

Developing a business proposal template in support of the establishment of a livestock farm in South Africa

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ABSTRACT

KEYWORDS: Business proposal, Livestock farming, Agricultural finance, Seed funding, Agricultural development, Business proposal evaluation, Commercial banks.

South Africa is faced with numerous challenges including high unemployment, severe poverty, food shortages, poor rural economic development and rural migration. There is an urgent need for the South African government to deal with the abovementioned challenges. In an attempt to address some of these challenges, the government embarked on agricultural development programmes. The greater part of these programmes involves the commercialising of smallholder- and emerging farmers. This commercialisation would assist in providing employment, reducing poverty, increasing food production and food security, and uplifting the rural economy as most people, who are interested in agriculture are located in rural areas.

The commercialisation of emerging farmers, however, faces several obstacles including access to finance. The government, commercial banks and independent financial institutions have introduced financial initiatives that are aimed at agricultural development. Despite the financial support provided, emerging- and small-holder farmers still struggle to obtain credit. This is partly due to the complicated application processes and lack of collateral needed as security for the debt. The credit application process requires a farmer to submit a business proposal, which will be evaluated and used as a basis to determine the success or failure of the emerging farmer's credit application. There is, however, a need for a business proposal template that addresses the fundamental aspects of a sound business proposal. This study was aimed at addressing this need through the development of a business proposal template that could be used by livestock emerging farmers when applying for seed funding. Livestock farming as a sub-sector of agriculture was selected as it is a common practice in most rural areas in South Africa and there is currently a shortage of livestock products in the country. Therefore, commercialising it could contribute to agricultural- and rural development.

The findings highlighted that a sound business proposal for a seed funding credit application should address the following six components: the entity or individual's background, the farm management, the farming strategy to be implemented, the farm infrastructure and resources, the financial forecast and financial analysis, and the type of financing required.

The study concluded by drafting a business proposal template that could be used by emerging farmers when applying for seed funding to establish a livestock farm.

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CHAPTER 1

1 INTRODUCTION

1.1 Introduction to the research area

The introduction will start by discussing the role of agriculture in Africa, followed by explaining agricultural practices in the context of South Africa. This chapter will then highlight the importance of livestock farming and the institutions offering seed funding in South Africa. The chapter will conclude with presenting the importance of a business proposal when applying for finance.

1.1.1 The role of agriculture

The agricultural sector in Africa plays a vital role in reducing poverty, providing food security, accelerating rural development, and creating employment (Christiaensen & Martin, 2018:414-415). According to a study conducted by Beegle and Christiaensen (2019:1), two out of five (41%) Africans still live in extreme poverty. A substantial number of African families are dependent on subsistence farming for food security, yet food production has to increase by 70% to feed the growing population (Dar & Laxmipathi Gowda, 2013:243). Agricultural production is negatively affected by a number of factors, including the migration of male youths, which are mainly responsible for cultivating the land. This migration results in households having agricultural land abandoned (Ango *et al.*, 2014:122-123).

Investing in agricultural productivity is essential as it may reduce poverty and unemployment (Christiaensen *et al.*, 2011:240). A study conducted by Ayinde (2008), evaluating the relationship between unemployment and the increase in agricultural productivity in Nigeria, found that there is an inverse relationship, i.e., when agricultural production increases, unemployment decreases (Ayinde, 2008:465). The agricultural sector plays a crucial role in the Nigerian economy, consuming approximately 70% of the working population (Ijirshar, 2015:113). This dependence on agricultural activities may be observed in other African countries (Ijirshar, 2015:114; Christiaensen *et al.*, 2011:239). In a study conducted in Sub-Saharan Africa (SSA), it was found that eight out of ten rural households, to some extent, depend on agriculture (Davis *et al.*, 2017:155).

A significant number of people living in poverty are found in rural areas (Machethe, 2004:30; Rantšo, 2016:317). The rural dwellers are not just poor, but they constitute a significant part of the unemployed population. It is therefore, imperative to develop rural areas in order to reduce the high levels of poverty and unemployment in these areas. To address poverty, developing rural

areas has remained a key campaigning point for every political party in most African countries. Numerous authors have argued that agriculture remains the main vehicle to reduce rural poverty and address hunger. This makes the sector fundamental in speeding up the rural development process (Machethe, 2004:30; World Bank, 2016; Beegle & Christiaensen, 2019:1).

1.1.2 South African context

The South African gross domestic product (GDP) recorded a third consecutive economic decline with a contraction of 2.0% in the first quarter of 2020 (Stats SA, 2020). Even though the country's economy contracted, the agricultural sector recorded an increase of 27.8% (Stats SA, 2020). The sector was the highest performing in the first quarter of 2020, and this provides a foundation to continue building and improving this sector (Stats SA, 2020). The agricultural sector has shown the potential to improve the economy of the country and thus investment in agriculture can push the economy towards a more positive direction.

Entry-level farmers can be categorised as emerging or smallholder. Emerging farmers can be described as farmers that cultivate field crops and keep livestock as a primary and secondary source of food and income. Smallholder farmers cultivate their land with the intention to sell a portion of their produce (Zantsi *et al.*, 2019:81). Both emerging and smallholder farmers practice mixed crop or livestock farming, whereby a large portion of the produce is kept for subsistence consumption and the rest is sold for income (Nyambo *et al.*, 2019:2).

South Africa has focused on improving small and medium enterprises (SME's) to ensure that unemployment rates decrease in the country. Emerging farmers are classified under SME's due to their small-scale operations (Chisasa & Makina, 2012:772). SME's, which include emerging farmers, are characterised by having high failure rates with low chances of success, growth and survival (Ngek & Van Aardt Smith, 2013:3043). This requires the country to explore other alternatives and perhaps the agricultural sector may assist in solving the country's employment issue. This sector remains an option for the government as it has the potential to create employment for the poor and unskilled rural communities (Machethe, 2004:20).

There is currently an ongoing debate regarding land reform in South Africa. Land reform is viewed as a tool to address racial inequality as a result of the Apartheid government (Hall, 2004:214). Since 1994, the African National Congress (ANC) has promised the redistribution of land. In 2013, the Economic Freedom Fighter (EFF) political party was introduced and their main mandate or main political point, as per their 2014 election manifesto, was the redistribution of land. Since then, land distribution has been a major part of debates in parliament and among South African citizens. At the ANC's 54th Annual Conference held in December 2017 at Nasrec, the South

African president, Cyril Ramaphosa, during his first speech as a president of the ANC, assured South Africans that land reform will be conducted in a manner, that ensures that land remains productive without compromising food security and ensuring social, economic and ecological sustainability (Mogradi *et al.*, 2020). To ensure that the country achieves its desired land reform goals, securing funding and providing access to farming resources will be crucial (Deininger *et al.*, 2016:78).

1.1.3 Livestock farming in South Africa

In line with other African countries, the South African government has placed focus on developing rural areas through agriculture (Rural Development & Land Reform, 2015). Livestock farming has the potential to promote the livelihoods of people in disadvantages countries (Mmbengwa *et al.*, 2015:176). Farmers in rural areas have shown interest in livestock farming as they have experience in rearing cattle. As a result, promoting and supporting livestock farming in rural areas can be an effective tool for rural development (Mmbengwa *et al.*, 2015:176).

A study conducted by Khapayi and Celliers (2015) in the Eastern Cape, identified issues and constraints facing emerging farmers in rural Eastern Cape (Khapayi & Celliers, 2015:3860). A sample size of 50 emerging farmers were selected for the study. The 50 farmers were all livestock farmers, while 30 of the 50 farmers were also cultivating crops, in addition to livestock farming (Khapayi & Celliers, 2015:3861). This proves that many farmers in rural areas practice livestock farming.

Based on a study by the World Bank (2020), livestock farming contributes 40% of the global agricultural GDP. Livestock farming waste products can also be utilized as a source of organic fertiliser. This fertilizer is used for cultivating crops, which reduces the costs for purchasing fertiliser. Furthermore, livestock farming is the fastest growing subsector in the agricultural industry (Dar & Laxmipathi Gowda, 2013:243). The subsector is crucial as it benefits the livelihoods of people through providing employment, economic growth, animal power, food security and reducing poverty (Dar & Laxmipathi Gowda, 2013:243).

There has been an effort in South Africa to commercialise the smallholder livestock farming, however, these efforts face numerous challenges and remain constrained by diseases, climate change, limited access to markets, lack of finance, feed shortages and lack of adequate production infrastructure (Mapiye *et al.*, 2018:1711). Almost all of the above constraints and challenges require access to finance in order for them to be resolved. Access to funding is a key component to the success of commercialising smallholder livestock farming. The South African

government has introduced grants that are focused on developing agriculture in the rural areas of the country in response to the financial need in the sector (Sebola, 2018:2).

1.1.4 Institutions offering seed funding

The lack of access to finance remains a major challenge to existing subsistence farmers, aiming to extend their operations and new entrants to livestock farming (Linh *et al.*, 2019:1471). Access to finance is a key challenge for emerging farmers as financiers require collateral to provide credit. Financiers requires collateral in order to reduce the risk of losing money (Linh *et al.*, 2019:1473). In South Africa financiers generally use the farmers agricultural land as collateral and most of the emerging farmers do not own land (Middelberg, 2014; Linh *et al.*, 2019:1473). This leads to emerging farmers requiring financial assistance in the form of seed funding. The Cambridge Advanced Learner's Dictionary (2008) defines seed money (also referred to as seed funding) as “money used to start a business or activity” (Walter, 2008).

Emerging farmers in South Africa can source seed funding from the private sector, including agricultural companies and commercial banks, or from the government through the Land and Agricultural Development Bank of South Africa (Land Bank) and development finance institutions (Middelberg, 2014:275). This research will be focusing on the financial institutions that offer financial assistance to emerging farmers, which include all the afore-mentioned.

The Chief Executive of the Land Bank, Tshokolo Nchocho, in February 2018, released a statement announcing that the bank has signed a loan of R900 million with the German Development Bank (African News Agency, 2018). The loan is aimed at boosting agricultural development in South Africa. This will create an additional opportunity for emerging farmers to access finance (African News Agency, 2018).

Despite banks and other financial institutions willing to offer agricultural finance, it has been difficult for people in rural communities to access the required funding. This is due to the finance application process being complex and requiring comprehensive business proposals (Makofane & Gray, 2007:201). Most farmers in rural areas do not have the educational background to develop an adequate business proposal. Due to this educational limitation, it is highly unlikely for farmers in rural areas to compile an adequate business proposal that will lead to a successful credit application (Makofane & Gray, 2007:201).

1.1.5 Importance of a business proposal in applying for finance

As with any investment, an interested investor would require a detailed business proposal to evaluate the business's viability, potential profits, risks and opportunities (Mason & Stark,

2004:227). The same process is followed by the financiers albeit banks, government funders or other investors, to grant finance to emerging farmers as they are also looking to earn a return from the investment (Mason & Stark, 2004:227).

Individuals who are interested to gain entrance into the agricultural sector, are mostly from villages, with the majority not having completed their school education (Khapayi & Celliers, 2015:3861). This indicates emerging farmers have low education levels, which will affect a number of factors such as developing innovative and dynamic farming methods, poor business and financial management and other factors (Khapayi & Celliers, 2016:25). It can therefore, be deduced that if these matters are not attended to, it can slow down agricultural development and, in turn, adversely affect the government's goal of accelerated rural development.

The Department of Agriculture, Forestry and Fisheries (DAFF) – that has subsequently restructured as the Department of Agriculture, Land Reform and Rural Development (DALRRD) – identified that when applying for finance, farmers develop business proposals based on unrealistic assumptions, resulting in inaccurate cashflow projections (Department of Agriculture, Forestry and Fisheries, 2011:4). The business proposals are also unclear, and they ignore the potential risks that can affect their businesses. DAFF also highlighted how the submitted business proposals lack essential information such the competition analysis and supplier analysis (Department of Agriculture, Forestry and Fisheries, 2011:4). There is, therefore, a need to assist emerging farmers in developing detailed business proposals, incorporating adequate strategies and guidelines that the farmers can follow around cost management, cashflow forecast and working capital management, that could be used when applying for agricultural financing.

