

Full Length Research Paper

Analysis of the socio-economic factors that contribute to land and agrarian reform which initiated and supported small, micro, medium farming enterprises (SMMES) in South Africa

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South Africa is amongst the developing countries with high prevalence of socio-economic challenges. These challenges include high levels of joblessness, poverty, food insecurity and malnutrition, particularly among rural and peri-urban poor people. Since 1994, the South African government has had a goal that the farming sector should play an important role in food security, job creation and wealth creation. This study investigated the potential of farming small, micro, medium enterprise (SMMEs) to contribute to the resolve of socio-economic problems. Both qualitative and quantitative research methodologies were used in this study, with the former relying on participatory forums, where the data was taken with the aid of video recordings, whilst the later methodology used semi-structured questionnaire. The quantitative data obtained and used in this study were gathered from year 2006 to 2007. This data was from a sample size of 1873 (20% of the registered farming SMMEs in all nine provinces of South Africa) farming SMMEs collected by extension officers as the numerators. It appears that the majority of the SMMEs thus formed in agricultural sector lack the capacity to be sustainable and hence, there is a need to innovate and explore mechanisms that can transform micro and small enterprises to medium enterprises in order to improve their probability of contributing to resolve the socio-economic challenges.

Key words: Farming small, micro, medium enterprises (SMMEs), socio-economic, job creation, wealth creation, land reform.

INTRODUCTION

Land and agrarian reform in South Africa have come about as a result of efforts to achieve political, social and economic transformation (Karaan, 2006; Mbeki, 2006;

NDA, 2005) that seeks to reconcile citizens of the country following the years of separate development and the 1913 Native Land Act (Molefe, 2008; Kirsten and Van Zyl, 1999; Viljoen, 2006; Sibanda, 2001; Thirtle et al., 2005; Mbongwa et al., 2000; Lahiff et al., 2007; Verschoor, 2003). Divisions in the agricultural sector are due in part to decades of separate development (development influenced by racial classification during the period prior 1994 dispensation in South Africa) and have led to the

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large-scale commercial sector assuming a pivotal economic role (Verschoor, 2003; Molathwa, 1976; Chikana and Kirsten, 1998), while the subsistence small-scale agricultural sector has been relegated to the realm of household food security, and makes little or no economic contribution (Bienabe and Vermeulen, 2007). Land reform in South Africa is therefore perceived as fundamental to equitable economic growth, poverty eradication and food security (Karaan, 2006). There is sufficient evidence to show that land reform in South Africa has given rise to many small, micro and medium enterprises (Mmbengwa et al., 2011). However, many of these enterprises are not viable or sustainable (Zimbabwe Independent, 2010). Most such enterprises are located in rural and peri-urban areas and are operated by individuals, families and groups. The failure rate of such enterprises has been abnormally high (90%); more than 50% of the beneficiaries are bankrupt and are now living below the poverty line (Zimbabwe Independent, 2010). In general, the contributions of SMMEs to job creation, social stability and economic welfare have been widely acknowledged across the globe (Ladzani and Van Vuuren, 2002; Ladzani, 1999). According to Ladzani and Van Vuuren (2002), in Taiwan, SMMEs account for about 98% of the national GDP, making them the largest employer in the economy. Similarly, the SMME sector in Japan accounts for the bulk of the country's business establishments (Ministry of International Trade and Industry, 1997). In the United States of America, SMMEs have introduced innovative products and services resulting in the creation of new jobs, opened foreign markets and in the process, positioned the U.S.A economy to the competitive edge in the world (Scarborough and Zimmerer, 1996). It is also reported that SMMEs in United States of America have created eight times more jobs than big business (Ladzani, 1999). According to Abor and Quartey, (2010), in Ghana and South Africa, SMMEs represent a vast portion of businesses; they represent about 92% of Ghanaian businesses and contribute 70% to Ghana's GDP and over 80% to employment. SMMEs accounts for about 91% of formal business entities in South Africa, contributing between 52 and 57% of the GDP and providing about 61% of employment. The aforementioned authors further reported that SMMEs represent over 90% of private business and contribute more than 50% of employment and GDP in most African Countries. In South Africa, SMMEs have been commended for employing approximately 2.4 million (17%) of the total of 14.3 million economically active members of the population (Ladzani and Van Vuuren, 2002). This, and other evidence, has led a number of countries to recognise the significant contributions of SMMEs in improving the socio-economic status of many nations. Their growth in numbers in different countries, as compared with big business, has been acknowledged (Ladzani and Van Vuuren, 2002). Consequently, many

