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EFFECT OF DEVELOPMENT FINANCE ON THE PERFORMANCE OF AGRICULTURAL SME'S IN THE WEST RAND DISTRICT MUNICIPALITY

by

VIWE SIBELEKWANA

Mini-dissertation submitted in partial requirement for the degree Master's in Development Studies

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

CENTRE FOR DEVELOPMENT SUPPORT

at the

UNIVERSITY OF THE FREE STATE

BLOEMFONTEIN

June 2018

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LIST OF ABREVIATIONS AND ACRONYMS

APAP	Agricultural Policy Action Plan
ARC	Agricultural Research Council
CAADP	Comprehensive African Agricultural Development Programme
DFI	Development Finance Institution
EU	European Union
FAO	Food & Agricultural Organization
GDARD	Gauteng Department of Agriculture and Rural Development
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
Land Bank	Land and Agricultural Bank of South Africa
MAFISA	Micro Agricultural Financial Institutions of South Africa
MDG	Millennium Development Goals
NDP	National Development Plan
NEPAD	New Partnership for African Development
OECD	Organisation for Economic Co-operation and Development
SAMAF	South African Micro-Finance Apex Fund
SDG	Sustainable Development Goals
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SME	Small, Medium and Micro Enterprises

UK	United Kingdom
US	United States
USA	United States of America
WFP	World Food Programme
WRDM	West Rand District Municipality

DECLARATION

I, Viwe Sibelekwana, declare that this research report is my own independent work. It is submitted to the University of the Free State for the degree Master's in Development Studies and has not been submitted by me before for any degree or examination in this or any other university.

13 June 2018

Student Signature

Date

ACKNOWLEDGEMENTS

It has been two years of intensive growth and I owe it to a number of people who have made the completion of this mini dissertation a reality.

Dear God, thank you. Indeed, your grace is sufficient.

To my dearest mother, thank you. For the support you gave me was from a heart of love. Thank you for lifting me up in prayer and interceding on my behalf.

To Nolitha Kontsiwe and Bulelani Silangwe, you have been my support structure and made me understand the quote by Albert Camus that says - “Don’t walk behind me; I may not lead. Don’t walk in front of me; I may not follow. Just walk beside me and be my friend”. Thank you for walking beside me all this time.

To my friend and former colleagues, Kanyiso Walaza, Silumko Mfene and Zola Sithole, I wouldn’t have embarked on this journey sooner if it weren’t for you taking an interest on what I was going to do every start of a year. Thank you for your encouragement and support.

To my colleague, who was also my supervisor for the better part of this journey, Mr. Aaron Mmemogolo Malomane, thank you for your support and understanding.

To my research supervisor, Dr Liezel Alsemgeest, thank you for your time, guidance and support throughout the research work. I wouldn’t have come this far without your valuable insight.

To the University of the Free State Centre for Development Studies, your words of encouragement and support made this journey bearable. Thank you.

Many thanks are due to the Gauteng Department of Agriculture and Rural Development officials for their support during the research work as well as agricultural SME’s in the West Rand District Municipality for their willingness to participate in this study.

EXECUTIVE SUMMARY

Globally; Small, Medium and Micro sized Enterprises (SME's) have become key components in economic development policies of both developed and developing countries. This is because they are labour-absorptive, contributors to poverty eradication and represent equitable redistribution of income and wealth (Dubihlela & Van Schaikwyk, 2014). In South Africa, the small business sector was overlooked for many years following the discovery of minerals, such as diamonds and gold and the establishment of a modern capitalist economy (Mutezo, 2005 & Chalera, 2006). In addition, the domination by large enterprises and constrained competition practices perpetuated income and wealth inequalities. Thus, over the past 23 years, central to South Africa's development policies has been the intention to address the triple challenges of poverty, unemployment and inequalities and that SME's have been identified by the government as catalysts of development and growth of a country's economy (Statistics South Africa, 2015).

In respect of the contribution by economic sectors, agriculture has been identified as one of the key growth economic sector (National Planning Commission, 2012). The value of agricultural production in South Africa was estimated to be around R273 344 million in 2016/17, while its contribution to the GDP was approximately R80 247 million in the same period. The agricultural sector holds an important role in a developing country's economy, as in South Africa. Indirectly, agriculture's role in the economy is a function of backward and forward linkages to other sectors. For instance, the sourcing of goods such as fertilisers, chemicals and implements form backward linkages with the manufacturing sector, while the forward linkages are established through the supply of raw materials to the manufacturing industry. In addition, about 70% of agricultural output is used as intermediate products and usually have a higher per-unit value than bulk commodities. These are partly processed products not necessarily ready for consumers; such as wheat flour, vegetable oils, animal fats, hides and skins, sweeteners and others (Department of Agriculture, Forestry and Fisheries, 2016/17).

In developing economies like South Africa, there are still social and economic challenges. For instance, in quarter 2 of 2017, the unemployment rate was reported

to be around 27,7 per cent, while the youth unemployment rate was considerably higher with 32,2 per cent of the youth between the ages of 15–24 years without employment (Statistics South Africa, 2017a). Part of this problem is due to shedding of jobs by traditional sectors such as mining and manufacturing. According to Statistics South Africa (2017b), the proportion of the population living in poverty was reported to be around 55,5 per cent in 2015, while the number of persons living in extreme poverty (that is, persons living below the 2015 Food Poverty Line of R441 per person per month) in South Africa stood at 13,8 million in the same period. Moreover, the report showed that the most vulnerable groups in terms of poverty were children aged 17 years or younger, females, Black Africans, people living in rural areas, those residing in the Eastern Cape and Limpopo Provinces, as well as persons with little or no education (Statistics South Africa, 2017b). Thus, the small business sector has been identified by the South African government as a catalyst that can address these challenges, given the failure of the formal sector (Garwe & Fatoki, 2012).

In the United States of America (USA), for instance, SME's have managed to create new additional jobs, introduced innovative products and services, opened foreign markets - and in the process, ignited the USA's economy into regaining its competitive edge in the global economy. Similarly, in both Asia and Japan, the SME sector accounts for the majority of the country's business establishments and provides fundamental support for employment creation. The same can be said of Taiwan and Germany where there are different financial models driven by national governments and the private sector to assist entrepreneurs (Mutezo, 2005). In South Africa, the SME sector is still lagging behind due to, among other reasons, structural issues of the past. However, the government has committed itself to creating an enabling environment that seeks to correct the inequalities as a result of structural reforms that were brought about by the apartheid system whose policies favoured a minority and marginalised poor communities. Thus, the post-apartheid government has since introduced inclusive policies and business development support institutions and programmes that seek to ensure that there is inclusive and meaningful participation of previously disadvantaged groups in the mainstream economic activities.

However, although SME's have been identified as key catalysts in the inclusive economic growth and job creation, their survival is threatened by a number of factors. Limited access to finance appears on top of the list. This is due to, among others, information asymmetries as a result of lack or inadequate financial statements and other business records making it difficult to assess their viability and sustainability. The challenge of limited access to finance is followed by a lack of appropriate infrastructure, low levels of research and development, limited access to markets, and others (Bureau for Economic Research, 2016). Agricultural SME's are not immune to these challenges as they operate in a complex and volatile business environment. Thus, government has intervened through development finance institutions and other financial intermediaries to try to bridge the gaps and has introduced a number of small business support programmes aimed at attaining financial inclusion through promotion of development finance institutions' micro-finance products. As a result, the sources of finance for SME's come from different institutions, such as government and its development finance agencies, venture capital and the equity market (Garwe & Fatoki, 2012).

Hence, the twofold purpose of this study was to explore the relationship between access to development finance (finance offered by development finance institutions, the government, commodity associations, farmer unions and others) and the performance of agricultural SME's, particularly those based in the West Rand District Municipality, Gauteng Province as well as to explore international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany. As a result, a purposive sample of 15 respondents, actively involved in agriculture, who met the criteria of SME, as defined by the Department of Trade and Industry and had benefited from any type of development finance, was selected to participate in this research study. An exploratory qualitative research approach, which is more meaning-based than statistical forms of data analysis, was adopted in order to gain an in-depth understanding of the phenomenon under study. Also, given that the West Rand District Municipality is a single community in a specific location, a case study research design, by way of in-depth semi-structured interviews and secondary data sources, was chosen as appropriate for detailed data collection. In analysing the data, thematic analysis - which is one of the most common approaches to qualitative data analysis - was adopted for this study.

CHAPTER 1: INTRODUCTION

1.1. Background

Globally, Small, Medium and Micro Enterprises (SME's) have been identified as key role players in growing inclusive economies and creating job opportunities. However, there are factors impeding their growth. Limited access to finance has been identified as a major challenge, followed by a lack of appropriate infrastructure, low levels of research and development, limited access to markets, and others (Bureau for Economic Research, 2016). For SME's, access to finance is crucial for participating in mainstream economic activities. For instance, agricultural SME's need to borrow funds to finance production inputs as well as farming implements such as seed, fertilisers, breeding stock, feed, machinery, tractors and others, so as to kick-start production processes that will yield positive results for a country's economy, as well as food security for all (Macaskill, 2017). The importance of food security, particularly access to nutritious food, is echoed in the sustainable development goals and its predecessor, the millennium development goals - wherein national governments are required to report on their achievements in line with set targets aimed at eradicating all forms of hunger and malnutrition (United Nations, 2015 and United Nations Development Programme, 2016).

In a joint report, The Food and Agricultural Organization of the United Nations (FAO), The International Fund for Agricultural Development (IFAD) and The United Nations' World Food Programme (WFP) (2012), estimated the world's population to increase by at least 34% by 2050. Thus, there would be an increase in demand for food, which is said, would be driven to a larger extent by developing economies. Also, the report by the Food and Agriculture Organization of the United Nations (2015a), noted that more than 700 million people are undernourished across the globe. Currently, South Africa is able to satisfy its national food requirements by both producing its own food and through imports. However, food security remains a national priority and agricultural growth is critical in reducing hunger and malnutrition in vulnerable sections of the population. Hence, government policies such as the National Development Plan (NDP) and Agricultural Policy Action Plan (APAP) identify agriculture as a sector that can create close to one million new jobs by 2030 and

bring one million hectares of underutilized land into full production (National Planning Commission, 2012 and Department of Agriculture, Forestry and Fisheries, 2014).

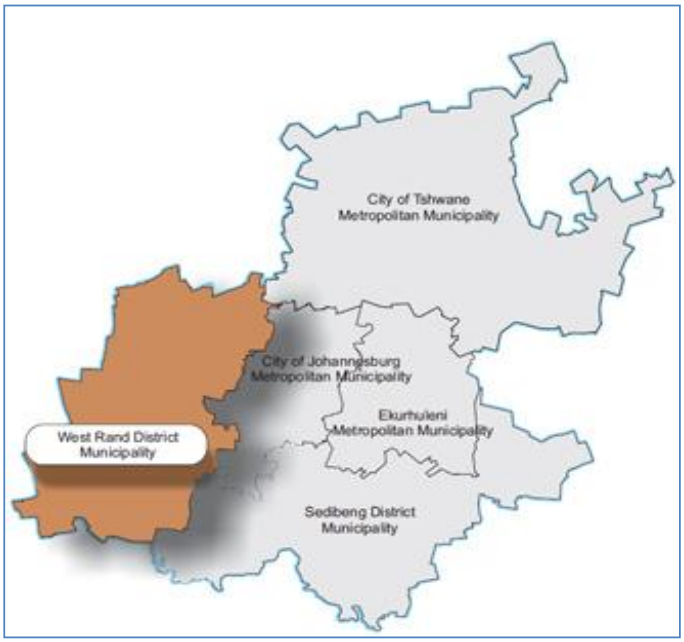
The South African government realizes the potential of a strong and vibrant SME sector as a growth engine of the country's gross domestic product (GDP), as well as the ability of SME's to provide solutions to social challenges as a result of the apartheid era. Hence, it is anticipated that stimulating the economy by broadening participation of SME's through the allocation of resources has the potential to yield desired results as per the government's vision of inclusive participation, transformation, economic growth and job creation. Thus, progressive programmes and policies were put in place to realize this potential. However, Manzanai and Fatoki (2011) note that although SME's, including those in the agricultural sector, have been identified as critical role players to job creation, sustainable and equitable economic growth, poverty reduction and food security; factors such as limited access to finance, lack of appropriate skills and infrastructure - among others - hinder their growth and sustainability.

Thus, the emergence of business development support services and development finance institutions are some of the important interventions that came with subsequent legislative frameworks and policies aimed at restructuring the South African economy by the post-apartheid government were. These institutions include Small Enterprise Development Agency (SEDA), the Industrial Development Corporation (IDC), Small Enterprise Finance Agency (SEFA) and the Micro Agricultural Financial Institutions of South Africa (MAFISA) (Mago & Toro, 2013). They were given a mandate to grow sector-based industries through provision of business support services and development finance to capacitate SME's as well as deal with financial exclusions experienced by SME's due to, among others, imperfect information and credit rationing. The latter two factors were to be addressed by making use of different instruments, such as government-sponsored loan guarantees to reduce SME perceived risks and at times provide grant funding - which in some cases, may include a portion of own contribution by the SME's, known as cost-sharing grants. Consequently, different departments have since introduced a number of small business support programmes aimed at attaining financial inclusion through promotion of development finance institutions' micro-finance products (Ojah &

Mokoaleli-Mokoteli, 2010 and Mullineux & Murinde, 2014). This study therefore seeks to explore the relationship between access to development finance (finance offered by development finance institutions and the government) and the performance of agricultural SME's; particularly those based in the West Rand District Municipality, Gauteng Province.

1.2. Scope of the study

Figure 1: Map of the West Rand District



Source: Google maps

The West Rand District Municipality (WRDM) is fairly rural and consists of three local municipalities; namely, Mogale City, Merafong City and Rand West City - which is a merger of Randfontein and Westonaria. In relation to economic sector participation in the area, mining dominates the two municipalities of Westonaria and Merafong City. However, its contribution has been declining over the years and will not be sustainable in the future. Hence, there is a need to diversify and look into opportunities available in other economic sectors (West Rand District Municipality, 2015).

1.3. Problem statement

Developing agricultural SME's involves farmer access to production input, farming implements, business and entrepreneurial development skills, appropriate and competitive infrastructure, access to appropriate information as well as research and design (Mullineux & Murinde, 2014). Different institutions, such as the government,

development finance institutions, commercial banks and other financial intermediaries are the sources of financing for these SME activities.

While banks make a variety of loans available to their clients for different purposes, they are less inclined to fund SME's due to their perceived high risk, related to information asymmetries on the main (Rogerson, 2008). In addition to information asymmetries that result in high interest rates as a result of lack or inadequate financial statements and other business records making it difficult to assess these SME's viability and sustainability, and high transactional costs of lending in small amounts, agricultural SME's generally operate in a complex and volatile business environment. This is due to fluctuations in market prices as well as their proneness to natural disasters, such as drought and hailstorms.

It is known that, while the provision of collateral may reduce these risks and cover losses should there be a default; SME's - including those in the agricultural sector - do not own sufficient assets (Nikaido, et al., 2015). Thus, in the absence of collateral, banks often charge higher interest rates on loans to SME's. This practice therefore limits SME access to finance, compound their challenges and suppress their growth and sustainability even further. Olawale and Garwe (2010) noted that only 2% of start-up SME's was able to access bank loans in South Africa. As a result, SME's require developmental financial support such as grants, subsidies and guarantees from government, development finance institutions and other financial intermediaries to strengthen their business operations.

Although SME's, including those in the agricultural sector, are reported to have benefited from a series of government interventions, as well as micro-financing products offered by development financing institutions and other financial intermediaries, their contribution to the country's economy continues to be minimal. Thus, it becomes relevant to explore the relationship between access to development financing and the performance of SME's. However, the focus of this research study will be on those agricultural SME's in the West Rand District Municipality that have benefited from any type of development financing.

1.4. Definition of key concepts

Several key concepts central to the proposed research are defined below; namely, SME's, development finance institutions, credit rationing, demand and supply constraints.

1.4.1. Small, medium and micro enterprises (SME's)

The National Small Business Act 102 of 1996, as amended by Act 26 of 2003, describes SME's in relation to sectors, the size of the business, turnover and number of people employed on a full-time basis and gross asset value, excluding fixed property (Republic of South Africa, 2003). The Act provides for five categories that classify SME's as follows; category 1 - survivalists, category 2 - micro enterprises, category 3 – very small enterprises, category 4 – small enterprises and category 5 – medium enterprises. The following table provides a summary of the variables for agricultural SME's;

Table 1: Summary extract of SME's from the National Small Business Amendment Act (2003)

Category of SME	Description
Survivalist enterprise	Operates mainly in the informal sector of the economy. Generally undertaken by unemployed persons. There is little capital is invested in the business, thus, no many assets. Income generated is usually below the poverty line, thus, providing minimum means to owners. Owners possess little or no training. There are limited opportunities for growing the business.
Micro enterprise	Usually operates informally with no licence or formal business premises. Employs between **one to five paid employees**, usually the owner and family. Informal - no license, formal business premises, labour legislation Average turnover below **R200 000** per year. Average gross assets below **R100 000** per year. Owners possess basic business skills and training. High potential for transition to a viable formal small business.
Very Small Enterprise	Part of the formal economy and include self-employed persons such as professionals Employs **less than 10 paid employees** Average turnover below **R500 000** per year. Average gross assets below **R500 000** per year.
Small Enterprise	Operates in the formal economy, registered with fixed business premises. Owner managed, however, the management is much more developed and complex. Employs **less than 50 paid employees** Average turnover below **R3 000 000** per year. Average gross assets below **R3 000 000** per year.
Medium Enterprise	Operates from fixed premises with all formal requirements Although mainly owner managed, the management structure is decentralised with clear division of labour. Employs **up to 100 employees**. Average turnover below **R5 000** per year. Average gross assets below **R5 000 000** per year.

Source: Republic of South Africa (2003)

While it is important to observe the above thresholds, an SME has to satisfy at least either the turnover or the gross assets as per the balance sheet and may exceed one of the thresholds without losing the status of being an SME (Republic of South

South Africa, 2003). For the purpose of this study, the focus was on micro, very small and small enterprises.

1.4.2. Development finance institutions (DFI's)

The Organisation for Economic Co-operation and Development (OECD) defines development finance institutions as specialised development banks or financial intermediaries or alternative financial institutions, which include microfinance institutions that aim to improve access to credit on very competitive terms. They are usually majority owned by national governments and get their resources from national or international development funds (Organization for Economic Co-operation and Development, 2016).

1.4.3. Development financing / Micro financing

Development financing can be defined as sources of finance outside the domestic private sector needed for meeting both public finance and external financing for growth. It covers revenues of developing countries, grants and concessional, non-concessional loans or guarantees by government aimed mainly at fulfilling social objectives or developmental goals, as well as private external finance in the form of foreign direct investments and other portfolio flows that prioritise growth objectives more than social objectives (Kharas, 2014). Micro financing involves the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services, especially socially marginalized people and households, so that they can have access to wide range of affordable, high quality financial products and services, including savings and insurance (Center for Global Development in Europe, 2010).

1.4.4. Credit rationing

Okurut, Schoombee and Van de Berg (2004) define credit rationing as circumstances in which borrowers that appear to be identical, would be successful in a loan application and others would not be successful, even if they are willing to pay higher interest rates.

1.4.5. Demand and supply constraints

According to Abor, Agbloyor and Kuipo (2014), demand constraints refer to factors that make it difficult for SME's to seek external finance from financial institutions. Such factors include poor quality of potential projects; the inability of SME's to develop bankable business plans and a lack of compliance. On the other hand, supply constraints refer to factors that make it difficult for banks to lend to SME's. Such factors include increased costs of transacting, the inherently riskier nature of SME's and institutional weakness.

1.5. Aim of the study

The aim of this study was to explore the relationship between access to development finance (finance offered by development finance institutions, the government, commodity associations, farmer unions and others) and the performance of agricultural SME's; particularly those based in the West Rand District Municipality, Gauteng Province.

1.6. Objectives of the study

The objectives of this study were:

1.6.1. To gather information about processes involved in order for agricultural SME's based in the West Rand District Municipality to access development finance.

1.6.2. To gather information on successes, challenges encountered prior to financing and lessons learned by agricultural SME's based in the West Rand District Municipality that have accessed development finance.

1.6.3. To explore international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany; and

1.6.4. To recommend best practices relating to the relationship between access to development finance and performance of agricultural SME's.

1.7. Limitations of the study

The following limitations were encountered when conducting the research study:

1.7.1. Availability of information

For this study, it was proposed that both primary (interviews) and secondary (documents analysis) data will be used. However, secondary data sources such as company reports and financial statements were not available for analysis. Thus, the researcher relied on interviews, journal articles and other published reports relevant to the subject of the study.

1.7.2. Level of interest and assistance

When setting up interviews, the researcher had to be assisted by Gauteng Department of Agriculture and Rural Development – Randfontein Regional officials. This was because participants tend to be more comfortable around people they interact with on a regular basis and they trust that they will not bring any harm to their businesses.

1.7.3. Time and budget constraints

Given the limited time and budget to complete the study, the focus was mainly on internal factors and demand constraints; that is, processes involved in order to access developmental finance, as well as factors that make it difficult for SME's to seek external finance. The study did not capture external factors such as the economic and legal environment wherein these SME's operate, or supply constraints; that is, factors that make it difficult for financial institutions to lend to SME's - such as costs of transacting, institutional weaknesses and others. Exploration of these factors will therefore be recommended for future research projects.