It can be concluded that a study on designing a business proposal for the establishment of a livestock farm will be useful and support the government's plans for rural development.

1.2 Literature review on the topic

From the literature review, it was gathered that previous research focused on 1) the constraints of emerging farmers (Khapayi & Celliers, 2015), 2) the changes and challenges in the agricultural sector (Khapayi & Celliers, 2015; Middelberg, 2013b), and 3) farmers' access to credit (Middelberg, 2014). Even though access to finance is a constraint to emerging farmers (Khapayi & Celliers, 2015), there seems to be a lack of studies that focus solely on the farmers credit application processes and the challenges they face when compiling a business proposal.

Credit is part of financial capital and can assist farmers in gaining financial resources beyond their abilities. This will enable them to take advantage of possible profitable opportunities (Henning & Jordaan, 2016:78). Middelberg (2014) stated that most emerging farmers do not own land, which

can be used as collateral to obtain finance, however, there are government grants that do not require collateral to access finance (Middelberg, 2014). However, both these studies (Middelberg, 2014; Henning & Jordaan, 2016:89) were performed on existing farmers, who needed an additional capital injection for expansion and development of their farming operations as opposed to applying for seed funding.

The South African government introduced grant schemes that are solely focused on agricultural development and most commercial banks have established an agribusiness division aimed at financing agriculture (Chauke *et al.*, 2013:582). This is in response to the exclusion of smallholder and emerging farmers from accessing agricultural credit, stagnant agricultural and rural development, job creation and poverty reduction (Chauke *et al.*, 2013:582). Despite the above efforts by the government and the commercial banks, rural emerging and smallholder farmers are still not obtaining access to agricultural finance at a convincing rate. This is mostly due to the strict credit evaluation criteria that the farmers are subjected to. The farmers' credit application is complex and that makes it difficult for farmers to obtain the finance (Bai *et al.*, 2019:27).

In an attempt to assist emerging farmers to gain access to agricultural finance, this research was used to develop a template for emerging farmers to prepare an adequate business proposal that would be used when applying for financial assistance to increase the chances of a successful application by ensuring that all the aspects required by the financial houses to approve finance to an emerging farmer are covered in the proposal.

1.3 Problem statement

To achieve the desired rural development envisioned by the government, the agricultural sector has to be supported. Yet, the agricultural sector is still faced with, *inter alia*, financial and educational challenges. Livestock farming can play a key role in reducing poverty, creating food security and providing employment in rural areas. Moreover, many potential farmers are familiar with livestock farming. As such, livestock farming is a viable subsector to invest in and develop.

In response to the challenge of access to finance, both the South African government and the private sector have begun to offer agricultural finance to emerging farmers. Yet, the application process is difficult for reasons, which include educational challenges and the detailed business proposal requirement from applicants. Therefore, there is a need to assist and equip emerging farmers to develop a sound business proposal to apply for finance. This study will focus specifically on livestock farmers.

1.4 Aims and objectives

1.4.1 Aim

The aim of the study was to develop a business proposal template that can be used by emerging livestock farmers when applying for seed funding.

1.4.2 Objectives

- The objectives supporting the aim are defined as follows: To review literature on the role of livestock farming in South Africa, agricultural development, access to credit for smallholder and emerging farmers, commercial banks and government financial institutions offering agricultural financing and business proposals (Chapter 3);
- To develop a business proposal template for emerging farmers when applying for seed funding to establish a livestock farm (Chapter 4); and
- To provide a summary of the findings and conclude the research conducted (Chapter 5).

1.5 Ethical declaration

This study was approved by the North-West University's Economic and Management Sciences Research Ethics Committee (EMS-REC) with ethics number: NWU-00102-19-A4. The research was executed following the ethical guidelines prescribed by the North-West University. The ethical clearance certificate is included as Appendix 1 (page 51). The ethical considerations are elaborated in Chapter 2, section 2.7 (page 20).

1.6 Research design

The research design consisted of a literature review and an empirical study. The research's philosophical underpinnings were also discussed.

1.6.1 Literature review

The purpose of the literature review is to consider the findings of previous research, including academic journal articles and governmental reports to the applicability of this study.

1.6.2 Empirical research

The empirical research was in the form of a descriptive qualitative study. The research was performed in two phases.

Phase 1: Qualitative data were collected through a combination of one semi-structured interview and 10 online surveys comprising of open-ended questions. Initially, the aim was to collect data by conducting semi-structured interviews with individuals representing commercial banks and other financial institutions involved in the evaluation of emerging farmers' business proposals or credit applications. After the first interview, the outbreak of the Covid-19 pandemic resulted in the South African government announcing a country-wide lockdown. Most of the intended participants then started working from home. It proved problematic to continue collecting qualitative data through interviews. The interview questions were then converted to an online survey and the link was distributed to representatives from institutions offering agricultural credit.

Phase 2: consisted of a data analysis of the responses by identifying common themes from the qualitative data collected from the different participants. Based on the analysis, a business proposal template was formulated that highlighted the key elements used when financiers evaluate a credit application. The business proposal template is included as Appendix 3 (refer page 55).

1.7 Paradigmatic assumptions and perspectives

The three most common paradigms are distinguished as positivism, interpretivism and critical theory (McKerchar, 2008:6). Positivism paradigm is commonly associated with scientific methods of investigations (Kivunja & Kuyini, 2017:30). The interpretivism paradigm aims to understand the individual and how they interpret the world (Kivunja & Kuyini, 2017:33). The critical theory aims to have a balanced and democratic society and promotes social justice (Kivunja & Kuyini, 2017:35). Due to the nature of the study, this study was carried out from the interpretivism paradigm. This is because the data for this study had to be collected directly from the individuals that are involved in the evaluation of business proposals for seed funding for emerging farmers. The researcher interpreted the collected data and formulated and reached the conclusions based on his/her interpretation of the qualitative collected data. The literature review was also used for the design and methodological perspective of the research.

1.8 Chapter overview

The chapter layout, as well as a high-level overview of what is to be achieved in each chapter, is summarised as follows:

Chapter 1 – Introduction

The objective of Chapter 1 was to introduce the study, highlight the problem statement and state the aim and objectives of the study. The chapter presented the research design and concluded with the overview of the study.

Chapter 2 – Research design and methodology

This chapter focused on the research design and research methodology of the study. It will provide a background on the chosen design and methodology.

Chapter 3 – Agricultural finance and the South African agricultural sector

This chapter considered, in detail, the previous studies conducted in this field. The applicability of the prior studies to this study will be considered. The information gathered in this section will also be used to identify questions that will be used during the semi-structured interview and online survey to be conducted for data collection.

Chapter 4 – Empirical study

The chapter established the fundamentals considered by financiers when evaluating a business proposal. Using the fundamentals considered by financiers when evaluating a business proposal, the researcher developed a framework that could be used by any emerging farmer, who seeks seed funding for the establishment of a livestock farm.

Chapter 5 – Conclusion and recommendations

This chapter is a summary of the outcomes of each objective and a conclusion on the fundamental elements considered when evaluating a business proposal to issue finance for the establishment of a livestock farm, based on the data collected.

The next chapter discusses the research design and methodology used in this study.

CHAPTER 2

2 RESEARCH DESIGN AND METHODOLOGY

2.1 Introduction

This chapter aims to address the design of the appropriate research methodology to address the aim of the study. The main aim of the study is to develop a business proposal template that can be used by emerging farmers when applying for seed funding to establish a livestock farm in South Africa.

To ensure an understanding of the research methodology, design and method followed, a discussion of these concepts is provided below.

Research methodology – can be defined as the approach that researchers take to execute research a project (Leedy & Ormrod, 2010:6; Rajasekar *et al.*, 2013:5). Research methodology dictates the tools used to conduct the study. The main functions of the research methodology is to control and guide how data is acquired and how it is interpreted to generate a conclusion (Leedy & Ormrod, 2010:6; Rajasekar *et al.*, 2013:5). Furthermore, Kivunja and Kuyini (2017) stated that it expresses the logic and flow of the processes followed in carrying out the research project to gain information and knowledge about the research problem (Kivunja & Kuyini, 2017:28).

Research design – can be described as the overall plan and foundation of the research project (Rajasekar *et al.*, 2013:22). It should state the proposed strategies to be implemented to reach the research goal and solve the research problem (Leedy & Ormrod, 2010:3; Rajasekar *et al.*, 2013:22). It is the planned route of how the research will be carried out.

Research methods – can be defined as the methods and tools utilised by a researcher to reach the research goal (Rajasekar *et al.*, 2013:23). It details the various methods that will be used for sampling, data collection and data analysis.

The structure of the rest of the chapter is presented in Figure 2.1 below

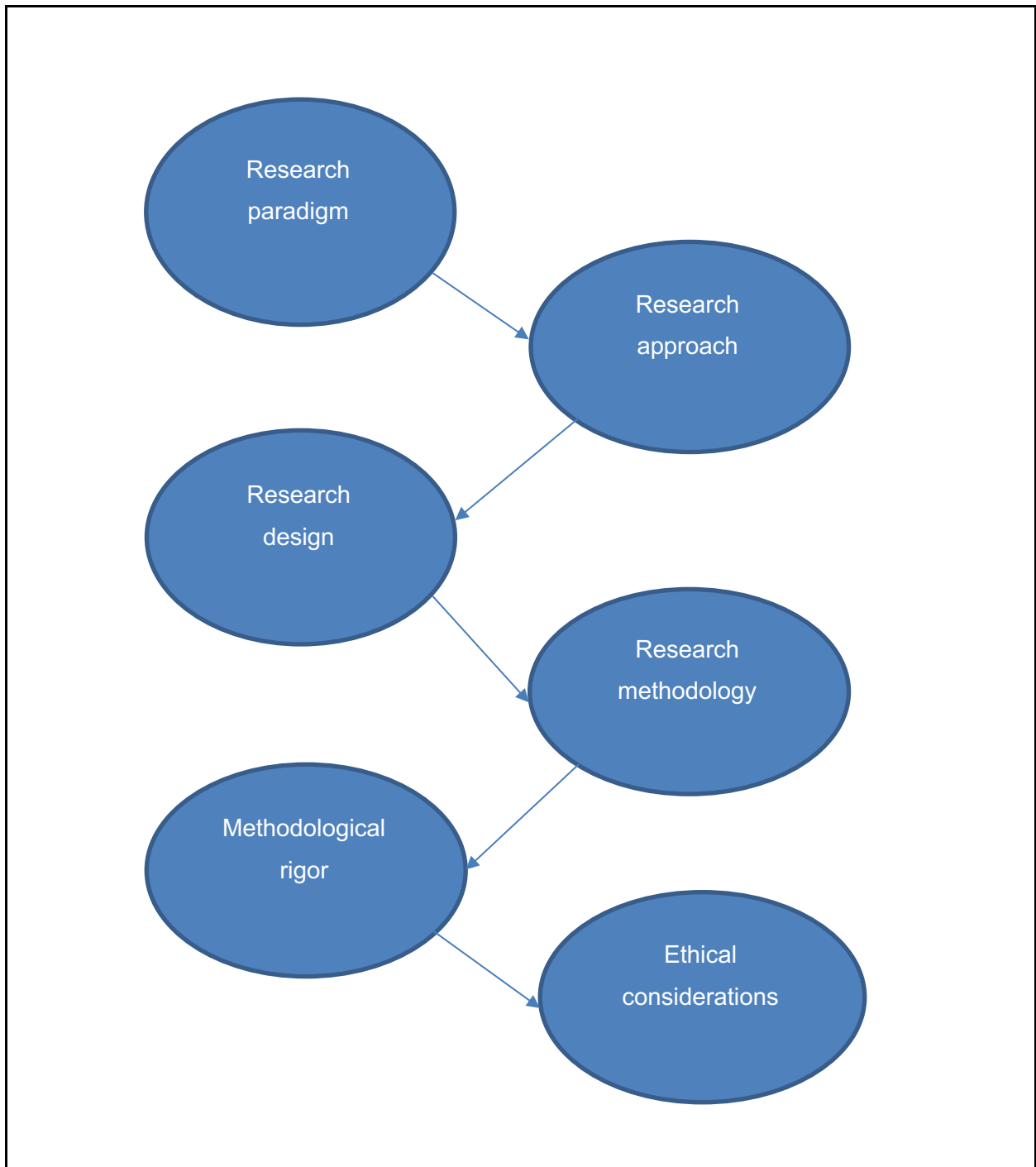


Figure 2-1: Structure of the chapter.