countries and notably African countries, have changed their economic policies in favour of creating an enabling environment for SMMEs to flourish (National Economic Policy Research Unit, 1995). In South Africa, the White paper on national strategy for the development and promotion of small business in South Africa of 1995 not only demonstrated the government's commitment to establishing such an enabling environment, but also acknowledged the importance of SMMEs in the economic sphere (Ladzani and Van Vuuren, 2002). Should attempts to create an enabling environment be successful, the country will have succeeded in resolving its socio-economic problems. In many developing and least developed countries where socio-economic problems are prevalent, the farming sector plays an important role in food security, job and wealth creations (Nguesso, 2009). The contribution of the commercial farming sector in such countries, including South Africa, has been well researched. Yet very few, if any, studies have been conducted to investigate and document the contributions of land reform initiated and supported agribusiness SMMEs, here referred to as farming SMMEs. The objective of the study was to explore the capacity of farming SMMEs to contribute to the advancement of the socio-economic status of South Africa by examining their contribution to job creation and wealth creation.

LITERATURE REVIEW

The role of farming small, micro, medium enterprises (SMMEs) in poverty reduction

According to Begalli (2009), about one in every five people in the world live in extreme poverty (1.2 billion people) and more than 900 million people suffer from under nutrition. Poverty is predominantly rural. This author reported that three quarters of the world's poor live in rural areas where they are mainly involved in agriculture and related activities. In view of this, it can be deduced that poverty target goals cannot be achieved unless rural poverty is reduced. In most developing countries agriculture is the largest employer and revenue creator (Begalli, 2009; Machethe, 2004). For this reason, agriculture remains even in the 21st century, a critical sector for economic development and poverty reduction as well as for environmental sustainability (Begalli, 2009). Again, lively rural economies are fundamental to eradicating poverty in rural communities and to support economic growth in poor countries. During the African Technology forum, Bonaglia et al. (2008) reiterated that Agriculture is the dominate sector in most African countries and plays an essential role in rural and overall economic development. EMRC agribusiness forum (2009), confirmed this by estimating that 80% of the African population depend on agriculture for their

livelihood. More than 60% of Africa's active labour force earns livelihood in the agricultural sector (Bonaglia et al., 2008). Thus, the future of Africa is closely intertwined with the development of its agricultural sector (Bonaglia et al., 2008; Machethe, 2004). These authors reflected that the share of agriculture in GDP of some African countries were revealed as 37% in Ghana, 38% in Mali, 14% in Senegal, 45% in Tanzania, 22% in Zambia and 2.3% in South Africa in 2007. According to Machethe (2004), increasing the contribution of agriculture to poverty alleviation implies raising the incomes of smallholder farmers. This author argues for the promotion of the growth of smallholder agriculture with the view that the problems of increasing incomes in smallholder agriculture in Africa have been examined in the literature on agricultural and rural development. Therefore, the creation of the enabling environment for the farming SMMEs to play their socio-economic role has to be enhanced by African governments. During the 1960s, many African governments paid more attention to large-scale farmers with the encouragement of donors (Eicher, 1994). Middle or 'progressive' and smallholder farmers were not given any attention (Machethe, 2004). Because of the high failure rate of these schemes, many donors turned their attention and financial support to smallholder agriculture in the 1970s. Eicher (1994) argues that middle farmers should be "viewed as a positive force in 'getting agriculture moving'". Eicher (1994) suggests that African governments should give priority to the development of both smallholder and middle farmers. With the necessary support, smallholder farmers have the potential to produce a marketable surplus (Machethe, 2004). Smallholder farmers in Kenya with farms of less than two hectares have increased their share of national agricultural production from 4% in 1965 to 49% in 1985 (Lele and Agarwal, 1989).

Zimbabwe's remarkable increases in maize production by smallholder farmers in the 1980s is another example and is often referred to as Africa's green revolution success story (Eicher, 1994). Smallholder farmers in Zimbabwe tripled maize production between 1980 and 1987 and increased their share of the national marketable maize surplus from 10% in 1980 to 40% in 1987 (Eicher, 1994). This success was attributed to the launch of a government programme to boost maize and cotton production and development of hybrid maize varieties. It is the goal of the South African government to see agriculture playing a pivotal role in socio-economic emancipation of the rural people and those living in commonages (Land news, 2010). The need to increase black entrepreneurs by 5% per year in South Africa was echoed by the former State President Honourable Thabo Mbeki in his 2008 State of the Nation Address. This was coupled with his reaffirmation of the Government's commitment to provide agricultural support services (Mbeki, 2008). The call from the former State President does not only demonstrate the importance of the

agricultural sector in the South African economy, but it is also an indication of a broad South African commitment to renewal and revitalisation of the sector. The African heads of states have made similar calls that were translated into a programme called "Comprehensive African Agricultural Development Programme (CAADP)" in 2002 (NEPAD, 2002; World Bank, 2007). The objective of that programme was to increase agricultural output by 6% per annum within 20 years from 2002 (NEPAD, 2002). To achieve CAADP objectives, the New Partnership for African Development (NEPAD) has designed a Framework for African Agricultural Productivity (NEPAD Secretariat, 2006). All these efforts were meant to position agriculture strategically as a development and growth tool on the African continent. This emanates from the realisation of the fact that most African countries have abundant natural resources and yet they have extensive poverty, particularly in rural areas.