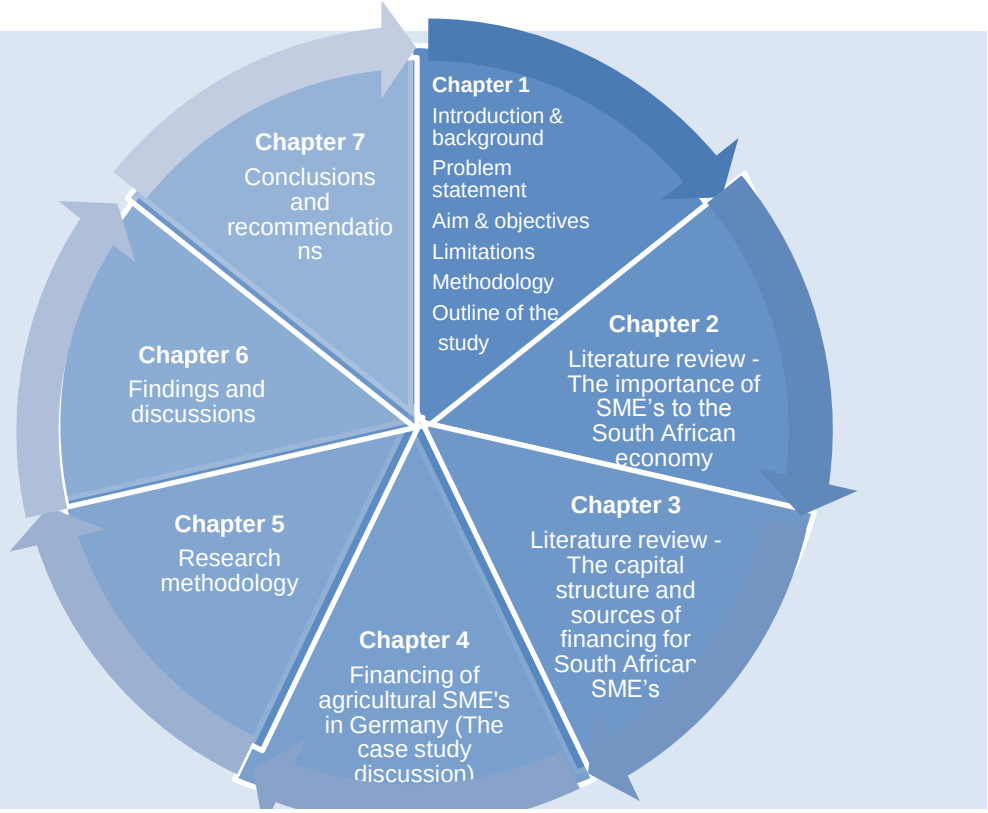
1.8. Summation of the research methodology

A detailed research methodology applied in conducting this study is discussed at length in Chapter 5 of this research report. However, this section seeks to give a summary of the logical plan followed in conducting this study. In an attempt to gain in-depth understanding of the relationship between access to development finance and performance of agricultural SME's in the West Rand District, Gauteng Province, an exploratory qualitative research approach and a case study research design, by way of in-depth semi-structured interviews and secondary data sources, was chosen as appropriate methods for detailed data collection and analysis. Given that the focus of the study was on agricultural SME's in the West Rand District Municipality that have accessed any type of development financial support, purposive sampling, which is a form of non-probability sampling, was adopted. Hence, the actual respondents were farmers based in the West Rand District Municipality who are actively involved in the agricultural sector.

For a credible database of agricultural SME's in the West Rand District Municipality who have accessed development financial support, the Gauteng Department of Agriculture and Rural Development gave permission to access the institution's database. Thus, all 15 respondents were selected from the said database. Semi-structured interviews represented a key tool in collecting primary data using semi-structured interview schedules. For data analysis, thematic analysis was applied whereby data was coded and categorised to align common patterns then themed. Research ethics was upheld in conducting this study; thus, participation in the study was voluntary. Moreover, informed consent was obtained from participants and the identity of respondents and data sources were kept confidential. As mentioned in the beginning of this section, for credibility, transferability, dependability and conformability; detailed discussions on the research methodology are provided for in Chapter 5 of this research report.

1.9. Outline of the study

Figure 2: Outline of the research study



Chapter 1 provides the introduction and background of the study, scope, problem statement, aims and objectives of undertaking the research study as well limitations encountered when conducting the research study. Chapters 2 and 3 provide literature reviews on the subject of the study by way of looking into the importance of SME's to the South African economy and their role in the agricultural sector as well as their capital structure, sources of financing, their accessibility to finance and factors to consider when measuring the success or failure of SME's. Chapter 4 seeks to explore international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany. The chapter starts off by comparing the German definition of SME's with that of South Africa, look into the evolution and structure of agricultural SME's in Germany, capital structure and sources of financing available for agricultural SME's in Germany, as well as the development financing of agricultural SME's in Germany. Chapter 5 provides the research methodology that was used in carrying out this research study. Chapter 6 provides findings and discussions of the study conducted. Lastly, conclusions and recommendations based on the link between the literature reviews and findings of the study are provided for in Chapter 7.

1.10. Conclusion

The aim of this chapter has been to provide a background on which the study is based. The chapter began by highlighting the background and / or rationale for undertaking the study, including the problem statement that has prompted the research. Thereafter a demarcation of the study is provided by setting boundaries; that is, determining the scope of the study. For ease of reference, definitions of important terms to be used in the study were also provided. Moreover, what the study seeks to achieve was put into context, that is, aims and objectives of undertaking the study so as to keep the study focused. Limitations were also discussed in detail in order to give a sense of the level of awareness of the researcher about potential risks that might have an effect on the study. Lastly, the outline of the study was provided.

CHAPTER 2: THE IMPORTANCE OF SME'S TO THE SOUTH AFRICAN ECONOMY AND THEIR ROLE IN AGRICULTURE

2.1. Introduction

This chapter seeks to provide a review of the existing literature on the importance of SME's to the South African economy and their role in agriculture.

Globally, it is believed that the development of SME's have the potential to contribute towards job creation, social stability and economic welfare. For example, in the United States of America (USA), SME's have created new jobs, introduced innovative products and services, opened foreign markets - and in the process, ignited the USA's economy into regaining its competitive edge in the global economy. Similarly, Japan's SME sector accounts for the majority of the country's business establishment and provides vital support for employment creation. The same can be said for Taiwan and Germany (Mutezo, 2005).

In the South African context, SME's have been identified by government as a critical role player that can be used to create jobs and address income and wealth disparities. This is as a result of the small business sector being overlooked for many years after the discovery of minerals, such as diamonds and gold and the establishment of a modern capitalist economy (Mutezo, 2005 and Chalera, 2006).

It is against this background of South Africa's legacy that focused on large enterprises and constrained competition practices that government sees small businesses as an important tool, among others, to generate employment, promote equitable income redistribution and activate competition, which will stimulate economic development (Mutezo, 2005). Thus, the following sections will scrutinize the importance of SME's to the South African economy as well their role in agriculture.

2.2. The importance of SME's to the South African economy

All over the world, the small business sector is being recognised for its role in the economic and social development of countries. For example, countries such as the United States of America, Japan, Taiwan and Germany have realised the crucial need to find ways and means of improving the social and economic well-being of their marginalized communities (Mutezo, 2005).

In addition, the decline in countries' productivity, falling global markets and the International Monetary Fund's (IMF) recommendation of structural programmes, falling of economic trading borders (globalisation) and decentralisation have all led to increased unemployment worldwide. It is believed that SME's can provide a breeding ground for new business ideas that can result in the establishment of new business ventures with the potential to absorb more labour (Mutezo, 2005 & Mavhandu, 2011). Generally, countries all over the world emphasise the potential contribution of SME's to economic performance and as a result provide support (Mnisi & Rankhumise, 2015).

This is also the case in South Africa, where the government has recognised and acknowledged the importance of a strong, dynamic and vibrant SME sector and, furthermore, is committed to creating an enabling environment for small businesses to thrive; especially given that the country also faces socio-economic challenges as a result of the apartheid system. These challenges include a high unemployment rate, skills shortages, high illiteracy rates, income inequalities and rural poverty. Given that SME's form 40% of all businesses in South Africa; derive about 50-60% of new jobs, as well as contribute approximately 35% of the Gross Domestic Product (GDP); small businesses are expected to drive the social and economic transition (Chimucheka, 2013 and Mnisi & Rankhumise, 2015).

In addition, the small business sector was for many years neglected as a result of the discovery of diamonds and gold, the establishment of a modern, capitalist economy and the government's focus on large enterprises and state-owned enterprises. Also, given the legacy of domination by large enterprises, constrained

competition and unequal income and wealth distribution in South Africa, the small business sector is seen as a vehicle to generate employment, take advantage of niche markets, enhance productivity and stimulate economic development (Chalera, 2006 and Mathibe & Van Zyl, 2011).

While the importance of large industries, such as mining and other large enterprises, cannot be denied, there is evidence that the labour-absorptive capacity of the small business sector is relatively high, as they are less likely to be influenced by changes in the macro-economy. Moreover, the average capital cost per job created by small enterprises is typically lower than in large enterprises and small businesses do contribute to technical skills and other innovations that are critical to the challenges facing the South African economy. It has also been observed that when corporate entities are fighting for survival and to become more competitive, they are more likely to downsize and merge (Mutezo, 2005 & Chalera, 2006).

Although the contribution of South African SME's to employment creation and economic growth has been sluggish compared to other developing countries, the recognition of the SME sector has gained momentum over the years as countries are considering SME's for other services and production of consumer goods. This is due to, among others, the nature of SME's being quicker to react to business changes and market requirements. There is also a realisation that SME's are competitive and innovative and that large enterprises have been benefiting from the services supplied by these SME's and have become dependent on SME's for supplies (Chalera, 2006 and Sarbu & Coretchi, 2014).

In addition, from an economic perspective, SME's as business enterprises have an economic role to realise; given that they are not only suppliers of goods and services, but also consumers. Their demand for industrial or consumer goods stimulate the activities of their suppliers, as much as their own activities are stimulated by the demand of their clients. Therefore, SME's have the potential to contribute to the South Africa's Gross Domestic Product (GDP), create employment and even upgrade human capital through, among others; technological progress (Chalera, 2006).

It is said that technological improvement or progress in sectors that are known to have the majority of unskilled labour, such as agriculture, have the potential to liberate the agrarian labour force; especially because the former unskilled will become an equipped labour force and, thus, can be absorbed into other sectors like small manufacturing industries and be exposed to business experience through learning by doing (Chalera, 2006). Moreover, SME's are oriented to the satisfaction of local market needs and make use of local resources, which motivate a strong case for governments to consider strengthening and supporting their activities as they contribute, among others, to job creation and inclusive economic growth. SME's also absorb labour that has been shredded by other sectors of the economy, such as mining and manufacturing (Sarbu & Coretchi, 2014).

In the South African context, it is known that excess unskilled labour is being let go by large enterprises in the secondary and tertiary sectors due to not only the economic downturn, but also transformation in how business is done and an increased demand for semi- or skilled labour (Chalera, 2006). As a result of the current fundamental structural changes where the formal economy is incapable of absorbing the increasing supply of labour and inadequate social support systems, a large segment of the small business sector, as well as those enterprises in the survivalist stage, play a crucial role in people's efforts to meet their basic needs, especially marginalized groups, such as female-headed households and rural families. It is therefore believed that the abundant pool of unskilled labour can possibly be employed by the SME's. Therefore, government's interventions and promotion of micro enterprises are necessary and justified (Chalera, 2006).

Rogerson (2004) argues that because of the absolute size of micro-enterprises and the fact that the majority are women-owned by female heads of households, people living with disabilities and rural families struggling to make ends meet, the small business sector's role in terms of income generation and poverty alleviation cannot be undermined.

Rogerson (2004) also highlights that even though the contribution of the SME sector to the economy and poverty alleviation is somehow a subject of controversy, given the number of critical studies that question the potential of SME's, most observers

agree that the SME economy can actually be a positive factor in alleviating poverty and promotion of income redistribution. Some of the controversies include structural challenges faced by SME's due to not being fully integrated into modern production structures, as well as challenges to expand beyond a one-person operation; moreover, even though SME's may still be showing signs of growth in terms of profit performance indices, they are still faced with a jobless growth (Rogerson, 2004).

There has also been a notable influx in the cities of young people and professionals. The migration of these economically active people from rural to urban areas deprives rural communities of skills and vibrant rural economic participation. A part of government's vision is to stimulate rural economic development by growing small business enterprises in rural communities, as primary agriculture takes place outside urban areas (Mnisi & Rankhumise, 2015).

It is noted that, although rural areas are characterized by sparse populations and sometimes lack access to appropriate markets, small producers can organize themselves into commodity groups so as to meet the volumes required by the market and realize economies of scale. The objective of both the government and non-governmental organizations (similar to that of the World Bank) is to implement sustainable rural development programmes as they have realised the link between rural and SME development as an intervention to fast track growth in rural communities (Mnisi & Rankhumise, 2015).

2.3. The role of South African SME's in agriculture

There are two important features that distinguish the agricultural sector in developing countries that have been observed. The first one is that, in most developing countries, agriculture exists as a major industry, with a typical contribution of between 40 to 60 per cent to the national income and 50 to 80 per cent of the labour force being engaged in agricultural activities. Secondly, although the agricultural sector is big, its relative size is declining due to the structural transformation of the economies (Johnston & Mellor, 1961).

A report by The Food and Agriculture Organization of the United Nations (2012) notes that, the importance of agriculture in national economies varies widely across countries. In some of the world's poorest countries, agriculture accounts for more than 30 per cent of economic activities and 27% in less developed countries. These figures are contrary to the Organisation for Economic Co-operation and Development (OECD) economies where agriculture accounts for only 1.5 percent of the overall economic output (Food and Agriculture Organization of the United Nations, 2015b).

In the less developed and developing nations, agricultural development is therefore considered to be a tool that can open a country's economic potential (Mmbengwa, 2009). In addition, countries that have managed to reduce poverty successfully within shorter periods of time went through employment-centred structural transformation wherein industrial, agricultural and social policies were used in integration. Employment-enhancing policies include dealing with constraints to entrepreneurship development (Food and Agriculture Organization of the United Nations, 2012)

In South Africa, legislation such as the Native Land Act of 1913 and other subsequent laws passed pre-1994 severely inhibited the development of a viable and sustainable small-scale farming sector; and that is what has prompted the South African government to introduce a range of products aimed at bringing small-scale farmers into the mainstream economy and complement the commercial agricultural sector (Mmbengwa, 2009).

It is estimated that the global demand for food is expected to increase by 60 per cent in 2050 and, historically, smallholder producers have proved to be key role players in meeting the demands of the market. For instance, during the Green Revolution in Asia between the 1960s and 1970s, smallholder farmers were able to adopt new technical innovations, increased their productivity and produced sufficient volumes of food necessary to lower the real prices of food - especially those of staple food. During the same period, the demand for rural labour also increased. Therefore, from this discussion it can be deduced that smallholder producers are capable of meeting the demands of the market. However, they require an enabling environment that

entails the provision of appropriate infrastructure such as proper roads and transport; access to markets; appropriate storage facilities, especially for post-harvest purposes; communication services; and access to appropriate information (Food and Agriculture Organization of the United Nations, 2012).

In South Africa, it has been recorded that the share of the GDP by the agricultural sector has been declining over time from over 9% in 1965 to 2.5% in 2015. Between 2013 and 2015, primary agriculture contributed about 2.5% to South Africa's GDP which is far below the capacity of the sector. In addition, the sector accounted for 7% of formal employment and if the entire value chain of agriculture is taken into consideration, its contribution to GDP stood at 12% (Government Communication and Information System, 2016).

The distribution of income has also grown to be more unequal. There are characteristics of anti-competitive outcomes and the sector has not transformed as envisaged. It has been reported that approximately 60 000 farmers own about 87% of the total agricultural land and the remaining 13% is utilised or owned by small-scale farmers. In addition, the dualistic nature of the agricultural sector (that is, farmers being either commercial or small-scale) resulting from decades of separate development has led to the large-scale commercial sector taking a central economic role, while the subsistence and small-scale agricultural sector has been confined to household food security level with less or no economic contribution (Mmbengwa, 2009 and Government Communication and Information Systems, 2014).

It is therefore the goal of the South African government to see the agricultural sector, in particular agricultural SME's, playing a role in the transformation and socio-economic emancipation of all, especially the rural communities. Hence, the government has acknowledged the importance of agrarian development post 1994 and notable attempts to correct the disparities through agrarian reform. The aims of this acknowledgement are to ensure equitable growth, a much broader participation of the South African population in agricultural production, poverty alleviation and food security (Mmbengwa, 2009).

Moreover, in order to bring about agricultural growth and development, the government through the State of Nation Address of 2008 committed to provide agricultural support services specifically to black entrepreneurs, to grow by at least 5% per year (Mmbengwa, 2009).

Other African heads of state made a similar call that was translated into a programme known as the Comprehensive African Agricultural Development Programme (CAADP), with the objective to increase agricultural output by 6% per year within 20 years (starting from 2002) and committed to contributing 10% of their national budgets to agriculture within a period of five years. As a result of this, the New Partnership for African Development (NEPAD) designed a Framework for African Agricultural Productivity as a guideline put in place to achieve the CAADP objectives. These actions were executed in order to position agriculture strategically as a development and growth tool on the African continent, following the realisation that most African countries have access to abundant natural resources and, yet, are adversely affected by poverty, particularly the rural areas. This situation is no different from the South African context where the extent of poverty found in rural areas is about 70.9%, compared to 28.5% in urban areas (Mmbengwa, 2009).

Moving forward, the South African National Development Plan (NDP) identified agriculture as having the potential to create close to one million new jobs by 2030, a significant contribution to the overall employment target. The NDP further argues the importance of commercial agriculture to job creation and states that the sector has the potential to create 250 000 direct jobs and a further 130 000 indirect jobs (such as retail and wholesale to market agricultural products, as well as transport and logistics for storage and distribution of agricultural products) by 2030. A number of these jobs will be created by small business enterprises (National Planning Commission, 2012).

The South African government, in collaboration with the private sector, developed an Agricultural Policy Action Plan (APAP), with a vision to bring about one million hectares of underused land into full production over three years starting in 2015. Moreover, the APAP seeks to localize food networks and provide incentives to small-

scale producers across agriculture, forestry and fisheries value chains (Department of Agriculture, Forestry and Fisheries, 2014).

During the February 2015 State of the Nation Address, President Jacob Zuma stated that the economy needed a major push forward - and in this context, the President announced a nine-point plan to ignite growth and create jobs, one of which is revitalizing agriculture and the agro-processing value chain (South African Government, 2015). Revitalizing agriculture and the agro-processing value chain programme is government's action plan to fast track land reform and stimulation of the rural economy that aims to help create 300 000 new small-scale producers and 145 000 new agro-processing jobs by 2020 (South African Government, 2015). President Jacob Zuma also reiterated government's commitment to SME development by unveiling the smallholder commercialisation strategy, which is a programme that seeks to commercialise about 450 black smallholder producers in the nine provinces of the Republic of South Africa (South African Government, 2017).

These action plans are in line with Zawojska (2013), who states that there is an empirical association between public spending on agriculture and agricultural outcomes. Johnston and Mellor (1961) concur and state that there are compelling considerations that suggest that the most practical and economical approach to follow in order to achieve increases in agricultural productivity and output, lie in enhancement of the existing agricultural economy by introducing modern technologies, particularly by extending expenditure towards development services or unconventional inputs such as agricultural research, education and awareness, as well as extension services to broaden the range of alternative production possibilities available to smallholder producers.

2.4. Conclusion

The important role played by SME's in the country's economy cannot be overlooked. Their ability to be innovative and the potential they have to create new industries, thereby contributing to the country's economic growth, employment opportunities and equitable income redistribution is enormous.

Although it has been noted that the small business sector is not growing as quickly as envisaged or theorized, the efforts by government to create an enabling environment for SME's to thrive is welcomed, as studies have shown the importance of new technologies in the transforming economies, access to appropriate infrastructure, markets and education are crucial for a viable and sustainable small business sector.

The realisation of the agricultural sector's contribution to a nation's economies; especially those that are less developed and developing countries, is encouraging, as well as the commitment by the African heads of States to set aside a budget for agrarian development.

After all the action plans put forward by the South African government aimed at enhancing the performance of agricultural SME's, it would be important to assess their level of performance, in order to determine whether the role of the small business sector to transform the socio-economic emancipation of less developed and developing countries is not overstated.

CHAPTER 3: DEVELOPMENT FINANCING THEORIES, CAPITAL STRUCTURE AND SOURCES OF FINANCING FOR SOUTH AFRICAN SME'S

3.1. Introduction

In an attempt to understand the phenomenon of development financing and its effect on agricultural SME's in the West Rand District Municipality, Gauteng Province, it was imperative to first understand theories that relate to the economics of development financing as well as the capital structure and sources of financing for South African SME's.

The World Bank (2008a) Report highlights that financing is at the centre of the development process. As a result, development practitioners, all over the world, believe that efficient, well-functioning financial systems are critical in channelling funds to the most productive uses and allocating risks to those who can absorb them best. Through this practice, it is envisaged that there will be a boost in countries' economic growth, improvements in opportunities and income distribution, as well as a reduction in poverty. However, the results are not always as anticipated, given the degree of limited access to finance. They often show the exclusion of many individuals and small business enterprises. This often leads to communities being exposed to poverty and structural inequalities (The World Bank, 2008a).

The World Bank (2008a) Report further argues that improvements in the access to finance and building of an inclusive financial system should be a goal that is relevant to economies at all levels of development, making financial services available to all equally and equitable. This does not only mean ensuring that as many individuals have access to basic financial services. It is also about improving the quality and reach of credit, savings, insurance and other risk management products necessary to sustain growth and productivity, particularly for SME's. Without inclusive financial systems, poor communities and SME's have to rely on internal sources of finance, such as their personal savings or funds to finance their small business enterprises. However, in the absence of such wealth generation, the financial market imperfections, such as information asymmetries and high transactional costs, are

likely to limit small businesses from accessing financing as they are often without collateral and historical credit data, to mitigate the high risks associated with their characteristics. Unfortunately, it is situations like these that perpetuate inequalities in countries, as it is known that rich people's marginal propensity to save are higher than that of the poor. Thus, the following sections will focus on understanding development financing theories, capital structure and sources of finance that may have a bearing on the performance of SME's.

3.2. Development financing theories

Below are some of the most important theories in relation to development financing.

3.2.1. Theory of capital structure

Chipeta (2012) describes capital structure as the combination of equity and debt financing that is used in a business. It is synonymously used with financial leverage, that is, the extent to which a business employs borrowed money or debt. Capital structure or financial leverage deals with a very important financial management question, namely, what should be the ratio of debt and equity. Capital structure theories seek to answer whether a change in capital structure of a business has any influence on its value. It is based on four approaches; namely, the net income, net operating income, traditional and Modigliani & Miller's approaches, as described below.

(i) According to Chipeta (2012) and Reddy (2014), the net income approach was suggested by Durand. He believed in the financial leverage decision and proposed that there is a definite relationship between the capital structure and the value of a business. Durand argued that a change in financial leverage would lead to a change in the cost of capital. Thus, if the ratio of debt in the capital structure increases, the weighted average cost of capital decreases and so will the value of the business and vice versa. He argued that a decrease in interest payable by a business would increase the net income and thereby, the earnings per share. It is widely believed that the increase in earnings per share leads to an increase in the value of the business.

(ii) Contrary to the net income approach, Chipeta (2012) and Reddy (2014) highlight that the net operating income approach proposes that the value of a business is independent of its capital structure. Regardless of the way a business sources the finance, it does not change the operating income levels because the weighted average cost of capital remains constant and depends on the business risk. He puts forward an argument that says the market analyses a business as a whole and is due to discount at a particular rate, which is not related to debt-equity ratio.