Each of these concepts included in the diagram above are presented below and then discussed and applied to the research study.

Research paradigm – this section defines the research paradigm. The three paradigms that are widely used (positivists and interpretivists) will be discussed and followed by a conclusion on the paradigm for this study.

Research approach – this section defines the research approach and discuss the different approaches (qualitative, quantitative and mixed approach). It concludes with the approach followed in this study.

Research design – this section details the concept of research design and the research design for this study.

Research methodology – this section includes a discussion on the research methodology, the different types of data collection techniques and the data analysis. It then concludes with the data collection techniques and analysis used for this study.

Methodological rigour – this section entails a discussion on methodological rigour and how it is applicable to this study.

Ethical considerations – this details the ethical consideration of this study.

The chapter will conclude with a summary.

2.2 Research paradigm

The term paradigm can be described in educational research as one's way of thinking and understanding of the world. The research paradigm reflects the researcher's beliefs about the reality of the world. These beliefs shape the way researchers view the world and how they interpret it and act (Kivunja & Kuyini, 2017:26). These sets of beliefs guide the researcher's investigations and research methods. Paradigms are therefore essential as they provide guidance and beliefs which influence what should be investigated, how should it be investigated and how should the results be interpreted (Kivunja & Kuyini, 2017:26).

There are four components of research paradigm namely, epistemology, ontology, methodology and axiology (Kivunja & Kuyini, 2017:26). Epistemology can be defined as the branch of philosophy that study's the nature of knowledge and justification. Epistemology is concerned with the nature and form of knowledge, how it has been acquired and how it can be communicated to other humans (Kivunja & Kuyini, 2017: 26-28); Rehman & Alharthi, 2016: 51-52). Ontology can be defined as the branch of philosophy that study's the nature of existence, of being or becoming. Methodology of a paradigm can be defined as the research design, plan of action, methods and strategies utilised to gain knowledge about a research problem (Rehman & Alharthi, 2016: 51-52; Kivunja & Kuyini, 2017: 26-28). Axiology is defined as a branch of philosophy that study's the nature of value. This philosophical approach is about making decisions of value or right decisions (Rehman & Alharthi, 2016:28).

Researchers have proposed numerous paradigms but they have suggested to group them in to three main taxonomies, namely Positivist, Interpretivist or Critical paradigms (Rehman & Alharthi, 2016:30).

- **Positivism** – introduced by Auguste Comte in the 1920s and 1930s, the positivism paradigm is commonly associated with scientific methods of investigations. Positivism focuses on scientific experiments and quantitative research methods designed to yield pure data and facts that is not influenced by humans. Positivists should be able to use the outcome of their study to generalise about what can be expected elsewhere in the world hence their research method is likely to be a quantitative research method (Kivunja & Kuyini, 2017:30). One of the main critics on positivists paradigm is that scientific methods are not always successful when applied on social phenomenon. Humans cannot be studied the same way as the natural environment. Furthermore, the laws that govern human beings and their relationship with each other are different from the ones that governs natural objects (Rehman & Alharthi, 2016:53)
- **Interpretivism** – An interpretivist believes that the truth and knowledge is subjective. This paradigm aim to understand the individual and how they interpret the world. More emphasis is placed on understanding the viewpoint of the individual being observed other than the viewpoint of the observer (Kivunja & Kuyini, 2017:33).
- **Critical theory** – Critical theory seeks to challenge social justice issues and aim to not only explain or understand the world but to change it. It believes in addressing numerous issues that lead to social oppression and conflict such as gender issues, race, religion, power and socio-economic status. It aims to have a balanced and democratic society and promotes social justice (Kivunja & Kuyini, 2017:35).

2.2.1 Research paradigm of this study

This study followed the interpretivism approach as qualitative data was collected from different organisations through a physical interview and an online survey. The aim was to obtain an understanding of how each organisation evaluates business proposals. The conclusion of the research was based on the researcher's interpretation and analysis of the data which was informed by the interaction with the participants.

2.3 Research approach

Rajasekar *et al.* (2013) defined the research approach as the manner in which the research is to be carried out. This details the procedures that were followed from data collection, analysis and interpretation in order to respond to the research problem.

There are three commonly known research approaches namely qualitative, quantitative and mixed method. These approaches are briefly discussed below :

- **Qualitative research:** qualitative research is exploratory in nature as it turns to answer the “why” and “how” questions (Rajasekar *et al.* 2013:9). This involves gathering descriptive and non-numerical information through groups or individuals. This approach collects data through methods of observations, interviews, focus groups and written documents (Rajasekar *et al.* 2013:9).
- **Quantitative research:** quantitative research is based on measuring and quantifying data (Sukamolson, 2007:4). This type of research is based on the presentation of statistical information. It is not descriptive and uses numbers (Rajasekar *et al.* 2013:9). It is dependent on numerical evidence to draw conclusions or to test hypotheses. Mathematically based methods are used to collect and analyse data (Almalki, 2016:290 -291).
- **Mixed methods approach:** this is a combination of the qualitative and quantitative approaches. It uses both approaches’ techniques and methods to collect and analyse data (Fetters & Molina-Azorin, 2017:293).

2.3.1 Research approach of this study

This study followed a qualitative research approach. This is because the data for this study had to be collected directly from the individuals that are involved in the evaluation of business proposals for seed funding for emerging farmers. Furthermore, the data had to be from multiple participants to cover the wide range of financial organisations. This assisted in ensuring that the business proposal template developed from this study could be used across most financial organisations by emerging livestock farmers applying for seed funding.

The qualitative data was collected through a combination of a semi-structured interview and an online survey. The participants to the study were from different financial institutions. The conclusion and recommendations of this study were based on the data collected through the interviews and the responses to the online survey. The aim was to gather factual information from the different financial institutions that provides agricultural funding to emerging and smallholder farmers.

2.4 Research design

Research design can be described as the overall plan and foundation of the research project (Rajasekar *et al.*, 2013:22). It should state the proposed strategies to be implemented to reach

the research goal and solve the research problem (Leedy & Ormrod, 2010:3; Rajasekar *et al.*, 2013:22). It is the planned route of how the research will be carried out.

A research design states well-planned approaches, strategies and procedures to be implemented to investigate the research problem (Leedy & Ormrod, 2010:3; Rajasekar *et al.*, 2013:22). This entails the detailed procedures to be followed when conducting the research. It states: 1) the information required, 2) the data collection and analysis techniques and 3) how all the above processes are going to answer the research question.

2.4.1 Research design for this study

Participants from commercial banks, government and other independent financial institutions that provide agricultural finance to emerging farmers were selected. The interpretation of the collected data was based on the researcher's analysis of the data obtained through data collection.

2.5 Research methodology

The research methodology section addresses the research population and sampling. It also reviews the various data collection techniques, including a discussion of the selected data collection techniques for this study. This section concludes by presenting the method followed when analysing the data.

2.5.1 Population and sampling

The population for this study included officials with past experience in the evaluation of business proposals for seed funding for emerging and smallholder farmers from government, commercial and other financial institutions. The purposive sampling technique was used to identify participants to this study from the population of different commercial and other independent financial institutions for the qualitative data collection. All the participants to this study consented to the research before participating. The questionnaire to this study was shared with the interviewed participants before the interview and also with the online survey participants. A total of one interview was conducted while ten responses to the online survey were received.

2.5.2 Data collection techniques

These are systematic procedures or processes used to collect information about the study. These procedures are used to answer the research question. The following are some of the commonly used data collection techniques:

2.5.2.1 Observation

This technique involves the systematic selection, watching and recording of behaviour and characteristics of living beings, objects or phenomena. The researcher observes and records the behaviour of the participants rather than relying on reports (Morgan & Harmon, 2001).

Observation can be conducted in the following ways:

- Participant observation – the observer takes part in the situation he or she observes. The observer participates in the observed subject.
- Non-participant observer – the observer watches the situation openly but does not participate.

2.5.2.2 Documentation

This technique involves analysing and interpreting recorded information to give voice and meaning around the assessment topic (Bowen, 2009:27).

The following are three types of documents (Bowen, 2009:28):

- Public records – these represent official documents for an organisation that were available in public domain.
- Personal documents – these represent first accounts of an individual's actions, experiences and belief.
- Physical evidence – these are physical objects that are found within a study setting (often called artefacts).

2.5.2.3 Interviews

Gill *et al.* (2008) define the following three types of interviews as:

Structured interviews – a verbally administered interview in which a list of predetermined questions are asked with little or no variation and with no scope for follow-up questions to responses that warrant further elaboration. This type of research allows for a limited number of participants (Gill *et al.*, 2008:292).

Unstructured interviews – this interview does not reflect pre-conceived theories or ideas and is performed with little or no structure. These are usually conducted with just an opening question then progress based on the flow of the interview. This type of interview is mostly used when a significant depth of information on a subject area is required (Gill *et al.*, 2008:292).

Semi-structured interview – this type of interview consists of several key questions that help to define the areas to be explored, but it also allows the interviewer and the interviewee to diverge in order to pursue an idea or response in more detail. The several key questions provide guidance to the participants on what to talk about (Gill *et al.*, 2008:292).

The following are four skills regarded important to ensure a good interview (Gill *et al.*, 2008):

- Establishing a rapport with the interviewees;
- The interviewer must keep the discussion going and avoid questions which dampen the discourse like asking questions that requires one-word answers;
- The interviewer must learn when to interrupt, how to focus and pace the interview; and
- The interviewer should adopt a non-judgemental attitude.

2.5.2.4 Questionnaire

This is an instrument for research consisting of a list of questions. Abawi (2017) defines a questionnaire as a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. A questionnaire is efficient compared to an interview as the latter requires one on one discussion while a questionnaire can be administered simultaneously to a larger sample of respondents. Questionnaires are also cost efficient as they can be mailed to respondents who are a great distance from each other at a fraction of the cost (Patten, 2016).

2.5.2.5 Online survey

Gordon and McNew (2008) define an online survey as an internet-based technology tool used for data collection (Gordon & McNew, 2008:607). The authors further outline that the type and quality of the online surveys are comparable to the paper-based survey (Wright, 2005:70). Web surveys can utilise subscription templates with software packages installed on one's own server or created from scratch using web programming development tools. Wright (2005) stated that the current online survey products and services can vary considerably in terms of available features, consumer costs and limitations (Wright, 2005:70). Online surveys enable the researcher, with the use of the internet, to gain access to groups and individuals who would be difficult, if not impossible, to reach through other channels. In this research study, the researcher utilised QuestionPro (www.questionpro.com) as the online software product. The link to the online survey was: <https://livestockproposaltemplate.questionpro.com>.