Socio-economic profile and the contribution of agricultural sector

Sean (2010), in her interview with Prof Mohammed Karaan (a commissioner of National Planning Commission in South Africa and Dean of Agriculture in Stellenbosch University), reported that Agriculture's primary role is not economic- it is social. 'Agriculture exists to protect the values of society and to nurture and inculcate those values. When the state does things for agriculture, it does so to compensate it for this social role (Sean, 2010). Machethe (2004) highlighted that several studies concluded that the growth of the agricultural sector may be the primary channel for achieving household food security. According to the Alliance for a Green Revolution in Africa (AGRA, 2010), food security is a challenge for every country, but in Africa, the challenge is particularly urgent and serious. This organisation argues that Africa is the only continent which does not grow enough food to feed it self; it has failed, in recent decades, to see agricultural productivity keep pace with its growing population. It further acknowledges that African governments are recognising the economic and the social benefits of investing in farmers and the rural economy. This can be seen in the Comprehensive African Agriculture Development Programme, which calls on African governments to put a minimum of 10% of their national budgets into agriculture, aiming at a 6% annual growth rate. In view of these initiatives, from these governments, there are renewed drives by developed countries to support Africa's agricultural growth. In South Africa, many authors have expressed similar views that agriculture in general and smallholder farming in particular has a greater chance of reducing socio-economic problems. In addition, it has been reported that 65% of South Africa population who live in poverty are

Table 1. Definition of the farming SMME sector in South Africa (Small Business Act, 1996).

| Classification | Size | Employee (less than) | Annual turnover (less than) (m) | Asses (less than) (m) |
|----------------|--------|----------------------|---------------------------------|-----------------------|
| Agriculture | Medium | 100 | R 2.80 | R 2.80 |
| | Small | 50 | R 1.25 | R 1.25 |
| | Micro | 10 | R 0.25 | R 0.25 |

residing in rural areas (Machethe, 2004). South Africa is classified as an upper middle-income country with one of the most skewed distribution of income (COSATU, 2010). Terreblanche (2002) reported that between 40 and 50% of South Africa's population can be classified as living in poverty. In Congress of South African Trade Unions (COSATU) draft policy on economic development for 2010, it has been reported that 71% of African female-headed households earned less than R 800.00 a month and 59% of these had no income, 58% of African male headed households earn less than R 800.00 a month and 48% had no income.

The current Minister of Finance (Honourable Mr Parvin Gorhdan) has acknowledged that 50% of the population lives on 8% of the national income in South Africa. Clearly, this picture indicates that South Africa's socio-economic profile requires a considerable attention in order to ensure its social and economic stability. The sporadic and high incidence of public violence may also be indicators of these social and economic inequalities. Given the socio-economic profile of the South African population and the acknowledgement of the importance of agrarian development in other developing countries (Machethe, 2004), South Africa started its land reform after the attainment of democratic rule in 1994 (Fraser, 2008). Agrarian reform in South Africa was based on the fact that very few black producers were actively involved in commercial farming (Nguesso, 2009). Bienabe and Vermeulen (2006) revealed that only 60 000 commercial white farmers owned 87% of the total agricultural land and the remaining 13% of agricultural land was utilised or owned by subsistence black farmers (NDA, 2001). Attempts to correct this disparity through agrarian reform have led to several challenges. Amongst other factors, the emphasis on redistribution of land without balancing it with capacity- building programmes has proven to be unsustainable and costly. About 50% of the land provided has not been producing significant marketable products (CDS, 2007; Kirsten et al., 2005).

