistered and is run by a poor individual. In the agribusiness sector, micro enterprises are commonly referred to as subsistence farming or survival enterprises (Atkinson and Buscher, 2006). This type of business is often started with as little capital as possible or with less capital than would be usual for a business. Because micro enterprises typically have no access to the commercial banking sector, they often rely on 'microloans' or microcredit for financing (Wikipedia, 2009).

These enterprises have been under scientific investigation by many researchers (CDS, 2007). Their performances have been mediocre, in consequence of which some prominent economists have described them as practices that need to be discouraged because they are themselves one of the sources of consistent poverty (Groenewald, 2008). It is therefore the objective of the study to find out which key success indicators are lacking and the reasons for this. The results of the key success indicators are shown in table 4.3 and illustrated graphically in figure 4.2. The narrative analyses of these results are presented below:

Table 4.3 Summary of the performance of micro-farming enterprises

MICROENTERPRISES											
KEY SUCCESS FACTORS/INDICATORS	M1		M2		M3		M4		M5		
PERFORMANCE	SCORE	%	SCORE								
1. Asset build-up/portfolio (ABU/P)	3	60	4	80	1	20	2	40	2	40	4
2. Sustainable market (SM)	1	20	3	60	1	20	1	20	0	0	5
3. Sustainable production (SP)	2	40	2	40	0	0	0	0	1	20	3
4. Input sources (IS)	1	20	2	40	1	20	0	0	0	0	2
5. Increased income (II)	1	20	0	0	1	20	0	0	1	20	4
6. Sustainable employment (SE)	2	40	2	40	2	40	1	20	2	40	3
7. Ability to service debt (ASD)	4	80	4	80	4	80	1	20	4	80	4
8. Adequate infrastructure (A/I)	5	100	3	60	0	0	2	40	2	40	3
9. Policy on human capital development (POHCD)	1	20	5	100	0	0	0	0	5	100	4
10. Potential to grow/expand (PTG/E)	1	20	2	40	0	0	1	20	2	40	2
11. Business operations (BO)	2	40	3	60	0	0	0	0	2	40	2

Key: M1 = first micro enterprise, M2 = second micro enterprise, M3 = third micro enterprise, M4 = fourth micro enterprise, M5 = fifth micro enterprise and M6 = sixth micro enterprise

a) Assets build-up/portfolio (ABU/P)

To investigate this key success indicator, similar variables and measurements to those presented in section 4.4.1(a) were used. The results revealed that out of six enterprises two scored highly (80%), one scored 60%, and three scored 40% and below (table 4.3). These results portray a picture that micro enterprises have the lower assets portfolios compared with small-scale farming businesses. This implies that micro enterprises lag behind in terms of assets investment.

The lower asset investment pedigree might be as a result of lower initial capital investment, business goals, poor business strategic positioning and lack of investors' required rate of return (ROR). With regard to the last mentioned, various investors require a different rate of return for investment in different stages of business development (Timmons and Spinelli, 2004). Therefore to expect assets investments by both private and public investors in these enterprises will require that their business orientation be modernised to ensure profitability and better returns on investment.

b) Sustainable markets (SM)

Sustainable markets are necessary to ensure adequate cash flow for any business. Similarly, micro enterprises would depend on their linkages with these markets for their sustainability. To find out whether these enterprises require sustainable markets, similar variables to those considered in section 4.4.1 (b) were used.

According to table 4.3, only one out of six enterprises had 100% performance, followed by one with 60% and all the remaining four enterprises performed below 21%. This picture shows that although some micro enterprises are succeeding in accessing sustainable markets, others are still struggling to achieve an optimum level of market access.

This illustrates the seriousness of the challenge, which obviously requires more attention by agribusiness experts and institutions.

c) Sustainable production (SP)

Like any other business, micro farming enterprises require a sustainable production to ensure their survival and profitability. According to Groenewald, (2004), improved and sustainable productivity in agriculture has a central role to play in economic development. On the basis of the abovementioned importance of sustainable production, the key elements that can improve sustainable production such as the one considered in section 4.4.1 (c) were used to measure the sustainability of production for micro farming enterprises.

The results revealed that only one enterprise managed to score the maximum of 60% and the rest scored 40% and below. Of significant importance is that 33% of enterprises considered in this study did not score any points at all. This illustrates that although the trend of performance for this key success indicator is slightly similar to that of small-scale farming, micro enterprises have the worst sustainable production profile. The deduction from these results clearly emphasises the need for these enterprises to plan their production more rigorously and give more priority to factors that influence sustainability of production.

d) Input supply (IS)

The input supply profile of the micro farming enterprises considered in this study is presented in table 4.3. According to Hart and Burgess, (2005), accessibility of inputs supply ensures sustainable productivity. In general, micro farming enterprises are associated with little access to input supply due to the fact that the majority of these enterprises are found in rural areas where road infrastructure is not well maintained, coupled with the long distance from the main suppliers (Groenewald, 2004).

To measure whether access to input supply for micro farming enterprises has improved, this study considered variables similar to the one used in section 4.4.1 (d).

The results indicate that only two enterprises out of six managed to score the maximum of 40%, while the rest scored 20% and below. This picture shows a similar pattern of performance as shown by small-scale farming enterprises. Similarly, it implies that the majority of micro-scale farming enterprises have a low capacity to access production input. This confirms the findings of Hart and Burgess, (2005). It can therefore be deduced that accessing input by micro farming enterprises at a sustainable level still remains a crucial challenge and hence it would appear that an input supply strategy for these enterprises might provide a long-lasting solution regarding their unsustainable profiles.

e) Increased income (II)

In a normal situation, financial viability of the existing enterprises is ascertained by analysing financial statements. Financial ratios contained in financial statements indicate the performance of enterprises which helps to demonstrate signs of improvement or deterioration, and this time series analysis is useful in estimating future financial performance (Leahigh et al. 2000). Due to the absence of the financial statement, which is a common phenomenon in emerging farming enterprises including micro farming enterprises, variables used in section 4.4.1 (e) were considered.

The results revealed that out of six enterprises considered in this study, only one enterprise managed to score 80% on these variables, with the rest of these enterprises scoring 20%. These results are slightly similar to those found in small-scale enterprises, although the majority of micro enterprises (83%) seem to perform around a 20% score. This shows that there is less of a cash flow problem in the micro enterprises than in the small-scale enterprises. Both small and micro enterprises would require serious mentorship in order to improve their financial conditions.

f) Sustainable employment (SE)

The large presence of micro enterprises in the rural and peri-urban areas is indicative of low employment opportunities and also an attempt by poor people to secure an alternative source of income. In the agribusiness sector, micro farming enterprises are known to be a strategy by rural people to secure a livelihood and not to attain prosperity. These enterprises have created a number of informal employment opportunities.

The question whether these opportunities can be regarded as sustainable or unsustainable is often not asked. This could be because the role of these enterprises in job creation is not well appreciated by both the public and private sectors. In addition, poor people tend to associate employment with urban areas. On the other hand, the nature and benefit of the jobs created by these enterprises are of a low status compared with formal employment opportunities.

It is on this basis that the study investigated the sustainability of the employment created by these enterprises. Variables considered in section 4.4.1 (f) were used. The results revealed that only one out of six enterprises scored 60% and 83% of the enterprises scored 40% and below. These results indicate slightly similar performance to that observed in small-scale farming enterprises. The only difference is that small-scale enterprises have slightly improved performance (33%) compared with micro enterprises (17%). This shows that micro enterprises require more support and mentorship in order to provide sustainable employment compared with small-scale ones.

g) Ability to service debt (ASD)

Micro farming enterprises in South Africa often operate without credit and therefore debt repayment is not a prime concern. Most of these enterprises receive a piece of land from the headmaster through a permission-to-occupy (PTO) arrangement.

This arrangement does not require large sums of money. Often, the owners of these enterprises are not prepared to invest more in the infrastructure because the land which they obtain through PTO is not legally theirs and still belongs to the chief of the area. The debt servicing indicator applies only to those enterprises that have acquired debt for business purposes. To investigate the ability to prepay by those micro enterprises that have acquired some debts, similar variables described in 4.4.1 (g) were considered.

The results revealed that the majority (83%) of micro-scale farming enterprises do not have debt repayment problems. These results show a similar situation to that of small-scale farming enterprises and also confirm that these enterprises use very little credit to run their businesses. In general, financial institutions regard these enterprises as unbankable and risky. Consequently, such enterprises are not creditworthy as per the banking sector in South Africa.

h) Adequate infrastructure (A/I)

To run a sustainable business, adequate infrastructure is required. According to Coetzee et al. (2004), infrastructure involves both physical infrastructure (communication, transport and roads) and institutional infrastructure (market information, security, research and animal disease control). Although, micro enterprises produce fewer products compared with other categories of enterprises, adequate infrastructure befitting their production capacity is of critical importance to their sustainability. To determine the adequacy of the infrastructure for micro enterprises, variables used in section 4.4.1 (h) were utilised.

The results revealed that 17% of the micro-scale enterprises were still functioning without infrastructure and 33% were run with inadequate infrastructure. This implies that 50% of micro enterprises were operating with inadequate infrastructure.

These trends seem to indicate that micro enterprises are still challenged by a lack of necessary infrastructure. Without an appropriate and adequate infrastructure, the development of these enterprises could be severely impaired.

i) Policy on human capital development (POHCD)

Like small-scale farmers, micro-scale farmers reside predominantly in rural areas where there is minimal access to educational opportunities. In general, owners of micro farming enterprises are often highly illiterate (Coetzee et al. 2004). Their understanding of farming is guided by traditional practices and securing household food. It is within this context that training in modern farming practices is required to change the farming orientation.

Given the illiteracy levels, modern farming practices present some difficulties because they rely heavily on scientific innovation. In this scenario, where farmers have no scientific background, it is required that strategies and plans be put in place to capacitate these entrepreneurs. This study used the variables described in section 4.4.1 (i) to ascertain whether micro farming entrepreneurs are properly engaged in capacity-building activities.

The results indicate that 50% of micro-scale farmers were exposed to human capital development activities. They also indicate that 33% of the entrepreneurs were not at all exposed to human capacity development activities. This clearly indicates that some of the entrepreneurs in these categories are running their businesses without any access to business information and expertise.

This situation suggests that micro enterprise owners are not linked to experts, training institutions and development practitioners. It also indicates that in cases where they know of such expertise, they are not able to afford the services. The affordability of these services might be impaired by a lack of net financial inflow into their enterprises.

Therefore, a challenge of this magnitude would require that public institutions, including non-governmental organisations (NGOs), must ensure that policies conducive to and necessary for skills and capacity development are negotiated for the benefit of these types of enterprises.

j) Potential to grow/expand (PTG/E)

In general, micro enterprises do not regard growth and expansion as top priorities. This pattern also seems to be true for micro-scale farming enterprises. The fact that expansion and business growth require investment of capital and other resources might be a main impediment to micro enterprises planning for growth (Neshamba, 2006). Groenewald, (2004) argues that the ability to build on success (e.g. by expanding should the entrepreneur be able to and desire to do so) is vital for future prosperity (Groenewald, 2004).

It is thought that every entrepreneur regardless of the size of the business will harbour ambitions to be prosperous, but the contrary seems to be true of micro enterprises which are popularly known to be resource-poor and therefore associated with poor business growth and expansion. On the basis of these observations, the study used variables considered in section 4.4.1 (j) to find out whether there are improvements in the growth of micro-scale farming enterprises. The results revealed that micro-scale farming enterprises have maximum prospects for growth of 40%.

This is similar to growth prospects found in the small-scale farming enterprises. These results therefore indicate that despite the size and the turnover, small- and micro-scale farming enterprises would perform relatively similarly. This picture indicates that both small and micro enterprises need serious mentorship accompanied by monitoring and evaluation of their growth patterns. It is therefore necessary that a growth and development strategy regarding these enterprises be developed in line with an enabling environment.

k) Business operations (BO)

Regardless of the size of the enterprise, business operations such as the one discussed in section 4.4.1 (k) are also necessary for the smooth running of the micro-scale farming enterprises. To determine the extent to which micro-scale farming enterprises require business operational capacity, variables used in section 4.4.1 (k) were considered.

The results revealed that 83% of micro-scale farmers lack proper business operation systems and facilities. This implies that these enterprises require more assistance compared with the small-scale counterpart in ensuring that their business operations are managed properly.

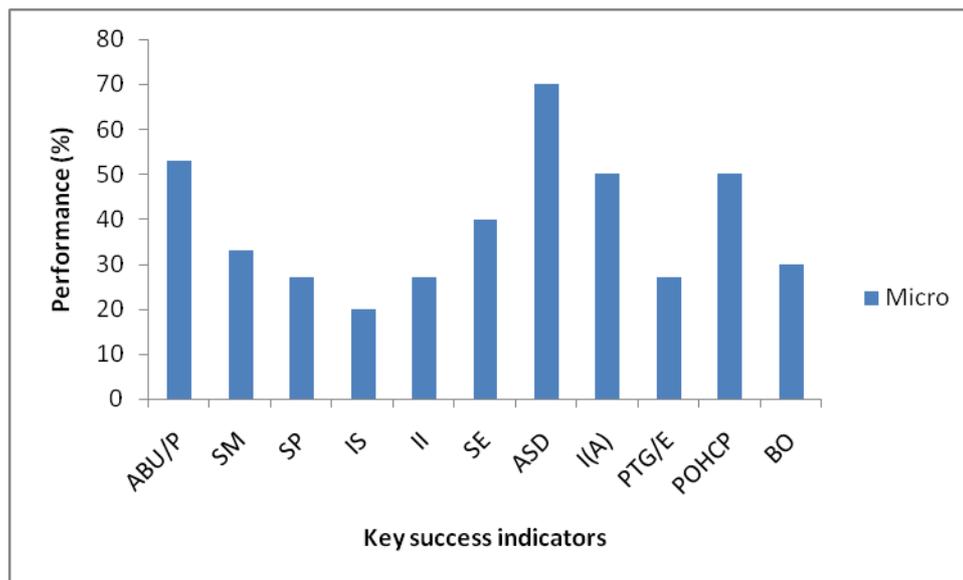


Figure 4.2 Key success indicators for micro-scale enterprises

Keys: ABU/P= Assets build-up/portfolio , SM= Sustainable markets , SP= Sustainable production , IS= Input supply , II= Increased income , SE= Sustainable employment, ASD= Ability to service debts, I(A)= Adequate infrastructure, PTG/E= Potential to grow , POHCP= Policy on human capital development , and BO= Business operations.

4.4.4 Summary of micro-scale farming results

The most important findings can be summarised as follows:

- Micro-scale farming enterprises have slightly similar constraints to the ones found in small-scale farming enterprises, although the magnitude differs slightly. In most cases, micro-scale farming enterprises have a lower performance relative to their small-scale farming counterparts.
- The key success indicators that were found to be deficient and thus require serious attention are sustainable markets (SM), sustainable production (SP), input sources (IS), increased income (II), potential to grow/expand (PTG/E), business operations (BO) and sustainable employment (SE).
- Finally it was found that 64% of the key success indicators are lacking and thus only 36% are found to be adequate (figure 4.2). This picture clearly indicates that micro enterprises have a weak business pedigree. Accordingly, this suggests that interventions similar to the one suggested in small-scale farming enterprises, which seek to address the inadequate capacity defined within the context of the poor key success indicators, could make some positive impact.

4.4.5 Performance of medium farming enterprises

Medium farming enterprises are those started by farmers or businesspeople who are inspired to create wealth. Unlike small and micro enterprises, their principal objectives are profitability and growth. As a result, they are commonly referred to as entrepreneurial ventures. According to Nieman et al. (2004) and Wickham, (2001), characteristics such as innovation, potential for growth and strategic objectives (i.e. market targets, market development, market share and market position) distinguish these ventures from small and micro enterprises.

It is perceived that small and micro enterprises rarely place a premium on these aspects. Their objectives seldom go beyond survival, sales and profit targets (Nieman et al. 2004).

In South Africa, most of the medium enterprise farmers do not qualify for government grants to either start or improve their business, as it is assumed that they are in a better financial position. According to Atkinson and Buscher, (2006), these are the farmers on whom the agrarian development success strategy is supposed to focus. It is on the basis of this assertion that it has been deemed fit to investigate the adequacy of their performance in terms of the key success indicators compared with other types of enterprises. The narrative analyses of the key success indicators are presented below:

a) Assets build-up/portfolio (ABU/P)

To investigate this key success indicator, similar variables and measurements to those presented in both small and micro enterprises were used. The results revealed that out of six enterprises the lowest score regarding this indicator was 60% while 83% of the enterprises scored 80% and above. This shows a greater improvement compared to both small and micro enterprises. This indicates that the asset portfolio for medium enterprises is quite satisfactory.

b) Sustainable markets (SM)

In general, SMMEs are faced with a challenge to create sustainable markets for their products and services (Nieman et al. 2004). To find out whether medium farming enterprises have the potential to secure sustainable markets, similar variables to those considered in small and micro enterprises were used.

The results revealed that 33% of the enterprises have inadequate sustainable markets compared with 66% of small-scale enterprises. This picture indicates that although medium-scale enterprises are challenged by inadequacy of sustainable markets, the extent to which the challenge exists is quite minimal compared with that of their counterparts.

c) Sustainable production (SP)

Sustainable production is required to meet the demand of consumers. In South Africa, most of the enterprises lack the potential to meet their demand due to various factors such as labour disputes, lack of production capacity, high cost of inputs and financial constraints. These factors are also known to affect the medium enterprises (Nieman et al. 2004).

To find out the potential for medium-scale enterprises to have a sustainable production, the key success indicators used to measure the sustainability of production for small and micro farming enterprises were employed. The results show that 50% of the enterprises scored 80% and above. This is a greater improvement compared with small and micro enterprises which only managed to score the maximum of 60%, with the rest scoring 40% and below. This illustrates that medium farming enterprises have a reliable production capacity compared with their counterparts.

d) Input supply (IS)

In general for any business to produce sustainably, it requires inputs that are of a reliable quality and easily accessible. According to Nell and Napier, (2006), the relationship with the suppliers of the farming business's inputs is critical for sustained success. These authors indicated that businesses should have sound negotiation skills and knowledge in order to have favourable prices and consistent and timely delivery of quality inputs.

To measure whether access to input supply for medium farming enterprises is adequate, this study considered variables similar to the ones used in small and micro enterprises (sections 4.4.2 (d) and 4.4.1 (d) respectively).

The results reflect that of the six enterprises considered, only one scored the maximum of 80%, followed by four enterprises with a 60% score and only one with a score of 20%. This implies that 83% of enterprises in this category have a relatively reliable supply of input. The results therefore indicate that medium enterprises have better access to inputs as compared with the small and micro farming enterprises.

e) Increased income (II)

The increased income or increase in any financial resources has a direct effect on securing a competitive advantage, especially profitability of own capital (Nell and Napier, 2006). To measure the financial state of the medium farming enterprises, similar variables to those used in small and micro enterprises were used.

The results indicate that 67% of the enterprises in these categories have adequate cash flow while 33% have inadequate income. This implies that medium farming enterprises are in a better financial position than both their small and micro counterparts.

f) Sustainable employment (SE)

Medium farming enterprises are associated with the emerging commercial sector. Given the track record of the white commercial farming enterprises regarding sustainable job creation, it is reasonable to assume that medium enterprises do offer better opportunities in terms of sustainable employment compared with small and micro enterprises.

To get a picture of how medium farming enterprises perform compared with small and micro farming enterprises, similar variables to those used in small and micro enterprises were considered. The results show that only one enterprise out of six scored 40% while the rest scored 60% and higher. This indicates that 83% of the enterprises in the medium enterprise category have a potential to provide sustainable employment, while the contrary was the case for both small and micro enterprises.

Although small enterprises have shown a better performance over micro enterprises, medium farming enterprises have a superior performance over small enterprises.

This implies that medium enterprises have high prospects to alleviate unemployment and poverty. The results therefore concur with Atkinson and Buscher (2006) that medium farming enterprises should receive more support from government due to their potential to improve the socioeconomic status of poor communities.

g) Ability to service debt (ASD)

Medium farming enterprises are often established through both equity and debt financing, and consequently debt repayment is a prime concern. Most of these enterprises receive loans from the commercial banks or the Land Bank. Recently, the MAFISA fund was established to provide loans to emerging farmers including medium farming enterprises.

As a matter of principle, debt financing requires that the borrower pay interest on loans to the business (Nieman et al. 2004). To find out the debt repayment ability of medium farming enterprises, similar variables to those used in small-scale farming enterprises were considered. The results show that of six enterprises only two enterprises scored 40% and below, with the rest scoring 60% and higher.

This picture indicates that medium farming enterprises are not better off than micro and small-scale farming enterprises as regards debt repayment, which is due to the fact that small and micro enterprises only use grant and equity financing for their operations. The results also indicate that although some enterprises reflect that there are no problems with debt repayment, others seem to face serious challenges. It therefore appears that both private and public institutions should intervene regarding these enterprises' access to affordable financial resources.

h) Adequate infrastructure (A/I)

To run a sustainable business, adequate infrastructure is required. According to Coetzee et al. (2004), infrastructure involves both the physical infrastructure (communication, transport and roads) and institutional infrastructure (market information, security, research and animal disease control). Planning is important in acquiring these resources, because a large amount of capital is required (Nieman et al. 2004). To determine the adequacy of the infrastructure for micro enterprises, variables used in both small and micro farming enterprises were considered.

The results show that five out of six (83%) enterprises scored 60% and higher, while only one (17%) scored 40%. This picture indicates that medium enterprises have a better infrastructure compared with both small and micro ones. It appears that infrastructure for these enterprises are not a serious challenge.

i) Policy on human capital development (POHCD)

According to Nell and Napier, (2006), the most critical resource in the farming business is the people at both management and operational levels. Recruiting and retaining, and training, suitably qualified staff complements to assume high levels of competence is a goal of any company that aspires to be highly competitive.

Hence, building up a business is a task that requires a wide variety of talents, which are hardly ever to be found in a single person (Nieman et al. 2004). The vision to attract and retain competent and talented personnel is guided by the human resource policy of the particular enterprise. To grow and achieve the targeted goals, a developmental human resource policy is crucial. This study used the variables utilised in both small and micro farming enterprises to find out whether medium farming entrepreneurs are seriously engaged in capacity-building activities.

The results indicate that only one out of six enterprises scored 60%, while the rest scored 80% and higher. This implies that medium enterprises are seriously involved in human capacity development compared with both small and micro enterprises. This picture suggests that these enterprises are linked to experts.

j) Potential to grow/expand (PTG/E)

In general, the potential to grow is demonstrated by increased market share. This is illustrated by increased sales through new market development and even more outlets to better service the existing customer base (Nieman et al. 2004). To attain growth, growth targets need to be set and an expansion strategy must be consistent with the capabilities of the firm (Nieman et al. 2004).

In addition, growth should be quantified in terms of sales, increased income and infrastructure. Given these features, the results of the key success indicators in these enterprises, especially adequate infrastructure and markets, provide an impression that medium enterprises have a high potential to grow.

On the basis of these observations, the study used variables considered in small and micro enterprises to find out the potential of the medium enterprises to grow and expand. The results show that two out of six enterprises scored 40% and below, while the remaining four enterprises scored 60% and higher. This implies that medium enterprises have a high likelihood to grow and expand compared with both small and micro enterprises. This picture reflects the competitive edge of medium enterprises over small and micro enterprises.

k) Business operations (BO)

According to Nell and Napier (2006), business environments such as suppliers of inputs, regulations, labour markets, creditors, consumers/buyers and competitors/collaborators operations provide opportunities, threats and even limitations to farming businesses. For the business to be competitive, it should have sound business operations with adequate infrastructure and support.

The objective of this section was to find out the state of medium enterprises regarding their operations. The variables considered for this purpose were similar to the ones used in small and micro enterprises. This revealed that 50% of the medium enterprises scored 80% and higher, while the other 50% scored 40% and below.

It appears that there is a balance between enterprises that have poor operational capacity and those that have adequate capacity. This implies that some attention should be paid to the business operations of medium farming enterprises. This picture is far better compared with the business operational capacity of small and micro enterprises.