2.5.2.6 Data collection of this study

The data for this study was initially planned to be collected through semi-structured interviews. However, in light of the Covid19 pandemic and the country being placed on hard lockdown, conducting face-to-face interviews proved to be problematic and the researcher therefore, had to revert to utilising an online survey. There was one interview conducted before the lockdown and the rest of the data collection was done through an online survey. The data for this study was therefore, collected through a semi-structured interview and an online survey conducted with personnel who are actively involved with the evaluation of business proposals for emerging farmers' seed funding applications in the commercial banks and independent financial institutions. The interview was classified as semi-structured because the researcher used the questionnaire as a guide to the interview with open-ended questions. The researcher could therefore, ask a participant to elaborate on a response. The semi-structured interview was used because the researcher required a broader understanding of the phenomena to be able to adequately answer the research question. There were however, also some specific questions that needed responses hence a list of questions was prepared and shared with the interviewee prior to the interview. The link to the online survey was also shared with all the online survey participants via email. The same questionnaires was used for the interview and the online survey. Structured interviews would have limited the interviewee's responses to the question asked and providing limited information, while an unstructured interview was going to lead to some important questions not attended and leading to an omission of important information. The questionnaire used for the semi-structured interview and the online survey was developed from the literature review.

2.5.3 Data analysis

This involves the interpretation of data gathered through the use of analytical and logical reasoning to determine patterns, relationship or trends in the data. The process involving the theoretical lens from which the researcher approaches the phenomenon, the strategies that the researcher uses to collect or construct data, and the understanding that the researcher has about what might count as relevant or important data in answering the research question from the data analytic process (Thorne, 2000:68). Data analysis includes specific analytical strategies to transform the raw data into a new and coherent depiction of the subject being studied.

Qualitative data is often analysed through coding (Theron, 2015:1). Coding is a method to organise data so that the underlying messages portrayed by the data become clearer to the researcher (Smith & Davies, 2010:146). Coding involves looking at distinct concepts and categories in the data. This concepts and categories are grouped in a systematic manner and

examined to determine if they represent the interview responses and also to identify their relationship (Theron, 2015:1).

2.5.3.1 Data analysis of this study

The data collected from the interview and the responses from the online survey were analysed through coding. The responses collected through the interview and the online survey were grouped into common themes using the questions posed in the questionnaire as guidance. The responses to the questions were examined to identify whether there are common themes between the different participants' responses. A business proposal template was then developed based on the results of the data analysis.

2.6 Methodological rigour

Methodological rigour consists of a series of elements that, in combination, determine the confidence with which conclusions can be drawn from the evaluation results (Braverman & Arnold, 2008:72). It is a means by which a researcher demonstrates integrity and competence, a way of demonstrating the legitimacy of the research process. There is a danger that research may become fictional journalism, worthless in contributing to knowledge, if it does not have rigour (Rambaree, 2007:2). The best research design ensures the reliability of data collected and analysed by making sure that it is not biased (Rambaree, 2007:2).

There has been an argument that qualitative and quantitative research approaches are fundamentally different and as a result, the rigour on qualitative research should not be focused on validity, reliability and generalisability concept (Rambaree, 2007:3). Guba and Lincoln (1989) therefore, proposed credibility, transferability and dependability as the rigour for a qualitative study. However, Tobin and Begley (2004) argued that rejecting the concepts of validity and reliability is a rejection of the concept of rigour (Tobin & Bengle, 2004:38). Rejection of validity and reliability undermines the acceptance of qualitative research as a systematic process that can contribute to the advancement of knowledge (Rambaree, 2007:3). This is because the two concepts are the fundamentals of rigour. The concepts of validity and reliability are therefore, discussed.

Validity refers to the best available approximation to the truth of propositions (Parry, 1998:86). Long and Johnson (2000) argue that an account is valid if it represents accurately those features of the phenomena that is intended to explain, describe or theorise (Long & Johnson, 2010). Reliability, on the other hand, refers to the accuracy of a measuring instrument over repeated measures (Parry, 1998:87). Validity and reliability in this study were strengthened through the

proper documentation of the research process followed and thereby assisting other researchers to replicate the research.

It is important to determine the trustworthiness of the Qualitative research. The trustworthiness can be achieved by ensuring that the qualitative research is credible, transferable and dependable (Guba & Lincoln, 1982:377). Credibility of a qualitative research refers to the confidence that can be placed on the data gathered from the participants to the study and the researchers' interpretation of the findings (Guba & Lincoln, 1982:377). Transferability of a qualitative study refers to the ability of applying the research findings to other groups that were not part of the study (Cope, 2014:89). Dependability of a qualitative study refers to consistency of the findings if the study is carried out under similar conditions (Guba & Lincoln, 1982:377).

2.7 Ethical considerations

The main role of human participants in research is to serve as a source of data. Researchers, therefore, have a duty to protect the life, health, dignity, integrity, right to self-determination, privacy and confidentiality of personal information of research participants (Yip *et al.*, 2016:684). It is important that the participants' personal information is kept confidential, and the sites where interviews were conducted are not disclosed.

To ensure that the researcher remained ethical in the study, consent from the research participants was requested and obtained. This study was approved by the North-West University's Economic and Management Sciences Research Ethics Committee (EMS-REC) with ethics number: NWU-00102-19-A4. In addition, consent was obtained from interviewees prior to the event, their identities remained anonymous, and the location of the research sites were not disclosed. Refer to Appendix 1 for the ethical clearance certificate.

2.8 Summary

The goal of this chapter was to address the first objective of this study, which is to determine and design the appropriate research methodology to address the aim of the research project. This was done by discussing the following key aspects of the methodology.

Firstly, the reason for the chosen research design, research approach and research method was explained to understand the reasoning for the rest of the chapter. A combination of a literature review and empirical study was followed. A qualitative research approach was chosen for this study. This approach was chosen as the researcher wanted to compare and interpret qualitative information from several participants, and based on their gathered viewpoints, conclude and make recommendations.

The chapter continued by explaining the different qualitative empirical data collection techniques. The population was described and the sampling method from the population of officials with experience in the evaluation of emerging farmers' business proposals was presented. It was discussed that qualitative data was collected by conducting a single semi-structured interview and 10 online survey responses. To answer the primary objective of the study, draw a conclusion and make recommendations, the data were grouped and analysed according to common themes identified per question from the questionnaire.

This chapter reached the goal of explaining the research method and how it was implemented in this study. By following the guidelines highlighted above, a template of a good business plan that can be used by emerging farmers when applying for seed funding was developed.

Chapter 3 will present the results of the literature review.

CHAPTER 3

3 AGRICULTURAL FINANCE AND THE SOUTH AFRICAN AGRICULTURAL SECTOR

3.1 Introduction

This chapter aims to address the first objective as set out in Chapter 1 (section 1.4.2, page 7), reviewing literature around the role of livestock farming in South Africa, agricultural development, access to credit for smallholder and emerging farmers, agricultural credit applications and business proposals.

The literature review is a critical analysis of a segment of the published body of knowledge. This analysis includes summarising, classification and comparison of prior research studies, reviews of literature and theoretical frameworks. This is where candidates show an understanding of literature in their field, intellectual independence, information fluency and the ability to continually re-appraise ideas and practices (Mudavanhu, 2017:189).

According to Oberholster *et al.* (2015:49), there is limited research available on agricultural financing that takes into account the multidimensional nature of agricultural production in South Africa. There is however, literature on the challenges facing emerging and smallholder farmers (Khapayi & Celliers, 2015), farmers access to credit finance (Chauke *et al.*, 2013:582), livestock farming (Gone *et al.*, 2018) and business proposals in general (Haag, 2013:20).

This study attempts to contribute to the literature by achieving the aim of the study as stated in Chapter 1 (refer to section 1.4.1, page 7), namely developing a business proposal template that could be used by emerging farmers when applying for seed funding to establish a livestock farm.

3.2 The role of livestock farming in South Africa

There has been an increase in demand for livestock products in developing countries as a result of increased population growth, urbanisation, and low income (Grossi *et al.*, 2019). Due to the increased demand, there is a need to increase the supply of livestock products. Livestock farming is critical for agricultural development and in South Africa, about 70% of the land in the country is only suitable for livestock farming (Goni *et al.*, 2018:34). In the Eastern Cape province, as well as other villages or rural settlements in South Africa, it is common practice that each household has cattle, goats, pigs and sheep (Goni *et al.*, 2018:34). There are two types of livestock farming in most rural areas in South Africa – smallholder and emerging farmers (Mthi *et al.*, 2018:14). Most of these households are involved in smallholder farming and keep the cattle as an investment and only sell them when there is a need like paying for children's school fees (Goqwana *et al.*,

2008:64). Commercialising livestock farming in rural areas can play a key role in rural development and empowering the household farmers (Collier & Dercon, 2014:96; Lipchitz *et al.*, 2011:153). Incorporating smallholder cattle farming into the formal economy of South Africa can increase the livestock contribution to the country's total agricultural output (IDC, 2016). According to Mapiye (2018), the opportunity for smallholder beef farming systems to support the growth of livestock farming in South Africa has not been fully utilised (Mapiye, 2018:1712). To speed up rural agricultural development, the smallholder livestock farmers should increasingly be integrated into the value chain (Collier & Dercon, 2014:96).

There has been an effort in South Africa to commercialise the smallholder livestock farming. However, these efforts faced challenges and remained constrained by diseases, climate change and parasites, poor access to markets, lack of finance, feed shortages and lack of production infrastructure (Mapiye *et al.*, 2018:1711). Almost all of the above constraints and challenges require funding to be resolved and that means access to finance is a key component to the success of commercialising smallholder farming. The South African government has introduced grants that are focused on developing agriculture in the rural areas of the country in response to the financial need in the sector (Sebola, 2018:2). These grants are mostly non-recoverable and free to the beneficiaries, however, some are viewed as loans and are expected to be repaid (Sebola, 2018:3). The grants are aimed at promoting the role of smallholder farmers as emerging commercial farmers and for sustainability in the agricultural business (Sebola, 2018:4). Formal financial schemes have been developed within different institutions like the Industrial Development Corporation (IDC) and the Small Enterprise Development Agency (SEDA). These institutions administer the grants and part of their function is to develop the application process, including the criteria to determine who qualifies as a beneficiary (Gordhan, 2010).

3.3 Agricultural development

According to Uys (2015), there has been an increase in investor interest in agriculture and the interest suggests that there is a potential for large commercial investment in Africa (Uys, 2015:161). Many emerging countries have a challenge in developing their agricultural sector and reducing poverty (Ndhleve & Obi, 2013:263). A range of problems, ranging from climate uncertainties to the scarcities of environmental resources, has been highlighted as the limitations to the development of the agricultural sector (Ravago *et al.*, 2015:3). Uys (2015) stated that there is a need for private investors and the government to work together to overcome the limitations faced by farmers (Uys, 2015:161). In response to the limitation of access to finance, the South African government has embarked on initiatives aimed at providing agricultural grants. In turn, the South African commercial banks and other independent financial institutions have introduced

agricultural business divisions aimed at providing financial assistance to farmers. All these efforts are aimed at agricultural development.

There is however more work to be done to ensure that all these initiatives serve the intended purpose. Sikwela and Mushunje (2013) documented that despite the above efforts to assist the development of agricultural production in the country, emerging and smallholder farmers continue to be financially constrained (Sikwela & Mushunje, 2013:2503).

3.4 Access to credit for smallholder (emerging) farmers

The ability to raise financial capital is one of the most important factors needed for survival and growth of an entity. Credit is part of financial capital and can assist farmers in gaining financial resources beyond their abilities. This will enable them to take advantage of possible profitable opportunities (Henning & Jordaan, 2016:78). Most countries, especially in the SSA, are faced with an increasing demand for food. There is a need therefore, for the SSA countries to increase their agricultural productivity. Access to credit is the key enabler to increase productivity (Oberholster *et al.*, 2015). According to Bai *et al.* (2019), agricultural credit is necessary for sustainable economic development and poverty reduction (Bai *et al.*, 2019: 26). Most SSA countries, including South Africa, have not been able to increase their agricultural productivity due to emerging and smallholder farmers' access to credit being low. This poor access to credit facilities is influenced by the dispensation of the agricultural activities being in remote areas, where banking infrastructure is poor, leading to increased transactions costs (Oberholster & Adendorff, 2019:199). Furthermore, there is a lack of financing products tailored for the specific risks and patterns of the agricultural sector (Oberholster & Adendorff, 2019:199).