(iii) The Modigliani & Miller approach supports the net operating income approach; that is, that the capital structure bears no effect on the value of a business. Furthermore, the approach adds a behavioural justification in favour of the net operating income, namely personal leverage. The first proposition suggests that there is no direct correlation between the capital structure and business value. Instead, the business' value is dependent on expected future earnings. The second proposition then asserts that financial leverage increases expected future earnings, but not the value of the business. They argue that leverage-based future earnings are offset by comparable increases in the required rate of return (Chipeta, 2012 and Reddy, 2014).

(iv) Chipeta (2012) and Reddy (2014) agree that the net income and net operating income approaches hold extreme views of the relationship between the capital structure, cost of capital and the value of a business. As a result, the traditional approach proposes a compromise between the two views and believes in an optimal capital structure, that is, a best possible mix of debt and equity will maximise the value of a business. Thus, a business making use of debt financing needs to have a clear and identifiable limit. Any debt capital beyond the identified point will lead to the devaluation of the business and unnecessary leverage. According to the traditional approach, a business should aim to reduce its weighted average cost of capital and capitalise on the value of its marketable assets.

3.2.2. Theory of information asymmetry

Information asymmetry, also referred to as imperfect information, can be described as a situation whereby one party to an agreement has more information about the other. For example, a seller of a good knows more about their product than the buyer (Ojah & Mokoaleli-Mokoteli, 2010). It is common in the market for loans given, that borrowers have more information on the state of their affairs than do lenders. Banks could penalise specific high-risk SME's by charging a higher interest rate. However, because banks do not know which SME's would make unsafe investments, they charge an average interest rate. This amount often exceeds what safe borrowers are willing to pay and these borrowers, who cannot afford high interests, exit the market for loans.

Thus, limited access to finance or credit constraints may not only be as a result of non-availability of finance, but also due to failure to demand credit. This is because discouraged borrowers and SME's with a high probability of being denied a loan, may not apply for financing if they have a perception that their applications will not be successful (Garwe & Fatoki, 2012). Therefore, financial market imperfections determine the degree to which poor individuals and small business owners can raise external financing to invest in their businesses. Hence, financing does not only influence the efficiency of resource allocation in the economy, but also the comparative economic opportunities of individuals from relatively well-off or poor backgrounds (Ojah & Mokoaleli-Mokoteli, 2010).

3.2.3. The role of government and development finance institutions in facilitating access to finance and mitigating asymmetric information

Access to finance varies across the world and remains an important challenge for both developing and developed economies. The belief that the market will self correct has proven to be unrealistic at times. Market failures due to information gaps, concentrations of power by a minority, as well as the need for coordination on collective action, have necessitated government interventions to support, regulate and at times intervene directly in the provision of financial services. (The World Bank , 2008b).

In redressing market failures, governments are responsible for driving reformed approaches to financial sector policies that will clearly recognise the importance of access to financing, as well as ensuring that financial systems are more inclusive. Importantly, not all borrowers are creditworthy.

Thus, when governments intervene, governance issues take centre stage and such financial support interventions must be accompanied by support structures. Hence, government agencies such as the Small Enterprise Development Agency (SEDA) are required to provide business development support services, as well as development finance institutions, such as the Small Enterprise Finance Agency and Industrial Development Corporation (IDC) to mitigate information asymmetry (The World Bank , 2008b).

According to the report by the Development Bank of Southern Africa (2011), in countries such as Germany, Sweden, Japan, Turkey and South Korea, development finance institutions have been successful in acting as catalysts for speeding up industrialisation and economic growth. The report further notes that, in South Africa, the process has been sluggish. This is due to development finance institutions in South Africa not having realised their full potential as yet. Thus, unless these institutions develop to their full potential, they will remain incapable of acting as agents of change and in upscaling the South African growth path (Development Bank of Southern Africa, 2011).

3.3. The capital structure and sources of financing for South African SME's

According to Jandric, Vasiljevic and Kovacevic (2015), there are two sources of financing available for businesses; namely, internal and external financing. These authors define internal financing as funds provided by the business itself through its business operations, that is, retained earnings and owner's savings. External financing is defined as funds attained from outside the business. The authors further highlight the capital structure that start-up SME's can adopt in order to finance their operations; namely, a combination of equity capital and debt finance. Equity capital refers to the capital invested in the business without a specific repayment date, while

debt financing is money borrowed by the company to be paid back at a future date with interest (Abdulsaleh & Worthington, 2013).

However, Arko-Achemfuor (2012) points that when it comes to debt financing, the demand for financing SME activities far exceeds the supply available to finance SME's; leading to what is known as a finance gap. This finance gap is in essence the non-availability of external or debt financing (Arko-Achemfuor, 2012).

In South Africa, the gap was estimated to be between 45% and 48% in 2011, which means almost 50% of SME's in South Africa did not have access to debt financing such as loans (National Credit Regulator, 2011). Schoombee (2000) pointed that SME's cited debt financing; particularly bank debt; as unattainable to their small business enterprises. Furthermore, they highlighted that those SME's that are fortunate enough to access bank debt are often charged higher interest rates due to high risks, such as default on loans, screening costs being too high due to asymmetric information and low returns when compared to bigger businesses.

This challenge is further compounded by the reality that SME's usually borrow smaller amounts compared to big established businesses, even though the costs of screening are equal (Schoombe, 2000). This process then results in a phenomenon known as credit rationing, which is described by Okurut et al. (2004) as circumstances in which borrowers that appear to be identical would be successful in a loan application and others would not be successful, even if they are willing to pay higher interest rates.

Also, given the high risks and information asymmetry, banks are making use of different transactional-based lending strategies such as credit scoring, risk assessment tools and asset-based lending to reduce the associated risks. Although credit rationing is not unique to SME's, given that banks have put in place credit risk management policies applicable to all clients; SME's often encounter barriers in the credit market as banks often require borrowers to possess a good financial track record; be in a position to have acquired collateral; as well as years of existence as a business (Fatoki & Asah, 2011).

When it comes to the agricultural sector, all over the world, in both developed and less developed countries, food security has been identified as a national priority. This has resulted in various methods of supporting agriculture and a need to protect farmers from some of the external factors that may hinder their development, as well as performance. In addition, it is argued that economic growth in less developed countries can be attained by means of promoting trade and that financial development is considered as a major source of a country's comparative advantage in trade (Khan & Lodhi, 2014).

Kletzer and Bardhan (1987) concur with this argument and state that countries with improved financial structures have a comparative advantage in trade. The authors further advance their argument and point out that the majority of funding sources by financial institutions should be directed towards export-oriented industries; of which the agricultural sector is one such industry.

For instance, in an effort to strengthen financial structures and support export-oriented industries such as agriculture, countries like Pakistan have established an Agricultural Credit & Microfinance Department. The role of the department is to facilitate the development of credit markets to ease farmer's access to financial resources and carry out capacity-building programmes to enhance farmers' level of financial awareness. Moreover, the majority of Pakistan's commercial banks are making funding available to farmers at different categories, that is, large and small-scale farmers. Moreover, there is an Agriculture Development Bank responsible for the provision of short, medium and long term loans to both large and small-scale farmers (Khan & Lodhi, 2014).

This case is similar to South Africa whereby the government has prioritised the creation of an enabling environment for SME's to access funding and the promotion of development finance institutions' micro-finance products. As an example, after 1994, the government adopted a series of legislation pieces and established business development support institutions and development finance institutions such as the Small Enterprise Development Agency (SEDA), the Industrial Development Corporation (IDC), the South African Micro-Finance Apex Fund (SAMAF), the Small Enterprise Finance Agency (SEFA) and others, to promote programmes aimed at developing SME's in different sectors of the economy and improve their access to

critical resources. Likewise, various departments including the Department of Agriculture, Forestry and Fisheries, the Department of Trade and Industry and others have since introduced a number of small business support programmes to address issues of SME access to critical resources such as finance, appropriate infrastructure and others (Chimucheka, 2013).

In addition, there is an agricultural development bank, that is, the Land and Agricultural Bank of South Africa (known as the Land Bank), responsible for the promotion and finance development in the agricultural sector for both small-scale and commercial farmers, as well and to make available new, appropriately designed financial products that would facilitate access to finance by new entrants to agriculture from historically disadvantaged backgrounds.

In developing countries, business funding is also made up of both public and private investment; however, public funding is often lower. As a result, such conditions impede the improvement of agricultural producers' efficiency and implementation of advanced technologies. For agriculture and the agri-food sector to develop, finance products should be innovative and specific to the sector. Hence, governments all over the world have intervened and are promoting development financing.

For instance, in the context of South Africa, there are development institutions and schemes, such as the Land and Agricultural Bank of South Africa (known as the Land Bank) and the Micro Agricultural Financial Institutions of South Africa (MAFISA), responsible for carrying out this mandate. These institutions and schemes are particularly important in the agricultural sector as they are required to close the gap between public and private investment and to offer loans and other services such as consultancy and technical assistance to farmers (Meheretu, 2015).

3.4. South African SME's accessibility to finance

Agricultural development, for instance, entails among others, farmers' access to resources, entrepreneurial development, equitable participation, competitive and profitable production for the domestic and international market, as well as food security (Machethe, 1990 and Mmbengwa et al, 2011). In addition, it has been

highlighted that the potential role of SME's in the economic market, inclusive of those in agriculture, is considered as that of accumulating capital through trade, development of a commercial culture and skills development (Clover & Darroch, 2005). Financial development is therefore considered a major source of a country's comparative advantage in trade (Khan & Lodhi, 2014).

Difficulty in accessing finance has been identified as a stumbling block to the ability of businesses to grow and tap into the export market (Abor, et al., 2014). The situation is even worse for SME's who frequently encounter challenges of limited access to finance. The inadequate financing of small agricultural producers is one of the major shortcomings that need to be resolved in order to improve the efficiency of agricultural producers. There are strong suggestions that indicate the most practical and economical approach to the attainment of sizeable increases in the agricultural productivity and output is in enhancing modern technology, which is often costly (Bruce & Mellor, 1961). Abor et al (2014) also suggest that availability of finance is an important indicator for business investment and export participation. Buckley et al. (1990) concur with the authors that a measure of enterprise competitiveness can be its ability to export successfully.

Rogerson (2008) then points out that limited accessibility of finance from commercial banks by small businesses poses a concern for government. Failure of commercial banks to service small businesses makes intervention by government necessary. Schoombee (2000) and Brijlal (2008) concur with this argument and point out that the overall objectives of business development service providers and development finance institutions are to address the market failure by providing information as required by lenders and also lend at discounted rates. However, it has been observed that SME growth potential, especially in rural areas, is still negatively affected by the lack of financial support due to inaccessibility of some of these financial institutions (Mead & Liedholm, 1998 and Lekhanya & Roger, 2014).

Park, Lim and Koo (2008), advocate for government support to SME's. In their argument, they also cite market imperfections as a reason for their justification. They believe that business development support institutions, as set up by government, should provide some sort of support when it comes to making the information as requested by lenders, given their supposedly close relations with small businesses

and development finance institutions, to provide guarantees. However, they have their reservations and argue leaving SME's with government financial support only makes them vulnerable as the decision to support SME is not always based on sound market analysis and provides a false sense of security, given that SME's are expected to function in a competitive environment. This, they argue, increases the risk of failure of SME's.

Hitchins (2002) does not support government interventions at all, citing that interventions by government have been ineffective as they are not based on sound market analysis and ignorant of market signals. According to the author, the main argument for governments' intervention centring on information asymmetry, reduction of transaction costs and uncertainty can be fixed through credit bureaus. Furthermore, he believes dependence on internal finance by SME's constrains their growth and that growth rates are higher for businesses that make use of external financing, implying that internal finance may be inadequate for growing SME's. However, Groenewald (2004) argues that for farming enterprises to be successful, they do not only depend on the goals they set and principles, but an enabling environment and the sustainable use of productive resources.

In South Africa, the legacy of apartheid and the earlier specific focus on large businesses and state-owned companies necessitated government interventions. As a result, strategies and policies were put in place to drive SME development as a way to create a balance in the economy (Mathibe & Van Zyl, 2011). In the agricultural sector, institutions such as the Land and Agricultural Bank of South Africa (known as the Land Bank), National Agricultural Marketing Council (NAMC), Departments of Agriculture and Rural Development and Land Reform have all been given a mandate by the South African government to assist agricultural communities, particularly emerging and small-scale farmers, to become fully-fledged commercial farmers (Mmbengwa, et al., 2011).

Therefore, in giving consideration to all the issues and arguments advanced in this chapter and the support that government, business development support institutions and development finance institutions have been providing to SME's in general and to agricultural SME's based in the West Rand District in particular, it then becomes

imperative to assess the effect development finance has had on the performance of these small business enterprises. Consequently, some of the factors to consider when measuring the performance of small businesses are discussed below.

3.5. Factors to consider when measuring success or failure of SME's

Mmbengwa et al (2011) highlight that, although there have been a number of studies conducted to examine various aspects relating to productivity and sustainability of agricultural SME's in South Africa, a scale of measuring success factors and failures of these enterprises has not been developed. In addition, the authors point out that the lack of such measurement tools does not only pose a challenges in identifying the factors that contribute to progress or lack thereof of agricultural small businesses, but also make it impossible to estimate their social contributions.

Moreover, the authors argue that in-season variations, due to climatic conditions such as rainfall precipitation and distribution, for example, have the potential to conceal good managerial practices and cover up bad practices. Therefore, it will not be correct to make use of short-term yield or profitability as indicators of progressiveness. However, Chimucheka (2013) suggest that given the multidimensional nature of business performance, over a period of time, growth and financial performance usually give a better outlook of the actual performance and that indicators such as changes in profits, increases in sales, as well as new jobs created by small businesses can be used to measure business performance.

Carter and Van Auken (2006) have identified five factors that are deemed to lead to the success or failure of small businesses, namely; (i) the size of the business (ii) availability of capital and infrastructure (iii) levels of literacy, work experience, as well as appropriate skills, and (iv) lack of formal planning, poor strategic planning, as well as absence of a business growth strategy. Lekhanya and Roger (2014) adds that business environmental factors such as local government support, extension services, business networks, the level of training, as well as access to markets, financial and infrastructural factors, are some of the factors that determine whether a business will succeed or fail.

Vinturella (1999) and Nieman and Neuwenhuizen (2009) concur with these arguments and put emphasis on strategic leadership and planning, which they say is the ability to provide clear direction; clear instructions when delegating work; and informed decision-making. They also highlight the ability to plan for both the short and long term and the level of flexibility; which is the speed and ability to which the enterprise changes direction in order to gain advantage of new opportunities as critical. Moreover, they argue that innovation, market intelligence (which is the level of market awareness and ability to adapt to changing market requirements quicker), as well as future orientation and export activities are equally important (Vinturella, 1999 and Nieman & Neuwenhuizen, 2009). Below is a diagrammatical representation of the factors:

Figure 3: Summary of the factors to consider when measuring success or failure of SME's

Source: Adapted from (Chimucheka (2013), Carter & Van Auken (2006), Lekhanya & Roger (2014), Vinturella (1999) and Nieman & Neuwenhuizen (2009))

3.6. Conclusion

The purpose of this chapter was to provide a review of the existing literature on the development financing theories, capital structure and sources of financing of SME's, their accessibility to finance as well as factors to consider when measuring the success or failure of SME's. Thus, it looked into theories relating to development financing, such as the theory of capital structure, information asymmetry and the role of national governments as well as development finance institutions in facilitating access to finance and mitigating information asymmetries that often lead to market failure. Of importance is how structuring of finance may influence the position of a business.

Also, the failure of the market to self correct may perpetuate inequalities; thus, national governments have to intervene and set up business development support institutions to provide business support structures and development finance institutions to extend finance also to those groups or individuals that are deemed to be of high risk for the private sector to finance alone but essential for the broader economy and the country's growth path. Thus, for the South African government to be at par with its counterparts around the world, in relation to industrialisation and economic growth, strengthening development finance institutions should be of priority.

Although SME's have been recognized as the potential drives of the economy, there are limiting factors to their growth and sustainability. Limited access to finance comes out as the main element impeding the success of small business operations. Governments' intervention to bridge the gap between public and private investment through the promotion of development finance institution's microfinance products, demonstrates commitment to address this challenge.

The importance of export-oriented industries such as agriculture, particularly in developing countries, many of whom struggle with socio-economic inequalities, cannot be taken for granted - especially given that there is consensus among scholars who suggest that economic growth in developing countries can be achieved

through trade. This therefore calls for aggressive government support to create an enabling environment.

Commitment by the South African government to establish development finance institutions such as the Land and Agricultural Bank of South Africa (known as the Land Bank), Small Enterprise Development Agency (SEDA), the Industrial Development Corporation (IDC), South African Micro-Finance Apex Fund (SAMAF), Small Enterprise Finance Agency (SEFA) and schemes such as and Micro Agricultural Financial Institutions of South Africa (MAFISA) is applauded.

However, the performance and / or impact of agricultural small businesses that have benefited from these programmes and other farmer support programmes such as those provided by the Departments of Agriculture, Rural Development and Land Reform, commodity associations, farmer unions and others need to be continuously assessed.

Moreover, the South African government needs to undertake a continuous assessment of the SME's in order to monitor their performance and draw lessons of best practices from other countries such as Germany who have succeeded in developing micro-finance products suitable for all the categories of their small business sector and strengthened the role of SME's in their economy, as will be discussed in the following chapter.

CHAPTER 4: FINANCING OF AGRICULTURAL SME'S IN GERMANY – A CASE STUDY DISCUSSION

4.1. Introduction

In the European Union (EU), SME's are at the centre of the economy. They account for more than 66% of private sector jobs, constitute 80% of all enterprises and are responsible for almost 60% of value-added goods. Strengthening their development and growth is therefore a priority for the EU (European Parliament, 2013). This is similar to the South African case where SME's account for 50% of the country's GDP, an estimated 60% of the labour force and more than 40% of the country's total remuneration (South African Reserve Bank, 2015). In addition, German SME turnover was reported to be more than 1.8 trillion Euros (Statistisches Bundesamt : Federal Statistical Office, 2016).

According to the European Central Bank (2015), the majority of SME's in the Euro area were not so much concerned with access to finance as an impediment to the success of their businesses, but rather with other factors, such as finding customers, unavailability of skilled labour, increasing costs of production and labour, competitive pressures and the regulatory environment. This is contrary to the South African case wherein limited access to finance has been reported as the major challenge impeding the growth and sustainability of SME's (National Credit Regulator, 2011).

The report by the European Central Bank (2015) showed that only 11% of the EU SME's reported access to finance as a major of concern, while 25% were mostly concerned with finding customers, followed by a lack of skilled labour, rising costs of production and labour, competitive pressures and the regulatory environment. This is seen as a considerable improvement that has happened over the years wherein the percentage of the EU SME's struggling to access finance has declined from 16% in 2009 to 13% in 2014 and then to 10% in 2015 (European Commission, 2015).

These figures, however, differ across countries in the Euro area, with 30% of SME's in Greece and 13% in Ireland and the Netherlands indicating that access to finance was the most significant impediment factor, compared to around 7% of SME's in

Australia, Finland and Germany (European Central Bank, 2015). It is believed that the differences are due to models of channelling finance to SME's - which are different for each of the countries, such as bank lending, leasing, insurance companies and pension funds, stock exchange, corporate bond markets, securitization, private equity and venture capital, business angels, crowd funding and microfinance (European Commission, 2015).

All the same, this is contrary to the South African setting or landscape whereby access to finance by the majority of SME's has always been and remains the biggest challenge - even after the establishment of business development support agencies such as the Small Enterprise Development Agency, development finance institutions such as Small Enterprise Finance Agency and Industrial Development Corporation and other microfinance institutions.

Germany, which is the case study in focus for this chapter, is one of the most significant agricultural producers in the Euro area. It is second only to France in relation to animal production and fourth following France, Italy, and Spain where vegetable production is concerned. Despite a high population density, almost half of the total area of Germany, that is approximately 47% of the area, which constitutes about 16.7 million hectares, is used for agricultural purposes (Federal Ministry of Food, Agriculture and Consumer Protection, 2010 and Federal Ministry of Food and Agriculture, 2016)

Although the number of farms and farm workers has decreased over the years due to mechanization and its constraints, farms have become more efficient and the quantities of goods produced on the farms have, in contrast, increased. The average farm size was 36.3 hectares in 1999 and increased to 45.3 hectares in 2007. It has been observed that as agricultural development continues, the farm sizes are also becoming bigger to approximately 100 hectares in the recent years (Federal Ministry of Food, Agriculture and Consumer Protection, 2010 and Federal Ministry of Food and Agriculture, 2016).

The majority of the farms are family-run. However, farms in some parts of Germany such as the new Laender, that is, the 16 federal states in Germany, are dominated

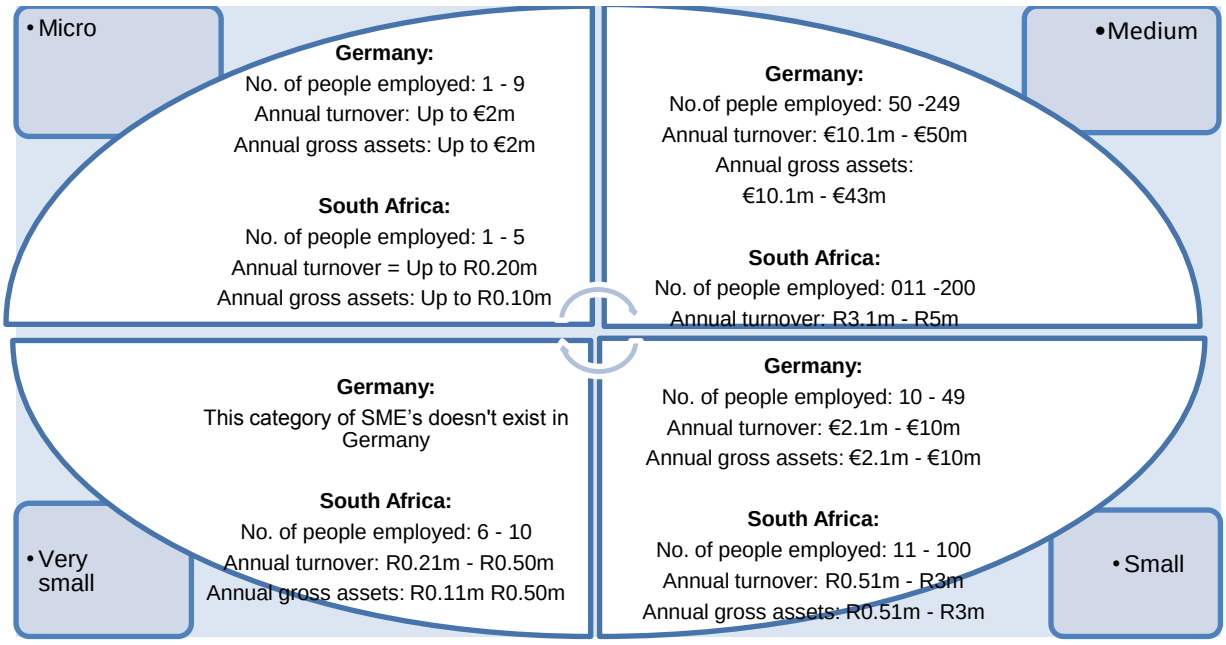
by larger farms. There are approximately 285 000 agricultural enterprises in the region and they employ about one million people who produce goods estimated to be worth more than 50 billion Euros per annum. Germany is also the third largest importer and exporter of agricultural goods (Federal Ministry of Food, Agriculture and Consumer Protection, 2010 and Federal Ministry of Food and Agriculture, 2016).