Bienabe and Vermeulen (2006) and CDS (2007) have called for skills development strategies in the small-scale agricultural sector in South Africa. This call has been confirmed by several experts in different sections of the South African communities (CDS, 2007). In fact, most of the beneficiaries of the agrarian development movement are becoming poorer than they were before they got involved in the land reform projects (Zimbabwe Independent, 2010). May and Roberts (2000), quoted in

the second Quality of life survey (QOL) of 1998, indicate that 78% of the beneficiaries are within the category of those whose monthly expenditure is below R 476 and 47% are classified as ultra poor citizens. These evidence suggests that the land reform objectives are far from achieving their intended purpose. Challenges generated by the land reform process need urgent intervention. Current literature shows that some of the indicators of the root causes of the problems are lack of skills, mentorship, access to markets, capital, training and effective extension services (Groenewald, 2004; Ortmann, 2005; CDS, 2007; Ortmann and King, 2007; Machethe, 1990).

METHODOLOGY

The study defined farming SMMEs in terms of their annual turnover, as per the National Small Business Act of 1996 (Table 1). In an effort to gain a better understanding of socio-economic contribution of land reform initiated and supported farming SMMEs in South Africa, both qualitative and quantitative research methodologies were employed. The purpose for utilising these methodologies was to explore different ways of gathering reliable and accurate data. In addition, the status of the farming SMMEs under considerations were classified into the following business classes:

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

Furthermore, the following classifications were used to investigate the capacity for the farming SMMEs in creating wealth:

- Group A: Profitable
- Group B: Stable (breakeven)
- Group C: Non profitable

A profitability index and breakeven point was computed using the following formula (Wuite, 2009):

$$\text{Profitability index} = \text{PV of future cash flows} \div \text{PV of initial investment}$$

Where PV represent present value; Breakeven point = Total fixed cost \div Unit contribution.

The qualitative data were collected from 48 workshops in nine provinces of South Africa. The number of workshops varied between a maximum of 8 and a minimum of 5 per province, depending on the number of farming SMMEs in the provinces; the sample size per province for the survey also roughly represented the numbers of farming SMMEs per province. During the research

Table 2. Frequency distribution of farming SMMEs in South Africa.

| Business type | Frequency | % |
|----------------------|------------------|----------|
| Medium | 5.00 | 8.47 |
| Micro | 48.00 | 81.36 |
| Small | 2.00 | 3.39 |
| Very small | 4.00 | 6.78 |

planning session, it was deemed that having at least five workshops in all nine provinces would provide most reliable information. The data was collected through the aid of recorded videos. The respondents' identities were protected by omitting their names and precise locations in the video. A semi-structured questionnaire was used to gather the quantitative data. The quantitative data obtained and used in this study were mainly gathered from year 2006 to 2007. This data was from a sample size of 1873 (20% of the registered farming SMMEs in all nine provinces of South Africa) farming SMMEs collected by extension officers as the numerators. Only the registered farming SMMEs were accessible in the national database and thus, it was quite easy to request the permission to be considered in the research project. To complement the techniques, a set of names were acquired which were used for a 'snowball' technique (Neuman, 2003). This was followed by telephonic interviews with industry experts at national and provincial levels. These were aimed at corroborating information and clarifying various issues. While confident of the quality of data gathered, it is acknowledged any process of collecting data involves subjectivities that are difficult to manage. The data was analysed using SAS 2008. Frequency and logistic procedures of the statistical analysis system were used to analyse the independent variables (SAS, 2008). The frequency procedure were utilised to determine the profile of the farming SMMEs, and logistic procedures were used to determine the logistic regression model, maximum likelihood estimates, R^2 and odds ratios for the independent variables under investigation.

RESULTS AND DISCUSSION

The results are reflected in four sub-sections. The first subsection deals with farming SMMEs in South Africa, followed by status of these SMMEs and the last two sections being wealth distribution and socio-economic profile of SMMEs respectively.

Farming small, micro, medium enterprises (SMMEs) in South Africa

The frequency distribution of various sub-sections within the farming SMME's are presented in Table 2. The majority of the farming enterprises in South Africa are micro-enterprises, followed by medium, very small and small enterprises. According to the frequencies and annual turnover, only 11.86% of farming enterprises have the potential to develop towards commercial farming enterprises, while 88.14% categorised as micro and very small, may have difficulty to progress towards commercial level. This might be as a result of various factors which amongst others are the low annual turnover and net profit. It is deduced that the micro and very small

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

Status of farming small, micro, medium enterprises (SMMEs) in South Africa

The status of the enterprises is of critical importance when monitoring the success and failure rate in order to reach a desired financial performance. The extension officers (that is data collectors) were requested to provide an opinion regarding the classification of the enterprise in question. According to the extension officers, classes 1, 2 and 6 represent enterprises that are not operational. It should however be noted that class 2 is categorised as dormant with potential to grow due to infrastructure that is not used. Classes such as 3, 4, 5 and 7 represent those enterprises that are operational. Although class 7 is associated with those that are operational, those enterprises only operate during certain seasons. A frequency distribution of the status of farming SMMEs is shown in Table 3. According to these results, the enterprises which are not operational were 12.39%, whilst those regarded as operational were 87.61%. This picture appears to indicate that the majority of farming SMMEs are having a potential to growth, but the enterprises do not possess capacity to ignite that potential. This might be due to lack of appropriate knowledge to use the existing infrastructure as in the case of class 2, where such resources were not effectively used to enhance expansion. Overall, the results reflect a growth potential that is not exploited. Therefore, it is clear from these statuses that capacity building is necessary to convert the potential of these enterprises into viable businesses. Consequently, mentorship and growth strategies are a dire necessity to remedy these challenges.