Most financiers in South Africa prefer to use agricultural land as collateral when offering agricultural credit (Middelberg, 2013a:273) and most of the emerging farmers in South Africa do not own land (Middelberg, 2013a:273). Since most emerging farmers and smallholder farmers do not own land, they are considered as high risk by the agricultural credit providers (Linh *et al.*, 2019:1473). Besides needing agricultural land as collateral, agricultural credit providers also consider the educational background of the farmer as one of the important variables to determine the farmer's creditworthiness (Bai *et al.*, 2019:27). Furthermore, the credit application of the farmer is also evaluated on their ability to manage the farm (Middelberg *et al.*, 2014:83). It can therefore, be argued that the better the educational background of an emerging or smallholder farmer, the higher the likelihood for the farmer to develop a sound business proposal to be used to assess the farmer's creditworthiness thus increasing the chances of being awarded financial assistance (Bai *et al.*, 2019:27).

3.5 Commercial banks and government financial institutions offering agricultural financing

Access to credit is essential for agricultural development. It enables farmers to buy inputs needed to increase productivity. Productive use of farm inputs is needed to increase food production and reduce poverty (Eularie, 2017:453). Therefore, access to credit for emerging and smallholder farmers is necessary to ensure that rural agricultural development is achieved. There is, however, a need for government and other financiers, including commercial banks, to intervene as rural access to agricultural credit is low (Linh *et al.*, 2019:1465). Additionally, commercial credit lenders view emerging and smallholder farmers as not-bankable clients (Eularie, 2017:453). These credit providers cannot risk providing finance to an emerging farmer that does not have a track record of successfully running a farm (Sebola, 2018:3). This raises the need for both government and the private sector to work together to assist the emerging and smallholder farmers access to finance (Uys, 2015:162).

The South African government through financial institutions such as the Land Bank and the private sector (i.e. commercial banks) have already introduced agricultural financing, aimed at agricultural development through providing financial assistance to emerging farmers (Chauke *et al.*, 2013:582). This financial institutions will assist emerging and smallholder farmers in accessing agricultural credit, improve rural development, assist in job creation and reduce poverty (Chauke *et al.*, 2013:582).

Despite the introduction of this agricultural finance by the commercial banks and the government, rural emerging and smallholder farmers are still not obtaining access to finance at a convincing rate. This is mostly due to the strict credit evaluation criteria that the farmers are subjected to. The farmers' credit application is complex and that makes it difficult for farmers to obtain the finance (Bai *et al.*, 2019:26). Most of the emerging and smallholder farmers are from previously disadvantaged backgrounds and they possess limited technical and financial skills (Macleod *et al.*, 2008:71). As a result, these farmers struggle to compile a sound business plan to the satisfaction of credit providers leading to a successful application. Sebola (2018) affirms that the success and failures of an emerging and smallholder farmer's application for funding are dependent on their business plan (Sebola, 2018:4).

One of the Land Bank's main mandates is to finance agriculture in South Africa, however their role in financing smallholder and emerging farmers remains limited compared to commercial farmers (Chisasa & Makina, 2012:780). Recently, the Land Bank faced numerous financial challenges which have affected their ability to fund farmers. The Land Bank is currently no longer

accepting new funding applications. The financial state of the Land Bank is a major problem for emerging and commercial farmers as they are major agricultural financiers (Mahlaka, 2021).

3.6 Business proposal or plan

A business proposal represents the entrepreneur's strategic thinking and planning process (Nunn & Mcquire, 2010:95). This is the owner's road map for a successful business (Haag, 2013:20). The business proposal is essential for securing credit, maintaining focus, communicating and preparing for the unexpected (Haag, 2013:20). The business proposal is not just a document used to raise funds; it is also the road map that enables the individual to execute excellence. Failure to plan may result in the owner not being able to tell when the business is headed in the wrong direction (Haag, 2013:21). It serves a dual purpose of providing a guide to the owner on developing and operating the business, and also attracting lenders or investors to finance the business. The business plan should be developed in a way that addresses the investor's or lender's level of risk, and the form and expected returns if they invested (Nunn & Mcquire, 2010:96).

The expected returns are evaluated using the financial analysis. The financial analysis consists of projected income and expense statement, balance sheet, statement of cashflow and business valuation (Haag, 2013:27). An income and expense statement can be defined as the operating statement for the business (Haag, 2013:28). Balance sheet can be defined as a statement that shows the position of the entity, i.e. assets and liabilities (Haag, 2013:28). A cashflow statement reflects the flow of money, showing cash inflows and cash outflows (Haag, 2013:28). Business valuation can be defined as a process carried out to estimate the value of an entity. The valuation is determined by numerous factors. The most commonly used valuation method is the discounted cashflow method. This method determines the value of the entity by discounting the entity cashflows using the weighted average cost of capital (WACC) (Miciula, 2020:15). The business proposal should be able to answer all the possible questions from the investors or lenders (Nunn & Mcquire, 2010:96).

Similar to other businesses, emerging and smallholder farmers are supposed to develop a sound business proposal or plan when applying for credit. Such a business plan plays a critical role in the evaluation of an emerging or smallholder farmer's credit application (Sebola, 2013:4). Providers of credit evaluate the repayment of the loan and the possible success of the farm through the details provided in the business proposal. The business proposal provides the in-depth detail of the entity, strategic plans, opportunities, marketing, financial models and other information providing a sense of direction for the proposed venture (Haag, 2013:20). This detailed

information is what is needed and used by credit evaluators to decide on granting finance to an emerging farmer or not (Henning & Jordaan, 2016:89).

3.7 Summary

The objective of this chapter was to gain an insight on the role of livestock farming in South Africa, agricultural development, access to credit finance for emerging and smallholder farmers, commercial banks and government financial institutions agricultural financing and business proposals – to address the second secondary objective of the study as listed in chapter 1 (section 1.4.2, page 7).

The chapter started by discussing in detail the role of livestock farming in South Africa. This was done by firstly, considering the need for livestock products in the country. This was followed by evaluating the possibility of commercialising rural livestock farming and how it can benefit rural communities and agricultural development. It was concluded by reviewing the possible limitations that can affect the commercialisation of livestock farming in South Africa.

The role of livestock in South Africa was followed by analysing the farmers' access to credit. This was done by analysing extant literature on agricultural financing. The literature highlighted some limiting factors that prevent emerging and smallholder farmers from accessing finance. The analysis of the farmers' access to credit was followed by an investigation of financial institutions that offer agricultural finance. The aim was gaining an understanding of the type of agricultural finance they offer and financing programs available for emerging and smallholder farmers. Over and above gaining an understanding, it was also used to analyse the effectiveness of the introduced agricultural programs.

The chapter concluded by discussing the role of a business proposal and all the components that make up a sound business proposal. This was done by studying the available literature on business proposals.

The next chapter will provide the results from the qualitative data collected from an interview and the online survey conducted, to identify the fundamentals of a sound business proposal for the application of seed funding by emerging livestock farmers.

CHAPTER 4

4 EMPIRICAL STUDY

4.1 Introduction

The aim of the study as set out in Chapter 1 (section 1.4.1, page 7) is to develop a business proposal template that can be used by emerging or smallholder livestock farmers when applying for seed funding. The purpose of this chapter is to address the second objective as presented in Chapter 1, Section 1.4.2 (page 7). This is to develop a business proposal template that could be used by emerging farmers when applying for seed funding to establish a livestock farm.

The rest of the chapter is structured as follows:

- **Empirical study** – this section is a detailed discussion of the research findings and results.
- **Business proposal template** – this is the business proposal template drafted based on the detailed discussion of the empirical study.
- **Summary** – the chapter concludes with a summary of the results and findings of the study.

4.2 Empirical study

Qualitative data was collected by using a combination of a semi-structured interview and an online survey comprising open-ended questions. As described in chapter 1 (section 1.6.2), the original research methodology (as defined in chapter 2, section 2.5.2.6) was to collect data by conducting semi-structured interviews with representatives from commercial banks and other financial institutions evaluating livestock emerging farmers' credit applications. However, after the first interview was conducted, the South African government announced a country-wide lockdown due to the outbreak of the Covid-19 pandemic. This resulted in the intended participants working from home and affecting the process of collecting data through face-to-face interviews. The interview questions were therefore, converted into an online survey with the link distributed by email to institutions offering agricultural credit to livestock emerging farmers (as described in chapter 2, section 2.5.2.6).

The questions were developed based on the literature review as discussed in chapter 3 and is attached in Appendix 2. Participants were chosen based on their experience of evaluating emerging farmers' livestock business proposals. All participants were expected to have evaluated or been involved in the process of evaluating business proposals to provide funding to emerging or smallholder farmers. All participants were from financial institutions that offer seed funding to

emerging and smallholder farmers. The questions were e-mailed to the interviewee beforehand, while the link to the survey was emailed to the selected participants. The participants represented different institutions including governmental entities, commercial banks and agribusinesses offering seed funding to emerging and smallholder livestock farmers. As a result, the qualitative data collected is representative of a variety of agricultural finance providers.

The results of this study were presented by analysing each participants response. The questions (see Appendix 2) consisted of two parts: 1) the participant profile, and 2) livestock farming seed funding business proposals.

4.2.1 Part 1: Participants profile

This section covers the findings of the online survey and the single face-to-face interview. The research questions were shared with representatives of commercial banks and independent financial institutions. These representatives distributed the link to the survey to an unknown number of individuals using e-mail. It was therefore not possible to determine the response rate. Eleven participants completed the survey. The survey did not request the participants to indicate their employer and therefore the number of representative organisations could not be determined. The participants were all situated in departments responsible for the evaluation of business proposals for emerging farmers. Figure 4.1 below shows the number of years of experience of the participants.

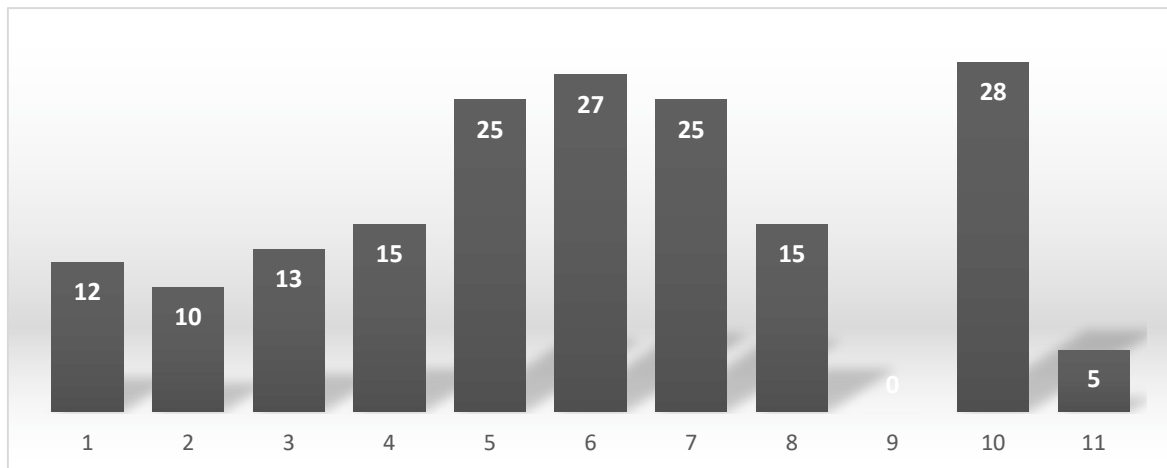


Figure 4-1: Participants' years of experience in evaluating business proposals

Figure 4-1 shows the results of the first question, asking the participants to indicate the number of years of experience they have in evaluating business proposals. The participants' experience ranges from a minimum of no experience to a maximum of 28 years. The average experience of the participants is 17 years. This indicates a wealth of experience and that the participants are

knowledgeable enough to know what is required for a sound business proposal that will be approved for seed funding.