Given the background, this chapter seeks to explore international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany. The researcher will look into the German definition of SME's and compare it with South Africa; the evolution and structure of agricultural SME's in Germany; sources of financing available for agricultural SME's in Germany and the development financing of agricultural SME's in Germany.

4.2. Definition of SME's in Germany

Generally, as is the case in South Africa and other countries globally, SME's are often defined by classifying them into the size of their operations, number of people employed on a full-time basis, annual turnover and gross asset value. The same applies to SME's in Germany, whereby they are classified as follows;

Figure 4: Comparison of types of SME's in Germany and South Africa



Source: Facts & Figures (2004) and the National Small Business Amendment Act (2003)

It is important to observe the thresholds; however, an SME has to satisfy either the turnover or the balance sheet ceiling and may exceed one of them without losing its status (Insitut fur Mittelstandsforschung Bonn, 2004). More generally, enterprises with less than 250 permanent employees and an annual turnover less than 50 million Euros are considered to be SME's (Statistisches Bundesamt : Federal Statistical Office, 2016). Although German numbers are a bit high, the principle is similar to the South African context wherein enterprises with less than 200 full-time employees and an annual turnover below R5 million are considered to be SME's.

4.3. Evolution and structure of agricultural SME's in Germany

A quick look at the farming evolution or structural changes in Germany reveals that, during the 1950s, a lot of farming was carried out mainly manually, that is, by use of hands on small farms, even though few other regions had larger farms. Almost every fifth person of the working population worked in the farming sector. However, the situation changed with the arrival of farming implements such as tractors, combine harvesters and other farming machinery. In addition, further advances on the technological front resulted in farms only requiring a fraction of the labour force, while at the same time, farmers were able to farm more land and keep larger stocks of animals (Federal Ministry of Food and Agriculture , 2016).

However, modernisation also meant that farming had become more capital-intensive. As a result, some of the farmers were constrained and unable to build larger sheds or lease more land. Therefore, some of the farmers saw it not worthwhile to invest in expensive farm machinery, and hence, the constraints meant that they were not able to continue to farm on more land and keep larger stock of animals. This situation resulted in what is known as a growth process wherein growth-oriented farms took over the land as it became available and, consequently, expanded their production base (Federal Ministry of Food and Agriculture , 2016).

In terms of the structuring of the farming businesses, it has been found that the majority of the farms are leased, family-run and that nine out of ten farms are managed directly by the proprietors themselves. Cooperatives and private limited companies play a small role; however, they carry some degree of economic weight.

For instance, ten per cent of farms operating as partnerships, companies with limited liabilities, private limited companies and cooperatives when combined, work together over a third of Germany's farmland. This figure is higher in some parts of Germany - such as the new Laender (Federal Ministry of Food and Agriculture , 2016).

4.4. Capital structure and models of financing agricultural SME's in Germany

Historically, the agricultural sector in Germany consisted of large numbers of smallholder farmers (small enterprises) who could not meet credit demands; a situation faced by the majority of SME's in many developing countries today, including South Africa. However, after several decades, state-supported innovations in agricultural finance and evolution of policymaking processes enabled the German government and other role players to meet the credit demand and overcame challenges of financial delivery, which resulted in improved farmers' productivity and profitability (The Initiative for Smallholder Finance, 2014 and Statistisches Bundesamt: Federal Statistical Office, 2016).

This is similar to the South African context wherein funding of small businesses is done predominantly by the government, development financial institutions and commercial banks through different microfinance portfolios. Moreover, in South Africa, these actions were further strengthened by the passing of the Small Business Act in 2008 and comprehensive measures to create an enabling environment for SME's (Ojah & Mokoaleli-Mokoteli, 2010).

According to The Initiative for Smallholder Finance (2014), there are four stages of agricultural finance development in Germany; namely, informally-served, government-entry, bank-based and market-based stages as discussed below.

4.4.1. The informally-served stage

This stage is described as a stage prior to government involvement. At this stage, systems are usually underdeveloped, and transaction costs and credit risks are high, as farmers are sometimes without collateral which limit banks' participation (The Initiative for Smallholder Finance, 2014). This stage is similar to the "survivalist"

stage in South Africa, wherein the operations are informal, no major assets held and production is mostly for own consumption.

4.4.2. The government-entry stage

This is usually the stage where government intervenes to improve delivery of agricultural financing. Interventions are usually prompted by agricultural or political crises, policy debates and increased farmer coordination. Sources of financing at this stage are typically community lenders, such as credit and savings unions and credit cooperatives, such as the German Preussenkasse; owned by farmers themselves, drawing from their own social capital and direct loans from the state. The advantage of borrowing from these community lender institutions is that they are not profit driven; their focus is on savings products which improve their liquidity positions and therefore are important sources of credit for low-income smallholder farmers. Direct loans from the state take the form of concessional rates when injecting credit into markets through farmer-owned credit cooperatives (The Initiative for Smallholder Finance, 2014).

The majority of agricultural SME's in South Africa can relate with this stage wherein they are dependent on government, development financing agencies such as the Small Enterprise Finance Agency and Industrial Development Corporation among others, farmer unions and commodity associations for mechanization support. However, community lender institutions need to be strengthened. For instance, there are only two Cooperative Banks that are member-owned and registered with the South African Reserve Bank, namely; Ditsobotla Primary Savings and Credit Co-operative Bank and OSK Koöperatiewe Bank Beperk registered in 2011 and 2014 respectively (South African Reserve Bank, 2017).

Thus, there is also a need for South African communities to fast track the repositioning of Cooperative Financial Institutions, which represent a halfway station to the Cooperative Bank status, as a viable alternative path towards financial inclusion and to service the different economic sectors optimally (South African Reserve Bank, 2017).

4.4.3. The bank-based stage

At this stage, there is decreased government participation and increased presence of well-established regulated commercial banks. Support from government is then channelled by private creditors and banks who receive loan guarantees or incentives to lend to smallholder farmers. Although these incentives may exacerbate reckless lending, given the backing of high risk loans and the likelihood of default, they somehow foster banks to be innovative, while integrating small enterprises into the formal financial system (The Initiative for Smallholder Finance, 2014).

Institutions such as the Land and Agricultural Development Bank of Southern Africa (the Land Bank) are operational at this stage. The Land Bank is a specialist agricultural bank guided by a government mandate to provide financial services to agri-businesses and to make available appropriately designed financial products that would facilitate access to finance by new entrants to agriculture especially those from historically disadvantaged backgrounds (The Land Bank, 2017).

4.4.4. The market-based stage

This is the final stage. It is marked by sophisticated agricultural finance instruments and private equity. At this stage, government is only responsible for deregulating the agricultural finance system in order to diversify risk and increase competitiveness. Moreover, at this stage, agricultural SME's in Germany derive their capital from investment banks. During the time of the agricultural downturn in the United States (US) around 1987, renewed congressional funding was required. As a result, policy makers implemented measures to support indirect debt investments wherein investment banks became much more involved in agricultural finance.

Contrary to commercial banks, investment banks do not accept deposits, but raise their capital through company stocks or bonds. As a result, they maintain relationships with large, profitable agricultural corporations (The Initiative for Smallholder Finance, 2014). According to Qwabe (2014), this stage still needs to be explored extensively in South Africa as there is little maximization of market-based agricultural finance instruments and private equity as well as over-reliance on

government support. The only players that are most likely to be found at this stage are few commercial farmers.

4.5. The role of government and other financial intermediaries in the financing of agricultural SME's in Germany

Academic literature that made use of German data revealed that, generally, new and small businesses often face greater financing obstacles than their larger established counterparts due to, among others, research and development costs (Ruhr Economic Papers, 2013). It is also known that investment and innovation cannot be attained without adequate financing (European Commission, 2016). Moreover, a business's financing behaviour is said to be dependent on its size.

For example, large businesses are found to be more active in capital markets compared to small businesses; due to the fixed costs of issuing securities, compliance costs and others. As a result, it has been reported that about 12% of the smallest companies or micro companies, about 13% of young companies established within 2-5 years and 14% of young high-growth companies were affected by limited access to finance (European Commission, 2015 and Insitut der deutschen Wirtschaft Koln, 2016). Thus, access to development finance is vital to business development and, hence, government interventions to support SME's are justified.

In Germany, farmers provide a wide range of services which are sometimes not remunerated by market earnings, such as the shaping of the social fabric - most especially in rural areas, job opportunities and income creation at rural villages. Therefore, the government supports the farming sector. As a result, the financial assistance by the European Union, the Federal Government and the Laender accounts – which are subsidies from the government - form a major portion of farmers' income (Federal Ministry of Food and Agriculture , 2016).

In addition, bank loans also constitute the main source of external funding; especially for big farming businesses. However, in respect of the bank's willingness to provide loans to SME's in the Euro area, it was observed that, even though signs of stabilization were emerging, member countries, such as Greece, Spain, Italy,

Portugal and the Netherlands, all reported in 2013, on average, a decline in relation to banks' appetite to provide lending solutions to SME's - except for Germany. This was attributed mainly to tight credit conditions, collateral requirements, high-risk perceptions on the part of banks and fragmentation of financial markets - which has a strong geographical connotation. However, bank lending remains the most critical source of external financing for SME's in the Euro area and overall improvements in bank financing conditions were observed as well as increases in loans (Ruhr Economic Papers, 2013 and European Commission, 2016).

Moreover, The European Investment Bank, known as the EU Bank, continues with its efforts to diversify the sectors benefiting from loans in relation to SME's. For instance, when it comes to the agricultural sector, in 2014 the EU Bank signed a 200 million Euro loan with Landwirtschaftliche Rentenbank, which is a state-owned bank that serves as a financial institution for agriculture and the food industry in Germany, to further lend its proceeds to SME's taking part in agricultural support programmes that contribute to rural development in Germany. The fund is categorised into three financing sources; that is, loans, credit and leasing and equity finance (European Investment Bank, 2014).

The work of the European Commission in the Euro area is also applauded where they work with financial institutions to advance SME access to finance, by stimulating loan provisions and venture capital through financial instruments, such as the programme for Competitiveness of Enterprises and SME's, Horizon 2020, European Structural and Investment Fund, Employment and Social Innovation programme and others that are all intended to boost lending and risk capital for SME's (European Commission, 2015).

4.6. Conclusion

Competitive agriculture as observed in Germany is as a result of hard-working farmers and a commitment by government, as well as other financial institutions working together to advance and strengthen access to financing for SME's. The realisation of the potential role that can be played by SME's in creating job opportunities, its contribution to the country's national income and productivity, is

what prompted the government of Germany to keep supporting initiatives targeted towards SME's development.

Given that German is one of the most significant agricultural producers in the Euro area, the country has to continuously adapt to new innovations and technology. This has proven to be a costly exercise. However, with government intervention and willingness as demonstrated by other financial institutions, SME's in Germany are able to thrive as access to finance is not so much an impediment to their growth and survival.

What South Africans can learn from Germany is the commitment demonstrated by government and other financial institutions to work with SME's, who are also committed, so that the SME sector may thrive and contribute meaningfully to the country's economy. Secondly, a model where sources of finance and financial instruments are clearly categorised to suit the broad spectrum of SME's is something that can be learnt. Linked to that would be to manage the process where SME's move from one stage to the other and avoid stagnation unless they are at a stage similar to Germany's market-based stage wherein they have access to a variety of sophisticated financing instruments and private equity capital.

Lastly, in order for South Africa to reach the level of ease as experienced by SME's in Germany in relation to access to finance, programmes intended to boost lending and risk capital for SME's need to be intensified and implemented aggressively with commitment from all role players.

CHAPTER 5: RESEARCH METHODOLOGY

5.1. Introduction

This section focuses on the research techniques that were used in conducting this study. It gives a logical plan of activities on how the research study was carried out. This includes identifying the research approach and design, sample selection, data collection strategy and how the data was analysed. In addition, this chapter highlights ethical considerations that were upheld in conducting the study.

5.2. Research approach

An exploratory qualitative research approach was adopted for this study. This is because of its distinguished features, such as its relation to linguistics more than numerical data and that the facts are more meaning-based than statistical forms of data analysis (Maree, 2016 and Bryman, 2012). Thus, it was identified as a suitable tool that could be used to explore the relationship between access to development finance and performance of agricultural SME's in the West Rand District Municipality, by exploring the processes involved to access finance with affected individuals or communities in their natural settings, that is, their farms.

5.3. Research design

Bryman (2012) identifies five different types of research designs; namely, experimental design, cross-sectional or survey design, longitudinal designs, case study design and comparative design. Given that the researcher wanted to explore in great lengths and gain a deeper understanding of a specific phenomenon, that is, the relationship between access to development finance and the performance of agricultural SME's in the West Rand District Municipality, which is a single community in a specific location, as well as processes that affect these SME's; a case study research design, by way of in-depth semi-structured interviews and secondary data sources was chosen as appropriate methods for detailed data collection and analysis. Moreover, a boundary was set and so the researcher was restricted and did not to go too broad or out of the research scope.

5.4. Population

A research study population refers to a group of individual objects or people who share characteristics of interest relevant to the study (Babbie, 2003). The West Rand District Municipality is composed of three municipalities; that is, Mogale City, Merafong City and Rand West City - which is a merger of Randfontein and Westonaria and is located on the South Western edge of Gauteng. The District has a population size of 790 000 and covers 4 095 km^2 of land size. In relation to contribution towards agriculture in the District, Mogale City and Merafong City are by far the municipalities that are leading in agriculture with a contribution of 43% and 42% respectively, whilst Rand West, which is a merger of Randfontein and Westonaria contribute the least at 15% (West Rand District Municipality, 2015).

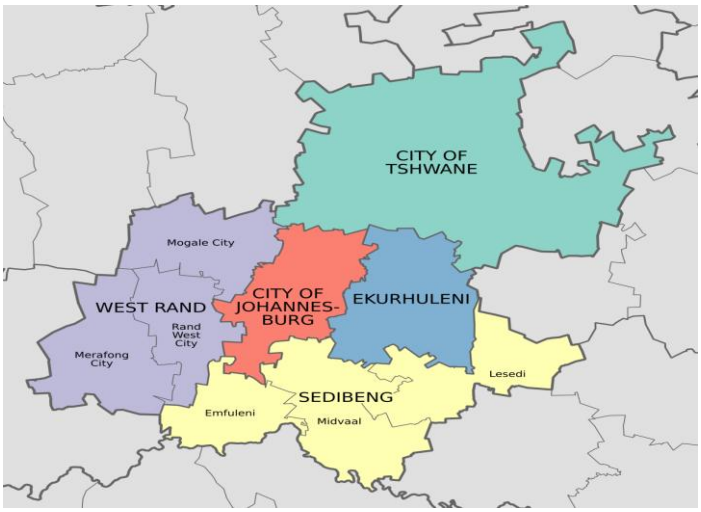
5.5. Sampling design and justification of the sample size

For this study, purposive sampling, which is a form of non-probability sampling, was adopted, given that the focus was on agricultural SME's in the West Rand District Municipality who have accessed any type of development financial support. Thus, the actual respondents were farmers who are actively involved in the agricultural sector, whether at the primary or post production level and excluded those producing only for their own consumption. In addition, respondents had to satisfy the definition of an SME and the focus was on micro, very small and small enterprises.

For a credible database of agricultural SME's in the West Rand District Municipality who have accessed development financial support, the West Rand District Municipality, the Land Bank and the Gauteng Department of Agriculture and Rural Development were approached by the researcher to request permission to access these institutions' database of farmers who have accessed any type of development finance support through written requests. However, the representative of the West Rand District Municipality indicated that the Gauteng Department of Agriculture and Rural Development – Randfontein Regional Office would be best suited to respond to the enquiry. The representative from the Land Bank indicated that the institution was not allowed to share client's information without the client's prior written consent.

The Gauteng Department of Agriculture and Rural Development responded positively to the request; as such, the study relied on this database.

Figure 5: Gauteng Municipalities



Source: Google maps

According to a database held by the Gauteng Department of Agriculture and Rural Development – Randfontein Regional Office, there are about 401 agricultural SME's based in the West Rand District Municipality, City of Johannesburg, Ekurhuleni and part of Midvaal. This was confirmed through a meeting held by the researcher and representatives of Gauteng Department of Agriculture and Rural Development – Randfontein Regional Office. It should be noted that the boundary for this research study was only the West Rand District Municipality. In addition, the premise of this study was based on quality rather than quantity, with the objective not to maximise numbers, but to be saturated with information on the subject (Padgett, 1998).

In qualitative research, there are no published guidelines or adequacy tests for estimating the required sample size. However, data saturation is of utmost importance (Maree, 2016). There are a few studies that seek to offer guidance in terms of acceptable sample sizes. For instance, for ethnographic studies, Bernard (2000) suggests that 30 to 60 respondents will be acceptable and Morse (1994) recommends something similar between 30 to 50 respondents. For phenomenological studies, Morse (1994) recommends at least 6 respondents. Guest, Bunce and Johnson (2006) argue that, based on their analysis, data saturation can be reached by analysing between 12 and 15 respondents, where they found at least more than 90% of the total number of codes develop for their particular studies. Romney, Weller and Batchelder (1986) were a bit extreme compared to

other researchers and suggested a total of 4 respondents. The different views by these authors suggest the difficulties in specifying the minimum sample size. However, Bryman (2012) suggest that the sample size should be able to support convincing conclusions.

Generally, there is consensus amongst researchers that for qualitative research, sample sizes should not be too large as small samples can provide sufficient and accurate information within a particular context, depending on the level of expertise possessed by respondents (Maree, 2016). Equally, Bryman (2012) notes that, the sample size should not be too small to a point where data saturation is difficult to achieve. To sum up, in qualitative research, sample size depends largely on what the researcher wants to know, what is the purpose of conducting the study, what will be credible, and what is achievable given available resources (Maree, 2016).

Hence, in conducting the research study, some of the considerations that were made by the researcher were that the agricultural sector only contributes a small portion in the economy of the West Rand District Municipality. Mogale City, Merafong City and Rand West (that is, Randfontein and Westonaria) contribute about 43%, 42% and 15% respectively towards the agriculture sector in the West Rand District. Moreover, their contribution to the Gauteng GDP is very low at 0.6%, 1% and 0.7% respectively (West Rand District Municipality, 2015). As a result, a sample of 15 respondents was selected from the three local municipalities to participate in this research study.

Although the researcher considered that bigger samples have the potential to represent populations better; the type of research design, questions and the likelihood of the sample to generate rich information relevant to the study was also considered. The process of data collection and data analysis on this study was an ongoing and iterative process as a result; both were guided by saturation of data.

5.6. Data collection strategy

For this study, two types of qualitative research methods for data collection were applied; namely, interviews and document analysis. In collecting primary data for this study, semi-structured interviews - which represented a key tool in the collection of

the data - were conducted with the sample of respondents by making use of a semi-structured interview schedule **(Annexure A)**. When it comes to document analysis, journal articles and reports were used to gather understanding on the subject matter.

The design of the semi-structured interview schedule was very important in the research process, as it was a fundamental instrument for collecting data. As a result, a pre-questionnaire (semi-structured interview schedule) test was conducted with at least four people who were not related to the participants in order to ensure that the possibility of interviewing error was reduced and / or eliminated.

The researcher made use of both open and closed exploratory research questions. Questions were followed up by further probing and clarification, repeated until respondents were directed towards understanding their experiences or situations as they express them in their own words (Bryman, 2012 and Maree, 2016). It should be noted that probing was detail-oriented, elaborative and for clarity seeking. The researcher was aware that it is easy to get distracted by aspects outside the focus area of study; hence, respondents were always guided back to the focus of the interview (Maree, 2016).

The advantage of conducting the interviews was the two-way conversation where the respondent were asked questions, the majority being open-ended questions, to collect data and to learn about ideas, views and opinions of the respondents. Maree (2016) and Mouton (2001) highlight that semi-structured interviews are normally used to substantiate data gathered from other data sources, which was also the case in this study.

Literature on qualitative research cautions that in this type of study, the researcher is likely to have an effect on the process. As a result, the researcher was attentive to the whole process, looked into conceptualization and connection of each phase with caution, so as not to influence the study and eventually the results (Babbie & Mouton, 2002). The research was conducted in a natural setting and interactions took place in individually identified farms.

Maree (2016) emphasizes the following four key areas to successful interviewing as a data gathering technique; namely, reproducibility, systematic, credibility and transparency. The following were given detail when designing the semi-structured interview schedule; the length, appearance, sequence of questions, phrasing of words and response categories. A combination of both open and closed questions was used when designing the semi-structured interview schedule. As Maree (2016) puts it, although open questions are used to generate research hypothesis, closed question were used to test the research hypothesis. The Likert and semantic differential scales, which are common and useful in measuring how respondents feel or think on specific matters, were used (Maree, 2016).

Instructions were made simple, unambiguous and concise. The questions were phrased and numbered in such a way that questions did not repeat themselves and respondents did not exceed thirty minutes responding to questions. Easy to answer questions, such as whether the business is registered and the number of years the business has been operational, were put as first questions in order to avoid intimidating the respondents. Thereafter the researcher moved to questions related to the objectives of the study. Questions of the same topic or objective were grouped together and followed a logical order as cautioned by Bryman 2012. The approach thus satisfied highlights by Maree (2016), that at the core of the qualitative research lay the extraction of meaning from data and therefore the research process takes centre stage.