4.4.6 Summary of medium-scale farming results

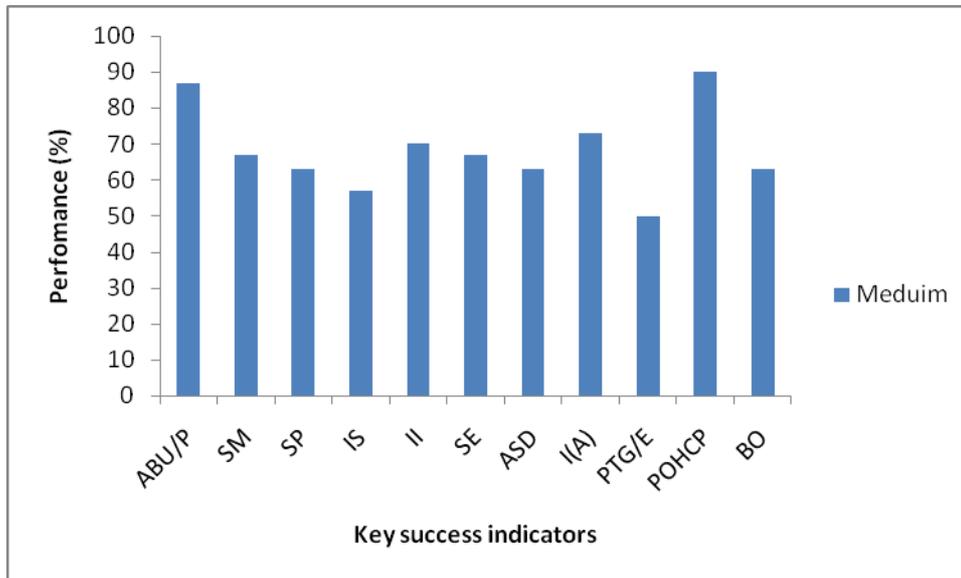


Figure 4.3 Key success indicators for medium farming enterprises

Keys: ABU/P= Assets build-up/portfolio , SM= Sustainable markets , SP= Sustainable production , IS= Input supply , II= Increased income , SE= Sustainable employment, ASD= Ability to service debts, I(A)= Adequate infrastructure, PTG/E= Potential to grow , POHCP= Policy on human capital development , and BO= Business operations.

Results of the investigation of key success indicators for medium enterprises are shown in figure 4.3. According to the results, the enterprises fared moderately adequately with regard to 18% of the key success factors, and sufficiently adequately with regard to 82% of the key success factors. The degree of adequacy of performance in terms of the key success indicators reflects the level of performance of the enterprises. This means that adequacy in terms of key success indicators is positively correlated to the success of farming SMMEs.

Table 4.4 Summary of the performance of medium farming enterprises

MEDIUM ENTERPRISES												
KEY SUCCESS FACTORS/INDICATORS	ME1		ME2		ME3		ME4		ME5			
	Score	%	Score	%	Score	%	Score	%	Score	%	Score	
PERFORMANCE												
1. Asset build-up/portfolio (ABU/P)	5	100	3	60	5	100	4	80	4	80	5	
2. Sustainable market (SM)	3	60	2	40	5	100	4	80	1	20	5	
3. Sustainable production (SP)	4	80	1	20	5	100	2	40	2	40	5	
4. Input sources (IS)	3	60	3	60	3	60	1	20	3	60	4	
5. Increased income (II)	2	40	4	80	5	100	4	80	2	40	4	
6. Sustainable employment (SE)	5	100	2	40	4	80	3	60	3	60	3	
7. Ability to service debt (ASD)	3	60	2	40	5	100	4	80	1	20	4	
8. Adequate infrastructure (A/I)	5	100	2	40	5	100	4	80	3	60	3	
9. Policy on human capital development (POHCD)	5	100	3	60	5	100	5	100	4	80	5	
10. Potential to grow/expand (PTG/E)	4	80	2	40	3	60	3	60	0	0	3	
11. Business operations (BO)	4	80	1	20	5	100	2	40	2	40	5	

Key: ME1 = first medium enterprise, ME2 = second medium enterprise, ME3 = third medium enterprise, ME4 = fourth medium enterprise, ME5 = fifth medium enterprise and ME6 = sixth medium enterprise

Table 4.5 SSWFOT analysis of small and micro enterprises

Strength	Success	Weakness	Failure	Opportunities	Threats
High level of perseverance and passion	Initiated the enterprise	Lack of office facilities and equipment	To use ABET education opportunities	MACRO ENVIRONMENT	
Strong cultural belief	Registered the legal entity	No transport system	To use land reform grant programmes effectively	Economy To build local, national, regional and international market linkages	High input prices and global economic meltdown
		No insurance for the enterprise	To form commodity association	Political/legal Political stability in South Africa	Regular reshuffle of MEC of agriculture in provinces; deployment of managers without proper skills and expertise
		Low or no linkages to market, value and supply chains	To join existing commodity association	Climate Availability of other water sources for farming purpose	Unreliable rainfall
		Fluctuating cash flow	To secure business contracts	Social/cultural/consumer Increase number of high-density market areas in rural areas, towns and cities	Low number of high-density marketing areas in rural areas
		Lack of business contracts	To build a strong business network	Technology Increased access to technology in South Africa	Rural farmers lack access to technology and support
		Poor conference, workshop, training and seminar attendance	To recruit educated youth in their business	BUSINESS ENVIRONMENT	

		Low level of education, management skills and literacy	To link with experts	Competitors Availability of grower schemes for other commodities in South Africa	Lack of facilities, resulting in restricted access to grower schemes
		Lack of formal business management structure		Suppliers Fewer input suppliers for SMMEs owned by HDI	No contractual linkages with input suppliers
		Lack of linkages with industry experts, academic and research institutions		Consumers and buyers Increased urban and peri-urban population, resulting in high demand for farm products	Selling of similar products leading to decline in selling prices
		Lack of information technology (IT) facilities		Regulation Absences of strict quality control and assurance for farming SMMEs	No regulatory body for quality assurance
		Reliance on government extension services		Creditors Availability of number of credit institutions	Lack of audited financial statements, resulting in no access to credit

		Jealousy and intense internal conflict		Human resources market Adequate supply of skilled casual labour	Lack of reliable cash flow affecting the availability of skilled labour
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Table 4.6 SSWFOT analysis of medium farming enterprises

Strength	Success	Weakness	Failure	Opportunity	Threat
Highly literate, experienced and educated	Linkages with market agencies, associations and industrial experts	Lack of succession planning	To create a viable brand, franchise and parallel markets	MACRO ENVIRONMENT	
Strong network and information	Secured business contracts	Little or no involvement of youth	To build a strong strategic partnership with commercial sector	Economy To build local, national, regional and international market linkages	High input prices and global economic meltdown
Good access to information and technology	Good attendance of conferences, seminars and training workshops	Low innovation and invention	To form commodity association	Political/legal Political stability in South Africa	Regular reshuffle of MEC of agriculture in provinces; deployment of managers without proper skills and expertise
Good management skills	High-level qualifications	Weak linkages with government extension service workers	To mentor the small and micro enterprises	Climate Availability of other water sources for farming purposes	Unreliable rainfall
	Able to amass good production equipment	Low or no value addition to the products	To build reliable input source suppliers for SMMEs	Social/cultural/consumer Increased tourist destinations in rural areas; increased number of high-density market areas in rural areas, towns and cities; increased promotion of indigenous food	Few high- density marketing areas in rural areas
	Access to transport		To build strong links with	Technology	Rural farmers lack access to

	system		extension service works, local government and research institutions	Availability of precision farming technologies; increased access to technology in South Africa	technology and support
				BUSINESS ENVIRONMENT	
				Competitors Availability of grower schemes for other commodities in South Africa	Lack of value and supply chain linkages; poor access to grower schemes due to low profitability
				Suppliers Fewer input suppliers for SMMEs owned by HDI	No contractual linkages with input suppliers
				Consumers and buyers Increased urban and peri-urban population, resulting in high demand for farm products	Selling of similar products, leading to decline in selling prices
				Regulation Absence of strict quality control and assurance for farming SMMEs	No regulatory body for quality assurance; the present Wage Determination Act makes farming barely profitable
				Creditors Availability of a number of credit institutions	Highly indebted entrepreneurs
				Human resources market Adequate supply of skilled casual	Availability of skilled labour may decline due to HIV/AIDS

				labour	
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4.5 SSWFOT ANALYSIS

A SSWFOT analysis is crucial for the strategic analysis of business profiles. The identification of strengths, successes, weaknesses, failures, opportunities and threats not only presents a platform for business owners to analyse and strategically position the business for generating profit but also provides the business with information that can support existing competitive advantages.

The SSWFOT analysis of the farming SMMEs was presented in tables 4.5 and 4.6. Table 4.5 shows that the profile of both small and micro enterprises reveals inferior competitive advantages. This implies that for these enterprises to have the necessary expertise, strength, core competencies and strong competitive advantage, a comprehensive plan, resources, models, linkages with development institutions and internal agricultural organisations will be required.

From Table 4.6 it is also evident that medium farming enterprises have a better business profile than both small and micro farming enterprises. It appears that for medium enterprises to be sustainable, input sources and sustainable markets need serious attention, as these constitute potential weakness. Core competencies such as the capability of management, technical abilities, creativity, linkages with relevant stakeholders and financial management do not require the same degree of attention as they do in the context of small and micro farming enterprises.

4.6 PERFORMANCE OF TYPES OF CAPACITIES

The summary of the statistics of the variables analysed are presented in table 4.7, and the correlation coefficients are shown in table 4.8. The results reveal the high correlation between these variables, which may point to the problem of multicollinearity.

Table 4.7 Summary statistics of different types of capacities

Variable	N	Mean	Std dev	Sum	Minimum	Maximum	Label
FC	18	3.00000	0.98352	54.00000	1.00000	5.00000	FC
HC	18	2.58333	1.26317	46.50000	0	4.50000	HC
MC	18	2.27778	1.84089	41.00000	0	5.00000	MC
IC	18	2.61111	1.37793	47.00000	0	5.00000	IC
PC	18	1.83333	1.27187	33.00000	0	4.50000	PC

Key: FC = financial capacity, HC = human capacity, MC = marketing capacity, IC = infrastructural capacity and PC = production capacity

Table 4.8 Pearson correlation coefficients between financial capacity and other types of capacities

	FC	HC	MC	IC	PC
FC	1.00000	0.70233 0.0012	0.84472 <.0001	0.62937 0.0051	0.75239 0.0003
HC	0.70233 0.0012	1.00000	0.63452 0.0047	0.67873 0.0020	0.68652 0.0017
MC	0.84472 <.0001	0.63452 0.0047	1.00000	0.47410 0.0468	0.76208 0.0002
IC	0.62937 0.0051	0.67873 0.0020	0.47410 0.0468	1.00000	0.68248 0.0018
PC	0.75239 0.0003	0.68652 0.0017	0.76208 0.0002	0.68248 0.0018	1.00000

(1) Key: FC = financial capacity, HC = human capacity, MC = marketing capacity, IC = infrastructural capacity and PC = production capacity

(2) Notes: The correlation coefficients are on the first line of each row and below them is the probability in support of the null hypothesis (i.e. correlation between two variables is 0 or Rho=0)

Table 4.9 ANOVA for province and business type (BT)

Source	DF	Type III SS	Mean square	F value	Pr > F
PROVINCE	5	6.74074074	1.34814815	2.51	0.1010 ^{NS}
BT	2	4.33333333	2.16666667	4.03	0.0519 ^{NS}

**Significant at 5%, NS = not significant and $R^2 = 0.673423$

The analysis of province and business type is presented in table 4.9. The province and business type were found not to be significant ($P > 0.05$).

Therefore it is accepted that both province and business type do not affect financial capacity. However it should be noted that the information available may not have been adequate.

Table 4.10 shows the results of the analysis of variance for types of capacities. These variables were found to be significant ($P > 0.05$). The results of the diagnostics conducted to check multicollinearity were examined to determine whether the model was valid.

Table 4.10 Analysis of variance for types of capacities

Source	DF	Sum of squares	Mean square	F value	Pr > F
Model	4	12.96800	3.24200	12.12	0.0003
Error	13	3.47644	0.26742		
Corrected total	17	16.44444			

The results of the multicollinearity diagnostic are presented in tables 4.11 and 4.12. According to the multicollinearity diagnostic, tolerance of less than 0.1 and VIF of less than 10 indicate that multicollinearity is not severe. Therefore the high correlation coefficient detected earlier did not lead to severe multicollinearity.

Table 4.11 Tolerance and variance inflation for different types of capacities

Variable	Tolerance	Variance inflation
HC	0.40564	2.46524
MC	0.37770	2.64759
IC	0.43006	2.32526
PC	0.28096	3.55922

Key: FC = financial capacity, HC = human capacity, MC = marketing capacity, IC = infrastructural capacity and PC = production capacity

Table 4.12 shows eigenvalue, condition index and corresponding proportion of variance. The variance proportion provides the parameter estimates (coefficient) associated with each eigenvalue.

A high proportion of variance of an independent variable coefficient reveals a strong association with eigenvalues. According to table 4.12, all types of capacity have smaller proportions corresponding to the eigenvalue. Therefore it can be deduced that the explanatory variables do not have significant linear dependency (correlation).

Table 4.12 Collinearity diagnostics

Number	Eigenvalue	Condition index	Proportion of variation				
			Intercept	HC	MC	IC	PC
1	4.52102	1.00000	0.00701	0.00347	0.00607	0.00406	0.00397
2	0.24963	4.25565	0.26366	0.00447	0.24024	0.02006	0.04154
3	0.11628	6.23555	0.42904	0.00230	0.28537	0.27448	0.08343
4	0.06426	8.38798	0.30027	0.60369	0.04178	0.00379	0.46970
5	0.04881	9.62417	0.00002089	0.38607	0.42654	0.69762	0.40135

Key: FC = financial capacity, HC = human capacity, MC = marketing capacity, IC = infrastructural capacity and PC = production capacity

Figure 4.4 shows the ridge trace. The ridge trace regression was used to find a better estimate of the ridge constant (k).

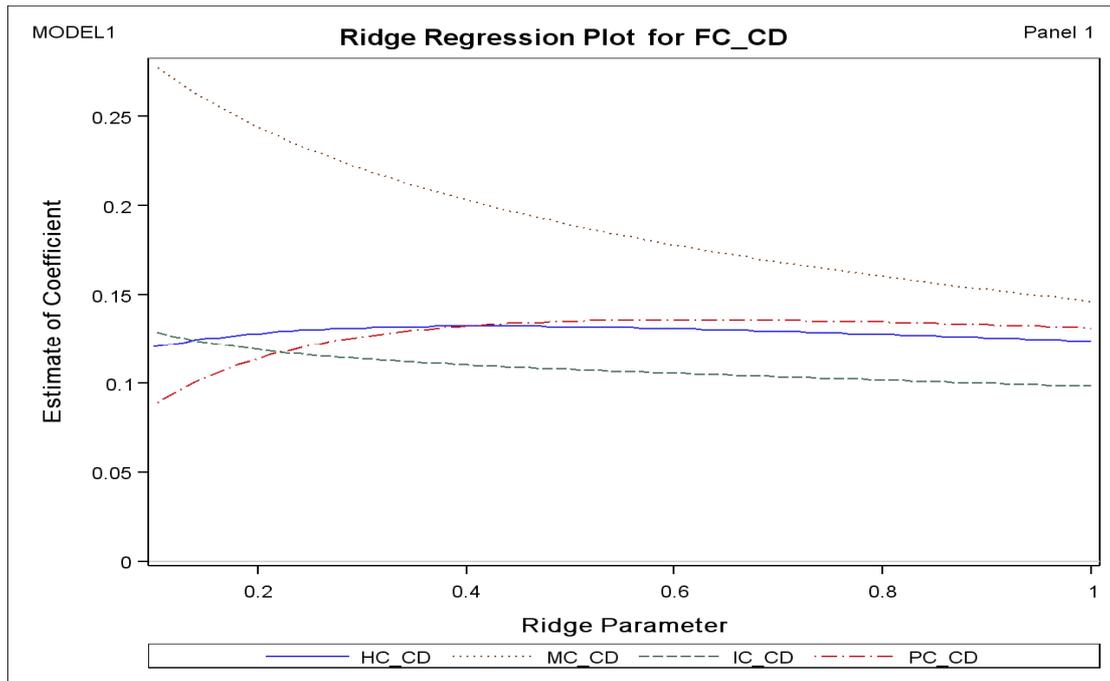


Figure 4.4 Ridge regression plot for FC

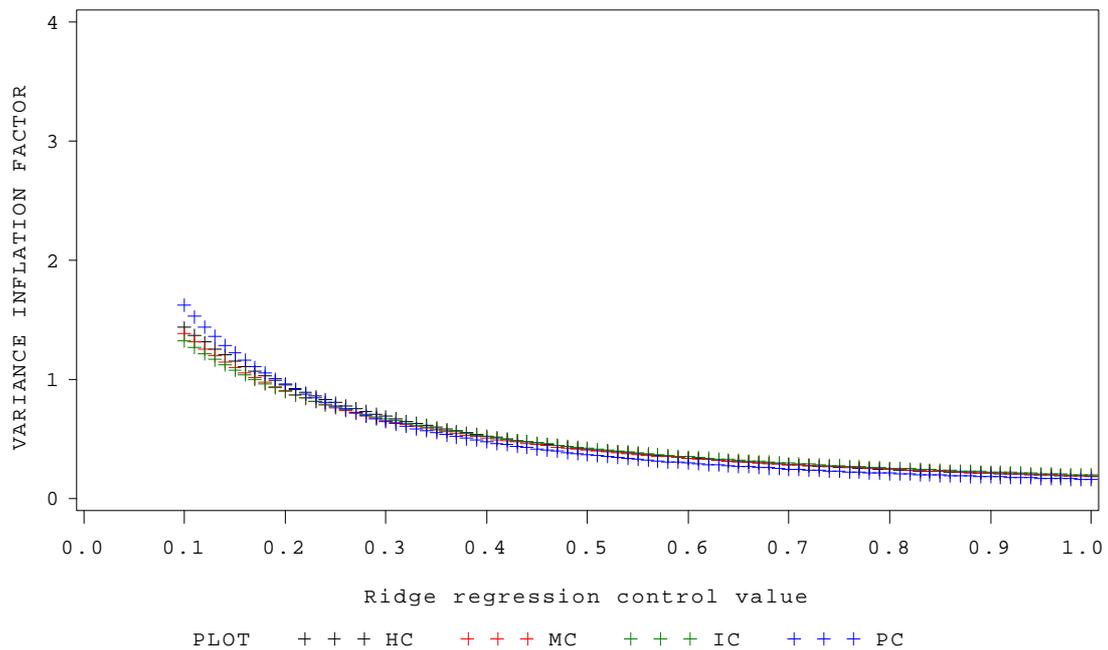


Figure 4.5 Squared length of the coefficient vector

A suitable ridge regression constant was obtained using figures 4.4 and 4.5. Based on the visual inspection of the graph, it was found that the regression coefficient stabilised when the ridge constant was 0.18.

Table 4.13 was computed to find out whether other capacities affect financial capacity. Estimates of regression coefficient using ridge regression and OLS were computed using data on the original and standardised scale. The regression coefficients from OLS and ridge regression were consistent but not the same from either the analysis based on the original or standardised scale.

Table 4.13 Ridge regression (RR) analysis for financial capacity vs other types of capacities

Variable	OLS Estimate (standard error)	RR estimate (standard error)	OLS standardised estimate (standard error)	RR standardised estimate (standard error)
Intercept	1.51403 (0.29855)	1.58485 (0.28046)	0	0
HC	0.10082 (0.15590)	0.12726 (0.10334)	0.12948	0.16344
MC	0.34036* (0.11086)	0.25006* (0.06902)	0.63705*	0.46804*
IC	0.15762 (0.13880)	0.12050 (0.09181)	0.22082	0.16882
PC	0.02112 (0.18604)	0.11028 (0.10389)	0.02731	0.14262

Key: FC = financial capacity, HC = human capacity, MC = marketing capacity, IC = infrastructural capacity and PC = production capacity
*P < 0.05

Regression coefficients from ridge regression were associated with lower standard error indicating that these estimates were more precise compared with those from OLS. Despite the fact that the two methods gave slightly different estimates, the two methods gave the same conclusion that marketing capacity does affect financial capacity.

While causality cannot be inferred from these results, the regression coefficient for marketing capacity indicates that a unit increase in the score (i.e. 1 score) for marketing capacity is associated with an increase of 0.25006 in the score for financial capacity, given that human capacity, infrastructural capacity and production capacity are held constant.

This means that if marketing capacity increases, there is a good chance that farming SMMEs can increase their financial returns. These results are not surprising given the fact that market capacity had the highest correlation (0.84) with financial capacity.

4.7 LESSON LEARNT

The results indicate that both small and micro enterprises are lacking in terms of the key success indicators shown. In contrast, medium enterprises perform well in terms of the same key success factors. On the basis of this discrepancy, it can be concluded that small and micro enterprises require considerable intervention to make them profitable and sustainable, while medium enterprises require input sources, sustainable markets and better management to attain sustainability (figure 4.6).

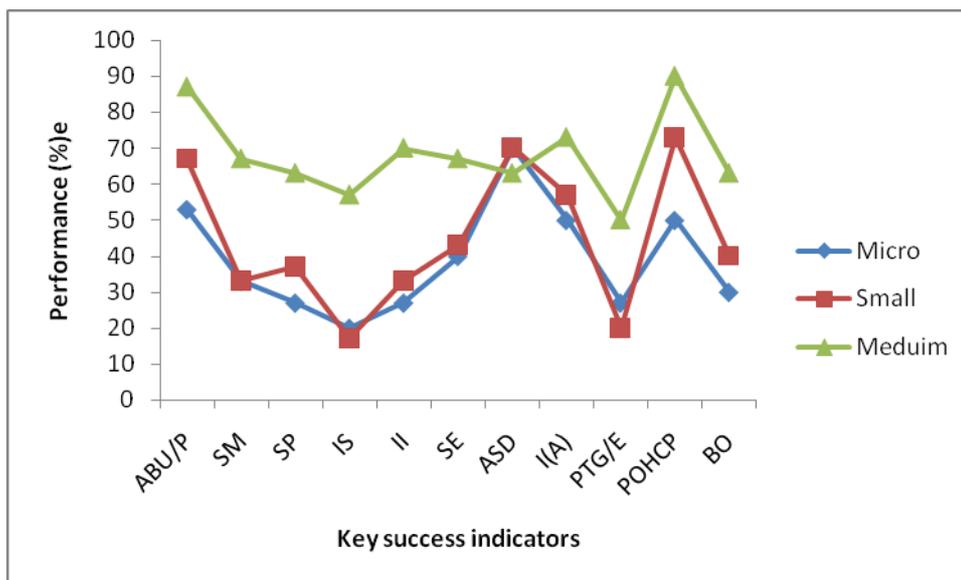


Figure 4.6 Performance (%) of key success indicators for farming SMMEs

In summary, the following were found:

- a) Small and micro enterprises are severely disadvantaged as a result of lack of sustainable markets, input sources, cash flow, sustainable production, human capital development and disorganisation.
- b) Medium enterprises have better prospects of success.
- c) All enterprises will require sustainable markets and input sources in order to increase their financial returns.

4.8 CONCLUSION AND RECOMMENDATION

The findings present major challenges to all role players in the agricultural sector. Because South Africa has a high population growth rate, high poverty rate, unemployment rate and a high level of malnutrition, and because farming SMMEs is beleaguered by low productivity, the country is left with no choice but to improve the livelihood of poor rural communities and those living in commonages.

Given the trends identified in these findings, there is a need to provide different interventions for different types of farming SMMEs in order to increase their sustainability and performance. Greater emphasis should be placed on linking these enterprises with value and supply chains in order to improve their production and marketing capacities. An improvement in infrastructural capacity (see pictures 1 to 8) can be attained through better financial planning and expert advice. Linkages with retired professionals, academic institutions, experts in the industry, youth organisations and research institutions have the potential to improve human capital.



Picture 1 Office facility for small-scale enterprise in Limpopo

This illustrates the lack of proper office infrastructure, inadequate recording, the absence of a telephone connection, and poor IT infrastructure and road connection.