Participants were not required to state their organisation to protect their anonymity, therefore, a differentiation between the different organisations that took part in the study cannot be made.

4.2.2 Part 2: Livestock farming seed funding business proposals

Paragraph 4.2.2.1 consists of results detailing the number of applications received, the applications' success rate and the common reasons for application failure. Paragraph 4.2.2.2 consists of the results of the questions relating to the the evaluation of seed funding business proposals. The third section (paragraph 4.2.2.3) details the results of the questions relating to the fundamental elements of a good business proposal.

4.2.2.1 Applications, success rate and common reasons for failure

Question: *How many business proposals for the establishment of a livestock farm do you roughly receive in a year? (Question 1)*

Table 4-1 indicates the number of business proposal received by each participant in a year. The participants received a total of approximately 5 140 business proposals in a year. Participant 10 received the highest number of business proposals which were 5 000 and Participant 1 received the least number of business proposals, which were only 4.

Question: *How many would you estimate (in percentage) are successful? (Question 2)*

Table 4-1 also indicates the success rates of the received business proposals. The success rate of the seed funding business proposals varies and ranges from 10% to 100%. Two participants (1 and 5) recorded a 100% success rate. Three participants (8, 9 and 10) recorded the lowest success rates ranging from 10% to 40%.

Table 4-1: Business proposals received and its success rate

Organisation	Business proposals received	Success rate
1	4	100%
2	15	60%
3	15	80%
4	10	60%
5	6	100%
6	5	60%
7	15	80%
8	10	20%
9	10	10%
10	50	40%
11	5000	90%
Average	467	64%

The weighted overall results show that an average of 467 proposals are received with an average of 64% of the received business proposals applications being successful.

This study show that more than half of all proposals, on average, are successful. Despite the average success rate being above 50%, the literature review and responses from survey revealed that emerging and smallholder farmers continue to be financially constrained (Makofane & Gray, 2007:201; Sikwela & Mushunje, 2013:2503). This constraints are due to emrging and smallholders farmers getting limited access to finance as compared to commercial farmers (Chisasa & Makina, 2012:780). Most emerging and smallholder farmers are also constrained as they lack a solid

education and as a result, they draft poor business proposals. This proposal are therefore declined which restricts their access to finance (Bai *et al.*, 2019:26). An improved application success rate would encourage agricultural development, job creation and increase food security.

Question: *What do you regard as the most common reasons for non-successful proposals?*
(Question 3)

The participants provided a number of reasons for proposals being unsuccessful. These include a lack of experience, poor budgeting, inadequate collateral, requests for 100% funding and the lack of repayment ability.

Most participants averred that emerging farmers have poor financial skills which result in them being too optimistic and providing inaccurate financials. Eight out of eleven participants stated that emerging farmers over-estimate their income drivers and under-estimate their costs. This results in inaccurate assumptions.

Most of the participants stated the 'lack of access to land and infrastructure' are also one of the the main reasons for unsuccessful proposals. Emerging farmers have inadequate equity and collateral.

Two participants (1 and 3) stated that business proposals do not provide evidence of training and technical skills. Participant 6 emphasizes how the lack of expertise and experienced personnel is a key issue that emerging farmers need to address.

This in line with the constraints highlighted by Middelberg (2013a:273) and Bai *et al.* (2019).The business proposal is the only document that communicates on behalf of the farmer with the credit evaluators. If this document does not adequately communicate the required information in detail showing an understading of business processes, the proposal may be rejected. It is therefore, important that a detailed and adequately documented business proposal is submitted.

4.2.2.2 Evaluation of seed funding business proposals

The following questions were asked to determine the methods or techniques used to evaluate business proposals.

Question: *Which techniques are used to evaluate a business proposal for seed funding for the establishment of a livestock farm?* (Question 7)

Ten out of eleven particiants stated that techniques used to evaluate a business proposal include evaluating financial information such as cash flows, budgets and financial statements. A viability

assessment is also conducted to analyse the market, capability of the operator and repayment ability.

Most of the participants also highlighted that they evaluate the individual/company's contribution and collateral.

Question: How is the evaluation of an application for seed funding for the establishment of a livestock farm carried out? (Question 9)

Ten out of eleven participants stated that the evaluation process is conducted by evaluating the following:

- What is required to be financed;
- The background of the individual/company;
- Financial position of individual/company;
- Financial performance;
- Projections and whether they are in line with historical performance or industry norms;
- Collateral for the requested funding; and
- Risk analysis of the borrower.

Most of the participants stated the applicant must have a thorough understanding of the business, its financial implications and the business structures. A due diligence needs to be performed to understand the full risk and potential returns for the business proposal to be successful.

4.2.2.3 Fundamental elements of a good business proposal

Question: *What do you regard as a good business proposal for the establishment of a livestock farm, i.e. what are the key aspects it should address?* (Question 4)

This question was aimed at finding the fundamental components of a good business proposal submitted as part of the application for seed funding for the establishment of a livestock farm.

Most of the participants stated the following information is important:

- The entity or individual background (including experience, qualification etc);
- The farm management and a good understanding of livestock management;
- The farming strategy to be implemented;
- The farm infrastructure and resources such as land, labourers and other farming resources;
- The financial forecast and financial analysis; and
- The type of financing required.

The entity or individual background

Question: *What, in your opinion, is key in ensuring that a business proposal for seed funding for the establishment of livestock is successful? (Question 15)*

Seven out of 11 participants averred that adequate owners' capital is key in ensuring that a business proposal for seed funding is successful. Three out of eleven participants stated that the applicant's experience and management expertise are very important in ensuring business proposals are successful.

Most of the applicants stated that the applicant's risk profile is critical in determining the success of a credit application. Therefore, it is important to provide detailed information regarding the applicant to enable the evaluator to perform an accurate risk assessment. The results of the applicant's risk assessment and the financiers' risk tolerance are critical to the success of the finance application. Depending on the financier's risk appetite and tolerance, it is seldom that finance is approved for applicants with high risk.

The farm management

Question: *In your opinion, how important is the farmer's educational background on the evaluation of the business proposal? (Question 6)*

It was found that farmers with higher educational levels prepare business proposals of a higher quality. However, despite the higher quality proposals, evaluators still focus on the farm management and experience. Six out of eleven participants stated that the farmer's education is not evaluated in isolation. The evaluation of the educational background is based on the farm management team. The farm management refers to the key farming employees that are responsible for managing the day-to-day operations of the farm. Depending on the farm, this may be the farm manager, accounts manager, human resource manager, etc. The farm management is responsible for the implementation, control and evaluation of the farming strategy. They are the decision-makers of the farming enterprise, and as a result, the success of the farm is greatly dependent on them.

Most of the participants stated that the proposal should provide the general background of the personnel, their work experience and educational background. The farm management's education and expertise are important in the evaluation of the proposal. Most of the participants affirmed that when the management lacks some of the necessary skills, it does not mean the

proposal will be rejected but the proposal should clearly indicate a pathway of how the management will be upskilled.

Farming strategy

Question: *How important is the business strategy of the livestock farm when evaluating the business proposal for seed funding? (Question 13)*

All eleven participants confirmed that a business strategy is very important when evaluating the business proposal for seed funding. The participants stated that business strategies help understand where the borrower is going. The farm strategy is a fundamental document in developing the farm's financial forecast. The financial forecast is a translation of the farm's strategy into monetary terms and this shows how the farm operations will translate to a profitable business.

Question: *Based on your experience, which business strategy works well for a newly established livestock farm? (Question 14)*

The interviewee and the survey participants highlighted that it is important that the chosen farm strategy be practical, simple and easy to implement. Furthermore, the strategy must address the products that the entity will be selling, the market dynamics in terms of forecasted demand and the market share, the availability of stock, sourcing of resources and purchase of capital infrastructure.

Most of the participants argued that the most common strategy for successful livestock farmers is the stability and growth strategy. The stability strategy allows the farm management to focus on their initial product and maintain their current market. The aim should be to be comfortable with their operations and marketing processes and strengthen their position in the market. Once they feel they are stable as a company, they then can apply the growth strategy by starting to introduce new products, increasing their market share and acquiring more resources for expansion.

The farm infrastructure and resources

Question: *Is the business proposal for seed funding of a farmer who already owns land evaluated differently from that of a farmer without land? (Question 10)*

Most of the responses to the question indicated that land on its own is not considered in the evaluation of the farmer's business proposal, it is the complete farm infrastructure, livestock and

available resources. This includes the farmers' access to grazing land, operational facilities, availability of labourers and any other assets needed for the successful operation of the entity. Access to infrastructure and farming resources are essential to the success of the farm.

Most financiers use assets as collateral to grant credit (Middelberg, 2019:2). The same is true for agricultural financiers. Collateral has been one of the constraints for emerging farmers' access to credit as they usually do not own assets that can be used as collateral for the loans (Middelberg, 2019:2).

A few of the participants stated that some financiers do not put too much value on the land. This is because the sale of the land to repay the loan is seen as reputational risk. These financiers therefore, rather evaluate the proposal holistically without placing over-reliance on the land.

The financial forecast and financial analysis

Question: *What is the key financial information required to evaluate the financial viability of a livestock farm? (Question 11)*

Most of the participants highlighted the following as key information required to evaluate financial viability:

- Financial performance;
- Financial Position;
- Detailed cash flow;
- Feasibility study for the livestock enterprise; and
- Financial ratio analysis

Using the financial information, the farmer needs to show a representation of the performance of the entity and its position. The financial forecast should reflect the financial journey that will be expected from the farming activities and includes the assumptions used to arrive at the forecasted amounts. The assumptions made should be reasonable. Financiers use the financial forecast to evaluate the following: 1) the success of the entity, 2) to determine the payback period of the loan amount, and 3) establish the financial position of the entity compared to the market. The credit evaluators do however, not take the amounts used to compile the financial forecast at face value, but rather consider and weigh the assumptions made to ensure that the amounts are reasonable and accurate.

Question: *Do you have a set standard that are used as a benchmark to assess the viability and sustainability of the financial information provided in the business proposal to obtain seed funding for the establishment of a livestock farm? (Question 12)*

Nine out of eleven noted that it is evaluated on a case-by-case basis. Participant 6 remarked that the following benchmarks are applicable:

- maximum 40% debt to equity ratio,
- relating to beef cattle, a minimum of 300 cows,
- relating to sheep, a minimum of 1 000 ewes.

Participant 7 asserted the following benchmarks: 1) the liability ratio must not be more than 50%, 2) a gearing ratio of not more than 100%, and 3) the debt must be less than 50% of the vale of the livestock.

The farmers should ensure that their debt-to-equity ratio remains favourable after the financial application is successful. The debt-to-equity ratio represents the farming enterprise's borrowings (debt) relative to the owner's capital (equity). The participants are of the opinion that the farm should not be funded by more debt compared to equity. Higher debt levels subject the company to an increased risk level. It was found that a highly geared farm is unlikely to succeed with their finance application. The results of the farm's financial analysis are usually compared to the market benchmark even though the financial standing of each applicant is treated independently. The market benchmark represents the ratios that are currently accepted in the market i.e. currently, the market debt-to-equity ratio should not be more than 50%.

The financing required

Question: *What determines which method the evaluator of the proposal uses? (Question 8)*

Most of the participants reported that the method used to evaluate the business proposal is dependant on the purpose of the requested finance. One of the partipants stated that it depends whether the financial request is long term or short term.