It is important to note that even though the semi-structured interview schedule was designed in English, language preferences of respondents was considered when conducting the interviews and questions were asked in a language understood by respondents. Appointments were made in advance with respondents telephonically with the assistance of agricultural extension officers based in the Gauteng Department of Agriculture and Rural Development – Randfontein Regional Office.

During the interview, with the permission of the respondent, a tape recorder was used - which assisted the researcher in listening to the interview again and again, when writing the transcript of the interview for the purpose of data analysis. The semi-structured interview schedule was natural and user-friendly (Maree, 2016).

5.7. Data analysis

Qualitative data gathered from interviews usually takes the form of unstructured textual material that is not easy to analyse. In addition, qualitative research usually generates large data due to its reliance on text such as interview transcripts, notes, and documents (Bryman, 2012). The researcher was aware that although there are no clearly set guidelines on carrying out qualitative data analysis, thematic analysis represents one of the most general approaches to qualitative data analysis and it was therefore adopted for this study.

Contrary to grounded theory or critical discourse analysis strategies, thematic analysis does not have an identifiable heritage; that is, it does not follow a distinctive cluster of techniques (Bryman, 2012). However, the researcher made use of coding whereby the data was broken down into components, categorized and themed. The researcher was aware of criticism relating to coding of qualitative data suggesting that it tends to fragment data and in the process loses interviewees' narrative and possibly the context of what was said by interviewees and so took all reasonable steps to ensure accuracy of data (Bryman, 2012).

During data analysis, the researcher started by preparing the data through describing the sample and participants - which entails organizing the data such as field notes, recordings and interview transcripts; followed by transcribing the data and internalizing it by listening to interview recordings over and over as well as memoing, which is the process of writing down impressions, as insights gained may prompt the researcher to critically consider ideas gained during the study against patterns that may emerge from the data and then code the data (Maree, 2016). After coding the data and codes saturated, the researcher categorized the data by way of aligning common patterns and theming it.

On theming of data, the researcher followed the Framework approach to thematical analysis, which is a matrix based method for ordering and synthesizing data developed by the National Centre for Social Research in the UK, whereby an index of central themes and subthemes were constructed and represented in a matrix of

cases and variables. The themes and subthemes were constructed as a result of intense reading of the transcripts and field notes.

The researcher was aware of the following requirements; namely, to indicate the origin of the transcript (for example, the question number used and municipality), maintain the language used by research participants as far as possible, the minimal use of quoted material and use of abbreviations in cells to avoid overcrowding (Bryman, 2012). The researcher was also aware that, before commencing with data analysis, theoretical sensitivity is required, which is basic knowledge of the nature of the area under investigation as it informs the researcher about the area under study but without developing preconceived ideas of what may be discovered and complied with the requirement (Maree, 2016).

Given that qualitative data analysis was iterative, it is important to stress that the process of collection and analysis of data was interactive and repeated until analysis was saturated. Thus, data analysis started as soon as some data was collected and results of data analysis shaped the next steps of the data collection process as advised by Maree (2016) and Bryman (2012). Following categorization and theming of the data, the researcher interpreted the data to get to the roots of the phenomenon and explanation on why things are the way they were found (Maree, 2016).

5.8. Reliability, validity, trustworthiness and credibility

5.8.1. Reliability, replicability and validity

Bryman (2012) identified three most common standards for evaluating research; namely, reliability, replication and validity. According to Bryman (2012), reliability has to do with whether the findings of the study are repeatable. In addition, this standard is mostly used in social research, to assess whether certain terms, such as poverty and others, are consistent. Reliability is of utmost importance in quantitative studies, wherein there has to be an assessment of whether the measure or construct is stable or not. Joppe (2000) concurs with this and expresses reliability as the extent

to which the research findings will be consistent over time. He also adds that there has to be an accurate representation of the total population under study. Moreover, the research instrument is considered to be reliable if the findings of a study can be reproduced under a similar methodology. Thus, in conducting this research study, the researcher took reasonable care in selecting a sample of respondents that was purposive given that the researcher wanted to gain in-depth understanding of a phenomenon in a specific area. With regards to representation, the study was more focused on data saturation than on numbers.

In terms of the measurement construct, the study focused only on agricultural SME's (as defined by the Department of Trade and Industry) based in the West Rand District Municipality that have benefited from any type of development financial support (as defined in the key concept section of this study). Also, to ensure that the research instrument, which was the semi-structured questionnaire (and a critical instrument in collecting data from the research participants) was reliable and held minimal possibility of interviewing error, a pre-test was performed to ensure that questions were structured in a manner that they could respond to the research aim and objectives, as well as not be intimidating or ambiguous. In addition, the research methodology and design is explicitly explained in a full chapter of this research. Thus, should there be a need to replicate this study; the findings are most likely to be the same, if everything else remains constant.

Replication, and in particular replicability is very close to reliability. This is because it is not unusual for researchers to choose to replicate the findings of others. For instance, in cases whereby there is a concern that there may be misalignment of the original results and other evidence relevant to the study in question. As a general rule, in order for replication to take place, it must be possible to replicate the study. Thus, the researcher is required to give details of the research procedures. Likewise, in order to assess the reliability of a measure of a concept, a potential has to exist for another person to replicate the procedures that constitute that measure. However, this type of standard is not common in social research and, thus, the researcher did not dwell much on this criterion (Bryman, 2012).

Validity is meant to establish whether the research study indeed measured that which it was intended to measure, as well as how truthful the research findings are (Joppe, 2000). Bryman (2012) further highlights that validity is the most important criterion in research. Similarly to Joppe (2000), Bryman (2012) argues that its importance lies in the fact that it is more concerned about the integrity of the conclusions. Furthermore, Bryman (2012) expresses the four main types of validity; namely, measurement validity, internal validity, external validity and ecological validity.

Measurement validity, also known as construct validity, is very much part of quantitative research studies and seeks to assess whether a measure of a concept is indeed the correct expression of the concept it denotes. On the main, internal validity is concerned with the issue of causality. That is, whether a conclusion that suggests a causal relationship between two or more variables is well-founded. In contrast, external validity is concerned more with the possibility of whether findings of a particular research study may be generalised beyond the specific research context. Lastly, ecological validity is concerned mostly with the possibility of whether the scientific findings in social research can be applied to people's everyday, natural social settings.

However, for this study, the researcher proposes that alternative criteria for judging qualitative research, namely, credibility, transferability, dependability and conformability be applied to establish trustworthiness and credibility of the findings and conclusions. This is because, according to Maree (2016), whereas reliability and validity are key measures in quantitative research, trustworthiness and credibility are critical in qualitative research.

5.8.2. Credibility, transferability, dependability and conformability

Maree (2016) asserts that the credibility criterion is about establishing whether the findings of qualitative research are realistic and credible or believable from the perspective of the participants in the research. Given that the purpose of this research study was to understand the phenomena of interest from the respondent's viewpoint, the researcher's understandings were verified with the respondents during

the interviews, which were one-on-one sessions on the respondents' farms, that is, their natural settings. The sessions were recorded with the consent of the research participants and, thus, enabled the researcher to transcribe and memo the deliberations. Participants were taken through the whole study and requested to give consent in writing when they agreed to participate voluntarily in the study.

In addition, the researcher developed a research methodology as a roadmap or framework to guide the study, as well as a semi-structured questionnaire design prior conducting the interviews with participants. Also, as part of the researcher familiarising themselves with the area and participants to engage for the study, a meeting was held with the Gauteng Department of Agriculture and Rural Development – Randfontein Regional Office officials, to determine suitable participants, following permission by the Head of Department - Gauteng Department of Agriculture and Rural Development to access the departmental database **(Annexure B)**.

Transferability refers "to the degree to which the findings of qualitative research can be generalized or transferred to other contexts or settings" (Maree, 2016). From a qualitative perspective, generalisation (external validity) is rejected and transferability is promoted. This is because, contrary to generalisation, transferability calls upon research readers to link study elements with their own experience or research. Thus, in enhancing the transferability of this study, the researcher gave a thorough description of the research context, assumptions and research design that were central to this study. Hence, if a reader wishes to transfer the findings of this study to a different context, then they may explore the research document and establish the possibility of transferring such findings to their setting, as this study was specific to a particular setting or area. Thus, at the end, the responsibility lies with the reader to make the judgment of how rational the transfer would be.

According to Maree (2016), in qualitative research, dependability is preferred to reliability. This is because reliability is based on the assumption of replicability or repeatability, while dependability places more emphasis on the researcher's ability to account for the changing context within which research occurs. Thus, in conducting this study, the researcher kept a record of decisions taken throughout the research

process. In this criterion, the researcher is also responsible for describing the changes that took place and how those changes affected the way the researcher approached the study.

Lincoln and Guba (1985) define confirmability as the extent to which the findings of a research study are influenced by participants and not by researcher bias, motivation or interest. Moreover, it is about the degree to which the research findings could be confirmed or corroborated by others. Thus, in conducting this research study, the researcher was neutral and not overwhelmed by interactions with the research participants. The process was documented; thus, an audit trail has been made available.

5.9. Research ethics

Ethical issues cannot be ignored due to their link with integrity of the study (Bryman, 2012). Bryman (2012) further argues that discussions around ethical principles or contraventions, especially in social research, are usually centred on certain issues that resurface in different forms, but may be commonly classified into four key areas which seek to assess whether there is harm to participants, lack of informed consent, invasion of privacy and deception.

For this study, the researcher explained the purpose of the study to respondents as contained in the informed consent letter **(Annexure C)** and obtained informed consent from participants by way of requesting them to sign the informed consent page **(Annexure D)**. The advantage of making use of informed consent forms is that they give respondents the opportunity to be fully aware of the nature of the research being conducted, the implication of their participation and to exercise their choice to participate voluntarily. Moreover, the researcher will have signed informed consent by participants should there be any issues (Bryman, 2012).

In conducting the study, the researcher ensured that no harm to participants may result as a consequence of this study, whether directly or indirectly. This means that identities and records and any other data sources provided by participants during the research, shall be kept confidential and may only be used solely for the purpose of

this study. The researcher signed the consent form together with research participants, committing to confidentiality.

There was no storing of participants' names and addresses or correspondences onto devices. Data was coded and stored in a lockable cabinet. In addition, extra care was taken when findings were made public to protect the identity of respondents. Data was not only being kept secure and confidential but fairly, lawfully and adequately processed, as accurately as possible and shall not be kept longer than necessary (Bryman, 2012).

Respondents have a right to privacy and it is closely linked with anonymity of respondents and confidentiality of information; hence, the researcher committed to using the data collected only for the purpose of this study. Lastly, the researcher did not deceive participants and present their work as something that it is not. The researcher presented the study as is to participants to choose whether they wanted to be part of the study or not and did not make commitments and raise participants' expectations unnecessarily for exchange of information.

5.10. Conclusion

The aim of this chapter was to provide a logical plan or framework in terms of which the study was conducted. Hence, in order to ensure that the aims and objectives of the study were met, the researcher drew up a research methodology - which is basically a plan that details how the study was carried out, highlighting the research approach, design and activities that were undertaken for the successful execution of the study. The proposed data collection strategy, sampling design and data analysis techniques used in the study were discussed in detail, to give a clear depiction of the research methodology employed in the study. The researcher further committed to having conducted the study ethically and credibly.

CHAPTER 6: FINDINGS AND DISCUSSIONS

6.1. Introduction

This chapter seeks to communicate and discuss the research findings of this study. Thus, the researcher will present the findings of the study and provide an analysis of the results. The findings relate to the aim and objectives of this study. Data was collected and analysed to explore the relationship between access to development finance (finance offered by development finance institutions, the government, commodity associations, farmer unions and others) and the performance of agricultural SME's; particularly those based in the West Rand District Municipality, Gauteng Province.

The objectives of the study were:

- To gather information about processes involved in order for agricultural SME's based in the West Rand District Municipality to access development finance.

- To gather information on successes, challenges encountered prior to financing and lessons learned by agricultural SME's based in the West Rand District Municipality that have accessed development finance.

- To explore international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany; and

- To recommend best practices relating to the relationship between access to development finance and performance of agricultural SME's.

To address the first and second objectives of this research study, data was collected from a total of 15 agricultural SME's in the West Rand District Municipality through semi-structured interviews using a semi-structured interview schedule. The data gathered was coded, categorised, and themed and will be presented as sub-headings under the following headings as per the structure of the semi-structured questionnaires:

- Biographical details or a brief profile of the businesses;
- Information about processes involved in order for agricultural SME's in the West Rand District Municipality to access development finance (such as, the awareness by SME's of products offered by Development Finance Institutions relevant to their businesses, criteria for funding and application processes starting from pre-funding support, the process flow and turnaround times); as well as
- Information on successes (improvements in annual turnover, infrastructure, access to new markets and others), challenges encountered prior to financing and lessons learned by agricultural SME's based in the West Rand District Municipality that have accessed development finance.

The third objective of this research study; that is, to explore international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany has been discussed in great detail in Chapter 5 of this study. The last objective - which is, to recommend best practices relating to the relationship between access to development finance and performance of agricultural SME's, will be discussed in the next chapter and last chapter of the study, wherein the researcher will be providing conclusions and recommendations.

6.2. Findings and discussions

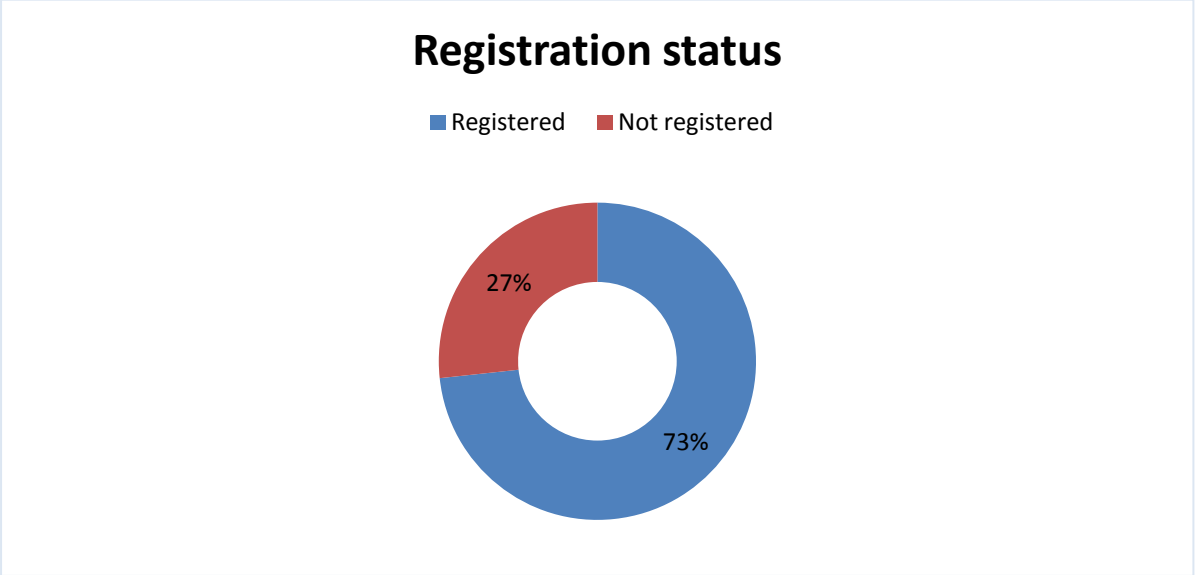
Below are the findings and discussions of the research study.

6.2.1. Profile of agricultural SME's interviewed

Four of the 15 (26.7%) SME's were not registered. On further probing, the researcher found that the SME's feared, out of the little income they were making, they would also had to pay tax. Thus, there was little understanding of tax exemptions or incentives for small businesses. For instance, although the rates are progressive and reviewed annually, a small business that qualifies as a small business corporation (SBC) is exempted from paying income tax on the first R75 750 taxable income (South African Revenue Services, 2017). Thus, these SME's were

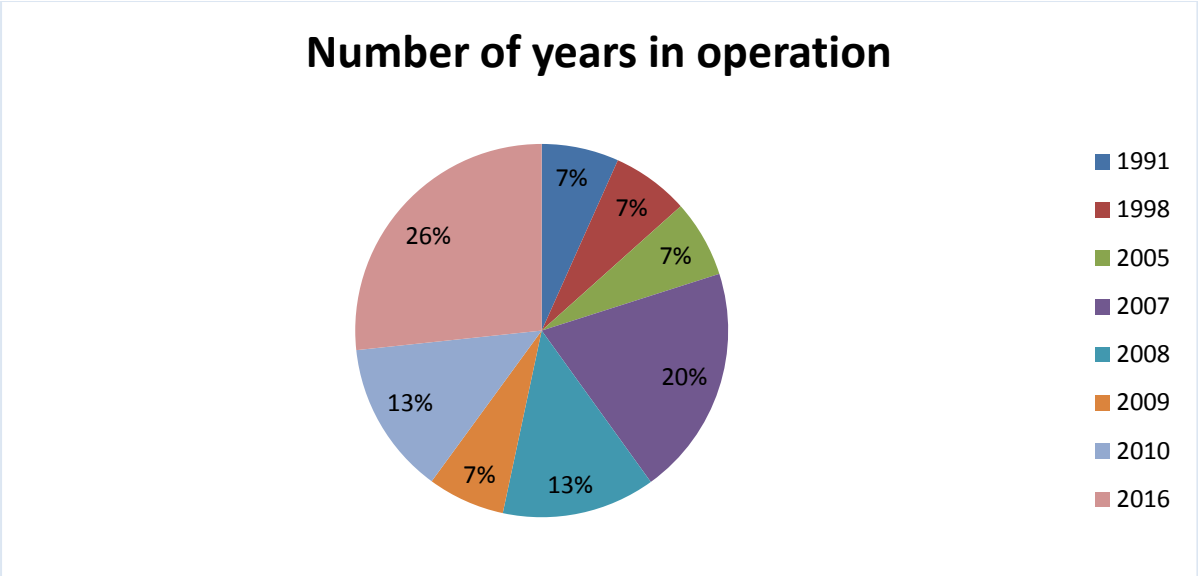
misinformed of the implications regarding registration of their business operations. The figure below illustrates the registration status of the 15 SME's.

Figure 6: Registration status of the 15 SME's



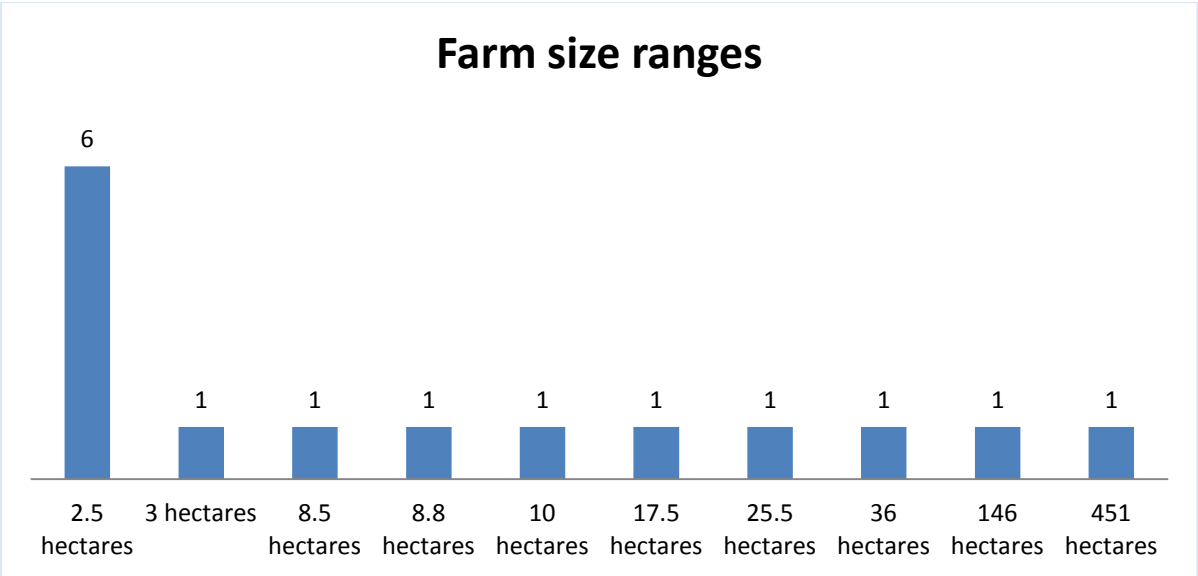
The main business activity of these SME's included crop and livestock farming. Only one of the 15 (6.7%) SME's indicated that they are also engaged in non-farming activities. However, they indicated that farming takes priority. When it comes to years in operation, the spread varies widely across the enterprises. One of the 15 (6.7%) SME's indicated that they started to engage in agricultural activities around 1989 for own consumption and started to sell to the general public two years later; that is, in 1991. Others started their operations around 1998, 2005, 2007, 2009, 2010 and 2016. Below is a diagrammatic representation of when the 15 SME's started their business operations.

Figure 7: SME's number of years in operation



The farm sizes ranged between 2.5 hectares and 450 hectares. The spread is such that the majority of the 15 SME's - that is 13 of the 15 (86.7%) SME's - operated on farm sizes between 2.5 hectares and 36 hectares. Merely two of the 15 SME's (13.3%) indicated that they operated on 146 hectare and 451 hectare farms respectively. Below is a detailed breakdown.

Figure 8: Farm size range for the 15 SME's

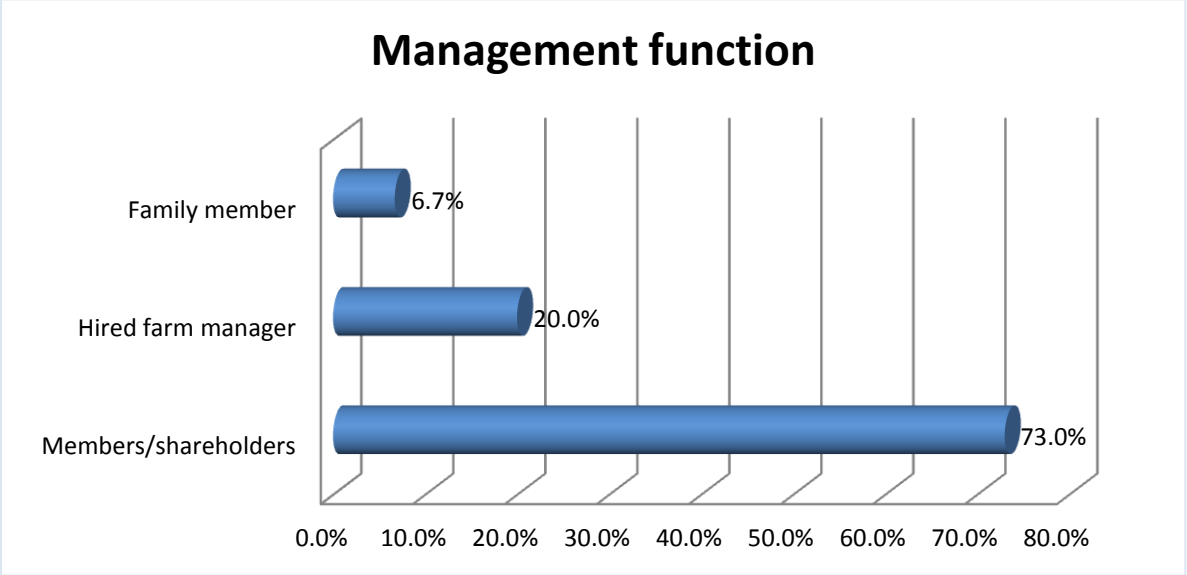


In terms of ownership, the majority of the farms - that is 10 out of 15 (66.7%) farms - belonged to the enterprise owners, while four of the 15 (26.7%) farms were leased

and one of the 15 (6.7%) SME's was awaiting a title deed after satisfying the requirements by the Department of Rural Development and Land Reform following a lease agreement.