Picture 2 Pig house for micro enterprise in Limpopo

It clearly illustrates poor livestock housing and environment.



Picture 3 Poultry production facilities for small-scale enterprise in the Free State

This picture reveals inadequate production environment and equipment.



Picture 4 Pig house for micro enterprise in the Free State

This pig's poor body condition as a result of inadequate housing, feeding and infrastructure.



Picture 5 Storage for micro enterprise in Eastern Cape

Lack of storage facilities has resulted in an entrepreneur storing produce inside the house.



Picture 6 Processing facilities for small-scale enterprise in North West

It illustrates a lack of processing equipment and an inadequate environment.



Picture 7 Production facilities for medium enterprise in North West
It reflects a better production infrastructure.



Picture 8 Infrastructure for medium enterprise in Limpopo
This illustrates good production infrastructure.

CHAPTER FIVE

PERFORMANCE AND SUSTAINABILITY OF LAND BANK CUSTOMERS

Land Bank mission statement “*Land and Agricultural Development Bank in South Africa is to be an agricultural development finance institution that supports economic growth through the provision of retails, wholesales, projects and micro financial services to agriculture and related rural services*”.

Source: Land Bank annual report, 2003

5.1. INTRODUCTION

Since its establishment, the Land Bank has been in the forefront of land and agricultural development. The 2003 Land Bank mission’s statement reiterates its commitment to enhance performance and the sustainability of farming SMME’s and agricultural sector in general (Land Bank, 2003). From its mission statement, it is clear that the role of this institution is of fundamental importance to the growth and development of farming SMMEs.

Corporate strategies outlined below were used to accomplish the bank vision and mission:

- Impacting positively on South Africa’s development by contributing to Government’s Integrated Sustainable Rural Development Strategy (ISRDS),
- Developing agriculture and contributing to sustainable rural development,
- Supporting emerging and resource poor farmers as well as established commercial farmers while playing an active role in transformation,

- Aligning the Bank's products and programmes with government's initiatives, in particular the strategy for the agricultural sector and Land Redistribution for Agricultural Development (LRAD) and,
- Leveraging private sector investment into the agricultural sector.

These core strategies were designed to ensure an enabling agricultural development strategy that enhances performance and sustainability of both developed and developing farmers. Accordingly, these strategies are clear commitment in implementing its objectives as outlined by Land and Agricultural Development Bank Act 15 of 2002, which was gazetted and came into effect in 10 June 2002 (Land and Agricultural Development Bank Act 2002:6). This is also in complement with the vision and mission of National Department of Agriculture in South Africa "Vision: United and prosperous agricultural sector".

Initiatives to accomplish this mission were instigated. These initiatives have benefited some members of the farming community. Consequently, these communities were referred to as Land Bank clients in this study. Amongst these initiatives are capacity building programs established to assist emerging farmers through Development Projects Unit (Land Bank, 2003). Initiatives that have indirect impact to developing farmers such as the establishment of Agricultural Chairs in disadvantaged institutions and setting-up of bursary fund for historically disadvantaged individuals (HDI's) were also established.

Monwabisi Fandeso, a former Land Bank CEO, is credited with saying "*Land Bank is continuing to make inroads in development and helping our farmers to grow their potential* " (Land Bank, 2003).

This implies that Land Bank is committed to achieve its mission. The measurement of the bank successes in realising its mission is important not only to itself and its clients but also to the entire nation. This is because more resources have been provided by the State to this bank.

In its annual report of 2003, Land Bank reported that it has spent R2 billion in a period of five years prior to 2003, followed by R300 million which was made available to 130 000 people who were previously regarded as un-bankable.

Although evidence indicates positive contribution by this institution, the results and impact of its initiatives are not widely publicized. Due to the lack of information on these developments, the profiles of its clients remain obscured and its impact underrated. This was illustrated by the resolution of Land Summit Commission on transformation of financial institutions, which resolved that:

“Land Bank should immediately review the performance of all previously Land Bank funded projects and facilitate assistance where required” (NDA, 2005:21).

The objectives of this chapter were to conduct a situational analysis by determining profitability, success, failures, and reasons for success and failures, perceptions on their performance and that of their contemporaries and further take recommendations on areas that need further improvements.

5.2. METHODOLOGY

The summary of the variables analysed are presented in table 5.1. A quantitative approach was used in this study as described in section 3.5. Data was analysed using the FREQ and MEANS procedures of SAS. The FREQ procedure was used to estimate the probability of success and conduct statistical significance test.

The null hypothesis tested was that the proportions for the success and failure are equal i.e. probability of success and failure are both equal to 50%. The FREQ procedure is appropriate for analysis of discrete data as is the case in the current study. The 95% confidence intervals for the proportions were also computed. The MEANS procedure was used to obtain descriptive statistics of the variables considered in the current study.

Table 5.1: Description of variables

	DESCRIPTION	VALUES
VARIABLES	PERCEPTION ABOUT SUCCESS OF EMERGING FARMERS	
SUCCESS	Do you think emerging farmers are succeeding?	0=otherwise (No), 1=Yes
NUMBER OF SUCCESS FULL FARMERS	Out of 10 emerging farmers, how many do you think are succeeding	Continuous (number)
REASONS FOR FAILURE	What do you think is the reasons for failure of farming operations of emerging farmers?	
a) Finance	Lack of finance	0=otherwise (No), 1=Yes
b) Theft	Theft	0=otherwise (No), 1=Yes
c) Diseases	Diseases	0=otherwise (No), 1=Yes
d) Transport	Lack of transport	0=otherwise (No), 1=Yes
e) Market	Lack of markets	0=otherwise (No), 1=Yes
f) Drought	Drought	0=otherwise (No), 1=Yes
g) Infrastructure	Lack of infrastructure/equipments	0=otherwise (No), 1=Yes
h) Price	Low prices	0=otherwise (No), 1=Yes
i) Land	Insufficient land	0=otherwise (No), 1=Yes
j) Skills	Lack of farming and management skills	0=otherwise (No), 1=Yes
SOLUTIONS FOR IMPROVEMENTS	What do you think are the solutions for improving Farming operations of emerging farmers? (What needs to be done to assist emerging farmers to farm successfully?)	
a) Training	Skills training	0=otherwise (No), 1=Yes
b) Finance	More finance and capital	0=otherwise (No), 1=Yes
c) Land	More land	0=otherwise (No), 1=Yes
d) Markets	Access to markets	0=otherwise (No), 1=Yes
e) Extension services	Extension services	0=otherwise (No), 1=Yes
SUCCESS BASED ON SELF EVALUATION	Do you regard your farming operation as succeeding or failing?	0=otherwise (No), 1=Yes
SUCCESS	How do you measure your	

MEASUREMENTS	success?	
a) Income	INCREASING INCOME AS MEASURE OF SUCCESS	0=otherwise (No), 1=Yes
b) Yield	INCREASING YIELDS AS MEASURE OF SUCCESS	0=otherwise (No), 1=Yes
c) Profit	INCREASING PROFIT AS MEASURE OF SUCCESS	0=otherwise (No), 1=Yes
REASONS FOR FAILURE	What are your reasons for failure?	
a) Finance	Lack of finance	0=otherwise (No), 1=Yes
b) Theft	Theft	0=otherwise (No), 1=Yes
c) Disease	Diseases	0=otherwise (No), 1=Yes
d) Transport	Lack of transport	0=otherwise (No), 1=Yes
e) Market	Lack of markets	0=otherwise (No), 1=Yes
f) Drought	Drought	0=otherwise (No), 1=Yes
g) Infrastructure	Lack of infrastructure/equipments	0=otherwise (No), 1=Yes
h) Prices	Low prices	0=otherwise (No), 1=Yes
i) Land	Insufficient land	0=otherwise (No), 1=Yes
j) Skills	Lack of farming and management skills	0=otherwise (No), 1=Yes
REASONS FOR SUCCESS	What are your reasons for success?	
a) Finance	Access to finance	0=otherwise (No), 1=Yes
b) Theft	No theft	0=otherwise (No), 1=Yes
c) Diseases	No diseases	0=otherwise (No), 1=Yes
d) Transport	Access to transport	0=otherwise (No), 1=Yes
e) Market	Access to markets	0=otherwise (No), 1=Yes
f) Drought	No drought	0=otherwise (No), 1=Yes
g) Infrastructure	Access to infrastructure/equipments	0=otherwise (No), 1=Yes
h) Prices	Good prices	0=otherwise (No), 1=Yes
i) Land	Sufficient land	0=otherwise (No), 1=Yes
j) Farming skills	Farming and management skills	0=otherwise (No), 1=Yes
IMPROVEMENT	What do you think can be done	

NECESSARY	to improve your farming?	
a) Loan	Get another loan	0=otherwise (No), 1=Yes
b) Low interest	Lower interest	0=otherwise (No), 1=Yes
c) Insurance	Insurance for produce destruction	0=otherwise (No), 1=Yes
d) Monitoring by LAND BANK	Stricter monitoring by Land Bank	0=otherwise (No), 1=Yes
e) Extension support	Extension advice	0=otherwise (No), 1=Yes
f) Increase production	Increase production	0=otherwise (No), 1=Yes
g) Drought relief	Drought relief	0=otherwise (No), 1=Yes
h) Training	Training	0=otherwise (No), 1=Yes
i) Gender	Gender of the household head	0, otherwise (female), 1=male

5.3. RESULTS AND DISCUSSION

The purpose of this section is to present the empirical research results. The aim was to establish the profile of enterprises owned by Land Bank clients by scanning their performance and sustainability. The perceptions of the respondents were used to determine the profiles of these enterprises. Secondly, the income, yield and profit were used to corroborate profiles. This was followed by the assessment of the farm profit as yardstick for success and failures. The reasons for success or failures were ascertained. Recommendations on aspects that need to be improved were ranked.

5.3.1. Measures of success for emerging farmers

Three measures of success i.e. Increase income (INCRINCOME), Increase yields (INCRYIELDS) and Increase in profit (INCRPROFIT) were identified for the purpose of finding out which of these variables were frequently used by emerging farmers in measuring their success rate. Figure 5.1 indicates the results for which measures of success amongst the three variables were used frequently. According to figure 5.1, 46.6% of Land Bank clients use the increase income (INCRINCOME), followed by 42.16% for increase in profit (INCRPROFIT) and subsequently 29.41% for increase yields (INCRYIELDS) respectively.

This trend indicates that the majority of emerging farmers use increase in income as their measure of success. This clearly shows that emerging farmers lack the knowledge to differentiate between profit and income. This lack of distinction provides a picture that emerging farmers lack the understanding of financial instruments. Therefore, basic financial literacy training for this category of farmers is required.

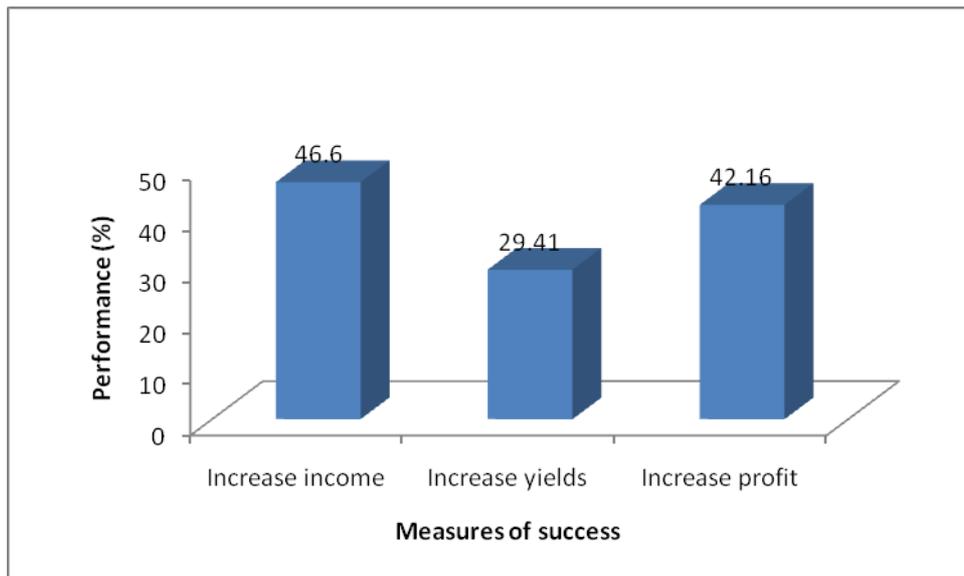


Figure 5.1 Profile for measure of success

5.3.2. Perception of success and failures by land bank clients

Perceptions of farmers have been used in various studies to reflect their background knowledge and expectations (Sinja et.al, 2004). Although this method is not entirely reliable, it serves as a basis of other more reliable and objective measurements. It is within this context, that this method was used to supply some basis to investigate the success and the failures of the farming SMMEs.

a) Success for all provinces

According to Table 5.2, 130 emerging farmers in the sample perceived their success rate as 80.77%. The results indicate that there is significant difference ($P < 0.05$) among provinces. Therefore, these results indicate that success rates of different provinces are not the same.

b) Success for individual provinces

Table 5.2, also reflects different levels of success rate amongst individual provinces. According to the results, Free State, Northern Cape, Western Cape are the least successful Provinces compared to the rest. Notwithstanding the limited response in Gauteng and KZN, it is clear that Gauteng is perceived to be the highest performing Province, followed by Mpumalanga Province and subsequently followed by Eastern Cape, North West, KwaZulu- Natal respectively.

The results indicate that only the findings in the Eastern Cape Province were significant at 0.05 levels. It appears that emerging farmers perceive that they are highly successful. This could be as a result of lack of capacity to monitor and evaluate their success rate. It could also imply that the farmers might be indicating that they aim to be highly successful.

Table 5.2 Perception for success or failure for Land Bank Clients in RSA

Variable	N	Success (%)	95% Lower Confidence Limit	95% Upper Confidence Limit	Pr>[Z]
All Provinces	130	80.77	72.93	87.15	<.0001**
Provinces					
EC	18	88.89	65.29	98.62	0.0022**
WC	22	77.27	54.63	92.18	0.019***
GP	3	100	29.24	100	0.2482 ^{ns}
FS	18	66.67	40.99	86.86	0.2386 ^{ns}
KZN	6	83.33	35.88	99.58	0.2207 ^{ns}
LP	10	80	44.39	97.48	0.1138 ^{ns}
MP	14	92.86	66.13	99.82	0.0033 ^{ns}
NC	20	75	50.9	91.34	0.0442 ^{ns}
NW	19	84.21	60.42	96.62	0.0059 ^{ns}

*** Significant at 1%, **Significant at 5% and NS=Non-significant

Keys: EC=Eastern Cape, WC=Western Cape, GP=Gauteng, FS=Free State, KZN= Kwa Zulu Natal, LP=Limpopo MP=Mpumalanga, NC=Northern Cape and NW= North West.

5.3.3 Success based on farm profit for emerging farmers

5.3.3.1 Success based on Farm profit

Unlike section 5.3.2, where farmers' success rate was measured in terms of perception, this section used actual farm profit from emerging farmers to investigate their success rate. The assessment of farm success based on actual farm profit compared with perception is regarded as objective and reliable relative to the use of farmer' perception.

a) Success based on farm profit for all provinces

Table 5.3 provides the results on the actual success rate of farming SMMEs. According to the results, all provinces have 51.18% success rates. The results indicate that there are no significant differences ($P < 0.05$) amongst all provinces. This implies that success rates of different provinces are similar.

The results obtained through objective assessment show very low success rate of farming SMMEs compared to the one obtained through subjective assessment. This picture indicates that emerging farmers' judgement on the success is unreliable. It also shows that these farmers lack ability to accurately judge their success rate. This might be as a result of their lack of knowledge about financial instruments used in measuring success. This finding confirms the results obtained in section 5.3.2.

b) Success based on farm profit for individual provinces

Table 5.3, also reflects different levels of success rate amongst individual Provinces. According to the results, Free State, KZN, North West and Northern Cape, are the worst performers. Notwithstanding the limited response in Gauteng, this province still performs far much better than the rest

of the provinces, followed by Eastern Cape, Western Cape, Mpumalanga and Limpopo Provinces respectively.

Table 5.3: Farm profit for Land Bank Clients in RSA

Variable	N	Success (%)	95% Lower Confidence Limit	95% Upper Confidence Limit	Pr>[Z]
All Provinces	127	51.18	42.16	60.15	0.859 ^{ns}
Provinces					
EC	18	66.67	40.99	86.66	0.239 ^{ns}
WC	22	63.64	40.66	82.8	0.286 ^{ns}
GP	3	100	29.24	100	0.248 ^{ns}
FS	15	33.33	11.82	61.62	1.033 ^{**}
KZN	6	16.67	0.42	64.12	0.221 ^{ns}
LP	11	54.55	23.38	83.25	1 ^{ns}
MP	14	57.14	28.86	82.34	0.789 ^{ns}
NC	19	47.37	24.45	71.14	1 ^{ns}
NW	19	36.84	16.29	61.64	0.359 ^{ns}

*** Significant at 1%, **Significant at 5% and NS=Non-significant

Keys: EC=Eastern Cape, WC=Western Cape, GP=Gauteng, FS=Free State, KZN= Kwa Zulu Natal, LP=Limpopo MP=Mpumalanga, NC=Northern Cape and NW= North West.

The results indicate that Free State and Northern Cape were perceived to be the lowest performers compared to the rest. These results were further complemented by the findings based on actual profits. Therefore, it can be deduced that both subjective and objective methods could be useful if used complementarily. However, these results were useful in providing some explanations regarding the challenges faced by some Provinces that are unable to perform to the required level. Clearly, this implies that different approaches should be used to support different provinces.

According to these results, a classification of Provinces based on their success rate as a way to justify that more support is required, could be necessary. The objectives of such classification would be to provide specific features, interventions and support services per province. In addition, it would be necessary; to investigate their actual capacities that have a unique influence on a particular Province.

5.3.3.2. Success based on farm profit for different periods

In this section, emerging farmers' success rate was measured using their actual farm profit from different periods. Farm profits ranging from year 2003 to 2007 is shown in Table 5.4. In all five years period, the farm profit shows that there is no significant difference ($P > 0.05$) amongst the success rate for all the periods under consideration. Therefore, it can be deduced that the success during these period is not different. However, the results show a tendency of decline in success rate over time.

Table 5.4 Farm profit by year for Land Bank Clients in RSA

Variable	N	Success (%)	95% Lower Confidence Limit	95% Upper Confidence Limit	Pr>[Z]
Pro2003	12	83.33	51.59	97.91	0.043**
Pro2004	19	73.68	48.8	90.85	0.067 ^{ns}
Pro2005	30	63.33	43.86	80.07	0.201 ^{ns}
Pro2006	45	60	44.33	74.3	0.233 ^{ns}
Pro2007	33	63.64	45.12	79.6	0.164 ^{ns}

*** Significant at 1%, **Significant at 5% and NS=Non-significant

Keys: Pro2007=Profit for 2007, Pro2006=Profit for 2006, Pro2005=Profit for 2005, Pro2004=Profit for 2004 and Pro2003=Profit for 2003

5.3.3.3. Success based on farm profit and loss for different periods

In this section, in addition to the results obtained using the farm profit during certain period, information regarding the mean for farm profit and loss was presented in order to provide a picture of the success and failure experienced by farming SMMEs.

Table 5.5 shows information mentioned above. The results indicate that in 2003, the lowest mean profit, loss and maximum profit were recorded. This was followed by negative mean values with high losses coupled with some increase in profit in the subsequent years. It appears that this trend may indicate high level of financial risks and with inconsistent success in farming SMMEs sector.

Table 5.5 Farm profit and loss (in Rands) of Land Bank Clients in RSA

Variabe	N	Mean	Std Dev	Min (Profit/Loss)	Max (Profit)
Proloss2003	12	55106	104356.8	-40000	344000
Proloss2004	19	-52418.32	810841.41	-3141632	1306000
Proloss2005	30	-66434.33	513028.76	-1892000	1153648
Proloss2006	45	62174.4	379257.47	-528000	2000000
Proloss2007	33	4068807.43	1595007.43	-136000	9105284

*** Significant at 1%, **Significant at 5% and NS=Non-significant

Keys: **Proloss2007**=Profit or loss for 2007, **Proloss 2006**= Profit or loss for 2006, **Proloss 2005**= Profit or loss for 2005, **Proloss 2004**= Profit or loss for 2004 and **Proloss 2003**= Profit or loss for 2003

5.4. REASONS FOR SUCCESS

The previous sections dealt with levels of success rates for farming SMMEs in various Provinces. It was found that although farming SMMEs, are not achieving high success rate, there were few successes attained. This section, tries to establish the sources of these successes. In order to establish the reasons for these successes, farmers were requested to reflect which factors amongst the following: finance, theft, disease, transport, market, drought, good prices, land and skills were the most crucial for successes.

The results of this investigation is presented in Table 5.6. According to the results, skills (65.43%) was viewed as the most important reasons for success, followed by finance, good prices, market, infrastructure and drought.

Farmers view theft, disease, transport and land as factors that do not play any role in their successes. In view of this, it appears that emerging farmers do not properly understand the value chain. This is because it is unclear how emerging farmers could believe that the aforesaid factors play no role in their successes, whilst, it is known that without land, transport, disease control and proper security, production could be severely affected and consequently the profit could be adversely impacted. These results therefore, reflect the level of incapacity on the part of emerging farmers.

Table 5.6. Reasons for success (%) of Land Bank clients in RSA

Variable	N	Sucess (%)
Reassucffinance	81	9.88
Reassucctheft	81	0
Reassucddisease	133	0
Reaaccesstrans	81	0
Reaaccesmarket	81	7.41
Readrought	81	4.94
Reaaccesinfrastructure	81	7.41
Reagood prices	81	9.88
Reatoland	81	0
Reaskills	81	65.43

Keys: **Reassucffinance** = Reasons for success due to finance, **Reassucctheft** = Reasons for success due to theft, **Reassucddisease** = Reasons for success due to disease, **Reassucmarket** = Reasons for success due to market, **Reassucddrought** = Reasons for success due to drought, **Reassucinfrastructure** = Reasons for success due to infrastructures, **Reassuccland** = Reasons for success due to land, **Reassucprice** = Reasons for success due to price and **Reassucskills** = Reasons for success due to skills

5.5. REASONS FOR FAILURE

In the same breath, the reasons for failure were established by interviewing the emerging farmers themselves. Similar factors were used to identify which are the major causes of failures in farming SMMEs sector. The results of these investigations are presented in Table 5.7.

According to these results, inadequate finance (44.21%), followed by infrastructure (34.74), skills (34.74%), and subsequently, drought (21.05%), theft (6.32%), land (6.32%) were found to play a major role in causing farming SMMEs failures. In addition, Price (5.26%), market (4.21%) and disease (3.16%) were also found to play an insignificant role in influencing failures amongst the farming SMMEs. On the basis of the results, it is clear that emerging farmers do not understand factors that causes failures in their farming enterprises.

Therefore, it would be important, that these farmers are trained to monitor and evaluate their risk factors, so that they can be able to detect factors that may influence their failure prior to the actual collapse. In this way, development institutions would have more confidence in investing in their enterprises.

Table 5.7 Reasons for failures (%) of Land Bank clients in RSA

Variable	N	Failure (%)
Reasfailfinance	95	44.21
Reasfailtheft	95	6.32
Reasfaildisease	95	3.16
Reasfailmarket	95	4.21
Reasfaildrougt	95	21.05
Reasfailinfrastructure	95	34.74
Reasfailland	95	6.32
Reasfailprice	95	5.26
Reasfailskills	95	34.74

Keys: **Reasfailfinance**= Reasons for failure due to finance, **Reasfailtheft**= Reasons for failure due to theft, **Reasfaildisease**= Reasons for failure due to disease, **Reasfailmarket**= Reasons for failure due to market, **Reasfaildrougt**= Reasons for failure due to drought, **Reasfailinfrastructure**= Reasons for failure due to infrastructures, **Reasfailland**= Reasons for failure due to land, **Reasfailprice**= Reasons for failure due to price and **Reasfailskills**= Reasons for failure due to skills

5.6. IMPROVEMENT NECESSARY FOR THE SUCCESS OF FARMING SMMES

Improvements are needed in order to rectify unwanted situations. In the context of this chapter low success rates shown above are not appreciated. Therefore, interventions are required to improve sucess rates. On the basis of this, farmers were afforded the opportunities to indicate which of the identified factors need improvement in order to ensure a better sucess rate. Table 5.8 provides the results of responses from emerging farmers.