Wealth creation by farming small, micro, medium enterprises (SMMEs) in South Africa

Wealth relates to the development of a venture as a

Table 3. Frequency distribution for the status of farming SMMEs in South Africa.

| Business status | Frequency | % |
|------------------------|------------------|----------|
| Class 1: DNP | 6.00 | 0.35 |
| Class 2: DWP | 172 | 10.10 |
| Class 3: NS | 141 | 8.28 |
| Class 4: OP | 625 | 36.70 |
| Class 5: OS | 516 | 30.30 |
| Class 6: USNP | 33 | 1.94 |
| Class 7: USHP | 210 | 12.33 |

Keys: DNP= dormant, no potential, DWP = dormant with potential, NS = new, stable, OP = operational expanding, OS = operational stable, USNP=Unstable, no potential and USHP= Unstable have potential.

Table 4. Frequency distribution for the financial performance of farming SMMEs in South Africa.

| Performance | Frequency | Percentage |
|--------------------|------------------|-------------------|
| Profitable | 55.00 | 41.67 |
| Not profitable | 73.00 | 55.30 |
| Stable | 4.00 | 3.03 |

commercial entity (Nieman et al., 2004). Adam Smith defined wealth as an accumulation of valuable material possessions or resources (Wikipedia, 2009). Wealth provides an important mechanism of intergenerational transmission from poverty to sustainable livelihood. Wikipedia (2009) reported that approximately half of the wealthiest people in America inherited wealth from their family. The majority of these people are classified within the upper class. This class is taught to invest at an early age. This implies that this class is trained both technically and philosophically to handle wealth. Black economic empowerment (BEE) should likewise create a generation of black people who will know how to handle and create wealth. Although, the objective has been to create black middle and upper classes within a particular time frame, it is clear that this is not an easy or simple process. Black economic empowerment was planned for various sectors with clear targets. In the farming sector, agricultural black economic empowerment policy (AgriBEE) was enacted in 2007. In this policy, the economic empowerment of the emerging farmers is the core objective (NDA, 2008). Central to this objective is the redistribution of wealth through the distribution of productive resources such as land, equity and shares. The evidence exists that the provision of productive land to farmers without productivity, profitability and effectiveness is costly to society as whole (CDS, 2007). This study attempts to find out whether the farming SMMEs are creating wealth for the historically disadvantaged groups in South Africa. Three classifications were designed with the purpose of investigating the profitability of farming SMMEs.

The profitability analysis was used on the assumption that a high net farm profit brings an opportunity for growth and success and consequently, creates opportunity for wealth creation, while lack of profit brings poverty and misery. Breakeven provides neither poverty nor wealth, but puts an entrepreneur in a stable financial condition. Table 4 presents the frequency distribution for financial performance of farming SMMEs. According to the results, the non-profitable group is predominant (58.33% of the farmers), followed by the profitable group (41.67%) (profitable) and finally the stable group (3.03%). It can be deduced that the majority of these enterprises still lack capacity to create wealth for their owners.

Socio-economic profile of farming small, micro, medium enterprises (SMMEs) in South Africa

The employment by the farming SMMEs and people involved were used to provide a picture of the socio-economic impact of these SMMEs (Figure 1, Table 5). Among the farmers involved, the majority were females. The youth and people with disabilities were not categorized according to gender.