4.2.3 Livestock farming and rural development

Question: *How do you think livestock farming can assist in rural development in South Africa? (Question 16)*

All of the participants agreed that livestock farming can assist with rural development in South Africa. It can improve the livelihood of people in rural areas by increasing jobs opportunities and providing food security. The participants also noted that with improved genetics and lower stock theft, there is a potential for the rural areas to be developed.

Two of the participants stated that there is a meat shortage in the country. The shortage of meat presents an opportunity for the rural community that is already familiar with livestock farming. The participants highlighted one major challenge that exists in rural areas. Historically, livestock was regarded as a symbol of wealth and it is still the case to date. It was, therefore, suggested that the government offers educational programs or raise awareness to change the mindset of the people to rather view livestock as a business opportunity to escape the poverty trap.

4.3 Business proposal template

In line with the aim of this study, a business proposal template to be used by emerging farmers when applying for seed funding to establish a livestock farm was developed. This complete business proposal template was developed in Microsoft Excel and can be found in Appendix 3.

The template will be presented using the same fundamentals as identified through the semi-structured interview and online survey, namely, the entity or individual background, farm management, farming strategy to be implemented, farm infrastructure and resources, financial forecast and financial analysis, and the type of financing required. An extract from the developed business proposal template is provided in Figure 4-2 below.

Details of farming operation

1. Company profile

The executive summary should include answers to the following:

When was the company formed?

Where are the main operations of the entity based?

Who are the owners of the farm?

Where are the owners of the farm from and what is their work experience background (this should include work experience and educational background)?

2. Farm Management

List the farm management and their respective roles

Present an organisational organogram indicating the management structure

The farm management's profiles:

Name

Educational background
Previous work experience

3. Farm strategy

The farming strategy must detail the following:

Livestock farming feasibility study including SWOT analysis

The farm operational strategy to be used (This should clearly communicate the farming concept and the opportunity that the farm is responding to)

Products to be sold

The farm marketing strategy to be used

Pricing strategy to be used

4. Farm infrastructure and resources

The farm assets

List of all the assets: owned and those that the farm does not own but have access to

Farming resources availability

The availability of resources e.g. farm labour

Figure 4-2: Extract from the business proposal template developed

The qualitative data collected from the participants indicated that when emerging livestock farmers prepare a business proposal by addressing the identified fundamental elements as presented in the business proposal template (Appendix 3), it could lead to an improved success rate of the approved credit applications.

4.4 Summary

This chapter aimed to address the third objective, as set out in chapter 1 (section 1.4.2, page 7) to develop a business proposal template that can be used by emerging livestock farmers when applying for seed funding. This was done by presenting the results of the questionnaire in two parts. Firstly, part one presented the results of the participants' profiles, while part two discussed the results of the questions around livestock seed funding business proposals received by the different organisations.

The fundamental elements of a sound business proposal by livestock emerging farmers for seed funding were considered. These fundamental elements were broken down into six components with each component discussed in detail based on the results and findings of the interview and the online survey conducted. The chapter further considered the role of livestock farming in agricultural development in the country.

Based on the fundamental components, a business proposal template that could be used by emerging farmers when applying for seed funding to establish a livestock farm was designed. The

business proposal template (refer Appendix 3) is a skeleton that provides for the six fundamental elements (applicant background, farm management, the farming strategy, the financing need, farm infrastructure and resources, and financial forecast and financial analysis) of a sound business proposal for providing seed funding to livestock emerging farmers by the financiers.

The final chapter will discuss the conclusion and recommendations of the study, based on the information that was gathered.

CHAPTER 5

5 CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter, as determined in Chapter 1 (section 1.4.2, page 7), is fulfilling the final objective of this study, which is to make recommendations, identify limitations of the study as well as areas for future research.

The chapter will start by providing a summary of the research methodology and design then discuss the objectives of the study. This would be done to provide a comprehensive understanding of how the methodology was determined and how each objective has been addressed. Secondly, it will discuss the limitations of this study. The chapter will then conclude with areas of possible further research that have been identified.

5.2 Research methodology and Design

To determine and design the appropriate research methodology to address the main research objective

In Chapter 2, Section 2.3 (page 13) it was determined that to choose an appropriate research methodology, the following three concepts had to be considered: 1) research methodology, 2) research design, and 3) research method.

A qualitative study was identified as the most appropriate research approach. This approach was chosen because the data required to respond to the main objective of this study had to be factual and descriptive (Maxwell, 2008:216). The qualitative approach afforded the opportunity to gain detailed information on the main objective of the study, allowing the researcher to analyse, interpret and based on the results of the above, be able to establish a trend to determine the components to the study. The identified components allow the researcher to draw up conclusions and make recommendations to the study. The objective of the study was to explore the elements of what financial institutions regard as a sound business proposal to apply for seed funding for the establishment of a livestock farm.

The research design is defined by Akhtar (2016) as the plan, structure, strategy and investigation that will be implemented to ensure that appropriate evidence on the study is collected (Akhtar, 2016). The study was nested in interpretivism.

The researcher was physically involved with the data collection and the conclusion to the study was therefore, based on the researcher's interpretation of the data collected. This is the reason for the chosen research design. The researcher wanted to interpret and analyse the collected data to develop a template that could be used by emerging farmers when applying for seed funding.

The research method followed for this study included collecting qualitative data from different participants representing different institutions. This method proved to be effective as the information gathered enabled an opportunity to achieve the main research objective of this study, i.e. developing a sound business proposal for livestock farmers to apply for seed funding.

A semi-structured interview and an online survey were used to collect the data. Initially, the data collection technique chosen for this study was semi-structured interviews, however, due to the unfortunate events of Covid-19, the country was placed on lockdown and physical interviews proved to be problematic. The researcher, therefore, had to change the data collection technique from semi-structured interviews to an online survey.

The qualitative data gathered was presented and discussed in the empirical chapter and it supported the decision that the methodology was adequate to provide an answer to the research question.

5.3 Objective 1

This objective was to review the literature on the role of livestock farming in South Africa, agricultural development, access to credit for emerging and smallholder farmers, business proposals.

Section 3.1 of Chapter 3 detailed the flow that was followed to address the first objective. Firstly, the role of livestock farming in South Africa was investigated. The investigation found that livestock farming is a common practice in most rural areas of South Africa (Goni *et al.*, 2018:34). Livestock farming proved to be an essential tool in fast-tracking the process of rural agricultural development thus improving the rural economy. This can be achieved if the rural livestock farming is integrated into the commercial agricultural value chain (Collier & Dercon, 2014:100). There are however, limitations identified that prevent the commercialisation of the rural farmers, including animal diseases, climate change, parasites, poor access to markets, lack of finance, feed shortages and lack of production infrastructure (Mapiye *et al.*, 2018:1712). The majority of the listed constraints require funding to be resolved and that means access to finance is a major component of the constraints. To try and resolve this financing constraint, the South African government has introduced financial schemes or institutions aimed at providing finance to

emerging and smallholder farmers (Sebola, 2018:2), while commercial banks and other financial institutions have introduced agricultural business divisions.

The literature around agricultural development pointed to the incorporation of emerging and smallholder farmers into the commercial agricultural value chain through access to finance. The researcher then considered the access to credit for smallholder and emerging farmers. Henning and Jordaan (2016) stated that financing is critical for farmers and enables them to participate in any possible opportunities (Henning & Jordaan, 2016:77). Despite the efforts by both government and commercial banks to assist in providing finance for the emerging and smallholder farmers, their access to the funding has not been as envisioned. This is due to constraints such as that collateral is needed as security when emerging farmers apply for funding (Middelberg, 2013a:273).

The above led to the investigation of agricultural finance available to emerging and smallholder farmers. The availability of government financial institutions and commercial banks initiatives aimed at agricultural development was confirmed (Chauke *et al.*, 2013:582). The investigation however, also revealed that despite the efforts to provide financial assistance to emerging and smallholder farmers, they are not accessing the finance at a convincing rate. This is mostly due to the strict credit evaluation criteria that the farmers are subjected to (Bai *et al.*, 2019:27). The complicated process requires the submission of a credit application, which includes a detailed business proposal. The success or failure of an emerging/smallholder farmer's application for funding is therefore, dependent on the quality of their business plan.

A business proposal plays a critical role in the evaluation of emerging and smallholder farmers credit applications (Sebola, 2013:3). This is because the document details the road map for a successful business. The credit providers are interested in evaluating the success of the emerging farm as that gives them the indication of the farm's ability to repay the loan that would potentially be granted if the application is successful.

A set of survey questions were developed using the information gathered through the literature review. The responses to the survey were able to address the set research objective. Therefore, the objective of this objective was met.

5.4 Objective 2

To develop a business proposal template for emerging farmers when applying for seed funding to establish a livestock farm

The components that make up a good business proposal to be used by emerging farmers when applying for seed funding were discussed in Chapter 4 (section 4.2.2.3, page32). The themes were determined by considering the result of the literature review and the data collected through the interview and the responses from the online survey.

This was followed by drafting the business proposal template using the fundamental elements that financial institutions regard as part of a sound business proposal for emerging livestock farmers when applying for seed funding. This was presented in Chapter 4 and the business proposal template is included as Appendix 3 to this document.

The third objective was therefore, reached as the business proposal template to be used by emerging farmers when applying for seed funding was developed and presented.

5.5 Objective 3

The final objective as set in Chapter 1 (section 1.4.2, page 7) was to provide a summary of the findings and conclude the research conducted.

5.6 Limitations of the study

The following limitations of this study can be highlighted:

- The participants of the study included representatives of financial institutions that evaluate credit applications of emerging and smallholder farmers for seed funding. The study is therefore, limited to their views and perspectives. The information gathered was however, sufficient to address the research objective as the study was focused on what the evaluators regard as a sound business proposal.
- The study did not take into account the loan repayment success rate of the farmers. This could provide evidence whether the successful applicants did indeed achieve what they set out to achieve and whether the fundamental elements used to evaluate a business proposal are accurate or other measures should be considered.
- The study was limited to the collection of qualitative data. Quantitative data was not included as part of the data collection process.

5.7 Future research

The identified areas for future research that could be conducted on this topic attempted to address the limitations of this study. These areas include the following:

- The study can be extended to consider the viewpoint of emerging and smallholder farmers by determining the challenges they face when drafting a business proposal.
- A follow-up project could focus on the emerging farmers that were granted credit to determine whether they were successful as per the submitted business proposal as part of the credit application.
- The questionnaire can be sent to emerging farmers to obtain evidence about their perceptions of the various financial institutions that provide agricultural finance.

5.8 Summary

The aim of this study was to develop a business proposal template that can be used by livestock emerging farmers when applying for seed funding. The aim was achieved. The researcher developed a business proposal template supported by an in-depth detail of each of the fundamental components that a sound business proposal should comprise of when emerging livestock farmers apply for seed funding. The details include the reasons why each component is important to the credit evaluators and recommendations of what should be included in the business proposal to address that fundamental element. The business proposal template is presented in Appendix 3.

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APPENDIX 1: ETHICAL CLEARANCE



NORTH-WEST UNIVERSITY
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Economic and Management Sciences Research
Ethics Committee (EMS-REC)

28 February 2020

Prof S Middelberg
Per e-mail
Dear Prof Middelberg

EMS-REC FEEDBACK: 28022020
Student: Masuku, SN (22390308)(NWU-00102-19-A4)
Applicant: Prof S Middelberg – MCom in Management Accountancy

Your ethics application on, *Developing a business proposal template in support of the establishment of a livestock farm in South Africa*, which served on the EMS-REC meeting of 28 February 2020, refers.

Outcome:

Approved as a minimal risk study. A number NWU-00102-19-A4 is given for three years of ethics clearance.