In light of the results, production (59.38%), training (52.34%), finance (52.34%) and extension support (42.19%) require major improvements according to emerging farmers themselves. Accordingly, Land Bank monitoring (23.44%), interest (17.19%), drought relief (14.06%) and insurance (0.78%) were factors that require less improvements in terms of emerging farmers' point of views. According to this finding, it is evident that farming SMMEs require capacity building to improve their state of affairs.

Table 5.8 Aspects that need improvements

Variable	N	For improvement (%)
Loanimprov	128	52.34
Interestimprov	128	17.19
Insuranceimprov	128	0.78
Landbank monitoringimprov	128	23.44
Extensionimprov	128	42.19
Increaseprodimprov	128	59.38
Droughtreliefimprov	128	14.06
Trainingimprov	128	52.98

Keys: **Loanimprov** = Loan improvement, **Interestimprov** = Interest improvement, **Insuranceimprov** = Insurance improvements, **Landbank monitoringimprov** = Landbank monitoring improvements, **Extensionimprov** = Extension improvements, **Increaseprodimprov** = Increase production improvements, **Droughtreliefimprov** = Drought relief improvements and **Trainingimprov** = Training improvements.

5.7. LESSONS LEARNT

The performance and sustainability are essential for both survival and growth of any businesses. Farming SMMEs like any business require sustenance in order to create required wealth to intended social class. On the basis of these ideals, performance and sustainability of Land Bank emerging farmers were investigated using both the perception the farmers and actual profit attained.

From this chapter, the following were found:

- That perception of the emerging farmers reflected more on their lack of capacity than the successes and failures of farming SMMEs.

- That the level of successes found was average.
- That skills, finance, infrastructure are majors success barriers for farming SMMEs.
- That major improvements in skills, finance, extension support and production are required.

5.8. CONCLUSION

It is worth noting that the majority of the farmers use increase in income as a measure of their success more than increase in profit. These findings indicate that the majority of these enterprise owners have limited financial management skills and therefore need training on financial management.

These findings are in agreement with Foti et.al, (2007:089) who found that 70.9% of the respondents in Zimbabwe rural micro enterprises failed due to lack of managerial skills. In addition, van Scheers and Radipere, (2007:090) found that managerial skills and business knowledge are an indication of how well an owner can perform important tasks.

Farm profit was also used as a measure for a success of farming enterprises. Overall financial planning and business management is lacking. This is indicated by the poor mean profit for individual owners. It can be argued that business mentorships and apprenticeship need serious consideration for profitability and sustainability of these businesses.

Furthermore, skills were found to be the main determinants of success or failures, followed by financial resources, good prices and infrastructure. This is in consistent with the findings by previous researchers (Tustin, 2003:44, Rogerson, 2006:77, Eziakor, 1988:277). The respondents recommended that increase in production, training, access to finance and extension services need to be highly prioritized in order to ensure success and sustainability.

From this study, the profiles of farming SMMEs were established. These profiles depict that the majority of farming SMMEs still suffer from lack of skills, financial access, infrastructure and extension services. This is despite the numerous interventions by both private and public sector on these factors. The impact of institutions such as Ntsika Enterprise Promotion Agency, Khula, Umsombovu Youth Fund, various Sector Education and Training Agencies (SETAs) and Small Enterprise Development Agency (SEDA) and private sector interventions on capacity building warrant further investigation.

CHAPTER SIX
DETERMINANTS OF SUCCESS AND FAILURE OF EMERGING FARMING
SMME CLIENTS OF THE LAND BANK

6.1 INTRODUCTION

The ability to identify key success factors associated with the performance of SMMEs is of significant interest to public policy makers and would-be entrepreneurs (Watson, 2007:870). Although researchers have investigated the determinants of the success of SMMEs in a variety of countries, accurate models for predicting venture performance are not widely available (Lussier and Pfeifer, 2001)

According to Van der Westhuizen, (2008:13), “to determine the success of the farmers is not easy, this is due to in-season variations in climatic factors (especially rainfall precipitation and distribution), variations in yield may disguise the proper practices of good managers or cover up of inferior management practices by poor managers. It is therefore not feasible to use yield or profitability as indicators of managerial progressiveness”.

However, Carter and Van Auken, (2006:495) reported the following main factors that may lead to the success or failure of the SMMEs:

- Size of the business: Very small enterprises are mostly likely to have a high failure rate, while larger and faster growing enterprises are less likely to fail.
- Availability of capital, educational level and work experience: These factors directly relate to an enterprise’s likelihood of success or survival.

- Resource availability: Enterprises with fewer resources are more likely to fail than those with more resources.
- Internal and external conditions: Entrepreneurs attributed failure to internal factors such as lack of skills or poor strategic planning, while venture capitalists attributed failure to external factors such as market conditions.
- Rural locations: The chances of failure for businesses located in rural areas with a narrowly focused niche strategy are high.
- Other factors that contribute to the success or failure of business ventures are: lack of start-up capital, business growth strategy and poor formal planning.

It is therefore important that farming SMMEs monitor and evaluate the prominence of both financial and non financial influencing factors, in order to ensure competitiveness (Nell and Napier, 2006:94). To this end, the South African government has established institutions such as the Land Bank, National Agricultural Marketing Council (NAMC) and Department of Agriculture and Land Affairs in order to assist the agricultural community, especially the emerging farmers, to become sustainable commercial farmers. In view of this, the objective of this chapter is to investigate whether success or failure in farming SMMEs (emerging farming enterprises) financed by the Land Bank is influenced by both financial and non financial success factors.

6.2 MATERIALS AND METHODS

6.2.1 Study area and data

Data collected from a sample of 134 emerging farmers collected across the nine provinces of South Africa by the Land Bank of South Africa in 2007 was used. In the study, emerging farmers were defined as those previously disadvantaged farmers who are now participating in the market and are still facing some constraints to full participation (Makhura, 2008).

Farmers interviewed were drawn from 27 Land Bank national branches. The sample represents 10% of all Land Bank loan holders. The primary objectives and sampling procedure of the study are presented below:

Primary objectives of the study

The primary objectives of this study was to determine the problems that emerging or developing farmers, who are Land Bank clients/funded are facing, establish reasons for their success and failure (defining failure as incapability to meet financial obligations e.g. defaults) and to find out what role a bank can play in order to ensure that these farmers are financially viable?

Sampling design and distribution

Stratified randomised design was used as the sampling design. A 10 percent random sample comprising of 460 emerging farmers was drawn from 27 Land Bank national branches. The choice of the survey area was based on its representativeness of commodities within a province. This was an important criterion in the light of limited financial resources available for the study. Another criterion used was short-term, medium and long-term loans provided to the clients. The structured questionnaires were validated through perusal by a panel of experts and extensively pre-tested before administered by trained interviewers, who were closely supervised by the research committee.

6.2.2 Method

The success of farming SMMEs was determined by using both subjective and objective measures of farm profitability. The subjective measures entailed the use of farmers' opinions regarding profitability and the reasons thereof, while, the objective measures used actual farm profits (2004 to 2007). The rationale for using these two methodologies were to find out whether the perception of the farmers can provide a picture of their judgement, whilst objective measures were used to find the authentic picture.

6.2.3 Data analysis

Two sets of analysis were carried out. The first analysis involved obtaining estimates of success rate defined as the ratio of a number of successes for different profit measures to the total number of farmers interviewed. This analysis was conducted using the FREQ procedure of SAS. The second analysis focused on multiple logistic regressions. A multiple logistic regression model was used to investigate the relationship between the response (a dichotomous outcome) and a set of predictor or independent variables. The response variable in the current study was a measure of success (e.g. profitable = 1 and non-profitable = 0) and the covariants were market availability, attended training, extension support, business types and business plan.

The choice of the model was based on the fact that the response or dependent variable was a dichotomous (yes/no) variable. The binary logistic model does not make the assumption of linearity between dependent and independent variables. The logistic regression model is represented as follows.

Let Y be a binary response variable where for example $Y = 1$ denotes success and $Y = 0$ denotes failure and also assume a set of predictor variables contained in a vector \mathbf{x} . Then, probability of success to be modelled is given by:

$$\pi = P(Y = 1 | \mathbf{x}) \quad (1)$$

Since Y is binary, modelling π is really modelling $E(Y | \mathbf{x})$, which is what is done in ordinary least square regression. If we model π as a linear function of predictor variables, e.g.,

$$\beta_0 + \beta_1 x_1 + \dots + \beta_p x_p \quad (2)$$

then the fitted model can result in estimated probabilities which are outside of the range $[0,1]$. What tends to work better is a logistic regression model presented below.

$$\pi = \frac{\exp(\beta_0 + \beta_1 x_1 + \dots + \beta_p x_p)}{1 + \exp(\beta_0 + \beta_1 x_1 + \dots + \beta_p x_p)} \quad (3)$$

where x_1, \dots, x_p may be the original set of explanatory variables, but the predictors may include transformed and constructed variables. The odds of success are therefore given by:

$$\frac{\pi}{1 - \pi} = \exp(\beta_0 + \beta_1 x_1 + \dots + \beta_p x_p) \quad (4)$$

Equation [4] is not linear in parameters and thus using a log transformation results in the following linear predictor):

$$\log\left(\frac{\pi}{1 - \pi}\right) = \beta_0 + \beta_1 x_1 + \dots + \beta_p x_p \quad (5)$$

$\log\left(\frac{\pi}{1-\pi}\right)$ is the log-odds of the probability of success or the *logit* transform.

Also note that no matter what value of the linear predictor in equation [5] is, the corresponding estimate of π will be between 0 and 1.

The unknown parameters (the coefficients $\beta_0, \beta_1, \dots, \beta_p$) are typically estimated by maximizing the likelihood of the data,

$$\prod_{i=1}^n \pi_i^{y_i} (1 - \pi_i)^{1-y_i} \quad (6)$$

which is just an expression for

$$P(Y_1 = y_1, \dots, Y_n = y_n \mid X_1, \dots, X_n) \quad (7)$$

Estimates of parameters of the logistic regression model in Equation [5] and their associated standard errors were obtained using the LOGISTICS procedure of SAS. PROC LOGISTICS uses the Fisher Scoring iterative procedure to obtain maximum likelihood estimates of the parameters.

6.3 RESULTS AND DISCUSSION

6.3.1 Farmer's opinion about their profitability –subjective profitability

The results for analyses concerning farmers' opinions on whether his or her business makes a profit or loss are presented in Table 6.2. None of the independent variables considered in the current study was significant at the 5% level of significance. However, the R^2 value of 0.1593 indicates that the model has some predictive power although the prediction may not be accurate.

Table 6.1: Chi-square test of significance of independent variables on subjective profitability

INDEPENDENT VARIABLE	DF	WALD CHI-SQUARE	PR > CHISQ
Market availability	1	1.5737	0.2097 ^{ns}
Attended training	1	0.2057	0.6501 ^{ns}
Extension support	1	0.2913	0.5894 ^{ns}
Business type	2	0.2940	0.8633 ^{ns}
Business plan	1	0.9832	0.3214 ^{ns}

*** Significant at 1% level; ** Significant at 5% level; R²=0.0726, NS=Not significant

Table 6.1 provides parameter estimates of regression coefficients. The results are consistent with those in Table 6.2 in that none of the parameter estimates were significantly different from zero ($P > 0.05$).

Table 6.2: Maximum likelihood estimates of regression parameters and Chi-square test for subjective profitability

PARAMETER	LEVEL	DF	ESTIMATE	STANDARD ERROR	WALD CHI-SQUARE	PR > CHISQ
Intercept		1	0.2046	0.7595	0.0726	0.7876 ^{ns}
Market availability	Yes	1	1.1742	0.9360	1.5737	0.2097 ^{ns}
Attended training	Yes	1	0.2954	0.6512	0.2057	0.6501 ^{ns}
Extension support	Yes	1	-0.3343	0.6193	0.2913	0.5894 ^{ns}
Business type	Group	1	0.0516	1.0498	0.0024	0.9608 ^{ns}
Business type	sole ownership	1	0.3394	0.6448	0.2772	0.5986 ^{ns}
Business plan	Yes	1	-0.6384	0.6438	0.9832	0.3214 ^{ns}

*** Significant at 1% level; ** Significant at 5% level; NS=Not significant

Table 6.3, provides the odds ratios associated with different independent variables with respect to subjective farm profitability. The odds ratios for each independent variable are discussed below.

Table 6.3: Odds ratios for influencing factors on subjective profitability

INDEPENDENT VARIABLE	LEVEL	POINT ESTIMATE	95% WALD CONFIDENCE LIMITS	
Market availability	Yes vs No	3.236	0.517	20.264
Attended training	Yes vs No	1.344	0.375	4.815
Extension support	Yes vs No	0.716	0.213	2.410
Business type	Group vs CC	1.053	0.135	8.242
Business type	Sole proprietor vs Group	1.404	0.397	4.969
Business plan	Yes vs No	0.528	0.150	1.865

$R^2=0.3361$

a) Market availability

In the context of this study, market availability implies access to formal markets, while access to informal markets only is regarded as non-availability of markets. This definition of market availability may lead to results that may not be intuitive. The odds ratios coefficient on farm profitability is 3.236. This coefficient indicates that the emerging farmers believe that having access to formal market can increase their profitability by 223.6% as compared to those with only access to informal markets. This implies that farmers perceive that those who have access to formal market have high probabilities of making greater profit than those operating from an informal market. However, it should be noted that the odds ratios are not significantly different ($P > 0.05$) among the two groups.

These results reflect that farmers understand the importance of access to formal markets in relation to farm profitability. In views of this, it can be deduced that their poor participation in formal market might be as result of a lack of capacity.

Therefore, the establishment of market systems that takes into account their development needs is crucial. The system should, amongst other things, provide the emerging farmers with marketing information prior to harvesting time, information about marketing agents, exports, standards and norms etc.

b) Attendance of training

Training is essential to curb poor production planning, managerial ability, coordination, technology, low level of technical knowledge and wastages. Businesses run by poorly trained personnel are not immune from unsustainable practices and often collapse without fulfilling their objectives. In view of the above, it was important in this study to determine the perception among farmers regarding the attendance of training as a way of improving farm profit.

The odds ratio coefficient obtained was 1.344. This result indicates that the respondents were of the opinion that those farmers who attend any training have 34.4 % better chances of making profits than those who are trained. These perceptions reflect that emerging farmers attach value in attending trainings as sources of production efficiency. These results confirm the opinion of experts who regard attending training as more crucial in running enterprises or production processes (Nieman et al, 2004).

Oluwajoba et al, (2007) found that technological innovative capacities are positively correlated to the higher academic training in science or engineering and previous working experience (an opportunity which the majority of emerging farmers lack). In addition, De Clereq et al, (2006) found that both one's current knowledge base as well as one's exposure to knowledgeable people increases the self confidence to successfully set up a venture.

Clearly, the current researches confirm the importance of attending training. Consistent with these research findings, the results of this study show that there is a strong perception amongst the emerging farmers that training improves profitability.

c) Extension support

Extension services have an important role to play in assisting the farming SMMEs in acquiring information on new technology, skills, innovation and production advice. On the basis of the aforesaid importance, the emerging farmers were given an opportunity to evaluate whether farmers with access to extension services have a better chance of making more profit compared with those that have no such access.

The odds ratio coefficient obtained for extension support is 0.716. This result indicates that in the opinion of the respondents, farmers with extension support have a 28.4% smaller chance of making profit compared to those without such services.

This result indicates that emerging farmers do not place a high value on the existing present extension support. In view of this result, it can be deduced that extension officers need to be re-trained in order to provide valuable information to the farmers so that farmers can value them. According to Groenewald, (2004) extension officers require training in marketing and management. It may be necessary to amend the curricula for extension workers' qualifications be amended to include management modules.

d) Business type

Currently, the Department of Agriculture and Land Affairs in South Africa encourages potential farming entrepreneurs to form groups in order to access sufficient grants from government for farming purposes. This is because the criteria for accessing such grants takes into account individual assets, sweat equity and prior farming experience.

For the historically disadvantaged individual (HDI) to be able to access enough grants to purchase the land and remain with a balance of the grant, these individuals are encouraged to form groups in the form of a close corporations, trusts, companies etc.

This made it advisable to empirically investigate whether the farmers themselves feel that such group farming will add to the likelihood of making profits and thus survive as commercial farmers.

The odds ratio coefficient obtained is 1.053 indicating that emerging farmers believe that group farming has a small (5.3 %) higher probability to be profitable as compared to farming by a close corporation. The fact that this odds ratio is close to 1.0 implies that one can not really draw any conclusion from it. It also implies that it is either insignificant or close to insignificant. The odds ratio that follows sheds a more important light on the farmers' perceptions.

In this case, a close corporation is referred to as a legal entity that is composed of one to five owners while group farming is ownership of farms by more than five farm owners. This result indicates that some emerging farmers believe in collective farming. This belief appears to be influenced by cultural and traditional practices rather than the economic viability of the venture.

An odds ratio coefficient of 1.404 was obtained with regard to sole proprietorship. This coefficient indicates that the emerging farmers perceive a sole proprietorship to have a better (40.4%) chances of making a profit compared to the group farming.

This result reflects that emerging farmers appreciate it that a sole proprietor has more opportunity to make business decisions and implement these without following complex processes. The results reflect the recognition by emerging farm owners of the difficulty in managing an organization owned by many people, whose interests could be very diverse. In view of this perception, it can be concluded that farmers have been, and still are persuaded to form or join farming groups against their will.

Given their choice, these farmers would prefer farming as individuals. In addition, it can also be concluded that the decision to form a group is as a result of asset poverty, a condition that disadvantages them from accessing sufficient grant. On the basis of this observation, government should revise the formula for allocating grants in favour of individual or families.

e) Business plan

Business planning process is one of the processes that is regarded as predictor of business success. Scholars of entrepreneurship and small management hail the business plans as the source of successes (Nieuwenhuizen et al. 2003), because it seeks to clarify crucial issues such as the ones mentioned below prior to the implementation of the business idea:

- The vision and mission of the enterprise.
- Membership of the enterprise
- Objectives of the enterprise
- Market availability and access
- Financial projections
- Possible financial sources
- How the enterprise intends to redeem the financing
- Ownership

It was thus crucial to investigate whether emerging farmers perceive a business plan as a tool that could increase their profit. The odds ratio coefficient obtained is 0.528. This result pointed out that emerging farmers feel that those with a business plan have odds ratio coefficient of 0.528 indicating that farmers with business plans have 47.2 % less chances of making profits compared to those without. It implies that emerging farmers feel that farmers with business plans have 47.2% smaller chances of making profit than those without.

Clearly this appears to indicate that many emerging farmers do not see any importance of their business plans. This observation confirms the findings that emerging farmers do not use their business plans to run their enterprises (CDS, 2007). This perception might be as a result of the fact that business plan requires some technical capacity to understand. Therefore, for emerging farmers to comprehend and use business plans, it will be necessary that these farmers are continuously mentored on how to use their business plans.

6.3.2 Actual profit of emerging farmers-objective profitability

In this section, success is measured in terms of actual profit derived by emerging farmers financed by the Land Bank of South Africa. The profit used comes from the data of a four year cycle from 2004 to 2007. The analysis of independent variables for actual farm profit is shown in Table 6.4.

The study found that none of the independent variables is significant at the $P \leq 0.05$ confidence level. In light of this non-significance, it can be inferred that the independent variables do not have a significant influence on the farm profit. The R^2 value of 0.1860 indicates that this result can only explain 19% of the variability.

Table 6.4 Analysis of independent variables for objective profitability

INDIPENDENT VARIABLE	DF	WALD CHI-SQUARE	PR > CHISQ
Market availability	1	1.3099	0.2524 ^{ns}
Attended training	1	0.2525	0.6153 ^{ns}
Extension support	1	0.1136	0.7360 ^{ns}
Business type	2	1.6667	0.4346 ^{ns}
Business plan	1	0.6935	0.4050 ^{ns}

*** Significant at 1% level; ** Significant at 5% level; R²=0.0995, NS=Not significant

The maximum likelihood estimates for the goodness of fit and significance level are presented in Table 6.5. The intercept and a slope was estimated. Neither the Wald Chi-Square nor the Chi-Square probability is significant at the 95% confidence interval. Therefore, we accept that the model fits the parameter well. The Hosmer and Lemeshow Goodness of Fit test was found to show 2.8175.

Table 6.6 provides association of the independent variables relative to the actual profit made by farmers. The odds ratio estimates were used as a tool to compare variables within a 5% confidence interval. Only the results of variables such as market availability, gender, attendance of training, extension support, business type, and business plan were used for the purpose of comparative analysis between the results obtained through perception and the ones obtained using the actual profit figures.

Table 6.5: Maximum likelihood estimates parameters of objective profitability

PARAMETER	LEVEL	DF	ESTIMATE	STANDARD ERROR	WALD CHI-SQUARE	PR > CHISQ
Intercept		1	-0.4930	1.1961	0.1699	0.6802
Market availability	Yes or no	1	-1.2561	1.0975	1.3099	0.2524
Attended training	Yes or no	1	-0.5285	1.0517	0.2525	0.6153
Extension support	Yes or no	1	0.3080	0.9137	0.1136	0.7360
Business type	Group	1	-0.2401	1.6366	0.0215	0.8833
Business type	Sole ownership/ individual farmer	1	1.0902	0.9153	1.4186	0.2336
Business plan	Yes or no	1	0.8433	1.0127	0.6935	0.4050

Table 6.6: Odds ratio estimates for objective profitability

INDIPENDENT VARIABLE	LEVEL	POINT ESTIMATE	95% WALD CONFIDENCE LIMITS	
Market availability	Yes or No	0.285	0.033	2.447
Attended training	Yes or No	0.590	0.075	4.631
Extension support	Yes or No	1.361	0.227	8.157
Business type	Group or CC	0.787	0.032	19.445
Business type	Sole proprietor or CC	2.975	0.495	17.888
Business plan	Yes or No	2.324	0.319	16.916

a) Market availability

The relative odds ratio coefficient obtained is 0.285. This result indicates that those emerging farmers with access to formal markets have 71.5 % less chances of making profit compared to those with access to informal markets.

This appears to indicate that the existing formal markets conditions may be unfavourable for emerging farmers. This might be as a result of a host of different factors, amongst others transactional costs, poor road infrastructure and poor transport facilities. These results confirm the need for a separate formal market dedicated to serve the needs and aspirations of the emerging farmers.

There is a vast difference between the results obtained by farmer's perception compared to the one obtained using actual profit data. Thus farmers lack capacity to actually estimate the influence of market availability or access on profit potential. Therefore, it is imperative that farmers be trained on marketing.

b) Attendance of training

The relative odds ratio coefficient obtained is 0.590 indicating that farmers who have not attended training have 41% better chances of making profits than those who have undergone training. This result is in disagreement with several researchers who found that training received is a key determinant of profitability (Bryan, 2006, Nieman et al. 2004 and CDS 2007) and is in agreement with the relative odds ratio coefficient obtained through the perception of the farmers, which found that emerging farmers think that training do not play significant role in ensuring profitability of the farming SMMEs.

Farmers perceive it to be less important in influencing farm profit. In the light of this observation from farmers' perception, it is clear that emerging farmers perceive that the training offered to them by service providers lack quality and/or relevance and therefore add no value to the profitability of their enterprises.

c) Extension support

The relative odds ratio coefficient found is 1.361. This result indicates that farmers who have access to extension support have 36.1% greater chances of making a profit than those without. The comparison between the results obtained through perception and that obtained through actual profit data shows significant difference. The objective analysis suggests that for emerging farmers to make profit, extension support is critical.

Therefore, it can be deduced that those emerging farmers who are collapsing, lack amongst others extension support. This result suggests that it would be worthwhile for public, private and parastals to invest more capital on extension training and development in order to improve the profitability of these farmers.

d) Business type

The relative odds ratio coefficient obtained is 0.787, indicating that farmers who are operating as groups have 21.3% less chances of making profit than those who are operating as individuals. This finding is complemented by the result obtained from sole proprietor variable, which indicates that sole proprietor variable has 2.975 odds ratio coefficient. This odds ratio coefficient indicates that sole proprietorship has 197.3 % chances of making profit compared to other legal entities.