The farm management function in most of the SME's, which is 11 out of 15 (73.3%), was performed by members who are also shareholders in these businesses. Only three of the 15 (20%) SME's indicated that they have hired a farm manager responsible for day-to-day operations, whereas one of the 15 (6.7%) SME's were being assisted by a family member. Below is a graphical summation of the management function in the 15 enterprises.

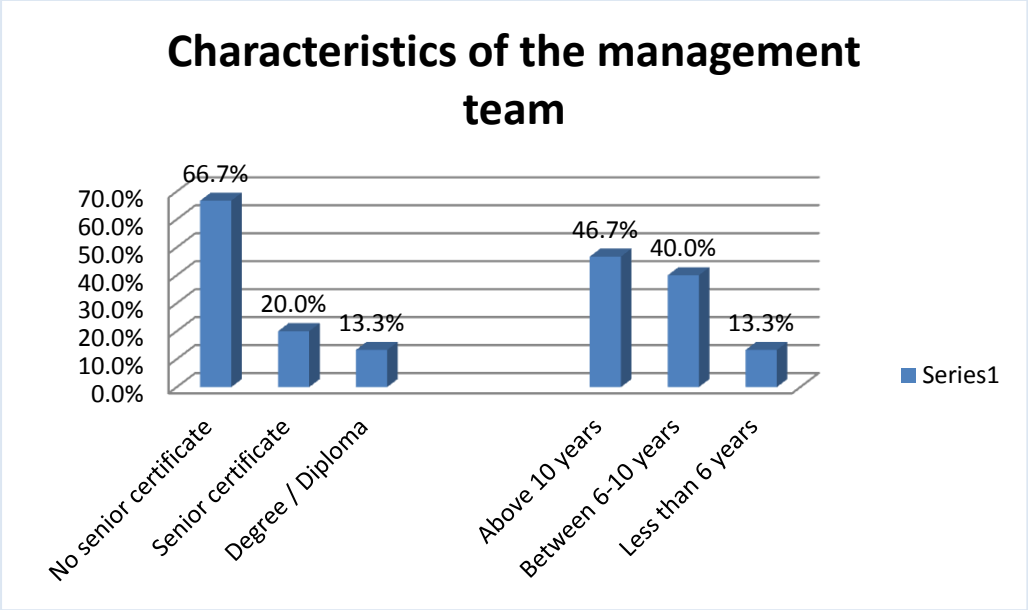
Figure 9: Persons responsible for the management of the 15 SME's



In addition, the majority of the management team members; that is, in 10 of the 15 (66.7%) enterprises, did not hold a senior certificate. Only three of the 15 (20%) SME's indicated that in their management teams, at least four people had a senior certificate and two of the 15 (13.3%) SME's indicated that they had two people in management with either a diploma or a degree. It was also found that the majority of the enterprises (that is 7 of the 15 (46.7%) SME's) had people in management positions with experience of more than 10 years, while in six of the 15 (40%) SME's people in management positions had experience of between six and 10 years and only two people (13.3%) were in management positions, but with less than six years'

experience. Below is a graphical illustration of the 15 enterprise management teams' characteristics indicative of the level of education and experience.

Figure 10: Characteristics indicative of the level of education and experience of the management teams in the 15 SME's

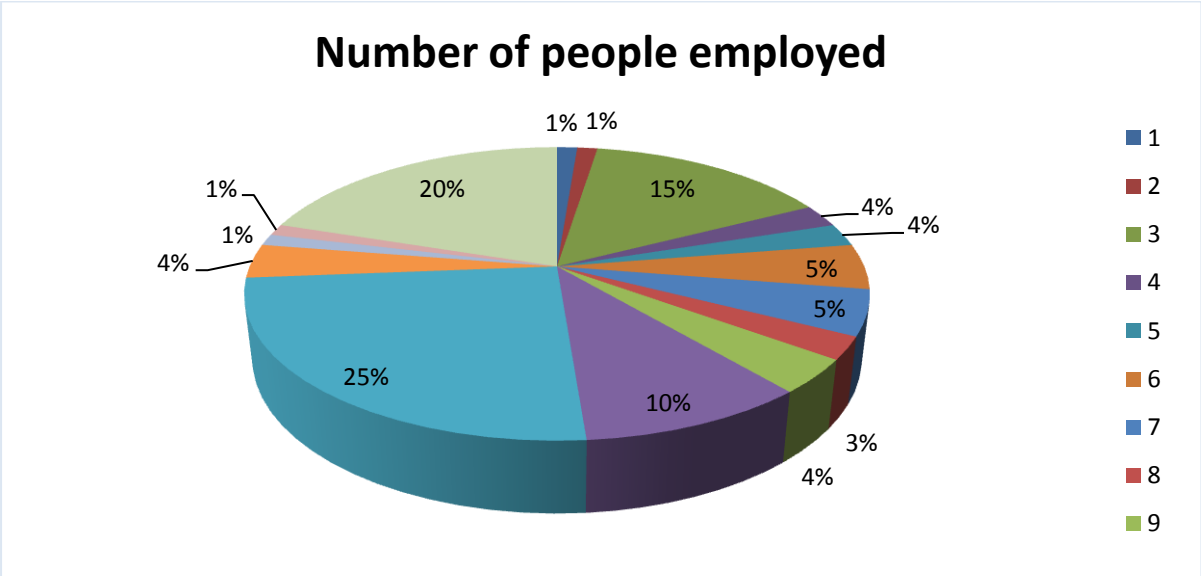


The researcher also found that the West Rand District Municipality scenario of agricultural SME's is similar to the case of agricultural SME's in Germany, as was discussed in Chapter 4 of this research report, whereby the majority of the farms are leased, family run and managed by the business members who are also shareholders. Also, the average farm size of agricultural SME's in Germany is about 45.3 hectares, which is larger than that of agricultural SME's in the West Rand District Municipality wherein the majority of the SME's; that is 13 of the 15 (86.7%) SME's - operated in farm sizes between 2.5 hectares and 36 hectares.

Of course, there are agricultural SME's in the West Rand District Municipality that operate in bigger farms, even though they are a minority. For instance, there were two of the 15 SME's (13.3%) that were operating in 146 hectare and 451 hectare farms. Agricultural SME's in Germany are moving towards bigger farm sizes of 100 hectares and the latter group of agricultural SME's in the West Rand District Municipality may be better positioned to learn from German agricultural SME's.

A total of 81 people were employed by the 15 SME's. Below is a breakdown.

Figure 11: Breakdown of the 81 people employed by the 15 SME's

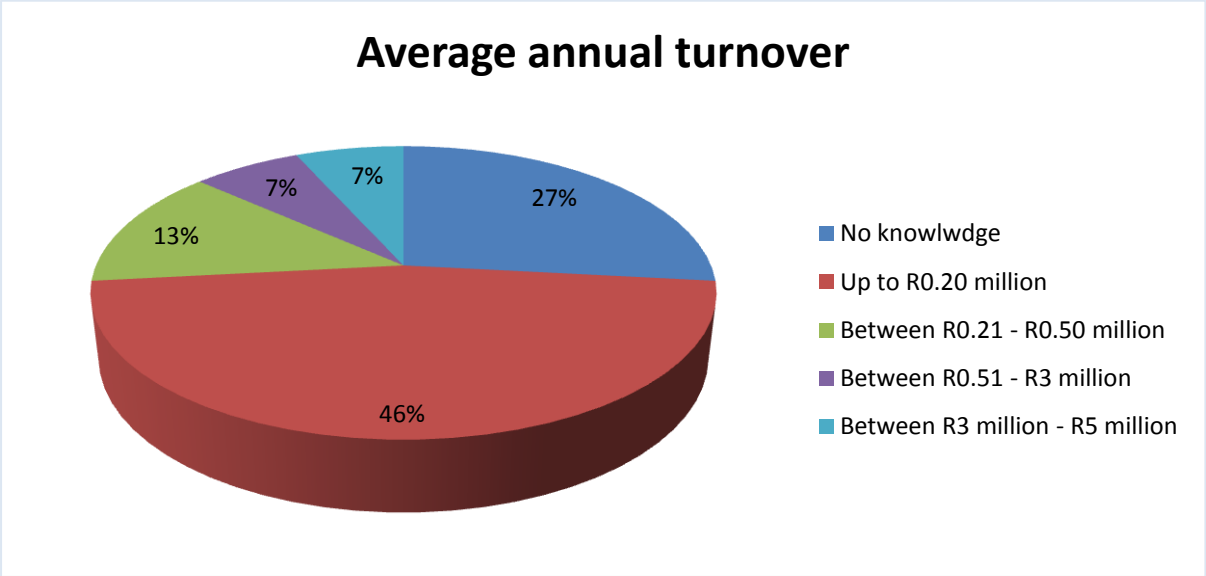


Out of the 81 people employed, 66 were employed on a permanent basis, while 15 were temporary. In addition, of the 81 people employed 18 (22.2%) were women and two (2.5%) people living with disabilities. Thus, these figures confirm the potential of SME's to create jobs as well as contribute to the social and economic welfare of communities in which they operate.

However, although Sarbu and Coretchi (2014) indicate that SME's have the potential to absorb labour that has been laid off by other sectors of the economy, such as mining and manufacturing, only one of the 81 (1.2%) employees was said to have worked in the mining sector and one person (1.2%) was reported to have worked in the manufacturing sector. Moreover, it should be noted that although these SME's provide employment opportunities to communities, only two of the SME's (13.3%) indicated that they employed more people after receiving development financial support. The majority of the SME's, that is, 13 of the 15 (86.7%) SME's, reported that following financial support, there were improvements in their infrastructure, annual turnover and access to new markets as they could then meet the requirements of their market in terms of volumes and food safety standards. There were only two of the 15 (13.3%) that recorded losses - which they said were due to disease management.

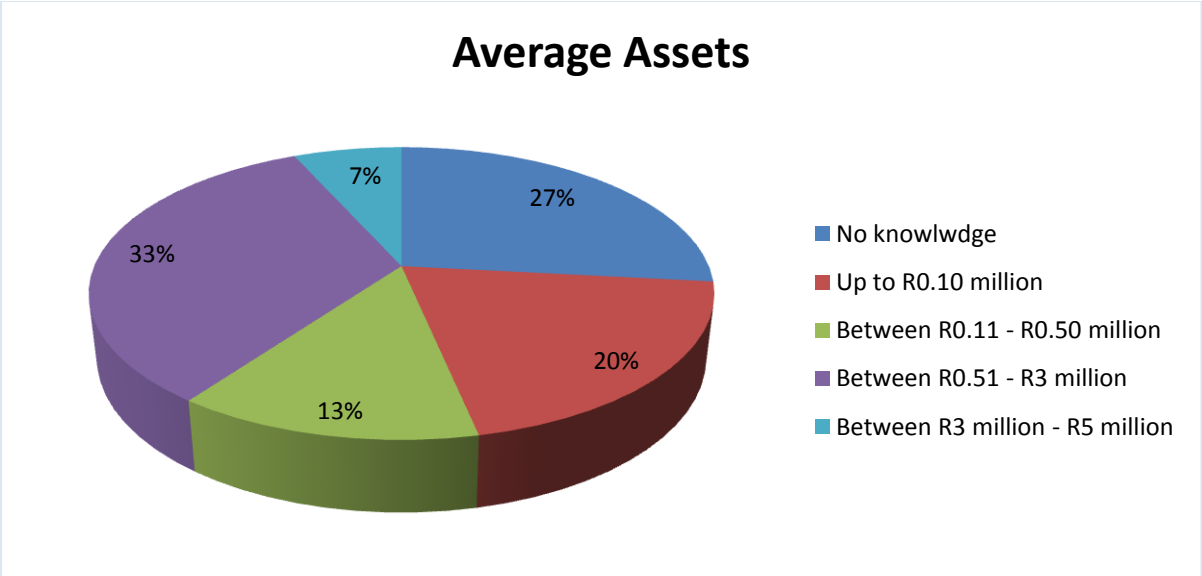
Only one of the 15 (6.7%) SME's confirmed that they had audited financial statements. Thus, for the rest of the group, estimates were used to confirm average annual turnover and gross assets. Moreover, four of the 15 (26.7%) SME's indicated that they had no knowledge of their enterprise's financial performance. Thus, in terms of the average turnover, seven of the 15 (46.7%) SME's estimated their average annual turnover to be around R0.2 million, while two of the 15 (13.3%) estimated between R0.21 million and R0.50 million. Nevertheless, one of the 15 (6.7%) SME's average annual turnover was recorded to be between R0.51 million and R3 million and another one of the 15 (6.7%) SME's average annual turnover was reported to be between R3.1 million and R5 million. Below is a diagrammatical illustration of the average annual turnover for the 15 enterprises.

Figure 12: Average annual turnover of the 15 SME's



Average assets of one third of the SME's; that is, 5 of the 15 (33.3%) SME's, were estimated to be between R0.51 million and R3 million with three of the 15 (20%) SME's average assets estimated to be around R0.10 million. Whereas the average assets of two of the 15 (13.3%) were estimated to be between R0.11 million and R0.50 million, one of the 15 (6.7%) SME's reported their average assets to be between R3.1 million and R5 million. Below is a diagrammatical representation.

Figure 13: Average assets of the 15 SME's



All of the 15 SME's indicated that they sourced their inputs locally, within Gauteng Province. Only two of the 15 (13.3%) SME's indicated that they also sourced inputs outside Gauteng in provinces such as the Free State and North West, depending on reasonable prices and availability of stock. In addition, only one of the 15 (6.7%) SME's indicated that they export their produce through an agent. Otherwise, all 15 SME's indicated that they sell to the local markets.

6.2.2. Information about processes involved in order for agricultural SME's in the West Rand District Municipality to access development finance

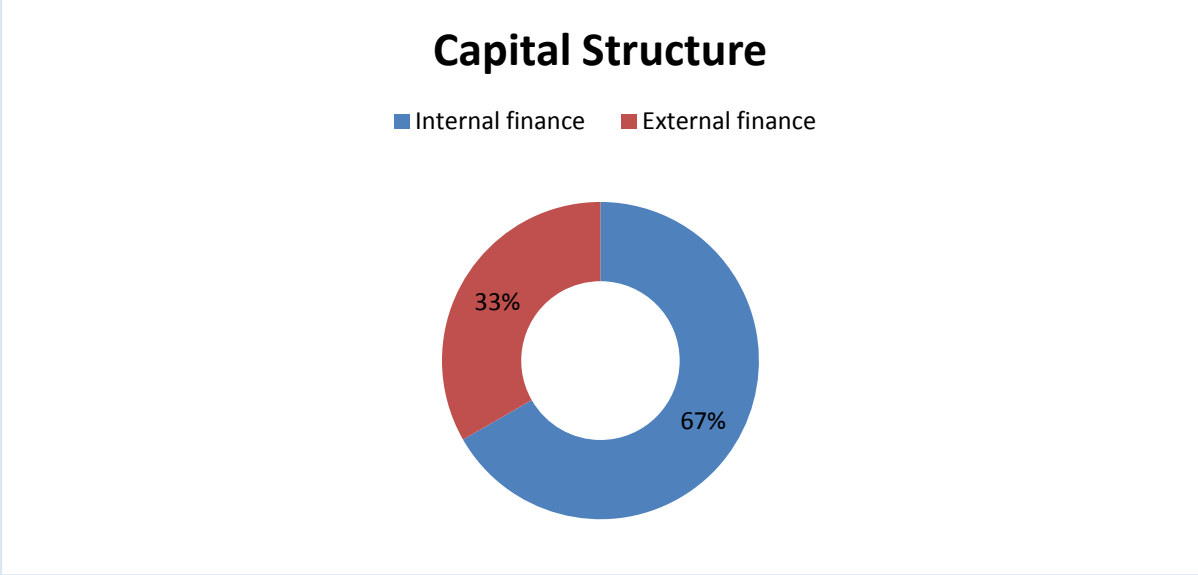
6.2.2.1. Capital structure and sources of finance

As indicated by the World Bank (2008a), financing is at the core of the development process. Capital structure refers to an approach in financing business activities. The process involves a combination of equity and debt financing. The term is synonymously used with financial leverage - which is the degree to which a business employs borrowed funds. Capital structure theory is based on four approaches, as indicated in the theory of development financing section of this study; namely, the net income, net operating income, traditional and Modigliani & Miller approaches. However, the traditional approach proposes a compromise and suggests that the

best possible mix of debt and equity has a potential to maximise the value of a business.

In terms of the capital structure and sources of financing of agricultural SME's in the West Rand District Municipality, the majority of the SME's - that is 10 of the 15 (66.7%) - indicated that they only make use of internal finance with only 5 of the 15 (33.3%) SME's that indicated to also making use of external financing obtained from family members, business networks and commodity associations.

Figure 14: Use of internal finance versus external finance (capital structure) by the 15 SME's



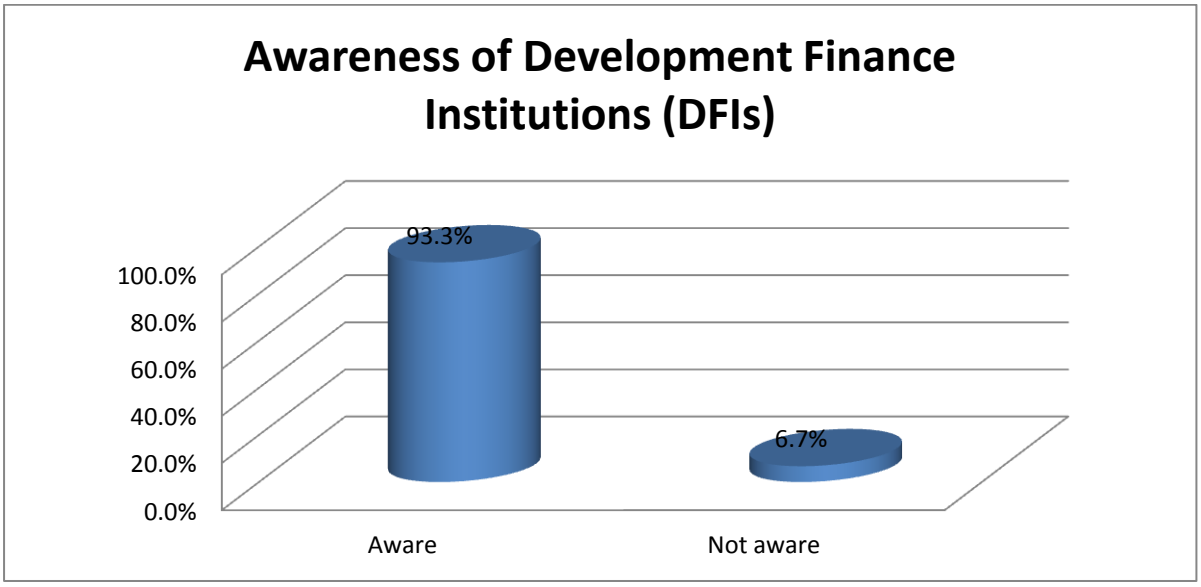
None of the 15 SME's made use of commercial banks for farming purposes. The majority of the SME's; that is 12 of the 15 (80%) SME's, showed little interest in making use of commercial banks for farming purposes, while only three of the 15 (20%) SME's said that they were discouraged by high interest rates charged by commercial banks; thus, they would rather approach family members or business networks.

The researcher also observed that, in line with the suggestion of the theory of information, which points out that, because banks would not know which SME's would make unsafe investments and, thus, charge average interest rates that are often high and exceed what safe borrowers are willing to pay, these borrowers exit the market for loans. Hence, they would approach family members, business

networks and commodity associations for external financing. In so doing, they maintain a good position in balancing debt and equity as well as maximise the value of their businesses.

A majority 14 of the 15 (93.3%) SME's indicated that they were aware of development finance institutions relevant for their type of businesses, while only one of the 15 (6.7%) SME's indicated otherwise.

Figure 15: Level of awareness of Development Finance Institutions (DFIs)

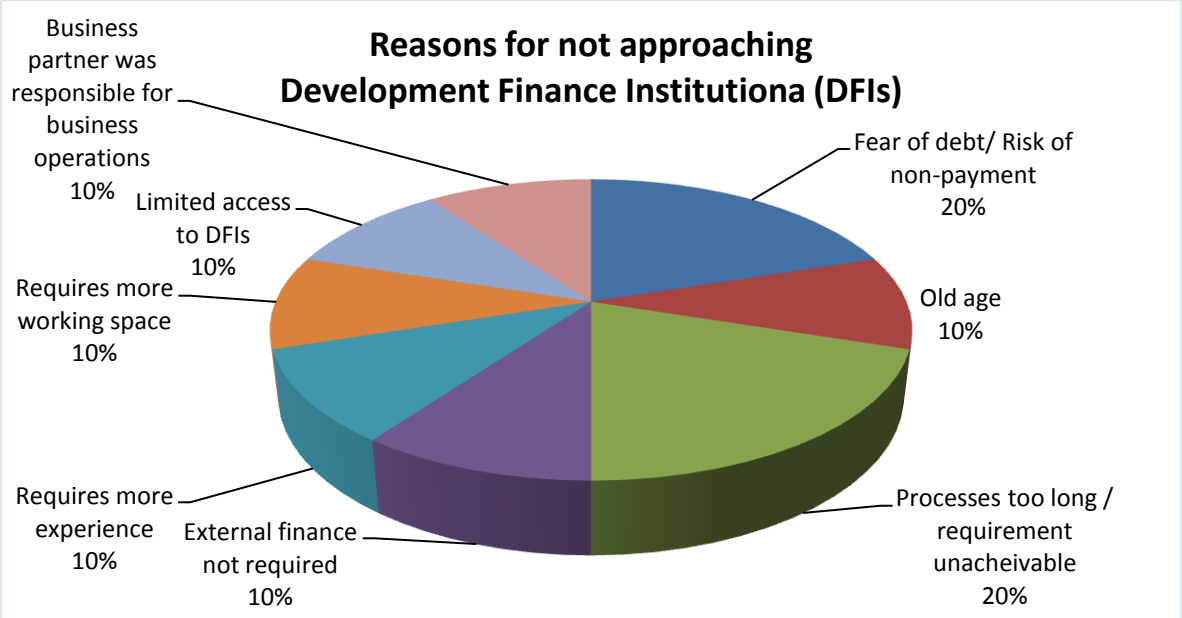


However, the majority of the 15 SME's, namely 10 of the 15 (66.7%) SME's, indicated that they had never approached any of the development finance institutions despite some of the institutions conducting awareness programmes on different platforms, such as farmer's days, study groups, or media platforms such as radio and others. Only 5 of the 15 (33.3%) SME's reported to having approached Development Finance Institutions. The reasons for not approaching Development Finance Institutions (DFI's) as expressed by two of the 10 (20%) SME's that were not willing to advance development financing included fears of debt as well as what would happen to their limited assets should they be unable to repay the debt (uncertainty) and one of the 10 (10%) SME's cited old age as a restricting factor.