It was noticeable that farming SMMEs employ higher percentages of women in both full-time and part-time employment categories. It therefore appears that females are able to derive some economic advantages from farming of this nature. Other things being equal, females appear to be more interested in this type of farming than men within the South African population. In addition, it

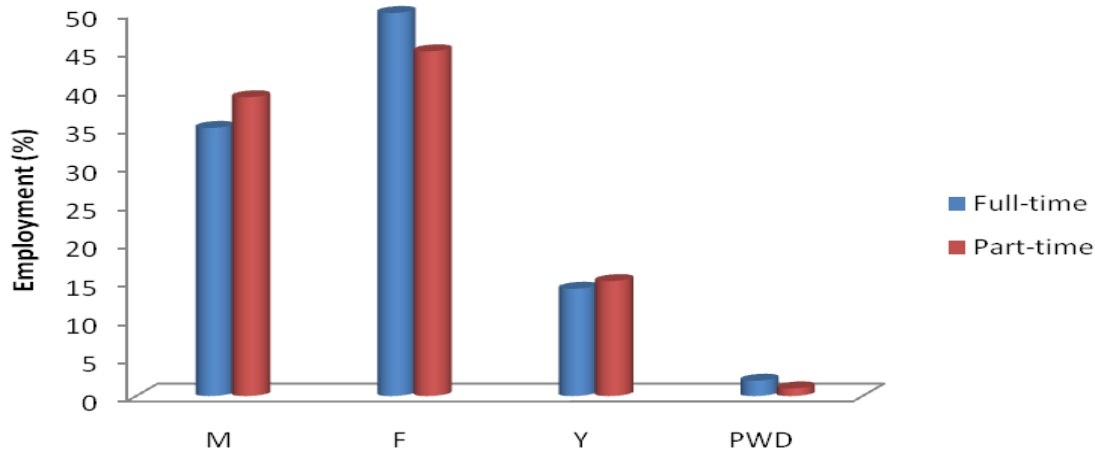


Figure 1. Employment profile of farming SMMEs. Key: F= female, M= male, Y= youth, PWD= people with disabilities.

Table 5. Employment profile of farming small, micro, medium enterprises (SMMEs).

| Persons interviewed | N | (%) | Business type |
|---------------------|-------|-------|---------------|
| Number Registered | 37709 | | SMMEs |
| Male | 11249 | 30.87 | Small |
| Female | 21279 | 58.39 | Small |
| Youth | 3521 | 9.66 | Micro |
| Disabled | 396 | 1.09 | Micro |
| Managers | | | |
| Male | 247 | 47.05 | Medium |
| Female | 261 | 49.71 | Medium |
| Youth | 14 | 2.67 | Medium |
| Disabled | 3 | 0.57 | Medium |
| Full-time employed | | | |
| Male | 982 | 35.21 | Small |
| Female | 1382 | 49.55 | Small |
| Youth | 376 | 13.48 | Medium |
| Disabled | 49 | 1.76 | Medium |
| Part-employed | | | |
| Male | 443 | 39.07 | Small |
| Female | 514 | 45.33 | Small |
| Youth | 171 | 15.08 | Medium |
| Disabled | 6 | 0.53 | Medium |

also appears that when people are faced with socio-economic problems, more women resort to farming than men. This might result from the fact that women are directly involved in ensuring that their children are nourished and as a consequence, are the hardest hit by socio-economic challenges. Therefore, it can be deduced

that empowering a large number of women by providing them with land and appropriate support may contribute largely in closing the existing socio-economic gaps. The study has clearly revealed that youth and people with disabilities are very little involved in terms of employment both on full and part-time level. This may reflect lack of

Table 6. Maximum likelihood estimates of model parameters for farm profit of farming SMMEs.

| Independent (VAR) | DF | Estimate | Standard Error | Wald chi-square | Pr > CHISQ |
|-----------------------|----|----------|----------------|-----------------|---------------------|
| Intercept | 1 | 0.89 | 0.65 | 1.90 | 1.17 ^{ns} |
| Own funding | 1 | 0.26 | 0.43 | 0.36 | 0.55 ^{ns} |
| Grant funding | 1 | 0.54 | 0.43 | 1.53 | 0.22 ^{ns} |
| Loan funding | 1 | -0.47 | 0.67 | 0.48 | 0.49 ^{ns} |
| Active members | 1 | -0.01 | 0.03 | 0.26 | 0.61 ^{ns} |
| Book keeping | 1 | -0.98 | 0.54 | 3.33 | 0.04 ^{***} |
| Audit | 1 | -0.46 | 0.68 | 0.45 | 0.50 ^{ns} |
| Monitoring plan | 1 | -0.29 | 0.41 | 0.51 | 0.48 ^{ns} |
| Training | 1 | -0.14 | 0.42 | 0.11 | 0.74 ^{ns} |
| Corporate principle | 1 | -0.63 | 1.55 | 0.16 | 0.69 ^{ns} |
| Profit Tax compliance | 1 | 0.74 | 1.69 | 0.19 | 0.66 ^{ns} |
| Feasibility study | 1 | 0.28 | 0.46 | 0.36 | 0.55 ^{ns} |
| Competitors | 1 | -0.50 | 0.43 | 1.38 | 0.24 ^{ns} |

Keys:*** significant at 5%, * Significant at 10%, R²=0.0923, ns= non significant.