It can be deduced that organisational arrangement has significant influence on profitability. Hence, sole proprietor is the most profitable organisational arrangement for emerging farmers compared to other types of entities under consideration. This might be because this arrangement is less complicated as compared to other entities. Its simplicity must be seen in conjunction with the low level of literacy amongst the emerging farmers. Overall, these results are in agreement with the subjective opinion of the farmers on the fact that sole proprietor has more chances of making profit than collective farming.

This finding shows that both subjective and objective tools point to the same conclusion. It is therefore clear that group farming is less profitable than individual farming. These findings provide the reasons why the majority of the land reform enterprises have collapsed or are collapsing.

e) Business plan

The relative odds ratio coefficient found is 2.324. This indicates that those with business plans have 132.4% greater chances of making profit than those without. This result is in sharp contrast with the perception of emerging farmers, which indicates that those with business plans have 47.2% less chances of making profit than those with business plans.

It appears that this result reflect that emerging farmers lack the capacity to see the values of business plan in their enterprises. This might be because during the drafting of the business plans, emerging farmers might have not fully involved or lacked capacity to comprehend the technical aspects to the plan.

Another explanation for this result might be that some of these business plans were written for them by consultants in complicated business language rather than the language understood by farmers. All these explanations point out that emerging farmers lack the capacity to write their own business plans and therefore any stakeholder that attempts to assist in this regard must workshop the beneficiaries before and after their withdrawal.

6.3.3 Success based on loan repayment history

Loan repayment history is mainly used by financial institutions to assess the risk category of both individuals and enterprises that have qualified for credit. Repayment was also used in this study as a measure of success of the farming enterprise. Those enterprises that are unable to meet their loan repayment obligations are thus classified as unsustainable and, conversely those who meet their loan obligation are sustainable.

The farmers' status was defined as follows: 1 represents farmers with bad debt payment, while 2 indicate farmers who are up to date with their payments. The results of the analysis of the performance of emerging farmers in paying their loan are shown in Table 6.7

The study found that the independent variables are significant at $P \leq 0.05$ confidence level. The R^2 value of 0.0442 indicates that this result can only explain 4.42% of the variability.

Table 6.7 Analysis of independent variables for loan payment

INDIPENDENT VARIABLES	DF	WALD CHI-SQUARE	PR > CHISQ
Market availability	1	0.0364 **	0.8487 ^{ns}
Attended training	1	0.4657 ^{ns}	0.4950 ^{ns}
Extension support	1	0.0482 **	0.8263 ^{ns}
Business type	2	1.4689 ^{ns}	0.4798 ^{ns}
Business plan	1	1.1033 ^{ns}	0.2936 ^{ns}

*** Significant at 1% level; ** Significant at 5% level, * Significant at 10% level; $R^2=0.0442$, NS=Not significant

The maximum likelihood estimates for the goodness of fit and significance level are presented in Table 6.8. Both the likelihood ratio and the Wald tests were found to be not significant and therefore the hypothesis of goodness of fit was accepted at 5% confident interval. The intercept and a slope in the logistic regression model were estimated. In this case the null hypothesis states that the logistic regression model provides an adequate fit to the data.

Table 6.8: Maximum Likelihood estimates of regression coefficients on the loan payment-client status

PARAMETER	LEVEL	DF	Estimate	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept		1	0.5538	0.7610	0.05296	0.4668
Market availability	Yes or no	1	-0.1613	0.8454	0.0364	0.8487
Attended training	Yes or no	1	-0.4435	0.6499	0.4657	0.4950
Extension support	Yes or no	1	-0.1377	0.6276	0.0482	0.8263
Business type	Group	1	-1.2725	1.0688	1.4177	0.2338
Business type	Sole ownership/in individual farmer	1	-0.1254	0.6529	0.0369	0.8477
Business plan	Yes or no	1	0.6546	0.6232	1.1033	0.2936

Table 6.9 Odds ratio estimates for loan payment history

INDEPENDENT VARIABLES	LEVEL	Point Estimate	95% Wald Confidence Lin	
Market availability	Yes or No	0.851	0.162	4.40
Attended training	Yes or No	0.642	0.180	2.29
Extension support	Yes or No	0.871	0.255	2.98
Business type	Group or CC	0.280	0.034	2.27
Business type	Sole Proprietor or Group	0.882	0.245	3.17
Business plan	Yes or No	1.924	0.567	6.52

a) Market availability

The relative odds ratio coefficient obtained is 0.851. This odds ratio coefficient indicates that those with market availability have 14.9% times smaller chances of repaying their loans than for those without markets. This implies that those without formal markets have a good loan payment history as compared with those with formal markets access. This picture might reflect that emerging farmers with market availability have more market transactional costs to the extent that they are unable to make profits even though they have market access.

It may also mean that emerging farmers are producing inferior quality products that do not attract good prices in the market system. Lastly, this result might reflect a lack of knowledge by farmers in relation to marketing fundamentals. Therefore, it is important that emerging farmers need to be trained in marketing.

b) Attendance of training

The relative odds ratio coefficient found is 0.642. This means that farmers who had attended training have 35.8% smaller chances of having good loan payment records than those who attended training. This result indicates that the training that these farmers received is not sufficient, or the quality of training is questionable.

Therefore, a post training impact analysis would be necessary to ensure that the training delivered to these farmers is appropriate and has required impact. According to this result, emerging farmers would require a basic financial management training in order to ensure that their debt repayment is well managed.

In addition, these farmers should also be trained on aspects of credit management. Appropriate training for emerging farmers is needed in order to help them produce, market, and manage their finances properly. Therefore, it is important that training of these groups of farmers be designed in order to meet their needs and aspiration.

Hence, training needs assessment should be conducted prior to the commencement of any training, and this assessment should be done not only by extension officers but also by specialists experienced in the field of agribusiness. Training centres across the country, in districts, local municipalities and national level would be another step towards resolving these capacity problems.

c) Extension support

The relative odds ratio coefficient for farmers who have extension support in relation to loan payment history is 0.871. This suggests that farmers who have access to extension support have 12.9 less chances of paying their debts than those without extension support.

This appears to indicate that extension support programs are not making the desired impact. According to this result, the current quality of extension services delivered to emerging farmers is less likely to capacitate emerging farmers in managing their debts appropriately. This suggests that government and other stakeholders should invest more in ensuring that quality extension support is rendered to these farmers.

The lack of quality extension services needs further investigation; this is because various factors might be involved. Amongst these factors, the number of extension officers produced by tertiary institutions per year and the curriculum followed by these institutions needs to be examined.

The study entitled “Evaluation of agricultural education and training curricula in South Africa” commissioned by the national Department of Agriculture in 2008 found that the total enrolment of agricultural economics was 1395, this enrolment was twice higher than the enrolment in agricultural extension (i.e. 666 students enrolled in 2003). In view of this result, it is clear that the tertiary institutions in South Africa do not put emphasises for the need to train more extension officers. It may also mean that the young people do not see extension as a better career path.

Therefore, it would not only be fruitful for stakeholders in agriculture to provide incentive packages to attract the youth in extension, but it would also be to the advantage of the farming SMMEs and their entire agribusiness. The drive to rural development through agribusiness seems to be heavily reliant on extension support and a comprehensive plan to motivate and develop this area of speciality would be more advantageous to the welfare of the emerging farmers.

d) Business type

The relative odds ratio coefficient for group enterprises is 0.280. This coefficient indicates that farmers who farm in groups have 72% smaller chances of repaying their loans. On the other hand, it is found that farmers with sole proprietor enterprises have relative odds ratio coefficient of 0.882, which therefore indicates that these farmers have 11.8% smaller chances of repaying the loan. This indicates that the success in repaying the loans depends on the individual management.

Although, all these results indicates that these forms of legal entities have low probabilities of repaying loans, it is clear that sole proprietorship has a better chance of having loan repayment ability compared to the group entities. According to these findings, it appears that group farmers are the most risky compared with sole proprietors. Therefore, group farming should be the last option during the formation of farming SMMEs.

e) Business plan

The relative odds ratio coefficient for farmers who have business plans in relation to their loan repayment is 1.924. This indicates that those with business plans have a 92.4 % greater chances of repaying their loans than those without.

This clearly reaffirms the importance of the business plans. Therefore, it is important that emerging farmers must be assisted in order to have bankable business plans. Currently, most emerging farmers do not have the capacity to compile their own business plans, and hence government has been using consultants to compile these businesses plans for them.

6.4. LESSONS LEARNT

In summary, the use of objective and subjective measures in determining the success of farming SMMEs has provided some explanations for the reasons associated with the failure and success of farming SMMEs. Mentioned below is the summary of major findings for different assessment approaches:

a) Subjective analysis for farm profitability:

- Emerging farmers appreciate the value for formal markets.
- They attach value to training as a tool to increase farm profit.
- They do not attach value to extension support services.
- They think that group farming is better than close corporation in terms of influencing profitability.
- They perceive sole proprietorship as more profitable compared to group farming.
- They think that business plans have less value in making their enterprises profitable.

b) Objective analysis for farm profitability:

- Formal market availability does not influence profit making for emerging farmers.
- Training has a positive impact on farm profit.
- Extension support is crucial for farm profit for emerging farmers.
- Group farming has a negative influence on farm profitability of emerging farmers.
- Sole proprietor has positive influences on farm profitability for emerging farmers.
- A business plan has a positive impact on farm profit.

c) Objective analysis for loan payment

- Formal market availability does not influence loan repayment for emerging farmers.
- Training has a negative impact on loan payment.
- Extension support is no crucial for loan payment for emerging farmers.
- Group farming has a negative influence on loan payment of emerging farmers.
- Sole proprietor has negative influences on loan payment for emerging farmers.
- A business plan has a positive impact on loan payment.

6.5. CONCLUSION

Results obtained through farmers' perception do depict the lack of capacity of the farming SMME owners on essential prerequisites for their businesses, especially, their perception on the value of extension support and business plan. Their perceptions on the value of formal market are overexegarated, whilst their perception on the value of training and business types is realistic.

The objective analysis of farm profitability shows that emerging farmers are unable to accurately identify factors that influence their profitability. According to the objective results, it is clear that extension support, sole proprietorship and business plan play a crucial role in ensuring that these SMMEs are profitable.

Business plan was found to be the only variable that is crucial in ensuring that farm owners are able to pay their debts. Therefore, for these SMMEs to have a healthy financial condition it is necessary that their business plans be written with their participation and an ongoing mentorship on the business plan implementation is pivotal.

These results not only make significant contributions to the farming SMMEs but are also helpful to agribusiness as a whole during the planning, implementation, monitoring and evaluation phases of their business cycle. Therefore, it is essential that agricultural stakeholders ensure that farming SMMEs have adequate support regarding the identified factors that influence profit and loan repayments, as these factors are crucial for the sustainability of these enterprises.

CHAPTER SEVEN

SOCIO-ECONOMIC CONTRIBUTION OF FARMING SMMEs

7. INTRODUCTION

In general, the contributions of SMMEs to job creation, social stability and economic welfare have been widely acknowledged across the globe (Ladzani et al, 2002: 153, 1999:21). According to Ladzani et al, (2002: 153) SMMEs account for about 98% of South Africa's national GDP, making them the largest employer in the economy. In addition, Japan's SMMEs sector also accounts for the bulk of their country's business establishment (Ministry of International Trade and Industry, 1997). SMMEs in the United States of America have also been reported as having created eight times more jobs than big businesses (Ladzani, 1999: 21). In South Africa SMMEs have been commended for employing approximately 2.4 million (17%) of the total of 14.3 million economically active population.

Thus a number of countries recognise the significant contributions of SMMEs in uplifting the socio-economic status of many nations. Their growth in numbers in different countries, as compared with big businesses has also been witnessed (Ladzani et al 2002: 153). Consequently, many countries, in particular African countries, have changed their economic policies in favour of creating an enabling environment for SMMEs to flourish (National Economic Policy Research Unit, 1995).

In South Africa, the White Paper on national strategy for the development and promotion of small business of 1995 demonstrated not only the government's commitment to set-up the enabling environment but also its acknowledgement of their importance in economic sphere (Ladzani et al, 2002: 153).

Clearly, should attempts be made to establish an enabling environment be successful, the country will have made significant progress toward resolving its socio-economic problems.

In many of the developing countries, where socio-economic problems are prevalent, the farming sector plays an important role in food security, job creation and wealth creation. The contribution of the commercial farming sector in such countries, including South Africa, has been well researched. Yet very few or no contributions by farming SMMEs have been researched and documented. The objective of this chapter is to determine the capacity of farming SMMEs in contributing to the advancement of the socio-economic status of South Africa by looking at their contribution to job creation and wealth creation.

7.2 MATERIALS AND METHODS

This survey was conducted on the instruction of South African National Department of Agriculture (NDA). The primary objectives were to create a reliable database for agricultural enterprises, to determine the actual status of the emerging farmers in terms of growth and development, to determine the capacity requirements of enterprises, and lastly to develop a system that promotes and supports agricultural co-op and self-help groups. These data was collected by government extension officers.

7.2.1 Study area and data

The study uses 2006-7 data from a sample of 1873 farming SMMEs collected by extension officers across the nine provinces of South Africa. In the study, farming SMMEs were defined in terms of their annual turnover, as per the National Small Business Act (1996) as amended in 2004. A snowball sampling procedure was preferred due to the lack of existing database for these enterprises.

7.2.2 Statistical analysis

The **FREQ** and **LOGISTIC** procedures of the Statistical Analysis System were used to analyse the variables (SAS, 2000). Frequency procedures were utilised to determine the profile of the farming SMMEs, and logistic procedures was used to determine the logistic regression model, maximum likelihood estimates, R-squares and odds ratios for the variables under investigation.

7.3 RESULTS AND DISCUSSION

7.3.1 Farming SMME in South Africa

The frequencies of the farming SMME's are presented in Table 7.1. The majority of the farming enterprises in South Africa are micro-enterprises, followed by medium, very small and small enterprises.

According to the frequencies and annual turnover, only 11.86% of farming enterprises have the potential to develop towards commercial farming enterprises, while 88.14% categorised as micro and very small, may have difficulty to progress towards commercial level. This might be as a result of various factors which amongst others are the low annual turnover and net profit.

It is deduced that the micro and very small farming SMMEs need more capacity building in order for them to progress towards a commercial level. In view of the above, it is clear that the majority of the emerging farmers are not in good position to grow above the subsistence level to commercialisation. Turning the majority of these enterprises to viable commercial farmers will require examining, and where possible, rectifying various factors that influences their profitability.

Table 7.1: Frequency analysis for farming SMMEs in South Africa.

BUSINESSCLASS	FREQUENCY	PERCENT
Medium	5	8.47
Small	2	3.39
Very small	4	6.78
Micro	48	81.36

The following criteria were used to distinguish the business classes of the farming SMMEs:

- Medium = less than 100 employees, R5 million annual turnover and R5 million asset value;
- Small = less than 50 employees, R3 million annual turnover and R3 million asset value;
- Very small= less than 10 employees, R0.5 million turnover and R0.5 million asset value;
- Micro= less than 5 employees, R0.2 million turnover and R0.10 million asset value.

7.3.2 Status of farming SMMEs in South Africa

The status of the enterprises is of critical importance when monitoring the success and failure rate in order to reach a desired financial performance. The extension officers (i.e. data collectors) were requested to provide an opinion regarding the classification of the enterprise in question. As a result, the following classes for their status were used to find out the progress of the farming SMMEs:

- Class 1: Dormant without potential to grow
- Class 2: Dormant with potential to grow
- Class 3: New and stable
- Class 4: Operational and expanding
- Class 5: Operational and stable
- Class 6: Unstable with no potential
- Class 7: Unstable with potential

According to the extension officers, classes 1, 2 and 6 represent enterprises that are not operational. It should, however be noted that class 2 is categorised as dormant with potential to grow due to infrastructure that is not used. Classes such as: 3, 4, 5 and 7 represent those enterprises that are operational. Although class 7 is associated with those that are operational, those enterprises only operate during certain seasons.

A frequency distribution of the status of farming SMMEs is shown in Table 7.2. According to these results, the enterprises which are not operational were 12.37%, whilst those regarded as operational were 87.61%. This picture appears to indicate that the majority of farming SMMEs are having a potential to growth, but the enterprises do not possess capacity to ignite that potential. This might due to lack of appropriate knowledge to use the existing infrastructure as in the case of class 2, where such resources were not effectively used to enhance expansion. Overall, the results reflect the growth potential that is not exploited. Therefore, it is clear from these statuses that capacity building is necessary to convert the potential of these enterprises into viable businesses. Consequently, mentorship and growth strategies are a dire necessity to remedy these challenges.

Table 7.2: Frequencies analysis for the status of farming SMMEs in South Africa

STATUS	FREQUENCY	PERCENT
Dormant no potential	6	0.35
Dormant potential	172	10.10
New stable	141	8.28
Operational expanding	625	36.70
Operational stable	516	30.30
Unstable no potential	33	1.94
Unstable potential	210	12.33

7.3.3 Types of training received by farming SMMEs in South Africa

Training of beneficiaries is important in order to transfer technology and skills (Ramaphosa, 1993). It also ensures that workers are equipped with work processes and quality that meet the expected norms and standards (Bitsch et al. 2006:128, Parliamentary bulletin, 1998). Various authors agreed that training is essential for sustainability of the enterprises (Bryan, 2006, Muleba, 2003:61). Table 7.3 show the types of training that farming SMMEs in South Africa received during the period 2005 to 2007. This training was provided by training providers which are recognised by the SETAs and the Departments of labour, Agriculture and Land Affairs.

According to the results, the greater percentage (97%) of the training offered to these SMMEs was in business management with a limited technical training (3%). It appears that trainers assumed that technical training would be offered by extension officers.

Table 7.3: Frequency analysis for types of training offered to farming SMMEs in South Africa

TRAININGKIND	FREQUENCY	PERCENT
Business	1415	96.59
Other	11	0.75
Technical	39	2.66

The analysis of types of training would have limited meaning if the frequency distribution of actual training was not reflected. Therefore, Table 7.4 shows the actual training received by the beneficiaries. According to the findings, the major proportion (56.11%) of those who received training, received management training, followed by those who received other training (42.25%) and agricultural related training (1.64%). This implies that these enterprises lack agricultural training.

It appears that this lack of technical agricultural training is the critical one that limits enterprises to ignite their potential to grow. In addition, it also indicates that technical training is not highly emphasized compared to managerial training. This disparity has major repercussions in terms of production efficiency and effectiveness. Therefore, it is not amazing that these enterprises do not compete effectively in terms of the volume and quality of their products.

Table 7.4: Frequency analysis for the training received by farming SMMEs in South Africa.

TRAININGTYPE	FREQUENCY	PERCENT
Bee keeping	2	0.08
Bids work training	1	0.04
Bookkeeping	1	0.04
Broiler production	2	0.08
Business planning	3	0.12
Capacity building	2	0.08
Chemical application	1	0.04
Control mechanisms	1	0.04
Cookery training	1	0.04
Cooperative financing	2	0.08
Corporate governance	200	7.94
Crop production	7	0.28
Customer relations	1	0.04
Effective communication in business	1	0.04
Farm management	1	0.04
Financial management	455	18.06
First aid	1	0.04
Fish production	1	0.04
Florist	1	0.04
Health and security	1	0.04
Home base care	1	0.04
Induction	1	0.04
Land preparation and cultivation	1	0.04
Maize production	3	0.12
Making shoes	1	0.04
Marketing	454	18.02
Member recruitment strategy	2	0.08
None	1055	41.87
Other	2	0.08
Planning and control	291	11.55
Poultry production	6	0.24
Red ribbon	1	0.04
Sewing	1	0.04
Shearing and sorting	2	0.08
Soil preparation	1	0.04
Tb training	1	0.04
Technical training	4	0.16
Vegetable production	6	0.24
Water management	2	0.08
Total: Business management training		56.11
Total: Agricultural training		1.64

TRAININGTYPE	FREQUENCY	PERCENT
Total: Other training		42.25

7.3.4 Wealth creation by farming SMMEs in South Africa

Wealth relates to the development of a venture as commercial entity (Nieman et al, 2004). Adam Smith, defined wealth as an accumulation of valuable material possessions or resources (Wikipedia, 2009). Wealth provides an important mechanism of intergenerational transmission from poverty to sustainable livelihood. Wikipedia (2009) reported that approximately half of the wealthiest people in America inherited wealth from their family. The majority of these people are classified within the upper class. This class is taught to invest at an early age. This implies that this class is trained both technically and philosophically to handle wealth.

It is within this context that South African government introduces black empowerment to create a generation of black people who will know how to handle and create wealth. Although the objective was to create black middle and upper classes within a particular time frame, it is clear that creating a wealthy generation is a process. Black empowerment was established from various sectors with clear targets. In the farming sector, agricultural black empowerment policy (AgriBEE) was enacted in 2007.

In this policy, the economic empowerment of the emerging farmers is the core objective (NDA, 2008:39). Central to this objective is the redistribution of wealth through the distribution of productive resources such as land, equity and shares. The evidence exists that the provision of productive land to farmers without productivity, profitability and effectiveness is costly to society as whole (CDS, 2007).

This study attempts to find out whether the farming SMMEs are creating wealth for the historically disadvantaged groups in South Africa. Three classifications were designed with the purpose of investigating the profitability of farming SMMEs. These classifications are mentioned below:

- Group A: Profitable
- Group B: Stable (breakeven)
- Group C: Non profitable

The profitability analysis was used on the assumption that a high net farm profit brings an opportunity for growth and success, and consequently creates opportunity for wealth creation, while lack of profit brings poverty and misery. Breakeven provides neither poverty nor wealth, but puts an entrepreneur in a stable financial condition. A profitability index and breakeven point was computed using the following formula:

$$\text{Profitability index} = \text{PV of future cash flows} \div \text{PV of initial investment}$$

Where PV represent present value

$$\text{Breakeven point} = \text{Total fixed cost} \div \text{Unit contribution}$$

Table 7.5 presents the frequency for financial performance of farming SMMEs. According to the results, group C (non-profitable) is predominant, followed by group A (profitable) and finally Group B (stable). This indicates that the majority (58.33%) of the farming SMMEs are not making profits, while 41.67% are making profits. According to these results, it appears that farming SMMEs are still faced with numerous challenges to ensure profitability. Therefore, it can be deduced that the majority of these enterprises still lack capacity to create wealth for their owners.

Table 7.5: Frequency analysis for the financial performance of farming SMMEs in South Africa.

FINANCIAL PERFORMANCE	FREQUENCY	PERCENT
Non-profitable	73	55.30
Profitable	55	41.67
Stable	4	3.03

7.3.5 Socio-economic profile of farming SMMEs in South Africa

Table 7.6: Employment profile of farming SMMEs

Persons Interviewed			
	N	(%)	
Number Registered	37709		
Male	11249	30.87	
Female	21279	58.39	
Youth	3521	9.66	
Disabled	396	1.09	
Managers	Male	247	47.05
	Female	261	49.71
	Youth	14	2.67
	Disabled	3	0.57
Full-time employed			
Male	982	35.21	
Female	1382	49.55	
Youth	376	13.48	
Disabled	49	1.76	
Part-employed			
Male	443	39.07	
Female	514	45.33	
Youth	171	15.08	
Disabled	6	0.53	

In this section, employment by the farming SMMEs and the number of people involved were used to provide a picture of the socio-economic impact of these SMMEs (Table 7.6). Among the farmers involved, the majority were females.

In addition, it was noticeable that farming SMMEs employ more percentages of women in both full-time and part-time employment categories. It therefore appears that females are able to derive some economic advantages from farming of this nature.

Other things being equal, it appears that females are more interested in this type of farming than men within the South African population. Furthermore, it also appears that when people are in a desperate situation, women are more willing to actively pursue something such as farming than men. This might result from the fact that women are directly involved in ensuring that their children are nourished. Therefore, it can be deduced that empowering a large number of women by providing them with land and appropriate support may contribute largely in closing the existing socio-economic gaps.