In addition, there was the perception of two of the 10 (20%) SME's that, "the processes were too long, they want a lot of things, their requirements are not always

achievable, they require security or collateral, they charge high interest rates and at the end, the expectations are not met". One of the 15 (6.7%) SME's even said, "your stock may even die while you are waiting to be assisted". Also, there was another perception of one of the 15 (6.7%) SME's that they thought "one has to know someone internally for their application to be successful because they would hear that others have been helped". Others were still waiting for the outcomes of their applications for scaling-up their businesses. The other 5 of the 10 (50%) SME's that were not willing to approach Development Finance Institutions cited reasons such as external financing not required at the stage; owners still require more experience and working space; limited access to the Development Finance Institutions and a business partner that was responsible for management of the business. Below is a diagrammatical representation of reasons for not approaching Development Finance Institutions.

Figure 16: Reasons why 10 of the 15 (66.7%) SME's did not approach Development Finance Institutions.



Looking into the latter scenario involving the perceptions about development finance institutions by the SME's, the researcher agrees with Garwe and Fatoki (2012) who point out that limited access to finance or credit constraints may not only be as a result of non-availability of finance, but also be due to failure to demand credit. This is because discouraged borrowers and SME's with a high probability of being denied

a loan may not apply for financing if they have a perception that their applications will not be successful. Because it is known that not all borrowers are creditworthy, government's role then becomes critical in driving reformed financial support approaches that are inclusive and accompanied by support structures. Thus, implementing agencies of government, such as the Small Enterprise Development Agency (SEDA) that have been mandated to grow sector-based industries through the provision of business support services, should take centre stage in strengthening these SME's.

6.2.2.2. Awareness of products and processes involved to access development finance

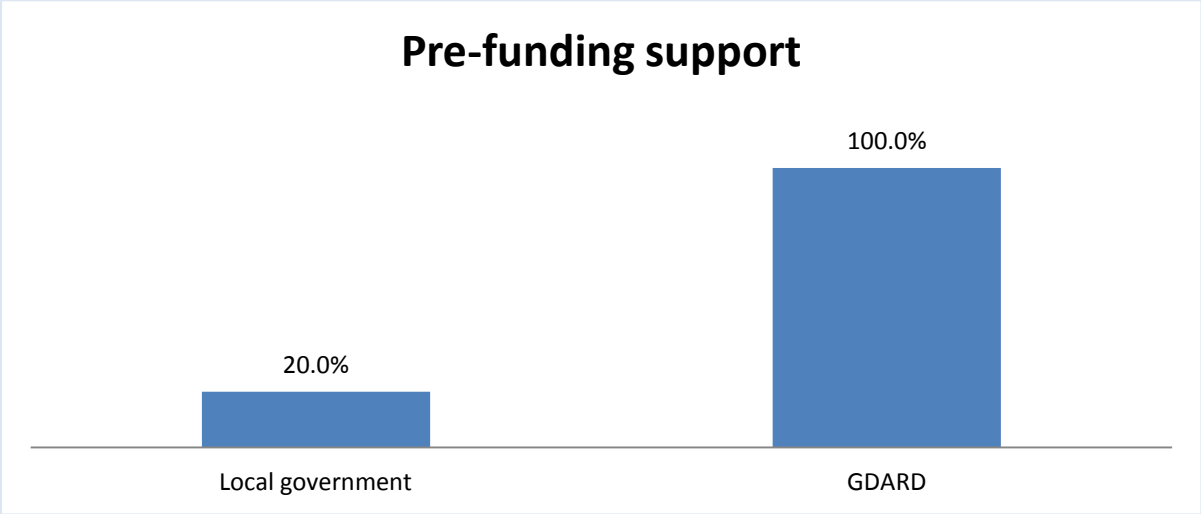
Overall, there was a general understanding of the products offered by development finance institutions to say, "they support small businesses". However, since the majority, that is 10 of the 15 (66.7%) SME's, had never approached the development finance institutions, there was little or no understanding of different institutions' criteria for funding, application processes and turnaround times. As an exception, three out of five (60%) SME's who had approached development finance institutions indicated that officials from the approached institutions came to their farms and took them through the criteria for funding, application processes, and turnaround times. As a result, they were aware of the reasons why their applications were not successful; such as issues related to availability of land or land arrangements, production issues as well as water rights or licences. One of the five (20%) SME's indicated that they had lost interest and did not follow-up on their application and another one of the five (20%) SME's was awaiting an outcome of their application.

6.2.2.3. Capacity building prior to financing (pre-funding support)

According to Mmbengwa et al. (2011), a scale of measuring success factors and failures of small businesses has not been developed. However, Lekhanya and Roger (2014) suggest that business environmental factors such as local government support, extension services, business networks, and the level of training are some of the factors that determine whether a business will succeed or fail. All 15 SME's indicated that they partake in training and study groups and had received extension

services and pre-funding support from the Randfontein Regional Office of the Gauteng Department of Agricultural and Rural Development (GDARD). Only 3 of the 15 (20%) SME's reported to having received pre-funding support from the local government, while all the SME's acknowledged pre-funding support from the Gauteng Department of Agricultural and Rural Development (GDARD). Below is a diagrammatical representation of pre-funding support received from both the local government and Gauteng Department of Agricultural and Rural Development (GDARD).

Figure 17: Pre-funding support received by the 15 SME's from the local government versus Gauteng Department of Agricultural and Rural Development (GDARD).



In addition, the majority of the 15 SME's - that is 13 of the 15 (86.7%) SME's - found training or capacity building programmes offered by different institutions such as Gauteng Department of Agricultural and Rural Development (GDARD), Agricultural Research Council (ARC) and commodity associations to be very important for the sustainability of their businesses, with one of the 15 (6.7%) SME's highlighting that ARC training was even more practical and, thus, very helpful. However, two of the 15 (13.3%) SME's indicated that they were not willing to answer the question; thus, the researcher passed the question.

6.2.3. Information on successes, challenges encountered prior to financing and lessons learned

6.2.3.1. Information on successes

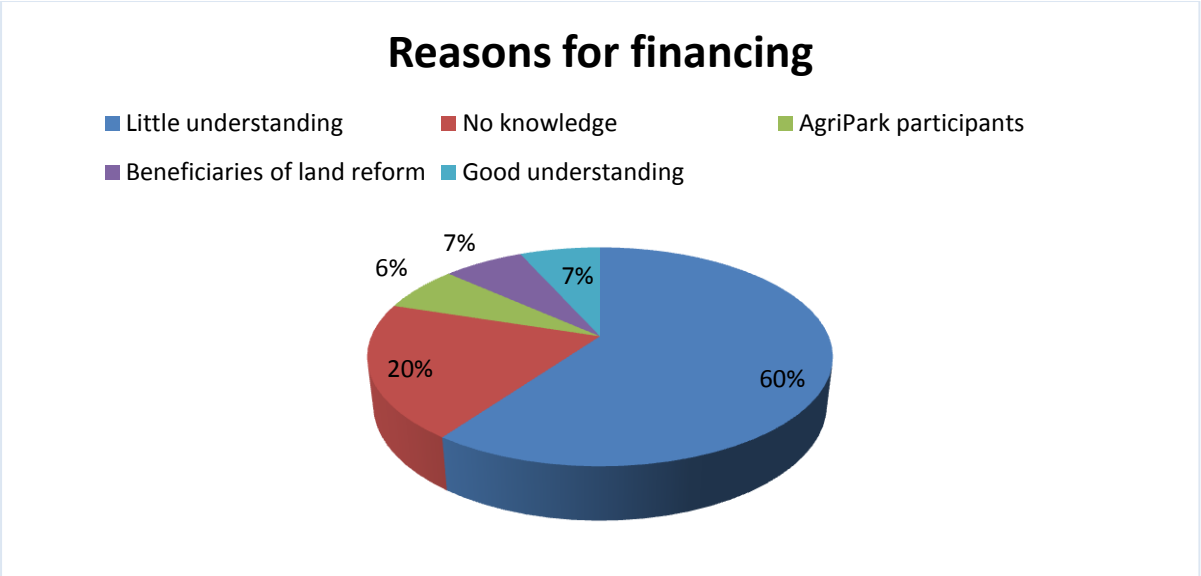
Although all 15 of the SME's confirmed that they had received some type of development support to either start-up or up-scale their businesses, the majority of the SME's were not aware of the reasons why they were supported. For instance, after the SME's confirmed that they had received developmental financial support from the government, development finance institutions, commodity associations or farmer unions and others; they would be asked whether they had knowledge of the factors that contributed to their applications being successful.

Only one of the 15 (6.7%) SME's demonstrated an understanding of the factors that contributed to their businesses being supported. Nine of the 15 (60%) SME's demonstrated little understanding of the factors that contributed to their enterprises being supported, while three of the 15 (20%) had no knowledge at all as to what contributed to their enterprises being supported.

This was so even when the researcher tried to lead the SME's in terms of rating factors; such as, availability of collateral, well-packaged and viable business plan, availability of business records (for example, financial statements), availability of off-take agreements, location of the business, market intelligence, leadership capacity and, among others, in a Likert scale.

Two of the 15 (13.3%) SME's indicated that they thought they had been supported because one was on the Airparks Programme – an innovation system that supports agro-production, processing, logistics, marketing, training and extension services - and one had obtained the farm through the Department of Rural Development and Land Reform as a land reform beneficiary. Below is a diagrammatical representation.

Figure 18: Reasons for development financing of the 15 SME's



An indication was that officials would package the applications on behalf of the SME's if businesses showed potential for growth and had markets. Thus, a general view by the majority of the SME's (9 of the 15 (60%) SME's) pointed to the importance of a business plan; as a result, they placed a well-packaged and viable business plan on top of the list, followed by the availability of business records, off-take agreements, location, market intelligence as well as leadership capacity.

Mmbengwa et al. (2011) highlight that, even though a number of studies have been conducted to examine a range of aspects relating to sustainability of agricultural SME's in South Africa, there is no scale that measures success factors and failures of these enterprises. As a result, the lack of such measurement tools not only poses challenges in identifying the factors that contribute to progress, or lack thereof of agricultural small businesses, but also make it impossible to estimate their social contributions.

However, Chimucheka (2013) suggests that, over a period of time, growth and financial performance usually give a better outlook of the actual business performance and that indicators such as changes in profits, increases in sales, as well as new jobs created by small businesses can be used to measure business performance. Given that only one of the 15 (6.7%) SME's confirmed to have audited financial statements; the researcher was unable to assess performance of the SME's

over a period of at least three consecutive years. However, the researcher's observation was that the majority of the SME's were successful because of leadership capacity and passion for farming.

6.2.3.2. Challenges prior to financing

Regarding the period prior to financing, the 15 SME's expressed that they had challenges ranging from production issues, such as, proper production infrastructure and high input costs to limited access to markets. However, post funding, they saw improvements in their average annual turnover and business infrastructure, and gained new markets. For instance, one of the 15 (6.7%) SME's indicated that following the assistance, they had a proper warehouse that they used to pack vegetables for the Department of Health and so supplied hospitals around Gauteng Province.

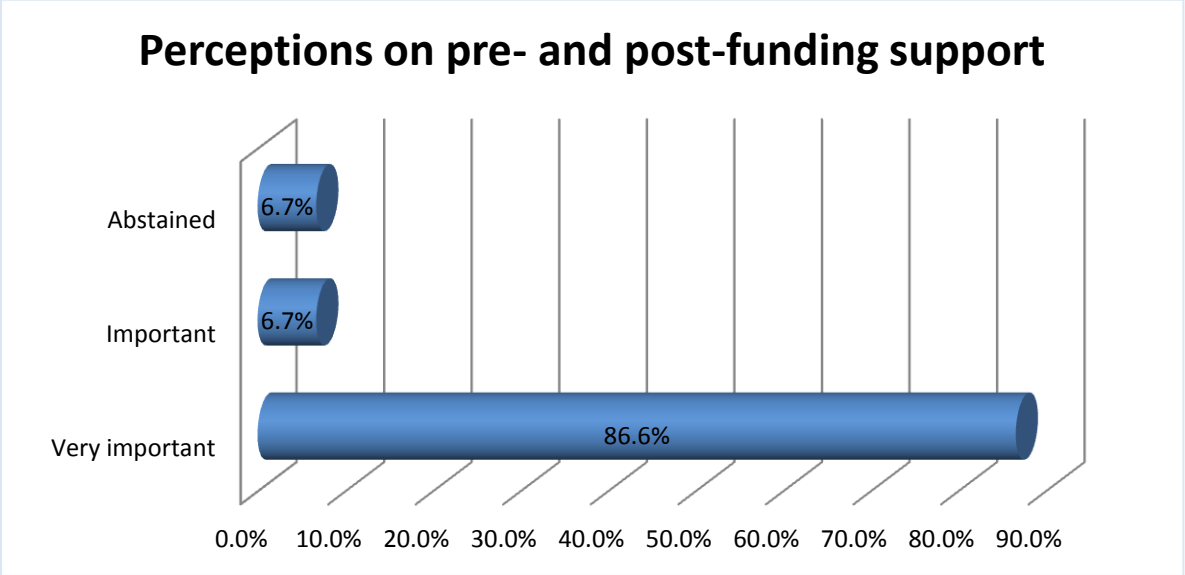
Others indicated that they had high a mortality rate for their chicks and, thus, the poultry structures built were helpful. Also, some of the SME's indicated that the production tunnels were helping in cases of weather inclement. Others were experiencing high input costs. Although this factor has not been fully addressed, an indication was that there were collaboration or cooperation strategies or plans applied by the farmers to increase their bargaining power. Moreover, because of the improved infrastructure, some of the SME's were geminating seedlings in-house, which bring input costs down.

6.2.3.3. Lessons learned

In terms of lessons learned, the majority of the 15 SME's, which is 13 of the 15 (86.6%), indicated that they perceived pre- and post-funding support to be very important. However, one of the 15 (6.7%) SME's indicated that what they did not understand was why they would be given support that is less than the requirements of the business. They felt that comprehensive support would make their businesses self-sustainable quicker and, thus, they would be able to re-invest the profits into the business operations. One of the 15 SME's indicated that they perceived pre- and post-funding support to be just important, while one of the 15 (6.7%) SME's

requested not to answer the question and thus abstained. Below is an illustration of the importance of pre- and post-funding support as perceived by the 15 SME's.

Figure 19: Importance of pre- and post-funding support as perceived by the 15 SME's



Only one of the 15 (6.7%) SME's demonstrated an understanding of the factors that are likely to impede them when seeking finance from commercial banks. In addition, two of the 15 (13.3%) tried to answer to the best of their ability although there was limited understanding of the factors. The majority of the SME's, which is 12 of the SME's, indicated that they had never approached commercial banks for farming purposes due to fear of debt and repayment ability. Thus, the few SME's; that is 3 of the 15 (20%) SME's, indicated that, although they had never approached commercial banks for farming purposes, they were aware that lack of collateral, high interest rates, lack of off-take agreements, lack of business records (for example, audited final statements, poor quality of potential projects and poorly packaged business plans) are likely to impede SME's when seeking finance from commercial banks. Given that the 15 SME's had never approached a commercial bank for farming purposes, the researcher could not get the experience of the SME's on seeking financing from commercial banks.

6.3. Conclusion

In concluding this chapter, the researcher is convinced that financing is indeed central in the development process. Moreover, SME's are at the centre of developing economies. Thus, balancing the capital structure and sources of finance - particularly for agricultural SME's in the West Rand District Municipality - is critical. Given that the majority of agricultural SME's in the West Rand District Municipality are currently only making use of internal finance, this poses a challenge to government institutions such as the Small Enterprise Development Agency (SEDA) to enhance their business support services in the area. Once business support services have been enhanced, other development financing agencies such as the Land Bank and the Industrial Development Corporation (IDC) may be roped in to intervene and mitigate imperfect information as well as provide reformed micro-financing products that would suit also the borrowers who are not creditworthy. The products should be accompanied by support structures to ensure sustainability.

Moreover, the agricultural SME's in the West Rand District need to be assisted with business records, including the compilation of audited financial statements to assess the performance of the businesses. Thus, the proposed process is likely to address the negative perceptions against development finance institutions. Given that none of the agricultural SME's interviewed had approached commercial banks for farming purposes, due to fear of debt and repayment ability, capacitating these SME's to understand their business performance and the value of different financing options available to grow their businesses is important.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1. Introduction

This chapter seeks to provide conclusions and recommendations based on the findings of the research study. The aim of this study was to explore the relationship between access to development finance and the performance of agricultural SME's; particularly those based in the West Rand District Municipality, Gauteng Province. This was proposed to be achieved through the following study objectives, which were:

- To gather information about processes involved in order for agricultural SME's based in the West Rand District Municipality to access development finance (such as, the awareness by SME's of products offered by Development Finance Institutions relevant to their businesses, criteria for funding and application processes starting from pre-funding support, the process flow and turnaround times).

- To gather information on successes (improvements in annual turnover, infrastructure, access to new markets and others), challenges encountered prior to financing and lessons learned by agricultural SME's based in the West Rand District Municipality that have accessed development finance.

- To explore international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany; and

- To recommend best practices relating to the relationship between access to development finance and performance of agricultural SME's.

Thus, Chapter 1 provided an introduction and background to the study. This chapter was followed by Chapters 2 and 3 that reviewed existing literature to describe and understand the importance of SME's to the South African economy and their role in the agricultural sector, development financing theories, capital structure and sources

of finance that may have a bearing on the performance of SME's as well as factors to consider when measuring the success or failure of SME's.

Chapter 4 was responding to the third and also partly to the fourth objective of this study and explored international best practices in the access to development finance of agricultural SME's by analysing the case of Germany. The researcher started by comparing the German definition of SME's with that of South Africa, looked into the evolution and structure of agricultural SME's in Germany, capital structure and sources of financing available for agricultural SME's in Germany, as well as the development financing of agricultural SME's in Germany and compared the scenarios to the South African context. The aim was to recommend best practices in the access to development financing relating to the relationship between access to development finance and performance of agricultural SME's.

Chapter 5 provided the research methodology in the form of a detailed framework of the methods and instruments used in carrying out this research study. Chapter 6, which precedes this chapter, provided findings and discussions of the study conducted following interviews with 15 agricultural SME's in the West Rand District Municipality. Thus, this last chapter; that is, Chapter 7, will provide conclusions and recommendations based on the linkages and gaps found by the researcher between the literature review and findings of the study as well as point to the relevance of the study.

7.2. Conclusions

All over the globe, SME's are viewed as catalysts for job creation, social stability and economic welfare. This has been confirmed in countries such as the USA, Japan, Taiwan and Germany, where SME's have created new jobs, introduced innovative products and services, opened foreign markets and in the process ignited the countries' economies to regain a competitive edge in the global economy (Mutezo, 2005). Mutezo (2005) and Chalera (2006) also suggest that, even in South Africa, the potential role that SME's could play in creating job opportunities and address socio- and economic challenges has been recognised by government. The effects of

the decline in countries' productivity, falling global markets, globalisation and decentralisation have all led to increased unemployment worldwide. Thus, Mutezo (2005) and Mavhandu (2011) have proposed that SME's can provide a breeding ground for new business ideas that can result in the establishment of new business ventures with the potential to absorb more labour.

Also, given that the formal economy is not capable of absorbing the increasing supply of labour, it is believed that a large segment of the small business sector, as well as those enterprises in the survivalist stage, play a crucial role in people's efforts to meet their basic needs, especially marginalized groups, such as female-headed households and rural families. The researcher found this to be true - especially when conducting a research study in the West Rand District Municipality, Gauteng Province. Although majority of agricultural SME's in the West Rand District were one-person operations as Rogerson (2004) points out, their contribution to employment and income generation cannot be looked down at.

The majority of the SME's were micro enterprises with an estimated average annual turnover of less than R0.2 million. Average assets of the majority of the SME's were estimated to be between R0.51 million and R3 million. However, the 15 SME's employed about 81 people of whom 22 per cent and 2.5 per cent of the people employed were women and people living with disabilities, respectively. Although Statistics South Africa (2017a) has reported that the rate of unemployment in South Africa was around 27.7 per cent in the second quarter of 2017, with indications that, part of the problem was due to shedding of jobs by the mining and manufacturing sectors, only two people employed by the 15 SME's used to work in the mining and manufacturing sector prior to joining the agricultural sector.

According to Mnisi and Rankhumise (2015), part of government's vision is to stimulate rural economic development by growing small business enterprises in rural communities, such as the West Rand District Municipality, where primary agriculture mostly takes place. This is because, in less developed and developing nations like South Africa, agricultural development is considered to be a tool that can open a country's economic potential (Mmbengwa, 2009). Thus, agriculture has been identified as one of the key economic growth sectors by the South African

government through policies such as the New Growth Path and the National Development Plan, due to its labour absorptive nature, production value, contribution to the country's GDP as well as its backward and forward linkages to other sectors (National Planning Commission, 2012).

In addition, national governments are expected to report in line with set targets on their abilities in eradicating all forms of hunger and malnutrition. Thus, the importance of food security, particularly access to nutritious food, is echoed in the sustainable development goals and its predecessor, the millennium development goals. However, as Mullineux and Murinde (2014) puts it, developing agricultural SME's involves farmer access to production inputs, farming implements, business and entrepreneurial development skills, appropriate infrastructure, access to appropriate information as well as research and design. Countries like Germany, USA, Japan and Taiwan have progressed because of different financial models that were driven by both national governments and the private sector to assist entrepreneurs.