Table 7. Odds ratio estimates for farm profit of farming small, micro, medium enterprises SMMEs.

| Influence factors confidence limits | Point of estimate confidence limits | Lower 95% Wald | Upper 95% Wald |
|-------------------------------------|-------------------------------------|----------------|----------------|
| Own funding | 1.297 | 0.557 | 3.020 |
| Grant funding | 1.710 | 0.730 | 4.004 |
| Loan funding | 0.628 | 0.169 | 2.328 |
| Active members | 0.987 | 0.940 | 1.037 |
| Book keeping | 0.375 | 0.131 | 1.075 |
| Audit | 0.634 | 0.168 | 2.389 |
| Monitoring plan | 0.747 | 0.334 | 1.671 |
| Training | 0.868 | 0.378 | 1.992 |
| Corporate principle | 0.535 | 0.026 | 11.151 |
| Tax compliance | 2.102 | 0.077 | 57.657 |
| Feasibility study | 1.317 | 0.535 | 3.245 |
| Competitors | 0.607 | 0.264 | 1.398 |

interest amongst the youth in agricultural industry, whilst it may be assumed that people with disabilities may find it too challenging to work in farming conditions. It may otherwise indicate a reluctance to employ youths or disabled people.

FACTORS THAT MAY INFLUENCE THE CONTRIBUTION OF FARMING SMMEs IN RESOLVING SOCIO-ECONOMIC CHALLENGES

According to Macheche (2004), smallholder agricultural growth cannot be achieved without access to farmer support. This author reported that with adequate access to farmer support services, these farmers can significantly increase their profitability and production. Van Rooyen (2010) also stated that the vast majority of African's small farmers are characterized by low-

productivity technologies, poor transportation and market access, limited access to production loans, poor business plans resultant from poor feasibility studies, lack of monitoring and evaluation and poor training. According to Drucker (2008), conditions such as those described earlier concerning farming SMMEs cause poor profitability. In view of this, farm profitability for farming SMMEs was analysed. Table 6 shows results of the analysis of factors influencing farm profit. All the independent variables considered were not statistically significant ($P > 0.10$) except for book keeping ($P < 0.10$). The odds ratio and their associated 95% confidence intervals are presented in Table 7.

Own funding

According to Table 7, the odds ratio coefficient obtained

is 1.297. This indicates that farmers with own funding have 29.7% higher probability of making more profit compared to those that lack such funding. Farmers who contribute some own finance in their business are more likely to be committed to their business, thereby increasing the chance that they will make more profit than those that did not. Therefore, it can be deduced that own funding reflects the farmer's level of commitment, passion and interest in the success of the business.

Grant funding

The South African government has used various kinds of grants in order to assist previously disadvantaged South African citizens of the Black, Indian and Coloured communities to purchase land or implements for agricultural purposes. The majority of the farming SMMEs are beneficiaries of these grants. According to Table 7, the odds ratio coefficient for the difference between those that have received grants versus those without grants is 1.710. This implies that those that had access to the grant have 71% higher probability of making profit than those without grant, assuming that other variables are held constant. It appears that the availability of the grant to farming SMMEs creates an opportunity for the farmers to acquire more needed facilities and services. It should however be noted that these results only show a tendency since no significant differences were found between those who receive the grant and those that did not.

Loan funding

Capital is one of the important sources of business sustainability and profitability (NDA, 2008). According to Rogerson (2006), access to finance is a major constraint to business survival and growth. This is echoed by Ferreira (2008) who believes that financial injection is an obvious need for SMEs, but that the major problem is a lack of access to credit. Small-scale farmers in South Africa, in common with the rest of the developing world, have limited and differential access to credit (Groenewald, 2004). This study has revealed that the odds ratio for loan amounts on farm profitability was 0.628 between those who had accessed loans and those without. This indicates that those with loans have 37% smaller probability of making profit than those without access to loan facilities. This implies that farming SMMEs do not know how to use loan facilities for the benefit of their businesses. This might be as a result of lack of financial management capacity among farming SMMEs owners, resulting in them using the loans capital for consumption or taking loans with higher lending rates than their cash inflows. These scenarios could be more applicable especially because the majority of these

SMMEs are owned by owners with low levels of literacy. In order for farming SMMEs to benefit from the loans provided, it will be necessary that farming SMMEs be trained on credit management. Simple credit management systems should be developed in accordance with their literacy levels. Training should also be done in their own language so that they can understand the credit management system.