7.3.6 Profitability of Farming SMMEs in South Africa

The factors that play a key role in influencing farm profit for the farming SMMEs are under-researched. According to Nieman et al, (2004) key factors that influence success of any business need to be identified and studied. In addition, Nell and Napier (2006) indicated that it is important to also identify successes and failures in the past. In identifying these factors, it is important to indicate the level of their influence in ensuring profitability. In doing so, an entrepreneur will have an opportunity to draw up a plan to ensure that failure is prevented.

This section looks at twelve influencing factors that may lead to good farm profit for farming SMMEs. It is assumed that the results of the influencing factors on farm profit can provide an indication of which factors should be prioritised by SMME owners when planning their enterprises.

In order to investigate these factors, a linear regression analysis was carried out, and the maximum likelihood estimates and odds ratios were calculated for independent variables that were deemed to have greatly influenced the profits of farming SMMEs. Table 7.7 and 7.8 provide the results of the maximum likelihood and odds ratio estimates of influencing factors affecting farm profit.

Table 7.7 shows results of the analysis of factors influencing farm profit. All the independent variables considered were not statistically significant ($P > 0.10$) except for book keeping ($P < 0.10$).

Table 7.7: Maximum likelihood estimates of model parameters for farm profit of farming SMMEs

INDIPENDANT VARIABLES		DF	ESTIMATE	STANDARD ERROR	WALD CHI-SQUARE	PR > CHIS Q
Intercept		1	0.8942	0.6491	1.8980	0.1683 ^{ns}
Own funding- class	1	1	0.2603	0.4312	0.3643	0.5461 ^{ns}
Grant amount class	1	1	0.5366	0.4340	1.5285	0.2163 ^{ns}
Loan amount class	1	1	-0.4651	0.6684	0.4842	0.4865 ^{ns}
Active members		1	-0.0128	0.0252	0.2582	0.6113 ^{ns}
Bookkeeping	1	1	-0.9808	0.5371	3.3341	0.0679 ^{***}
Audit	1	1	-0.4560	0.6769	0.4538	0.5005 ^{ns}
Monitoring plan	1	1	-0.2919	0.4108	0.5048	0.4774 ^{ns}
Training	1	1	-0.1413	0.4238	0.1112	0.7387 ^{ns}
Corporate principles	1	1	-0.6255	1.5495	0.1630	0.6864 ^{ns}
Profit tax compliance	1	1	0.7429	1.6896	0.1933	0.6602 ^{ns}
Feasibility study	1	1	0.2754	0.4600	0.3584	0.5494 ^{ns}
Competitors class	1	1	-0.4991	0.4256	1.3752	0.2409 ^{ns}

***Significant at 1%, ** significant at 5%, * Significant at 10%, $R^2=0.0923$, ns=None significant

The odds ratio and their associated 95% confidence intervals are presented in table 7.8.

Table 7.8: Odds ratio estimates for farm profit of farming SMMEs

INFLUENCING FACTORS	Levels	Point Estimate	95% Wald Confidence Limits	
Own funding class	Yes or No	1.297	0.557	3.020
Grant amount class	Yes or No	1.710	0.730	4.004
Loan amount class	Yes or No	0.628	0.169	2.328
Active members	Yes or No	0.987	0.940	1.037
Book keeping	Yes or No	0.375	0.131	1.075
Audit	Yes or No	0.634	0.168	2.389
Monitoring plan	Yes or No	0.747	0.334	1.671
Training	Yes or No	0.868	0.378	1.992
Corporate principles	Yes or No	0.535	0.026	11.151
Profit tax compliance	Yes or No	2.102	0.077	57.657
Feasibility study	Yes or No	1.317	0.535	3.245
Competitors class	Yes or No	0.607	0.264	1.398

7.3.7 Analysis of influencing factors for farming SMMEs.**a) Own funding**

According to the table 7.8, the odds ratio coefficient obtained is 1.297. This indicates that farmers with own funding have 29.7% higher probability of making more profit compared to those that lack such funding. It appears that farmers who contributed some own finance in their business are more likely to be committed to their business, thereby increasing the chance that they will make more profit than those that did not. Therefore, it can be deduced that own funding reflects the farmer's level of commitment, passion and interest in the success of the business.

b) Provision of farming grant

The South African government has used various kinds of grants in order to assist previously disadvantaged South African citizens of the Black, Indian and Coloured communities to purchase land or implements for agricultural purposes. The majority of the farming SMMEs are the beneficiaries of these grants. In view of this contribution by the government, farming SMMEs that benefited from these initiatives were expected to be more profitable as compared to those that have not received such financial stimulus.

According to Table 7.8 the odds ratio coefficient for the difference between those that have received grants versus those without grants is 1.710. This implies that those that had access to the grant have 71% higher probability of making profit than those without grant, assuming that other variables are held constant. It appears that the availability of the grant to farming SMMEs gives an opportunity for the farmers to acquire more needed facilities and services. It should however be noted that these results only show a tendency since no significance differences were found between those who receive the grant and those that did not.

c) Loans for farming SMMEs

Capital is one of important sources of business sustainability and profitability (NDA, 2008). Rogerson (2006:73) indicated that access to finance is perceived as a major constraint to business survival and growth.

This is echoed by Ferreira (2008:46) who believes that financial injection is an obvious need for SMEs, but that the major problem is a lack of access to credit. Small-scale farmers in South Africa, in common with the rest of the developing world, have limited and differential access to credit (Groenewald, 2004)

This study has revealed the odds ratio for loan amounts on farm profitability was 0.628 between those who had accessed loans and those without. This indicates that those with loans have 37% smaller probability of making profit than those without access to loan facilities. This implies that farming SMMEs do not know how to use loan facilities for the benefit of their businesses. This might be as a result of lack of financial management capacity from farming SMMEs owners, resulting in them using the loans capital for consumption or taking loans with higher lending rates than their cash inflows.

These scenarios could be more applicable especially because the majority of these SMMEs are owned by owners with high level of illiteracy. In order for farming SMMEs to benefit from the loan provided, it would be necessary that farming SMMEs be trained on credit management. Simple credit management systems should be developed in accordance with their literacy levels. Training should also be done in their language so that they can understand the credit management system.

d) Tax compliance

The farming SMMEs are known for having high illiteracy levels among their members and therefore it is a huge challenge for them to comply with the tax regulations. The study found that the odds ratio coefficient for profit tax compliance between those farmers who comply compared to those that do not is 2.102.

This implies that those farmers who comply with tax regulations have 110.2% greater chances of making more profit than those who do not comply. This picture indicates that those who are tax compliant are financially literate and therefore able to plan their farming enterprise better than those who do not have a good knowledge of finances.

e) Training farming SMMEs

A review of the recent literature indicates that human capital theory is one of the most frequently used theoretical lenses for investigating entrepreneurs' personal characteristics as predictors of success (Diochon, et al 2008:153). Human capital may be developed through formal training and education as well as work-related experiences (De Clerceq and Arenius, 2006:341).

Table 7.8 reflects that the odds ratio coefficient is 0.868 indicating that emerging farmers with access to training have 13% smaller probability of making profit compared to those without. This is very likely to result from the high illiteracy level and/or lack of prior training needs assessment. These factors have to be addressed to ensure that training makes more impact. Therefore, the background of the trainees remains critical in developing their learning materials and learning framework.

On these bases, the quality and appropriateness of training are crucial for the development of farming SMMEs owners. Therefore, technical and managerial training offered to these farmers should be clearly examined. It is recommended that the training offered should be an accredited training. Post training impact assessment should be also done by a qualified and accredited assessor, who should also be entitled to provide the training assessment report. This report should therefore be used to recommend further training.

f) Feasibility study

A business feasibility study can be defined as a controlled process for identifying problems and opportunities, determining objectives, describing situations, defining successful outcomes and assessing the range of the costs and benefits associated with several alternatives for solving a problem (Thompson, 2005).

The result of this study indicates that the odds ratio coefficient is 1.317, indicating that emerging farmers who have done feasibility study have 31.7 % greater probability of making profit than those who do not have feasibility studies. This result confirms the importance of planning and feasibility studies in ensuring the profitability of farming enterprises and might also relate to the literacy levels.

g) Other influencing factors

The odds ratios for other factors such as active members, book keeping, audit, monitoring plan, corporate principles and competitive class suggest that these factors do not contribute to profitability of farming SMMEs. These results appear to show a lack of knowledge and capacity about these factors, and as a result these factors are underestimated. For instance, how can a farmer determine profit and comply with tax requirements without bookkeeping or adhering to the corporative principles?

In addition, a farmer needs to know his or her business environment and thus he or she should identify his or her competitors. All these will require a farmer to be actively involved in his or her business by monitoring some variations from his original plans. Therefore, monitoring and auditing remain core instruments to determine success or failure of any enterprises.

7.4 LESSONS LEARNT

In summing up it may therefore be stated that several challenges were uncovered, and these need serious prioritisation for the farming SMMEs to be profitable and thus able to make a significant impact in the socio-economic sphere. To mention a few, the study found the following:

- The challenges of transforming micro enterprises to medium enterprises are enormous and require well planned programmes, linkages to value chains, associations, networking and organisation.
- Appropriate training is lacking.
- Women have a better chance of success than men in farming SMMEs.
- More women are employed by farming SMMEs.
- Youth and disabled people have only a marginal participation in farming SMMEs.
- Own funding, provision of grants, tax compliance and a feasibility study increase the probability of profitability of farming SMMEs.
- Training alone does not guarantee profitability of farming SMMEs.

7.5 CONCLUSION

In conclusion the study provides the scope of the challenges that are currently confronting the farming SMMEs. These challenges include amongst others, the following:

- Lack of strategies to transform micro enterprises into viable small and medium businesses.
- Marginal participation of youth and disabled people in farming SMMEs.
- Lack of the recognition of the potential of women in farming SMMEs
- The potential of farming SMMEs in reducing unemployment for rural women.
- Lack of structure dedicated to dealing with farming SMMEs as part of a rural development strategy.
- Lack of value chain for farming SMMEs.
- Lack of organisation for farming SMMEs.

CHAPTER EIGHT

SUMMARY, CAPACITY BUILDING STRATEGIES AND FUTURE POLICY TO ENHANCE FARMING SMME SUSTAINABILITY

8.1 INTRODUCTION

This chapter provides the summary, and conclusions of the study and future policy considerations that are pivotal to enhance sustainability of the farming SMMEs. Section 8.2 provides the summary, whilst 8.3 provides the future policy consideration.

8.2 SUMMARY OF CONCLUSION

The aim of the study was to create a comprehensive, sustainable and appropriate capacity building models and strategies for farming SMMEs in order to contribute significantly in eradication of poverty, reduction of unemployment in rural areas and commonages through creation of sustainable and market-driven farming SMMEs. To attain this aim, eighteen (18) case studies, Land bank survey and National department of agriculture surveys were used.

The study provided extensive theoretical reviews regarding the SMMEs throughout the world. A particular attention was also given to the factors that determine the success and failure of farming SMMEs. On the basis of this, a broad list of the key success factors was identified in consultation with various stakeholders. The SMMEs owners/managers participated in coming up with final list of the key success factors used.

A tool was then developed to evaluate individual SMMEs involved in the case studies. Surveys from the Land bank and National department of agriculture surveys were used to look at the performance of Land bank and National department of agriculture funded enterprises, influencing factors, contributions of SMME to socio-economic factors.

The results from the case studies revealed that micro and small farming SMMEs lack the majority of key success indicators. Therefore, the reasons for their collapse may be as a result of such inadequacies. It was found market capacity plays a significant role in ensuring financial capacity of the farming SMMEs. This appears to indicate that for any improvements in market access, there is a corresponding increase in profit. Therefore, farming SMMEs with low market access such as micro and small enterprises should be assisted in accessing formal markets in order for them to be sustainable.

The results of SSWFOT analysis characterised both micro and small farming enterprises as having low linkages to input sources (IC), markets, cash flow, production and sustainable employment. Consequently, these enterprises were found to have a grossly inadequate capacity to conduct a market driven business activities. In contrast, medium enterprises were found to have a fair representation of majority of the key success factors. Consequently, they had adequate capacity to conduct market driven business activities.

The results of Land Bank survey indicated that farming SMMEs owners need farming skills, financial, extension services and infrastructure to ensure their success of their farming enterprises. In addition, it was found that farmers lack understanding of formal markets, legal entities and the measurements of farm profit. Access to formal markets were found to be crucial for financial returns of farming SMMEs. Furthermore, it was found that female farmers had more probability of making profit than the male counterpart, due the fact that they have better financial discipline than the male counterpart. Besides the above-mentioned factors, training and extension support were reiterated as the main determinants of success and failure for farming SMMEs.

The results from the National Department of Agriculture survey reflect that the micro and small enterprises are in the majority compared to the medium enterprises. It appears that the transformation of micro and small enterprises to medium enterprises poses serious challenges. This is coupled by the fact that these enterprises employ more workers compared to medium enterprises. Based on these observations, it can be deduced that their transformation to medium enterprises would have significant impact on socio-economic development. Furthermore, these results also indicated the lack of appropriate training of farming SMMEs.

In addition, it reemphasized the importance of business planning, access to formal market and training for farming SMMEs. On the basis of these results, it can be concluded that farming SMMEs lack capacity such as human capital, market, infrastructure, farming skills and finance to run their businesses. Therefore, strategies that address these inadequacies are needed. The following strategies were recommended in order to turn farming SMMEs into viable and sustainable businesses. These strategies attempt to build capacity from young age and across all age groups.

8.3 STRATEGIES TO IMPROVE AND DEVELOP FARMING SMMEs

The purpose of this study was to formulate a comprehensive and sustainable strategies as a guidelines for viable agribusiness SMMEs with the overall objective of eradicating poverty in rural areas and commonages through increased agricultural production. On the basis of the results obtained in this study, the following strategies were formulated with purpose of ensuring that farming SMMEs meet their socio-economic goals and objectives.

8.3.1 Child-hood agrarian development strategies

The child-hood agrarian development mode is depicted in figure 8.1. This model suggests a two stage childhood agricultural developmental strategy. It focuses on children at primary and secondary school level. Potential to becoming a farmer is identified and encouraged/nurtured right from primary level. Selection criterion is based on volunteerism, family agricultural background or parent recommendation. The pupil will be subjected to a training programme made up of practicals (60%) and theory (40%).

Field practicals will give learners opportunities to engage in market gardening and livestock production. The output will be sold and the proceeds ploughed back into school development projects and pupils' own home consumption. This will enable the pupils to appreciate the direct as well as indirect benefits of agriculture.

Theory classes will subject pupils to courses such as agricultural production, agricultural engineering and agricultural management. At secondary level, pupils will consolidate and advance the agricultural knowledge acquired at primary level through further theory and practicals. They will also be subjected to mentoring and career guidance.

This model ensures that after secondary school, learners will be equipped with adequate knowledge to engage in agricultural entrepreneurship. They can either proceed to tertiary institutions for further agricultural studies or start their own agricultural SMME's. The students should be given a plot (or plots) from which the proceeds can go into his or her pocket as an incentive or motivation to becoming a farmer in future?

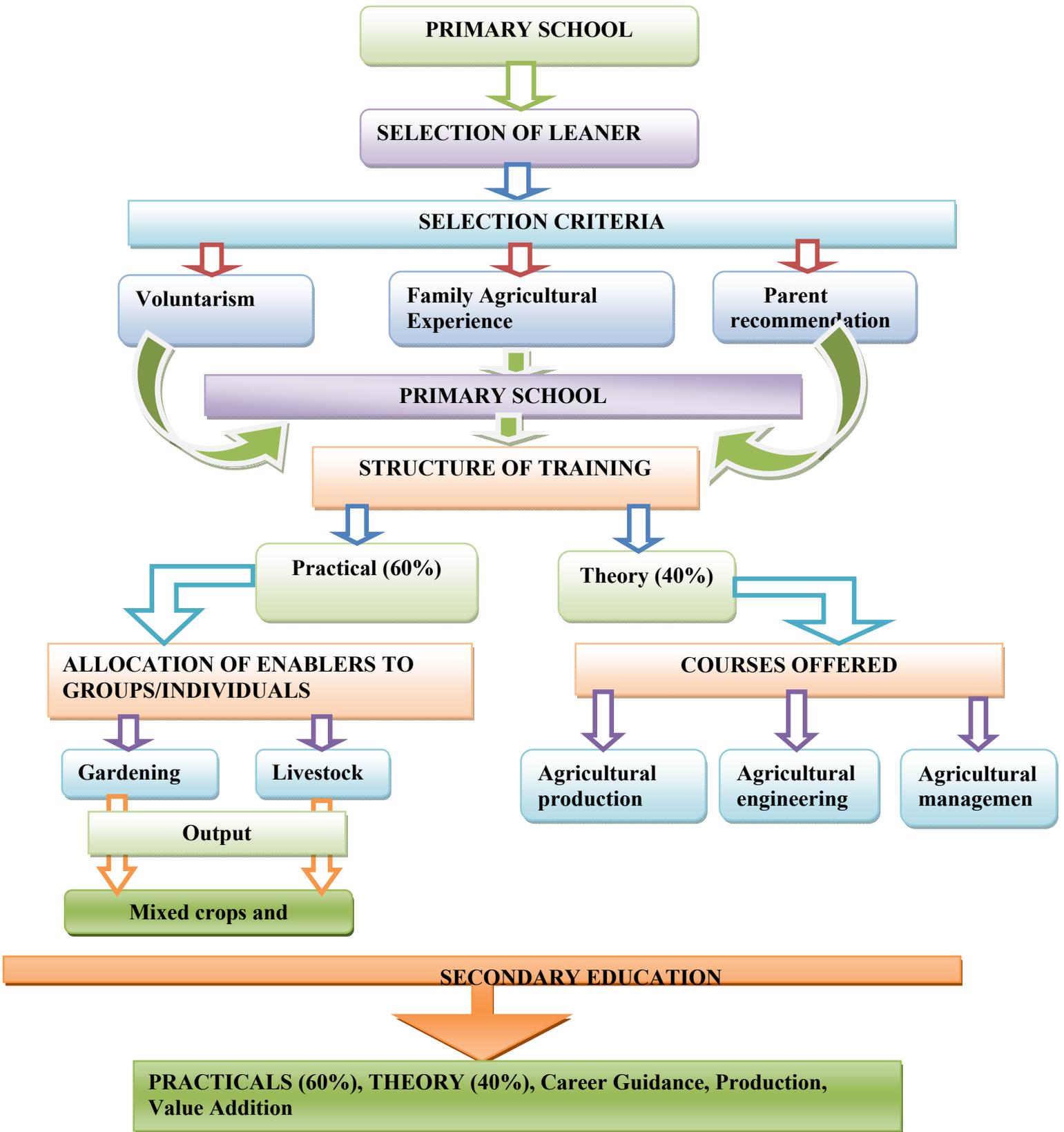


Figure 8.1 Agrarian child hood development model

8.3.2 Agrarian institutional development strategies

This model advocates for the institutionalisation of farming SMME through the establishment of institutions such as the Development Trust Fund, Youth Development Institute, Market Institute and Research Institute by the Land and Agrarian Reform Council under the auspices of the Ministry of Rural Development. All these institutes will offer various relevant services to farming SMME's in close liaison/consultation with other related and government institutions and/associations. Figure 8.2 shows the model proposed for institutional arrangement.

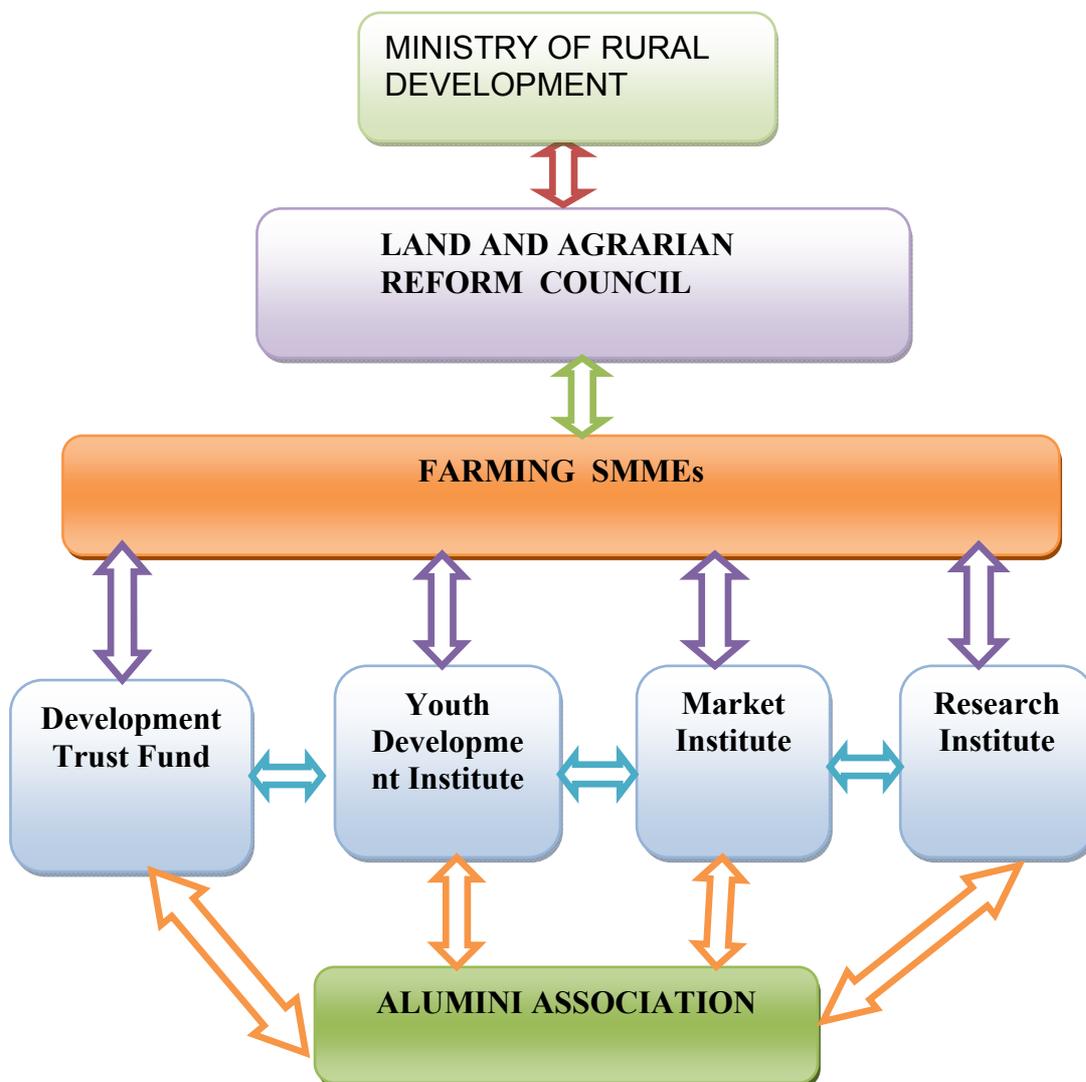


Figure 8.2 Proposed institutional model for farming SMMEs

8.3.3 Farming SMMEs beneficiary capacity building strategy

This model depicts a network of beneficiary associations. These associations are formed at branch, district, provincial and national levels in order to promote capacity building among member individuals and SMMEs. Each association should be a platform for exchange of ideas and information relating to prices of inputs, products and market trends (i.e. value chain), including supply chain management and technology tracking. Such a structure will ensure a smooth flow of valuable information from the associations to the individual beneficiaries and SMMEs. Through their associations, the individual and SMME beneficiaries will be exposed to international agricultural best practices. The model described above is shown in figure 8.3 below.