Thus, the World Bank (2008a) report acknowledges that financing is critical to development. Moreover, the theories of development financing, namely, the theory of capital structure and that of asymmetric information acknowledges the importance of access to finance by marginalised groups such as the SME's and thus, support building of an inclusive financial system. For instance, the traditional approach in the theory of capital structure emphasises that a best possible mix of debt and equity will surely maximise the value of a business. Thus, when SME's makes use of both internal and external finance, their businesses are likely to grow. This was confirmed by the 15 SME's when they indicated that, following the financial development support, there were improvements in average annual turnover, infrastructure, access to new markets and in some cases; number of new jobs created – even if they were minimal.

On the other hand, the theory of information asymmetry acknowledges that financial market imperfections determine the degree to which poor individuals and small business owners can raise external financing to invest in their businesses. However, it also highlights government's role in driving reformed financial sector approaches to

policies that will clearly recognise the importance of access to financing as well as ensure that financial systems are more inclusive. For instance, while commercial banks make a variety of loans available to their clients for different purposes, it is known that there is less appetite to fund SME's due to their perceived high risk (Rogerson, 2008).

Consequently, the majority of the respondents in the West Rand District Municipality were making use of internal finance only, because of the perceived high interest rates charged by commercial banks, while the minority using external finance would rather approach family members, business networks and commodity associations. The latter scenario then confirms the deliberations of the theory of asymmetric information that, because banks would not know which SME's would make unsafe investments, they tend to charge average interest rates. While the provision of collateral may reduce these risks and cover losses should there be a default, SME's do not own sufficient assets (Nikaido, et al., 2015). Thus, in the absence of collateral, banks often charge higher interest rates on loans to SME's. However, these interest rates are often so high and exceed what safe borrowers are willing to pay; hence, these borrowers would exit the market for loans.

In addition, the theory of asymmetric information highlights that discouraged borrowers and SME's with a high probability of being denied a loan, may not apply for financing if they hold the perception that their applications will not be successful. This was confirmed by the behaviour of the majority of respondents in the West Rand District, who indicated that they were not interested in approaching development finance institutions because they had a perception that their applications will not be successful unless, in some instances, they knew someone internally. Thus, the research study confirmed Garwe and Fatoki's (2012) submission that limited access to finance or credit constraints may not only be as a result of non-availability of finance, but also be due to failure to demand credit. Overall, the researcher found that there was a general understanding of processes involved when seeking external finance; however, the uptake was low due to negative perceptions.

Hence, governments should intervene and provide financial support programmes that are accompanied by support structures. This may be done through the use of development support services such as the Small Enterprise Development Agency and development financial institutions such as the Small Enterprise Finance Agency amongst others.

For instance, when the researcher looked into the past and evolution of agriculture in Germany, it was found that the agricultural sector in Germany was similar to that of many developing countries like South Africa. It was comprised of large numbers of smallholder farmers (small enterprises) who could not meet credit demands. However, following state-supported innovations in agricultural finance and evolution of policymaking processes, the German government and other role players were enabled to overcome challenges of financial delivery which resulted in improved farmers' productivity and profitability (The Initiative for Smallholder Finance, 2014 and Statistisches Bundesamt: Federal Statistical Office, 2016). Thus, the categorisation of agricultural SME's into four categories; namely, informally-served stage, government-entry stage, bank-based stage and market-based stage enabled the German government and other role players to provide more focused interventions that are likely to improve the capital structure and sources of finance for SME's in Germany.

7.3. Recommendations

Based on the findings of this research study, the following actions are recommended to be considered in order to improve the relationship between access to development finance and the performance of agricultural SME's in the West Rand District Municipality:

- The capital structure of the majority of agricultural SME's in the West Rand District is not balanced; that is, there is no appropriate mix of equity and debt financing for farming operations. These SME's rely mostly on internal finance and this may limit their growth. The study found that the limited use or access to external finance is not only as a result of non-availability of finance, but also failure to demand credit given the negative perceptions - especially those

related to development financing institutions. Thus, it is recommended that development financing institutions, such as the Land Bank, Small Enterprise Finance Agency (SEDA) and others strengthen their access in the area and address the negative perceptions.

- Also, the majority of the agricultural SME's in the West Rand District do not have audited financial statements. The unavailability of business records such as financial statements is known to compound the challenge of imperfect information, as lenders would not know the viability and sustainability of the business operations. This therefore poses a challenge to government institutions such as the Small Enterprise Development Agency (SEDA), to enhance their business support services in the area. Once business support services have been enhanced, other development financing agencies such as the Land Bank and the Industrial Development Corporation (IDC) may be roped in to intervene and mitigate imperfect information as well as provide reformed micro-financing products that would suit also the borrowers who may not be creditworthy. As such, those products should be accompanied by support structures to ensure sustainability.

- Thus, broadening of access to external finance by these SMEs has to be one of priority competencies to be strengthened by development practitioners providing support in the area. As the World Bank (2008a) Report notes, if countries are to realise the full potential of SMEs, financing has to be at the core of the development process. Hence, efficient, well-functioning financial systems will be key in channelling funds to the most productive uses and allocating risks to those who can absorb them best.

- The majority of the respondents in the West Rand District were not aware of the exact reasons why their businesses were supported. Only a few of the respondents demonstrated an understanding of the factors that contributed to their businesses being supported. Also, the majority of the SME's had never before approached a commercial bank for farming purposes and thus only a few demonstrated an understanding of the factors that could impede them when seeking external finance from the commercial banks. Thus, it is

recommended that business support services in the area be strengthened to ensure that these SMEs are capacitated to broaden their understanding of the environment in which they operate and requirements thereof.

- Also, if compliance issues such as business registration and availability of financial statements as well as other related records are likely to affect business's access to resources, particularly in respect to information asymmetry, then the focus should be to educate these SMEs to understand the benefits of being compliant, applicable exemptions where necessary to eliminate uncertainties and costs associated with non compliance, such as missing out on opportunities.

- Thus, policy interventions for these agricultural SME's should focus on skills development in key competencies such as financial management, marketing, business and entrepreneurial development, access to appropriate information as well as access to research and design. Strengthening these key competencies will ensure that the productive capacity of these SME's improves and that their yields are of good quality and are consistent in their supply to the market - an ideal situation that is not happening at this stage. Should that happen, the possibility that the proposed interventions will accelerate their growth and enhance their competitiveness becomes high. This will further result in improved participation by these SMEs in the mainstream economic activities, as suppliers and consumers of goods and services and improved contribution to the country's GDP through their outputs.

- Lastly, the researcher found that the West Rand District Municipality scenario of agricultural SME's is not totally dissimilar to that of agricultural SME's in Germany, where the majority of the farms are leased, family run and managed by the business members who are also shareholders. Given that agricultural SME's in Germany are moving towards bigger farm sizes of 100 hectares, there is a group of agricultural SME's in the West Rand District Municipality who may be better positioned to learn from German agricultural SME's. Of utmost importance would be the commitment by the farmers,

government and the private sector according to which farmers run their operations efficiently, government develop inclusive financial policies and the private sector develops financial models that would suit the SME's. Categorisation of the SME's would assist in ensuring that support is more focused for better results.

7.4. Limitations of the research study

As mentioned in Chapter 1 paragraph 1.7 of this research report, there were a few limitations when conducting this research study. Given that there was limited time and budget to execute the study, only 15 agricultural SME's in the West Rand District Municipality could participate. However, as indicated in Chapter 5 paragraph 5.5 of this research report, the study was mainly based on quality rather than quantity with an objective to reach data saturation.

Also, the most general standards in evaluating research, that is, reliability, replicability, validity as well as credibility, transferability, dependability and confirmability have been discussed in detail in paragraph 5.8 of Chapter 5. Thus, considerations have been made to ensure that the study measured that which it was intended to measure; that the findings are believable in the eyes of the participants.

Moreover, the research methodology is detailed and records are kept to ensure that findings would be consistent over time, if all remains the same. In addition to these limitations, in measuring the performance of the respondents' enterprises post financing, records such as financial statements are key. However, the majority of the SME's did not have audited financial statements for analysis and thus, estimates to assess variables such as changes in average profits, assets and turnover were used.

7.5. Way forward for future research

Given the limited time to complete this research study, the focus was mainly on internal factors and demand constraints experienced by SME's involved in

agricultural activities in the West Rand District Municipality; that is, processes involved in order for these SME's to access developmental financing as well as factors that make it difficult for these SME's to seek external finance. The study did not explore the external factors such as the economic and the legal environment where these SME's operate or supply constraints, that is, factors that make it difficult for financial institutions to lend to these SME's - such as costs of transacting, institutional weaknesses and others. Exploration of the external factors is therefore recommended for future research projects.

7.6. Conclusion

In concluding this chapter, the researcher would like to point out that the aim and objectives of this study were met. The researcher managed to gather, present and discuss information about processes involved in order for agricultural SME's based in the West Rand District Municipality to access development finance. Such information included the level of awareness by the SME's of products offered by development financing institutions relevant to their businesses, criteria for funding and application processes starting from pre-funding support, the process flow and turnaround times.

Also, the researcher managed to gather information on successes, challenges encountered prior to financing as well as lessons learned by and from agricultural SME's based in the West Rand District Municipality that have accessed development finance. Lastly, the researcher explored international best practices in the access to development finance of agricultural SME's by specifically analysing the case of Germany and made recommendations on best practices.

What has been significant about this study is the confirmation of the importance of SME's in addressing employment issues as well as their contribution to the country's economy. The relevance of development finance theories, namely, theory of capital structure and information asymmetry as well the role of government in the access to development financing was also confirmed by the study.

Moreover, it has been the confirmation that limited access to finance or credit constraints are not necessarily as a result of non-availability of finance, but also due to failure to demand credit by discouraged borrowers. Thus, governments should intervene and develop inclusive financial reforms. The research study found that, although there are still business development support issues to be addressed in relation to governance of the agricultural SME's in the West Rand District Municipality, where there has been development financial support, improvements in the average annual turnover; infrastructure and access to new markets were noted by SME's.

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ANNEXURES

ANNEXURE A - SEMI-STRUCTURED RESEARCH INTERVIEW QUESTIONNAIRE

SEMI-STRUCTURED RESEARCH INTERVIEW QUESTIONNAIRE

Municipality: **No:**

Date:

Title of the study: *The effect of development finance on the performance of agricultural SME's in the West Rand District Municipality.*

Researcher: Viwe Sibelekwana

PART 1 – BIOGRAPHICAL DETAILS / PROFILE OF THE BUSINESS

1. Is the business registered?	Yes	No	
2. How long has the business been operational (years)?			
3. What are your primary activities?			
4. Are there non-farming activities being executed at the farm? If so, which enterprise (i.e. farming or non-farming activities) gets to be prioritised and why? (e.g. economic and/or social benefits)	Yes	No	
5. Where do you source your input supplies? For example, feed / fertilisers and others.	Locally, i.e. West Rand District (WRD) or Outside WRD but within Gauteng	Outside Gauteng but within South Africa	Internationally

6. Where do you sell your products?	Locally, i.e. within South Africa		Internationally		Both
7. Who owns the farm (land arrangements)?	Business owners	Leased	Traditional land with Permission to Occupy		Other (Specify)
8. What is the farm size (hectares)?					
9. Who manages the farming enterprise?	Hired individual/s	Family member/s	Members/ shareholders	Private company / Trust	Other (specify)
10. What is the level of education held by the management team? (i.e. number of people with):	No senior certificate	Senior certificate	Diploma	B degree	Post graduate
11. What is the level of work experience held by the management team? (i.e. number of people with):	1≤ 2 yrs	3≤ 5 yrs	6≤ 10 yrs	Above 10 yrs	
12. How many people are employed in the business?	Permanent		Part-time		Seasonal
13. Are there female employees heading households? If so, how many are they?	Yes		No		
14. Are there employees living with disabilities? If so, how many are they?	Yes		No		
15. Have you employed people that used to work in the mining sector?	Yes		No		
16. Have you employed people that used to	Yes		No		

work in the manufacturing sector?				
17. What is the business average annual turnover?	≤R0.20m	R0.21≤ R0.50m	R0.51 ≤ R3m	R3.1m ≤ R5m
18. What is the business average annual gross asset value?	≤R0.10m	R0.11≤ R0.50m	R0.51 ≤ R3m	R3.1m ≤ R5m

PART 2 – OBJECTIVE 1 – QUESTIONS TO GATHER INFORMATION ABOUT PROCESSES INVOLVED IN ORDER FOR AGRICULTURAL SME'S IN THE WEST RAND DISTRICT MUNICIPALITY TO ACCESS DEVELOPMENT FINANCE

19. How do you finance the business operations? (i.e. sources of finance)	Internal		External		Both
20. Are you aware of any development finance institution/s relevant to your type of business? For example, the Land Bank, SEFA, IDC and others.	Yes		No		
21. Do these institutions conduct awareness workshops?	Yes		No		Not all of them
22. Have you ever contacted any of these financial institutions?	Yes (If yes, please skip to question 24 below)		No (If no, please answer question 23 below)		
23. If no, please provide the reason/s why:					
24. If yes, what were the reasons for your contact?	Start-up capital	Upscaling	Equity	Input loans	
25. Are you familiar with all their product offerings?	Yes		No		

26. Are you familiar with their qualifying criteria?	Yes	No
27. Are you familiar with their application processes or process flow	Yes	No
28. Are you familiar with their turnaround times?	Yes	No
29. Have you ever been declined finance by commercial banks?	Yes (If yes, please answer question 30 below)	No (If no, please skip to question 31 below)

30. If yes, what were the reasons?	Lack of collateral	Poorly packaged business plan	Lack of audited financial statements	Lack of off-take agreements	Location of the business	Size of the business	Non submission of required docs	Not sure	Other (specify)

31. Do you receive pre-funding support from:	Local government	State institutions outside your locality	Business Development Service Providers	Development Finance Institutions

32. How do you perceive the value of trainings or capacity building programmes in relation to the performance of your business?	Very important	Important	Has little bearing / effect	Not sure	Not important at all

33. Do employees and management partake in any training or capacity building programmes?	Yes	No	Not all of them

PART 3 – OBJECTIVE 2 - QUESTIONS TO ASSESS OR MEASURE SUCCESSESS AND CHALLENGES ENCOUNTERED PRIOR FINANCING AS WELL AS LESSONS LEARNED

QUESTIONS TO ASSESS OR MEASURE SUCCESSESS										
34. Have you ever received development finance from any institution for farming purposes?	Yes (If yes, please answer questions 35 & 36 below)				No (If no, please skip to question 37 below)					
35. If yes, what do you think contributed to your application for development funding to be successful? You may select one or more factor/s.	Availability of collateral	Well packaged and viable business plan	Availability of business records (e.g. audited financial statements)	Availability of off-take agreements	Location of the business	Market intelligence	Leadership capacity	Not sure	Other (specify)	
36. Following the finance, were there improvements in the following areas? Mark those that are applicable:	Annual turnover		Infrastructure		Access to new markets		No. of new jobs created			
37. If no, what were the reasons for the unsuccessful application?	Lack of collateral	Poorly packaged business plan	Lack of business records (e.g. audited financial statements	Lack of off-take agreements (market contracts)	Location of the business	Size of the business	Non submission of required docs	Not sure	Other (specify)	

QUESTIONS TO ASSESS CHALLENGES				
38. Were there challenges encountered prior financing?	Yes (If yes, please answer question 39 & 40 below)		No (If no, please skip to question 41)	
39. If yes, what were the challenges?				
40. How were they countered?				
41. Do you have employees that migrate to big cities?	Yes (If yes, please answer question 41 below)		No (If no, please skip to question 43)	
42. If yes, how does their migration affect the business?	Loss of expertise	Loss of economic active people to support the business	Loss of institutional memory	Other (specify)

QUESTIONS TO ASSESS LESSONS LEARNT					
43. How do you perceive pre and post funding support from local government and other institutions responsible? For example, awareness programmes, trainings or capacity building programmes, extension services and others)	Very important	Important	Has little bearing / effect	Not sure	Not important at all

44. In your experience, please select a factor/s that you think are important in order to access finance:	Compliance related issues (e.g. business registration & compliance with SARS)	Collateral	A bankable business plan	Business records (e.g. audited financial statements	Off-take agreements (market contracts)	Location of the business	Size of the business

45. Given your experience, in a scale of 1-7, please rank the following in their order of impediment when seeking finance from commercial banks (1= severe challenge & 7 = not a challenge and/ or a slight challenge)	Lack of collateral	Poor quality of potential projects	Poorly packaged business plan	High interest rates	Lack of off-take markets (market contracts)	Lack of business records (e.g. audited financial statements	Size of the business

The end – Thank you

ANNEXURE B - REQUEST FOR PERMISSION TO ACCESS THE GDARD'S DATABASE OF FARMERS IN THE WEST RAND DISTRICT MUNICIPALITY

Researcher: Viwe Sibelekwana
Telephone: 083 302 2195
Email: viwesibelekwana@yahoo.com

14 August 2017

RE: REQUEST FOR PERMISSION TO ACCESS THE DEPARTMENTAL DATABASE OF FARMERS IN THE WEST RAND DISTRICT MUNICIPALITY AND INTERVIEW THEM FOR ACADEMIC RESEARCH PURPOSES

Dear **GAUTENG PROVINCIAL DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT REPRESENTATIVE**

Your permission is herewith requested to allow **MS VIWE SIBELEKWANA**, a master's student at the Centre for Development Support (CDS) at the University of the Free State, to access the departmental database of farmers in the West Rand District Municipality whom have accessed development finance and interview them for academic research purposes.

Your institution has been selected because of its relevance to the nature of the research study titled **"*The effect of development finance on the performance of SME's in the West Rand District Municipality"*.**

The study is aimed at exploring the relationship between access to development finance (finance offered by development finance institutions, the government, commodity associations, farmer unions and others) and the performance of agricultural SME's based in the West Rand District Municipality, Gauteng Province.

Study procedures: The researcher will make use of semi-structured questionnaires and document analysis of existing literature to collect data that will address the aims and objectives of the study.

Benefits: There are no direct benefits for participating in this study. However, the information provided might contribute towards the understanding of the relationship between access to development finance and the performance of agricultural SME's based in the West

Rand District Municipality, processes involved in order to access development finance, level of awareness of application processes, information on successes, challenges and lessons learned as well as inform recommendations.

Confidentiality: The information that the researcher obtains will be stored safely, although it will be shared with my supervisor who is involved in this study. Excerpts from the interviews with the farmers may be included in the final dissertation and may also be published in journals. The interviews will be conducted in a private place and names of participants will not be written down or recorded anywhere. Furthermore, the study does not require participants to disclose or name any specific individuals and do not have to discuss any personal information that they do not feel comfortable talking about.

Risks: There are no major anticipated risks that will be encountered by participating in this study.

Voluntary participation: Participation in this study is voluntary and participants are under no obligation to partake in this study.

If you have any concerns with the way the research is being conducted, please feel free to contact and discuss it with my supervisor, **DR LIEZEL ALSEMGEEST** at AlsemgeestL@ufs.ac.za

Please feel free to ask any questions on any aspect of this study that is unclear to you.

Yours sincerely,

_____

Viwe Sibelekwana

Email: viwesibelekwana@yahoo.com

I, _____, herewith give my permission to the researcher to access the departmental database of farmers in the West Rand District Municipality and interview them for the purpose of this academic research.

_____ _____

SIGNATURE **DATE**

CONTACT DETAILS: _____

ADDRESS: _____

ANNEXURE C – INFORMED CONSENT LETTER

Researcher: Viwe Sibelekwana
Telephone: 083 302 2195
Email: viwesibelekwana@yahoo.com

20 July 2017

Dear Participant,

RE: INFORMED CONSENT LETTER

I am a master's student at the Centre for Development Support (CDS) at the University of the Free State. I would like to invite you to take part in my research project entitled: *The effect of development finance on the performance of SME's in the West Rand District Municipality*.

The study is aimed at exploring the relationship between access to development finance (finance offered by development finance institutions, the government, commodity associations, farmer unions and others) and the performance of agricultural SME's based in the West Rand District Municipality, Gauteng Province.

Study procedures: The researcher will make use of semi-structured questionnaires and document analysis of existing literature to collect data that will address the aims and objectives of the study.

Benefits: There are no direct benefits for participating in this study, however the information that you provide might contribute towards the understanding of the relationship between access to development finance and the performance of agricultural SME's based in the West Rand District Municipality, processes involved in order to access development finance, level of awareness of application processes, information on successes, challenges, lessons learned as well as inform recommendations.

Confidentiality: The information that I will obtain from you will be stored safely, although it will be shared with my supervisor who is involved in this study. Excerpts from the interview may be included in the final dissertation and may also be published in journals. The interview will be conducted in a private place and your name will not be written down or recorded anywhere. Furthermore, the study does not require you to disclose or name any specific individuals and you do not have to discuss any personal information that you do not feel comfortable talking about.

Risks: There are no major anticipated risks that will be encountered by your participating in this study.

Voluntary participation: Participation in this study is voluntary and you are under no obligation to conduct the interview. If you have any concerns with the way the research is being conducted, please feel free to contact and discuss it with my supervisor, whose contact details are given below.

Please feel free to ask any questions on any aspect of this study that is unclear to you.

Yours sincerely,

_____ _____

Viwe Sibelekwana
Email: viwesibelekwana@yahoo.com

Supervisor: Dr. L. Alsemgeest
Email: AlsemgeestL@ufs.ac.za

ANNEXURE D – INFORMED CONSENT PAGE

INFORMED CONSENT PAGE

Study: *Effect of development finance on the performance of agricultural SME's in the West Rand District Municipality, Gauteng Province***.**

Researcher: Viwe Sibelekwana

By signing below, I agree to the following statements:

1. I have read and understood the attached information sheet giving details of the project.
2. I have had the opportunity to ask the researcher any questions that I had about the project and my involvement in it, and I understand my role in the project.
3. My decision to consent is entirely voluntary, and I understand that I am free to withdraw at any time without giving a reason.
4. I understand that data gathered in this project may form the basis of a report or other form of publication or presentation.
5. I have given the researcher permission to audio record the interview.
6. I understand that my name will not be used in any report, publication or presentation and that every effort will be made to protect my confidentiality.

Participant's Signature[1]: _____ Date: _____

Researcher's Signature: _____ Date: _____

Please fill in and return this page. Keep the letter above for future reference.

Please only sign this form if you agree to participate in the study.

[1] Please do not write your name to maintain anonymity