Book keeping

The results regarding book keeping were surprising. Table 6 indicated a statistically significantly negative association between book keeping and profitability while the odds estimate for book keeping (Table 7) is well below 1.0. There have been scores of publications and research reports reporting a vital role for book keeping and holding of farming records as prerequisite for profitable farming. This raises the question of whether the type of book keeping done in this case was appropriate and or whether the books kept were done for purposes of organizing the business; a possible explanation may be that the farmers themselves may in some cases not have kept the books themselves, but may have obtained somebody to do the book keeping to satisfy lenders; with a low literacy rate, these farmers could not in any case comprehend the results or use these to run their business affairs.

Training

A review of the recent literature indicates that human capital theory is one of the most frequently used theoretical lenses for investigating entrepreneurs' personal characteristics as predictors of success (Diochon et al., 2008). Human capital may be developed through formal training and education as well as work-related experiences (De Clereq and Arenius, 2006). Table 7 reflects that the odds ratio coefficient is 0.868, indicating that emerging farmers with access to training have 13% smaller probability of making profit compared to those without. This is very likely to result from the high illiteracy level and/or lack of prior training needs assessment. These factors have to be addressed to ensure that training makes more impact. Therefore, the background of the trainees remains critical in developing their learning materials and learning framework. On these bases, the quality and appropriateness of training are crucial for the development of farming SMMEs owners. Therefore, technical and managerial training offered to these farmers should be clearly examined. It is recommended that the training offered should be an accredited training. Post training impact assessment should be also done by a qualified and accredited assessor, who should also be entitled to provide the

training assessment report. This report should therefore be used to recommend further training.

Tax compliance

The farming SMMEs are known for having high illiteracy levels among their members and therefore it is a huge challenge for them to comply with the tax regulations. The study found that the odds ratio coefficient for profit tax compliance between those farmers who comply compared to those that do not is 2.102. This implies that those farmers who comply with tax regulations have a 110.2% greater chance of making more profit than those who do not comply. This picture implies that those who are tax compliant are financially literate and therefore able to plan their farming enterprise better than those who do not have a good knowledge of finances. Tax compliance probably also indicates a sense of responsibility.

Feasibility study

A business feasibility study can be defined as a controlled process for identifying problems and opportunities, determining objectives, describing situations, defining successful outcomes and assessing the range of the costs and benefits associated with several alternatives for solving a problem (Thompson, 2005). The result of this study indicates that the odds ratio coefficient is 1.317, indicating that emerging farmers who have done feasibility studies have 31.7% greater probability of making profit than those who do not have feasibility studies. This result confirms the importance of planning and feasibility studies in ensuring the profitability of farming enterprises and might also relate to the literacy levels.

Other influencing factors

The odds ratios for other factors such as active members of associations, audit, monitoring plan, corporate principles and competitive class suggest that these factors do not substantially contribute to profitability of farming SMMEs. These results appear to show a lack of knowledge and capacity about these factors and as a result, these factors are underestimated. For instance, how can a farmer determine profit and comply with tax requirements without bookkeeping or adhering to the corporate principles? In addition, a farmer needs to know his or her business environment and thus he or she should identify his or her competitors. All these will require a farmer to be actively involved in his or her business by monitoring some variations from his original plans. Therefore, monitoring and auditing remains core instruments to determine success or failure of any

enterprises.

CONCLUSION AND RECOMMENDATIONS

Business enterprises no matter how small they are, do not exist for their own sake; they do exist in order to fulfil a special social purpose for the benefit of the society, community and individual. Farming SMMEs are no exception. The study found that for farming SMMEs in South Africa to contribute to the alleviation of socio-economic challenges, particular attention should be given to supportive services such as own funding, grant provision, feasibility studies, financial training and carefully designed and evaluated training programs. Loan provision was found not to succeed in stimulating profitability of SMMEs' due to the lack of financial management skills amongst the beneficiaries. It is therefore suggested that farmers receive training on financial and management aspects such as credit management, book keeping, corporate principles, monitoring, and evaluation, so that they can use these knowledge skills to improve their farming profit.

The study also found that small and micro enterprises form the majority among these business entities. Their transformation to effective and profitable businesses may contribute significantly to job creation and poverty alleviation. Mentorship of such business categories to graduate into medium or commercial enterprises, with strong linkages to the value chain and professional experts may contribute sustainably in reducing the socio-economic challenges in rural areas, thereby reducing rural to urban migration. The reduction of rural to urban migration can contribute to the reduction of peri-urban poverty and crimes. In addition, the creation of jobs in rural areas should also impact positively to the modernisation of rural areas and infrastructure. Further research is required to identify an appropriate model which may be useful in ensuring qualitative and quantitative transformation of the majority of small and micro-enterprises to medium to commercial farming enterprises.

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