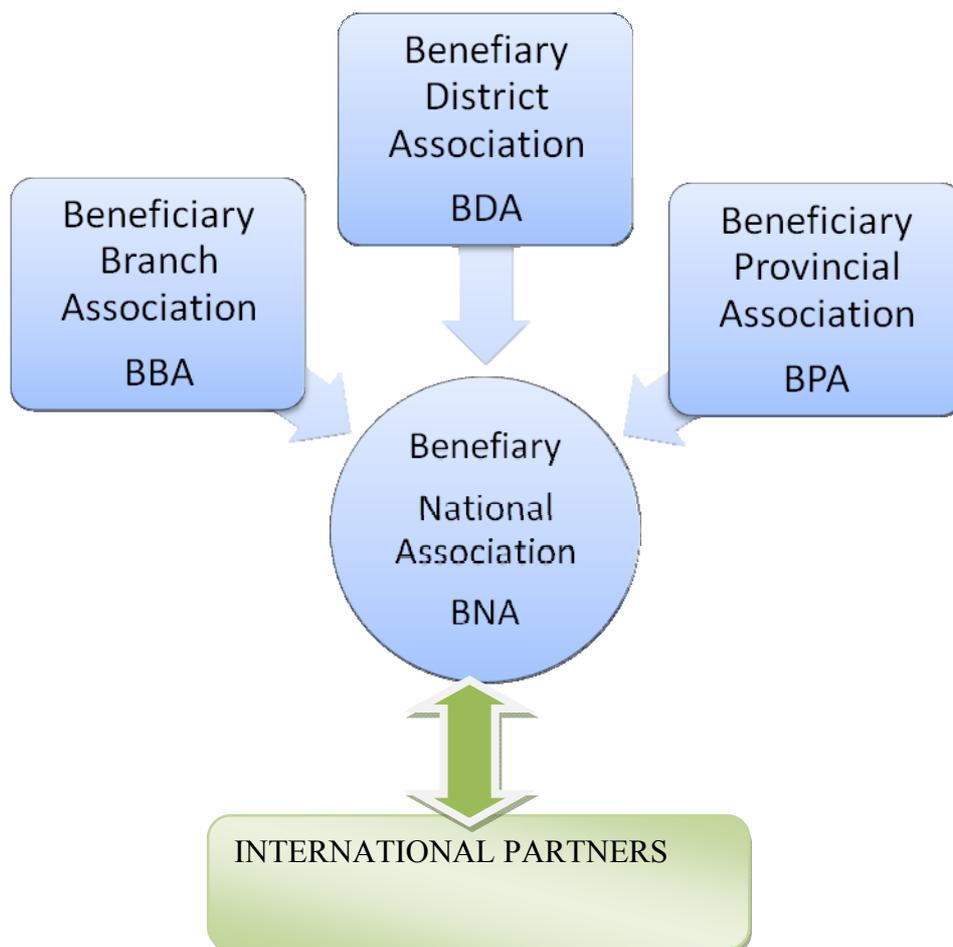


Figure 8.3 Beneficiary networking strategy

8.3.5 Farming SMMEs development strategy

This strategy seeks to identify and develop youth and women into productive agriculturalists. This study has found that the youth are generally not interested in agriculture whilst a large number of women are involved, albeit at subsistence level and are largely untrained. The model takes an apprenticeship approach where women and the youth, especially secondary school leavers, undergo apprenticeship training under successful farmers, retired agricultural professionals and successful firms with known agricultural interests or portfolios. The trained youths and women and University and college graduates can be provided with leased land for a specified period enough to objectively monitor and evaluate their performance in their respective agricultural fields. During this period, they will participate in training workshops and conferences where they will share ideas and network. This strategy is slightly similar to that applied by Moshav in Israel with a great success. The strategy described above is shown in figure 8.5.

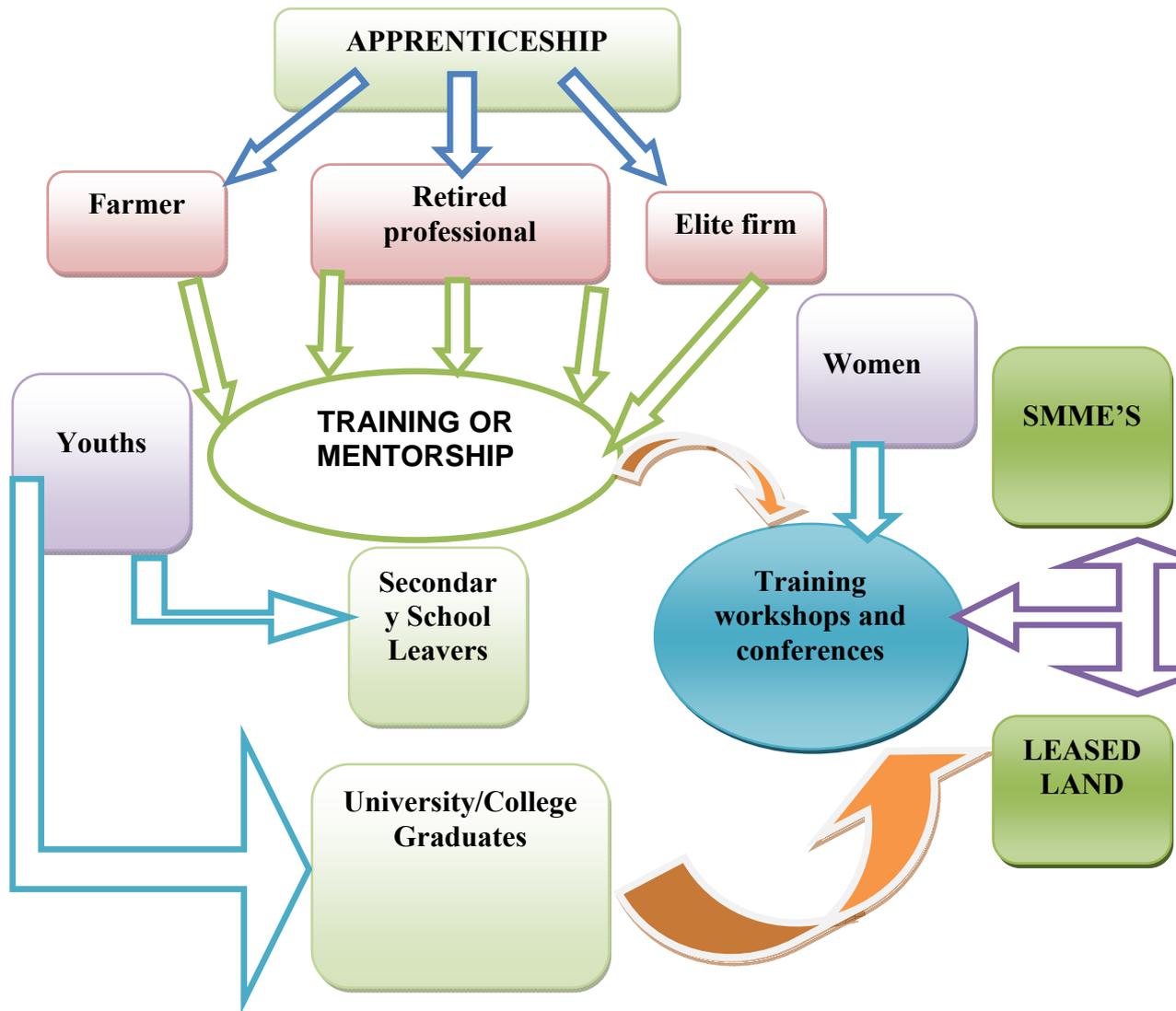


Figure 8.5 Model for sustainable development of farming SMMEs

8.3.6. Comprehensive resource allocation strategy for farming SMMEs.

The model seeks to provide a class based approach to allocation of agricultural resources to the previously disadvantaged individuals. It places beneficiaries into different social strata, that is, pro-elite, pro-poor, pro-youth and pro-working and middle class strata. Currently the poor are generally the target beneficiary group of the land reform program yet the agricultural policy is all inclusive with regards to the previously disadvantaged people.

According to these social strata, the model indicates the type and magnitude of required resources per class. This class based strategy will also determine the appropriate education and training to be offered to different categories. The current approach assumes homogeneity in the type and nature of resources and capacity requirements among the intended beneficiaries. This model advocates for a differentiation approach.

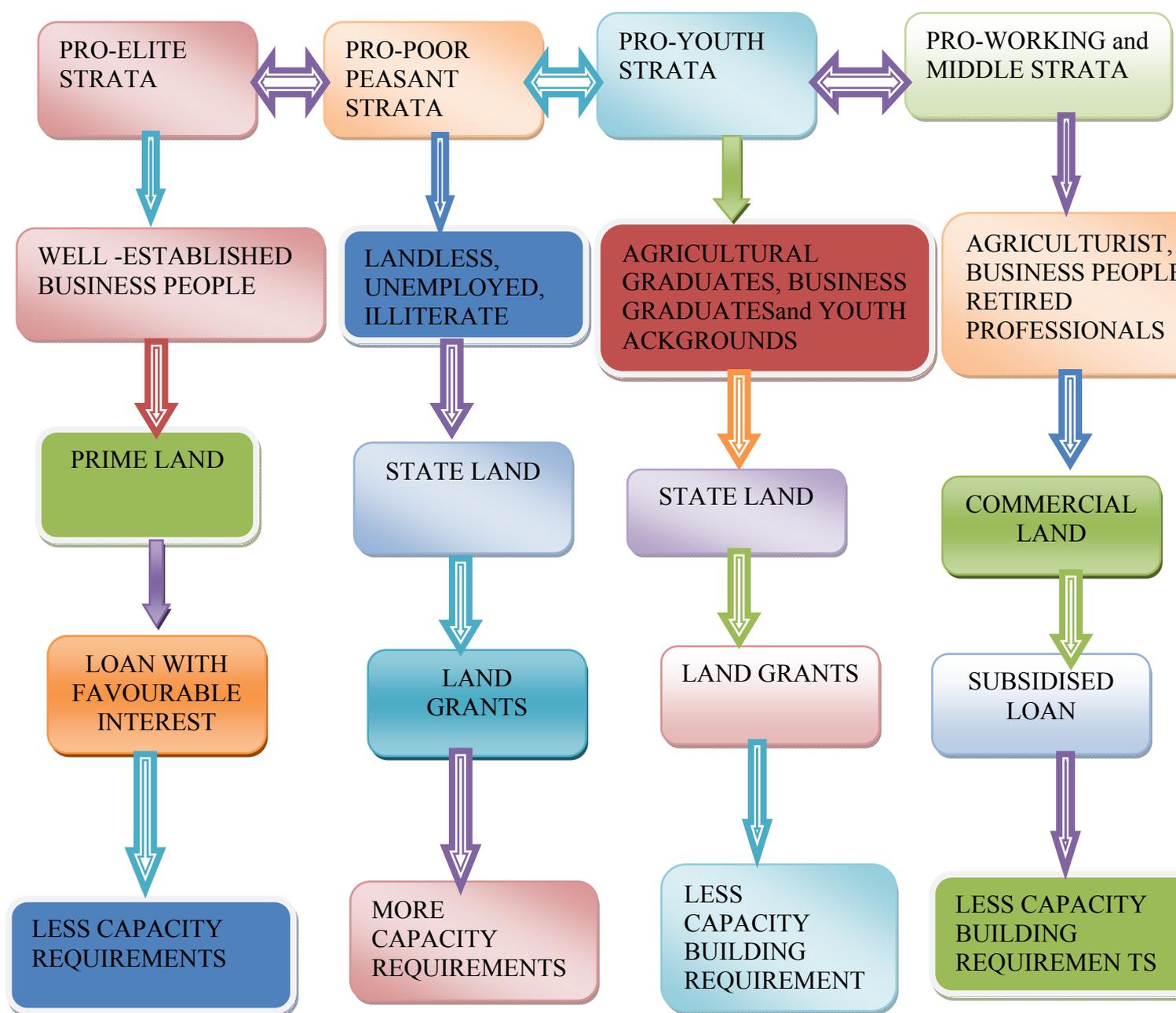


Figure 8.6 Resource allocation based on class strata of farming SMEs

8.4. FUTURE POLICY TO ENHANCE FARMING SMME SUSTAINABILITY

The empirical results obtained in this study raise several issues regarding the establishments of successful and sustainable farming SMMEs. SMMEs are known for their unique qualities that enable them to create jobs, generate innovation, promote economic growth, advance national prosperity, stimulate competition and empower individuals with skills and income. Internationally (Nieman et al,2004) SMMEs are noted for their contribution to employment creation, innovation, output expansion and GDP growth (Ladzani and Van Vuuren, 2002). There is therefore a great need to support formation and sustainability of farming SMMEs by government and other stakeholders.

Each year considerable sums of money are spent on development projects around the farming SMMEs which do not produce the expected results. This situation exists, at least partially, because of deficiencies in the process of problem analysis.

In any attempt to solve problems there are three basic steps:

- Identification and description of the problem
- Identification and formulation of the solution, and
- Execution of the solution.

To address these challenges, formulation of the following policies is paramount in order to enhance the successful establishment of sustainable farming SMMEs.

8.4.1. Pre-and post settlement support government policy formulation

The study has established that farming SMMEs lack farming and business skills and consequently recommend that skills transfer, financial aid and extension support should be improved. On the basis of these findings, pre-and post settlement support for farming SMMEs is essential. This support will provide the benefits articulated below:

- **Extension and Advisory Services:** A need exists to improve and upgrade the range of extension support services to farming SMMEs.
- **Mentorship Support:** A well planned and managed comprehensive mentorship program during their initial and after establishment period to help farmers gain the experience and expertise needed to become successful commercial farmers. In this regard on site mentorship programmes may be most effective to build capacity of farmers on the range of knowledge and skills needed by this target group. In this regard mentorship could be structured on a business basis where the mentors share in both the success and failure of the enterprise.
- **Information and market Support:** To help overcome the challenges and constraints experienced by new entrants to the agricultural sector, Land and Agrarian Reform Council (proposed in the institutional arrangement), should build a database of information pertaining to the state of the farming SMMEs, market, value and supply, capacity building programs, stakeholders, economic data, and international partners.
- **Financial Support:** The policy should provide how financial support is organised for farming SMMEs. In most situations, especially in areas where the cost of land is high, current facilities are used mainly for buying the land and there is insufficient funding available as production capital.

Access to credit by groups of farmers in this category is also very difficult and needs to be addressed. New strategies in optimally utilising LRAD and other forms of state funding support are needed. Farming SMMEs should be conceived as a business.

8.4.2. Policy on production and business planning for farming SMMEs.

Production and business plans play a crucial role in the profitability of any enterprises. This study found that farmers, who have a proper feasibility study and business plan, have a better chance of making a profit than those without. In addition it was found that emerging farmers lack technical skills to compile these plans and consequently, the government hires consultants to prepare such plans. In many instances, these consultants do not involve and capacitate these farmers. That is one of the reasons why these farmers lack the understanding of the role of these plans. As results farmers do not understand how to use these plans for business operation. It is therefore, important for South Africa to have a policy that regulates business planning process. The policy should specify processes, participants and the role different stakeholders in implementation and aftercare support for beneficiaries of farming SMMEs.

8.4.3. Sustainable linkages with training institutions

The linkages with training institutes are crucial for technology and skills transfer. For farming SMMEs to be sustainable, there should well-defined linkages with these institutions. A policy framework on how training institutions will be incentivised is important. Clearly, the policy that encourages these linkages would play a pivotal role in ensuring that farmers receive training on both technical and managerial skills. It would also reduce the incidence of inappropriate training. Based on the finding that the farming SMMEs lack farming skills, technology, business planning and marketing skills, the study suggest that a policy on sustainable linkages with training and research institution be developed in order to provide training on an ongoing basis.

8.4.4. Monitoring and evaluation for farming SMMEs

The lack of constant monitoring and evaluation of the performance poses serious challenges to both the farming SMMEs and investors. The agrarian development council proposed in section 8.3.2 should develop a monitoring and evaluation policy that leads to the establishment of the monitoring and evaluation department. The policy should specify the credentials of the evaluators and the frequency of evaluation. The data collected would be accessible to development agencies, training stakeholders, private sector and the public.

8.4.5. Value and supply chain development for farming SMMEs

The farming SMMEs, are currently conducting their business without a value and supply chain. These businesses rely heavily on the informal market for their revenue. Their input supply chain is not well defined. They have little influence on the input prices and their products. All these challenges are as results of lack of organisation and capacity. The envisaged institutional arrangement should amongst others help in developing a value and supply chain policy. The appropriate policy should be developed and also specify different participants in the supply and value chain (see figure 8.7.). Furthermore, policy must also specify the possible causes of losses in the value and supply chain (See figure 8.8) and facilitative services needed for the sustainability of the value chain and supply chain (see figure 8.9).

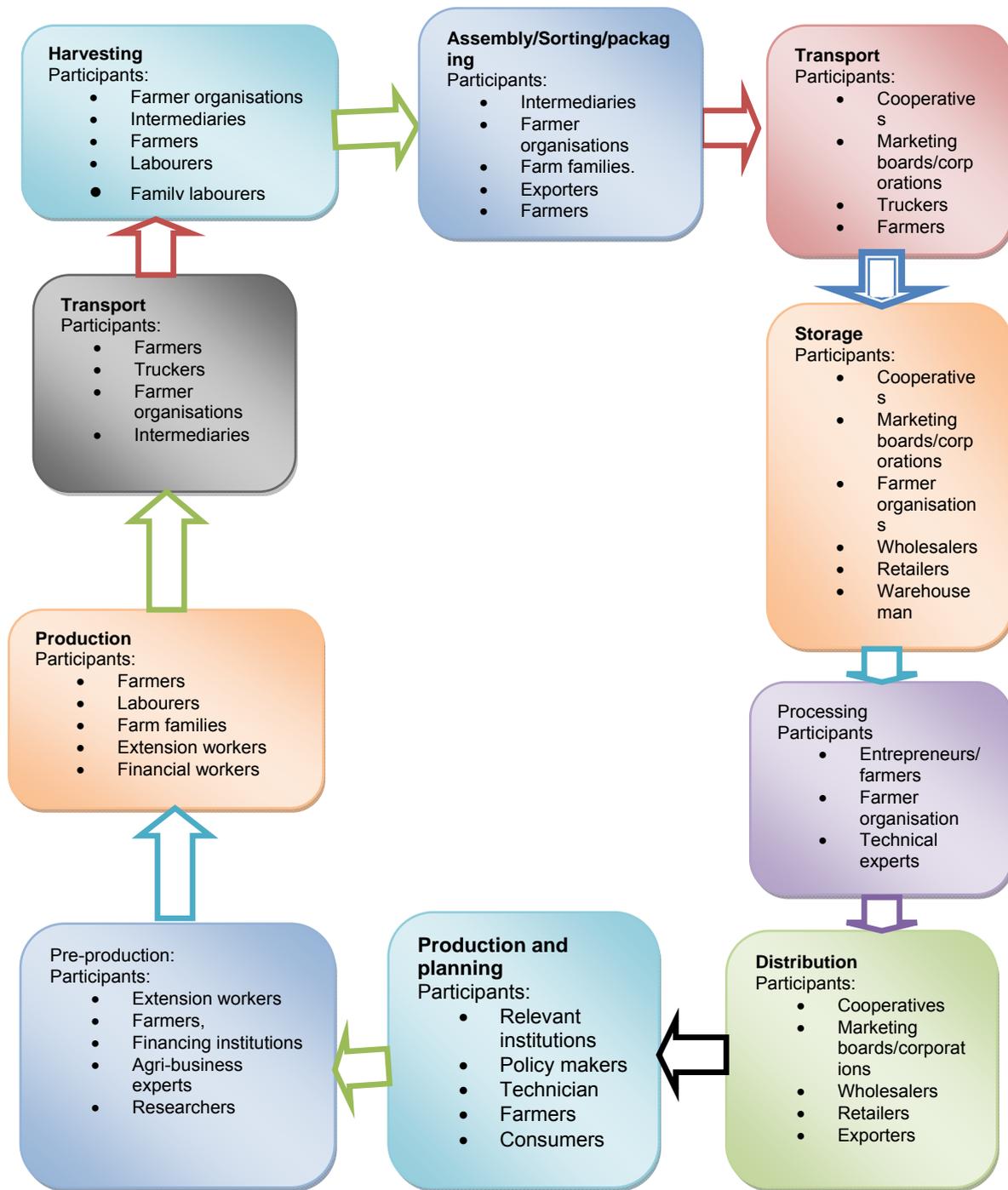


Figure 8.7: Stakeholders that helpful in implementation of value and supply chains

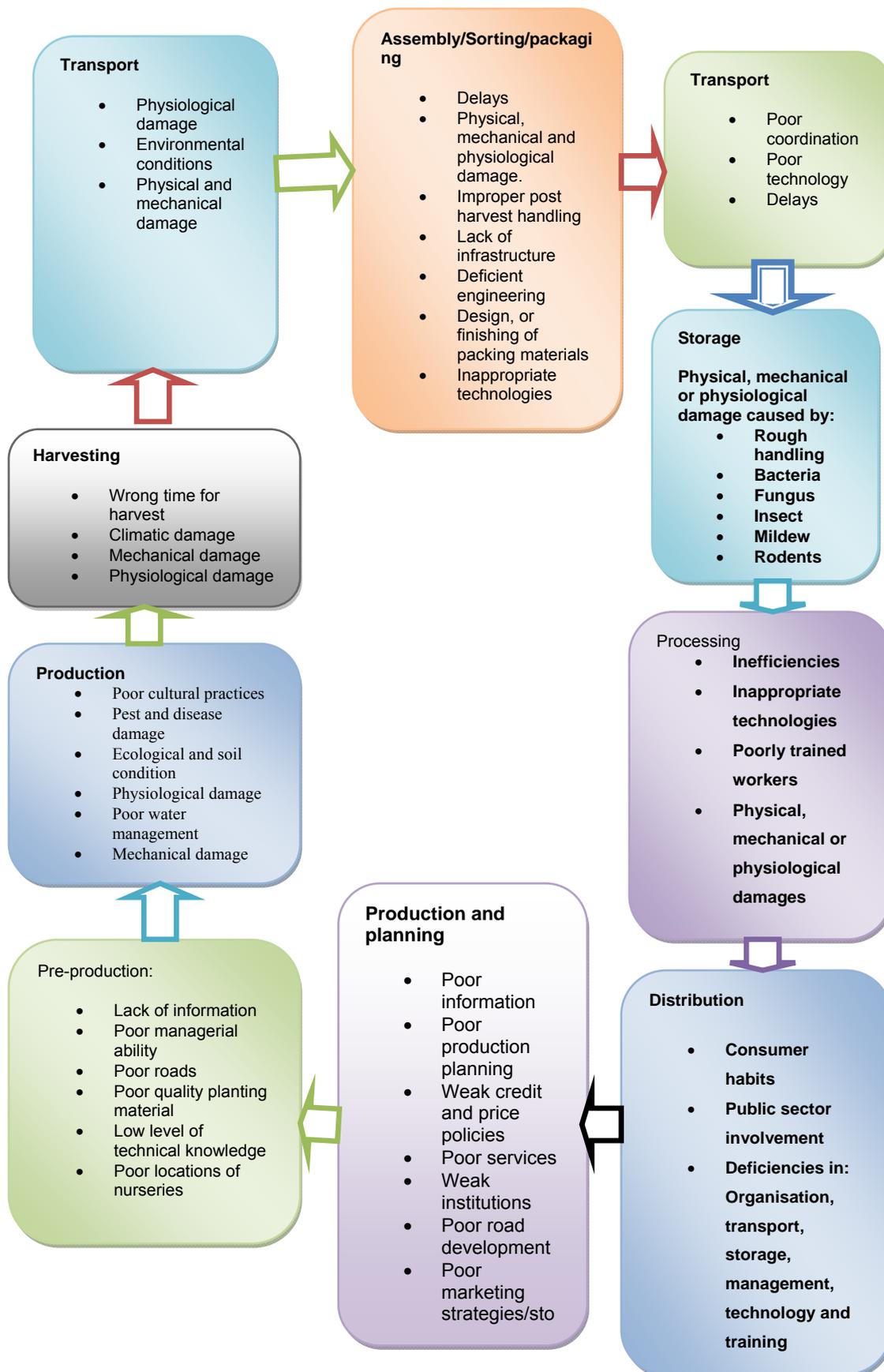


Figure 8.8: Factors that cause inefficiencies in a value and supply chain of farming SMMEs

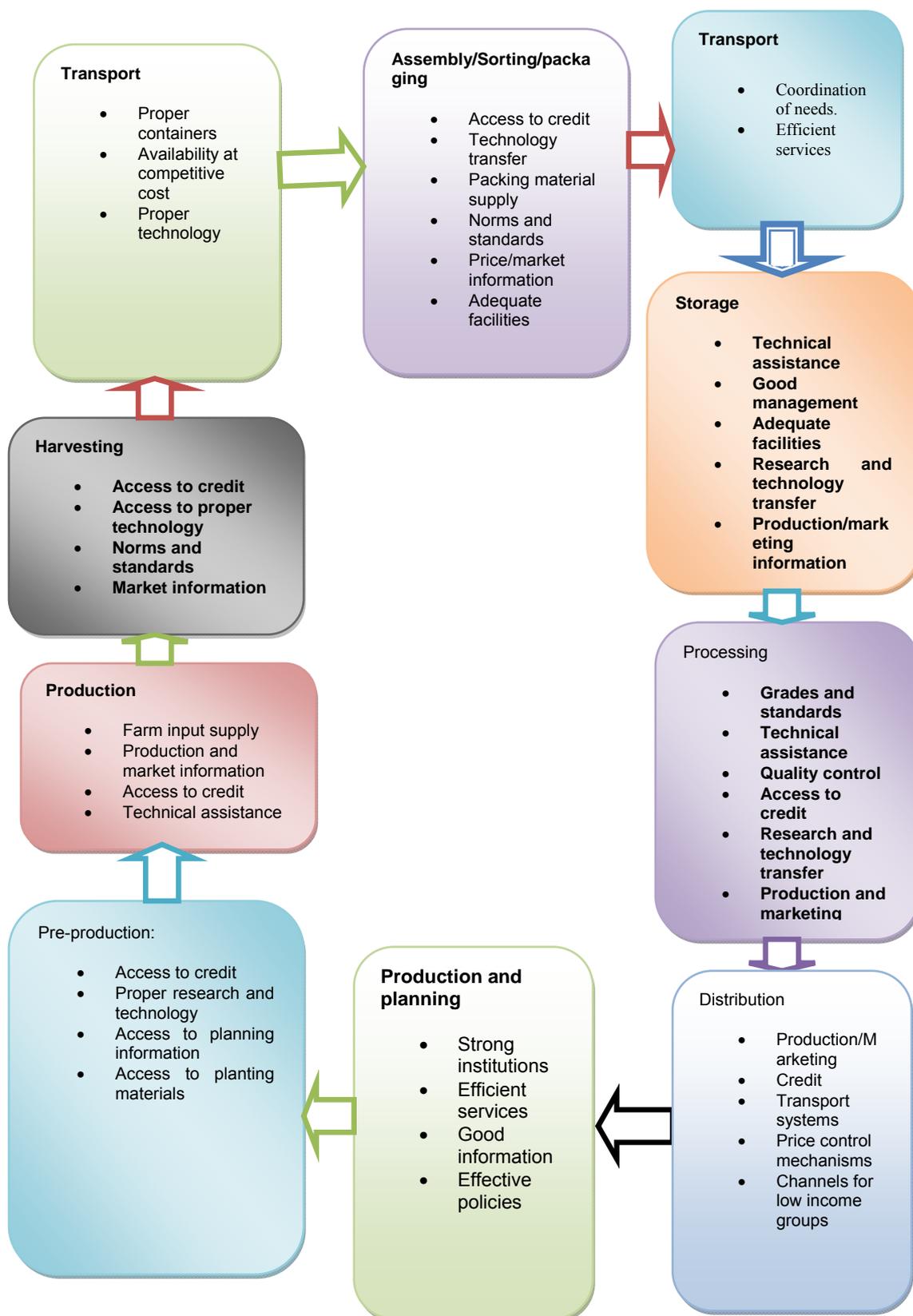


Figure 8.9: Facilitating services required to overcome physical and economic losses by farming SMMEs

8.5. SCOPE FOR FURTHER RESEARCH

The continued interest in rural development necessitates debates and intellectual interrogation by policy makers, academic, farming industry and development experts on the success and sustainability of farming SMMEs. It is critical that the capacity of farming SMMEs be central in such inquiries.

Given the gaps identified by this study and the results of the literature review, this study proposes the following areas for further research and development:

- The investigation of impact of study groups in building the capacity of farming SMMEs.
- The status and impact of the commodity associations in building marketing networks and capacity.
- The use of retired professionals as a tool to build sustainable capacity.
- Strategies required for transformation or conversion of micro and small scale farming enterprises into medium enterprises.
- Challenges for the creation of sustainable value and supply chain for farming SMMEs.
- The influence of culture, tradition and religion on the growth performance of farming SMMEs.
- Monitoring and evaluation strategies for farming SMMEs.

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APPENDIX

ANNEXURE 1

Definition of the SMME sector in South Africa (Small Business Act 1996)

Standard Industrial Classification	Size	Employees <i>Less than</i>	Annual Turnover <i>Less than</i>	Assets Value <i>Less than</i>
Agriculture	Medium	100	R2.80m	R2.80m
	Small	50	R1.25m	R1.25m
	Very Small	10	R0.25m	R0.25m
	Micro	5	R0.15m	R0.10
Mining and Quarrying	Medium	200	R40.00m	R30.00m
	Small	50	R10.00m	R7.50m
	Very small	20	R4.00m	R3.00m
	Micro	5	R0.15m	R0.10m
Manufacturing	Medium	200	R25.00m	R7.50m
	Small	50	R6.00m	R1.75m
	Very small	20	R2.00m	R0.60m
	Micro	5	R0.15m	R0.10m
Construction	Medium	200	R18.00m	R2.50m
	Small	50	R4.00m	R0.80m
	Very small	20	R0.50m	R0.20m
	Micro	5	R0.15m	R0.10m
Retail, Motor trade and Repair services	Medium	100	R25.00m	R3.00m
	Small	50	R12.50m	R1.50m
	Very small	10	R2.50m	R0.25m

	Micro	5	R0.15m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R70.00m	R12.00m
	Small	50	R35.00m	R6.00m
	Very small	10	R6.00m	R1.00m
	Micro	5	R0.15m	R0.10m
Catering, Accommodation and Other Trade	Medium	100	R8.00m	R1.50m
	Small	50	R5.00m	R0.60m
	Very small	10	R1.00m	R0.15m
	Micro	5	R0.15m	R0.10m
Transport , Storage and Communication	Medium	100	R12.00m	R3.00m
	Small	50	R6.00m	R1.20m
	Very small	10	R1.20m	R0.25m
	Micro	5	R0.15m	R0.10m
Finance and Business Services	Medium	100	R10.00m	R2.00m
	Small	50	R3.00m	R0.60m
	Very small	10	R0.50m	R0.20m

	Micro	5	R0.15m	R0.10m
Community, Social and Personal Services	Medium	100	R9.00m	R4.50m
	Small	50	R4.50m	R2.25m
	Very small	10	R0.45m	R0.40m
	Micro	5	R0.15m	R0.10m

The turnover and asset values of the original national business legislation of 1996 were subsequently amended in 2004 to take account of inflation and changing asset value circumstances, while the size class for the number of employees remains unchanged in the case of some industrial sectors. A summary of the 'new' definition of the SMME sector in terms of National Business Amended Act (2004) is presented in the table below.

ANNEXURE 2

Amended SMME definition in South Africa

Standard Industrial Classification	Size	Employees <i>Less than</i>	Annual Turnover <i>Less than</i>	Assets Value <i>Less than</i>
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.5m	R0.5m
	Micro	5	R0.2m	R0.10
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very small	20	R4m	R2m
	Micro	5	R0.2m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very small	20	R3m	R0.5m
	Micro	5	R0.20m	R0.10m
Retail, Motor trade and Repair services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very small	20	R4m	R0.6m
	Micro	5	R0.20m	R0.10m

Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very small	20	R6.00m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and Other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very small	20	R5.1m	R1.90m
	Micro	5	R0.20m	R0.10m
Transport , Storage and Communication	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.6m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m

Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

ANNEXURE 3

Farming SMME's evaluation tool

	PROVINCE:			
	GENDER:	Male	Score	Female
TOOLS				
1. ASSETS BUILD-UP or PORTFOLIO (ABU/P)	Response			
a) Do you have insurance for the enterprise?	Yes	No		Do not know or uncertain
b) Do you have machineries?	Yes	No		Do not know or uncertain
c) Do you have immovable properties?	Yes	No		Do not know or uncertain
d) Do you have savings?	Yes	No		Do not know or uncertain
e) Do you have bonds or shares	Yes	No		Do not know or uncertain
Total Scores (TS)				
2. SUSTAINABLE MARKETS (SM)	Response		Score	
a) Do you have a supply contract/s?	Yes	No		Do not know or uncertain
b) Are you linked to markets agencies?	Yes	No		Do not know or uncertain
c) Do you anticipate potential for market growth?	Yes	No		Do not know or uncertain
d) Are you having product competition	Yes	No		Do not know or uncertain
e) Have you established a niche market/s?	Yes	No		Do not know or uncertain
Total Scores (TS)				
3. SUSTAINABLE PRODUCTION (SP)	Response		Score	
a) Do you have computer technologies?	Yes	No		Do not know or uncertain
b) Have you acquired the modern software?	Yes	No		Do not know or uncertain
c) Do you produce quality goods?	Yes	No		Do not know or uncertain
d) Do you have trained personnel in your business?	Yes	No		Do not know or uncertain

e) Do you have a link with experts /scientists?	Yes	No		Do not know or uncertain
Total Scores (TS)				
4. INPUT SOURCES (IC)	Response		Score	
a) Do you have contract with suppliers?	Yes	No		Do not know or uncertain
b) Do have a benefit of buying inputs on an affordable price?	Yes	No		Do not know or uncertain
c) Do you have storage facilities?	Yes	No		Do not know or uncertain
d) Do you have a transport system?	Yes	No		Do not know or uncertain
e) Do you have sustainable raw material supply?	Yes	No		Do not know or uncertain
Total Scores (TS)				
5. INCREASE INCOME (II)	Response		Score	
a) Do you have equitable income?	Yes	No		Do not know or uncertain
b) Do you have sustainable yearly income?	Yes	No		Do not know or uncertain
c) Does your business get expected monthly gross income?	Yes	No		Do not know or uncertain
d) Do you receive a good net-income/profit?	Yes	No		Do not know or uncertain
e) Do you provide your workers an attractive salaries/wages?	Yes	No		Do not know or uncertain
Total score (TS)				
6. SUSTAINABLE EMPLOYMENT (SE)	Response		Score	
a) Does your business have an ability to employ workers?	Yes	No		Do not know or uncertain
b) Does your business have ability to retain workers?	Yes	No		Do not know or uncertain
c) Does your business have ability to pay wages on monthly basis?	Yes	No		Do not know or uncertain
d) Does your business have an ability to train employees?	Yes	No		Do not know or uncertain
e) Does your business have an ability to provide	Yes	No		Do not know or uncertain

pension?				
Total Score (TS)				
7. ABILITY TO SERVICE THE DEBTS (ASD)	Response		Score	
a) Does your business have an ability to receive money/returns monthly ?	Yes	No		Do not know or uncertain
b) Does your business have an ability to pay debts?	Yes	No		Do not know or uncertain
c) Does your business have an ability to secure credit?	Yes	No		Do not know or uncertain
d) Does your business have an ability to secure loans?	Yes	No		Do not know or uncertain
e) Is your business listed in the credit bureau?	Yes	No		Do not know or uncertain
Total Score (TS)				
8. ADEQUATE INFRASTRUCTURE (AI)	Response		Score	
a) Does your business have production infrastructures	Yes	No		Do not know or uncertain
b) Does yours business have linked to good road network?	Yes	No		Do not know or uncertain
c) Does your business have adequate equipments?	Yes	No		Do not know or uncertain
d) Do you have a cell phone?	Yes	No		Do not know or uncertain
e) Do you have communication infrastructure?	Yes	No		Do not know or uncertain
Total Score (TS)				
9. POLICY ON HUMAN CAPITAL DEVELOPMENT (POHCD)	Response		Score	
a) Does your business have succession plan?	Yes	No		Do not know or uncertain
b) Does your business have youth involvement strategy?	Yes	No		Do not know or uncertain
c) Does your business attend local, regional and international conferences?	Yes	No		Do not know or uncertain
d) Do your members of your business attend short-	Yes	No		Do not know or uncertain

courses, workshops?				Do not know or uncertain
e) Do you have membership of association?	Yes	No		Do not Know or uncertain
Total Score(TS)				
10. POTENTIAL TO GROW/EXPAND (PTG/E)	Response		Score	
a) Does your business have an access to market?	Yes	No		Do not know or Uncertain
b) Do you think your business have a growing market?	Yes	No		Do not know or Uncertain
c) Does your business have access to market information?	Yes	No		Do not know or uncertain
d) Does your business have human development policy?	Yes	No		Do not know or uncertain
e) Does your business have strategic plan, vision and mission?	Yes	No		Do not know or uncertain
Total Scores (TS)				
11. BUSINESS OPERATION (BO)	Response		Score	
a) Do you have an office?	Yes	No		Do not know or uncertain
b) Do you have record keeping system?	Yes	No		Do not know or uncertain
c) Do you have management structure?	Yes	No		Do not know or uncertain
d) Do you have management information system?	Yes	No		Do not know or uncertain
e) Do you have an operational manager?	Yes	No		Do not know or uncertain
Total Scores (TS)				
12. ENTREPRENEURIAL CAPACITY (EC)	Response		Score	

a) Did you identify this opportunity yourself?	Yes	No		Do not know or uncertain
b) Were you forced to do business?	Yes	No		Do not know or uncertain
c) Do you consider yourself as risk taker?	Yes	No		Do not know or uncertain
d) Do you have passion for this business	Yes	No		Do not know or uncertain
e) Do you think you will be self reliant?	Yes	No		Do not know or uncertain
Total Scores (TS)				
13. NETWORK CAPACITY (NC)	Response		Score	
a) Do Universities visit your business?	Yes	No		Do not know or uncertain
b) Do specialists/ experts visit your business?	Yes	No		Do not know or uncertain
c) Do agricultural college officials visit your business?	Yes	No		Do not know or uncertain
d) Do officials of Dept. of agriculture and Land Affairs visit your business?	Yes	No		Do not know or uncertain
e) Do private sectors supply you with any support?	Yes	No		Do not know or uncertain
Total Scores				
14 PRE-AND POST SETTLEMENT SUPPORT (PPSS)	Response		Score	
a) Did you receive support prior the planning of the business?	Yes	No		Do not know or uncertain
b) Did you get training before and after implementation of business idea?	Yes	No		Do not know or uncertain
c) Did you have financial	Yes	No		Do not know

assistance before and after implementation?				or uncertain
d) Do you have mentor?	Yes	No		Do not know or uncertain
e) Do you have an accountant?	Yes	No		Do not know or uncertain
TOTAL SCORE (TS)				

**ANNEXURE 4
LAND BANK QUESTIONNAIRE**

LAND BANK EMERGING FARMER SURVEY

Good day I amfrom the Land Bank. We are doing a survey amongst the Land Bank emerging farmer clients. The survey will take about 2 hours

Please be assured that all your personal information will be treated confidential and will only be used for the Bank's reasons.

Name: ID No.....
 Postal Address..... Postal Code.....
 Tel No ... (.....)..... Cell No.....
 Name of Farm..... Sampling Area.....
 Branch Province.....
 (Please tick the appropriate answer in the box)

A HOUSEHOLD STRUCTURE

1. The gender of household head: Male Female

1.1 Indicate the age of the household head:yrs

2. How many members in your household?

	Male	Female
Younger than 18 years		
Members Between 18 – 30years		
Members Between 30 – 60years		
Older than 60years		

3. What is the highest level of education of household head?

4 Has anyone involved in farming, attended any training? Yes No

4.1. If yes, what training was received?

4.1.1 Was the training received before or after obtaining the farm?.....

.....

4.1.2 Who provided the training?

4.1.3 How long was the training?

4.1.4 Did it help you in farming

Yes	No
-----	----

 business?

4.1.5 How did it help?

.....

.....

B. FARMING OPERATION

5 How long have you been farming?

.....years

5.1 What role have you been playing on the

Owner	Manager	Labourer
-------	---------	----------

 farm?

5.2 Tell more about your involvement in farming or farming experience?

.....

.....

.....

.....

6. How is your farming operation organized? (tick those applicable)

Sole Ownership / individual farmer	
Group	
Trust	
CC/close corporation	
Company	
Other (specify)	

7. If it is not a sole ownership, how many members/trustees are in this group/entity?

2-10	
11-20	
21-30	
31-40	
More (specify)	

7.1 How many members are actively involved?

7.2 In what capacity?

8. Which one of the following presents your labour practice?

(Number involved)

Family labour	
Immediate Family	
Contract Workers	
Permanent Workers	
Other (specify)	

9. What is the land ownership/access or rights? (Tick)

Tribal/communal	Title deed	Private Lease	Government lease:
-----------------	------------	---------------	-------------------

9.1. Land Utilization

	Title deed Land (ha)	Private Leased Land (ha)	Government Lease	PTO/RTO Land (ha)
<u>Irrigation Crop</u>				
<u>Dry Lands Crop</u>				
<u>Plantations</u>				
<u>Grazing</u>				
<u>Other</u>				
TOTAL				

Livestock			
Enterprise	Number of animals		
	Male	Female	Other

10. What is the total size of your farm area (ha):.....

11. What area is cultivated (ha):.....

C PERFORMANCE OF FARMING OPERATION

12. Do you think your farming operation makes Yes No profit?

13. Please indicate estimated profit/loss in the past 5 years and remark?

Year	Profit/ (loss) Rands*	Remarks / reasons for performance
2007		
2006		
2005		
2004		
2003		

* in the absence of estimated amount, can indicate whether profit or loss was made for the year

14. Do you have a business Yes No plan?

14.1 If yes, are you following your plan?

.....

.....

.....

.....

Yes No

15. Do you receive any technical assistance from the extension officers?

15.1 If yes, what kind assistance?

.....
.....
.....

16. Where do you sell your produce?

17. How many kilometers from your farm to the market?

.....km

18. How do you transport your produce to the market?

.....

19. Have you encountered any difficulties in your farming?

Yes	No
-----	----

19.1 If yes, please indicate the difficulties encountered

.....
.....
.....

20. Have you experienced any of the following problems?

Availability of market	
Repair and replacement of equipment	
Price uncertainty for produce	
Natural disasters, specify	
Other specify	

20.1 How did you cope or manage the problem?

.....
.....
.....

21. Composition of the balance sheet

<u>ASSETS AND</u>		as on dd/mm/yyyy	
<u>LIABILITIES</u>			
ASSETS		LIABILITIES	
	<u>Rand</u>		<u>Rand</u>
Market Value Farming Property		Bonds Land Bank	
Market Value Farming Property		Bonds Land Bank	
Market Value Town property		Bonds Other liabilities.....	
Market Value Town property		Bonds Other	
Tractors and implements		Bonds Other	
Vehicles		Land Bank Med Term	
Livestock		Land Bank ISF	
Investments (Outside farming)		Hire purchase	
Cash		Hire purchase	
Members interest		Other Med term loans	
Shares (JSE)		Land Bank Production Loan	
Agterskotte		Land Bank Arrears	
Crops on hand		Bank overdraft	
Debtors		Co-operative	
Other assets		Family debt	
.....		Other	
Other		Other	
Other		Other	
TOTAL ASSETS		TOTAL LIABILITIES	
SHORTAGE		SURPLUS	
TOTAL		TOTAL	

D. FARMING LOANS

22. What type of financial assistance did you receive from Land Bank?

Assistance from Land Bank

Term	Original Amount	Interest Rate	Purpose
<u>Long</u>			
<u>Medium</u>			
<u>Short</u>			

23. What is the current debt?

24. According to your contract with the Bank when is the final settlement date of the loan?

25. Was there any financial assistance from another institution when you received a Land Yes No Bank loan?

25.1 If Yes,

Assistance from other Institutions

Term	Institution	Original Amount	Interest Rate	Purpose	Loan / Grant
<u>Long</u>					
<u>Medium</u>					
<u>Short</u>					

26. Did you have any contribution in starting your farming venture? Yes No

26.1 If yes, what kind of contribution?

.....

27. How did you plan to service/repay your loans?

.....

27.1 How have you eventually been servicing your loan?

.....

27.2 Have you experienced challenges in servicing your Yes No loan?

27.3 If yes, what challenges are you facing in servicing your loan?

.....
.....
.....

27.4 What do you think are the solutions to your challenges?

.....
.....
.....
.....

28. Is there any other source of income?

Yes	No
-----	----

28.1 If yes, specify

.....
.....
.....
.....

29. What do you think about Land Bank loans?

.....
.....
.....
.....
.....

30. What was / is your experience with Land Bank loans?

.....
.....
.....
.....
.....

31. How would you like Land Bank to interact with you?

.....
.....
.....
.....
.....

E. PERCEPTION ABOUT SUCCESS OF EMERGING FARMERS

32. Do you think emerging farmers are

Yes	No
-----	----

 succeeding?

33. Out of 10 emerging farmers, how many do you think are succeeding?

34. What do you think are the reasons for failure/success of farming operations of emerging farmers?

.....
.....
.....
.....

35. What do you think are the solutions for improving farming operations of emerging farmers? (What need to be done to assist emerging farmers to farm successfully?)

.....
.....
.....
.....
.....

36. Do you regard your farming operation as succeeding or failing?

Yes	No
-----	----

36.1 What are your reasons for failure/success?

.....
.....
.....
.....
.....

37. What do you think can be done to improve your farming?

.....
.....
.....
.....
.....

Thank you for your time

ANNEXURE 5

NATIONAL DEPARTMENT OF AGRICULTURE QUESTIONNAIRE



agriculture

Department:
Agriculture
REPUBLIC OF SOUTH AFRICA

AGRICULTURAL DEVELOPMENT FINANCE

BUSINESS ANALYSIS SHEET

SUMMARY BUSINESS DESCRIPTION	
PART 1	
Province	
District	
Municipality	
Name of Business	
Postal Address	
Physical Address	
Contact Person	
Contact Number	
Name of Bank	
Type of Account	
Type of Business	
Main activity	
<ul style="list-style-type: none"> • Size of land – Hectorage (Crops) • Number of animals(Livestock Business) • Number of Birds (Poultry Business) 	
Secondary activity	
Year of Registration	
Registration Number	
Beginning of the Business	
Legal Status	

PART 2

BASIC INFORMATION					
Is the business active or dominant?					
	Number	M	F	Y	D
Total number of registered members					
Number of active members					
Number of members attending AGM					
Last AGM held					
Number of management committee members					
Chairperson of committee					
Manager					
Manager's qualifications					
Employees (Full time)					
Employees (Part time)					

PART 3

CURRENT STATUS OF THE BUSINESS			
	Tick		Tick
Operational and Expanding		Dominant but has potential	
Operational and Stable		Dominant but has no potential	
Unstable but has potential		Liquidation	
Unstable but has no potential		Closed	
New and Stable			

PART 4

INTERNAL EVALUATION				YES	NO
Feasibility study conducted/ business plan study					
Recommendations on the study conducted (if yes)					
Plan to monitor and evaluate					
Outline plan (if yes)					
Exit strategy ensuring that business activities can continue on a sustainable basis					
Type of subcommittees	Finance	Marketing	Training	Other	

PART 5

BUDGET		
	LAST YEAR	CURRENT YEAR
Expenditure per annum		
Turnover per annum		
Annual wages paid		

PART 6

FUNDING	
Own funding	
Grant received from	
Amount of the grant	
Loan received from	
Amount of loan	

PART 7

TRAINING					
Type of training received	Number	M	F	Y	D
Financial Management					
Corporate Governance					
Planning and Controls					
Marketing					

PART 8

INTERNAL CONTROLS	
<i>Accounting and Bookkeeping</i>	
Annual Financial Audit	
VAT Compliance	
Profit tax Compliance	

PART 9

MAIN THREATS	
<i>Total owed to creditors</i>	
<i>Outstanding loans owed to banks</i>	
Outstanding loans owed by members	
<i>Outstanding payments to members</i>	
<i>Number of competitors</i>	

Filled by _____ Position _____ Date _____

Signature _____

Comments by Extension Officer: _____

Checked by _____ Date _____

NB: M= Male, F= Female, Y= Youth and D= People with disability