Kind regards,

Mark Rathbone
Digitally signed by Mark Rathbone
DN: cn=Mark Rathbone, o=North West
University, ou=Business management,
email=mark.rathbone@nwu.ac.za, c=ZA
Date: 2020.02.28 11:02:08 +0200

Prof Mark Rathbone
Chairperson: Economic and Management Sciences Research Ethics Committee (EMS-REC)

APPENDIX 2: QUESTIONNAIRE

Research question: What do financiers regard as an adequate business proposal to grant financial assistance to emerging farmers to establish a livestock farm?

Participant profile

The reason for these questions is to determine the level of experience in the field of agricultural finance.

1. How many years have you been working at this organisation?
2. How many years of experience to you have in evaluating business proposals?

Business proposal questions

1. How many business proposals for the establishment of a livestock farm do you roughly receive in a year?
2. How many would you estimate (in percentage) are successful?
3. What do you regard as the most common reasons for the non-successful proposals?
4. What do you regard as a good business proposal for the establishment of a livestock farm, i.e., what are the key aspects it should address?
5. Based on the business proposals that you have received thus far, can you estimate what the educational background of the compilers (farmers) is?
6. In your opinion, how important is the farmer's educational background on the evaluation of a business proposal?
7. Which techniques are used to evaluate a business proposal for seed funding for the establishment of a livestock farm?
8. What determines which method the evaluator of the proposal uses?
9. How is the evaluation of an application for seed funding for the establishment of a livestock farm carried out?
10. Is the business proposal for seed funding of a farmer who already owns land evaluated differently from that of a farmer without land?

11. What is the key financial information required to evaluate the financial viability of a livestock farm?
12. Do you have a set standard that is used as a benchmark to assess the viability and sustainability of the financial information provided in the business proposal to obtain seed funding for the establishment of a livestock farm?
13. How important is the business strategy of the livestock farm when evaluating the business proposal for seed funding?
14. Based on the experience of the organisation, which business strategy works well for a newly established livestock farm?
15. What, in your opinion, is key in ensuring that a business proposal for seed funding for the establishment of livestock is successful?
16. How do you think livestock farming can assist in rural development in South Africa?
17. Do you have any other thoughts on the issue?

APPENDIX 3: BUSINESS PROPOSAL TEMPLATE

Details of farming operation

1. Company profile

The executive summary should include answers to the following:

When was the company formed?

Where are the main operations of the entity based?

Who are the owners of the farm?

Where are the owners of the farm from and what is their work experience background (this should include work experience and educational background)?

What is the experience of the entity?

2. Farm Management

List the farm management and their respective roles

Present an organisational organogram indicating the management structure

The farm management's profiles:

Name

Educational background

Previous work experience

3. Farm strategy

The farming strategy must detail the following:

Livestock farming feasibility study including SWOT analysis

The farm operational strategy to be used (This should clearly communicate the farming concept and the opportunity that the farm is responding to)

Products to be sold

The farm marketing strategy to be used

Pricing strategy to be used

4. Farm infrastructure and resources

The farm assets

List of all the assets: owned and those that the farm does not own but have access to

Farming resources availability

The availability of resources e.g. farm labour

Assumptions for the financial projections

All amounts used must be accurate. The amount must reflect the current market price. Avoid using estimated costs when an actual amount can be determined.

1. Revenue

Products to be sold

Product A
Product B

Price per product

Product A XXXX
Product B XXXX

Units forecasted to be sold

State the first month of revenue?

Show the demand forecasted figures from month to month for the next 5 years

Assumptions used to make the demand estimates

2. Expenditure

2.1 Variable costs

List of all the costs that will be directly attributable to the product

Examples

Animal feed
Animal inventory purchased
Direct labour
Transport costs

2.2 Operational Expenses

List all the costs that will be incurred monthly regardless of production

Example

Farm management salaries
Electricity costs
Marketing
Land rental

3. Investment needed

How much money is needed?

State what is the money required to finance. Is the money required to:

Purchase land or,
Purchase the farming assets or,
To finance the farm operation until the farm is profitable

4. Financial evaluation model assumptions

State the reason why the valuation model used to determine the value of the farm was chosen

Furthermore, if other models were used, state the reason therefore

5. Working capital

Inventory

Provide details of the stock movement cycle

Re-order levels
Re-order quantities

Trade receivables

State the expected trade receivable policy to be used

Trade Payables

State the expected trade receivable policy to be used

Income Statement

(ZAR)	FY1	FY2	FY3	FY4	FY5
Revenue	0	0	0	0	0
<i>% growth</i>		0%	0%	0%	0%
Cost of Goods Sold	0	0	0	0	0
<i>% growth</i>		0%	0%	0%	0%
Gross Profit	0	0	0	0	0
<i>% growth</i>		0%	0%	0%	0%
Salaries and wages	0	0	0	0	0
<i>% growth</i>		0%	0%	0%	0%
Operating expenses	0	0	0	0	0
<i>% growth</i>		0%	0%	0%	0%
EBITDA (Earnings before interest, tax, depreciation and amort)	0.0	0.0	0.0	0.0	0.0
<i>% growth</i>		0%	0%	0%	0%
Depreciation	0	0	0	0	0
Profit before Tax	0	0	0	0	0
Income tax expense	0.0	0.0	0.0	0.0	0.0
Net Income	0.00	0.00	0.00	0.00	0.00
<i>% growth</i>		0%	0%	0%	0%

Balance Sheet

(ZAR)	FY1	FY2	FY3	FY4	FY5
Assets					
Current Assets					
Cash & Equivalents	0	0	0	0	0
Debtors	0	0	0	0	0
Deferred tax asset	0	0	0	0	0
Total Current Assets	0	0	0	0	0
Non-Current Assets					
Property, Plant & Equipment	0	0	0	0	0
Goodwill	0	0	0	0	0
Total Non-Current Assets	0	0	0	0	0
Total Assets	0	0	0	0	0
Current Liabilities					
Accounts Payable	0	0	0	0	0
Total Current Liabilities	0	0	0	0	0
Non-Current Liabilities					
Debt	0	0	0	0	0
Total Non-Current Liabilities	0	0	0	0	0
Equity					
Retained earnings / Accumulated loss	0	0	0	0	0
Equity	0	0	0	0	0
Shareholder Loan	0	0	0	0	0
Total Equity	0	0	0	0	0
Total Liabilities & Equity	0	0	0	0	0
Balance check	OK	OK	OK	OK	OK
	0.00	0.00	0.00	0.00	0.00

Cash Flow Statement

(ZAR)	FY1	FY2	FY3	FY4	FY5
Operating activities					
EBITDA	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
Changes in working capital	0.0	0.0	0.0	0.0	0.0
Cash flow from operating activities	0.0	0.0	0.0	0.0	0.0
Investing activities					
Capex	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	0.0	0.0	0.0	0.0	0.0
Financing activities					
Equity raise	0.0	0.0	0.0	0.0	0.0
Debt received	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	0.0	0.0	0.0	0.0	0.0
Changes in Cash flow	0.0	0.0	0.0	0.0	0.0
Opening bank balance	0.00	0.00	0.00	0.00	0.00
Closing bank balance	0.0	0.0	0.0	0.0	0.0

Returns

WACC Calculation		
Target Capital Structure		
	Debt to Total Capitalisation	50.00%
	Equity to Total Capitalisation	50.00%
Cost of Debt		
	Cost-of-Debt	10.000%
	Tax Rate	28.00%
	After-tax Cost of Debt	7.200%
Cost of Equity		
	Risk-free Rate	6.500%
	Market Risk Premium	23.500%
	Cost of Equity	30.00%
WACC		18.60%

Forecast financials

	FY1	FY2	FY3	FY4	FY5
Revenue	0.0	0.0	0.0	0.0	0.0
EBITDA	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
Changes in net working capital	0.0	0.0	0.0	0.0	0.0
Cash interest					
Profit after tax	0.0	0.0	0.0	0.0	0.0
Unlevered Free Cash Flow	0.0	0.0	0.0	0.0	0.0
Discount period	1	2	3	4	5
PV Factor	0.8432	0.7109	0.5994	0.5054	0.4262
PV of Free Cash Flow	0.0	0.0	0.0	0.0	0.0
Sum of PV of FCF	0.0				

Terminal value calculation

TV - Perpetuity Growth Model	
Terminal Year FCF	-
Perpetuity Growth Rate	4.00%
Terminal Value	-
Discount Factor	0.43
PV of Terminal Value	-
TV - Exit Multiple Method	
Terminal Year EBITDA	-
Exit Multiple	4.0x
Terminal Value	-
Discount Factor	0.43
PV of Terminal Value	0.0

DCF

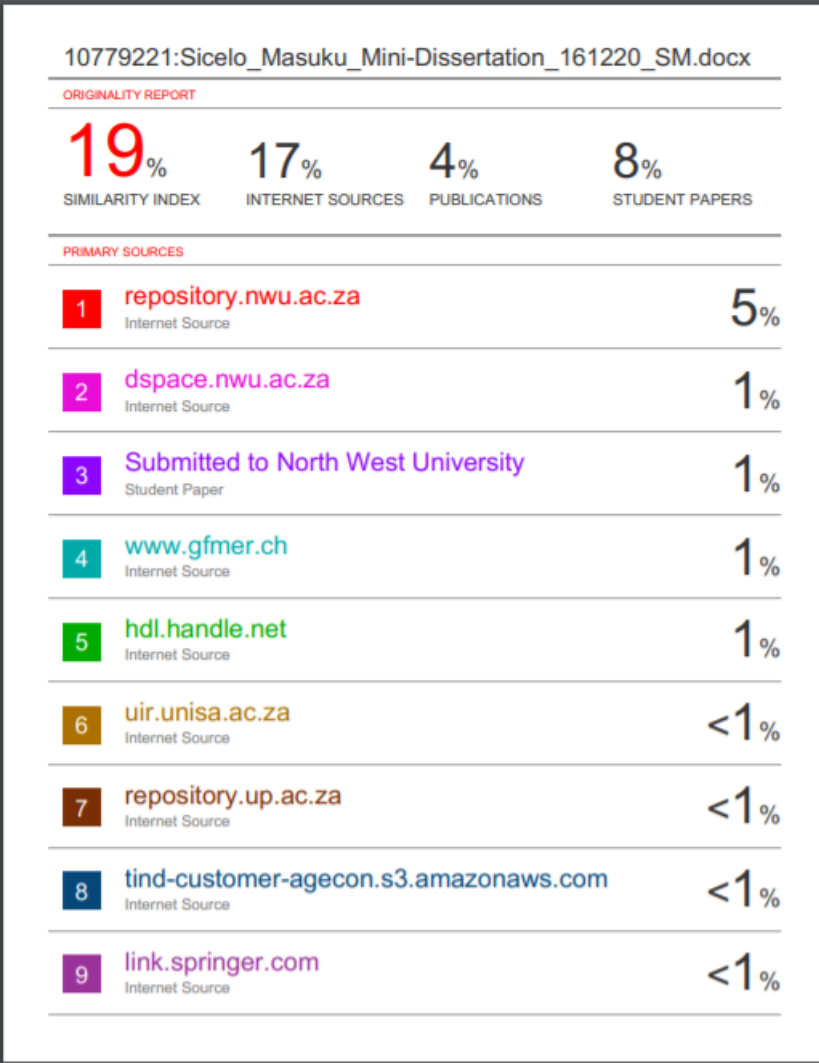
EV Based on Perpetuity Growth

Terminal value PV	0.0
Sum of PV of FCF	0.0
PV of Enterprise Value	0.0

EV Based on Exit Multiple Method

Terminal value PV	0.0
Sum of PV of FCF	0.0
PV of Enterprise Value	0.0

APPENDIX 4: PLAGIARISM REPORT



APPENDIX 5: LANGUAGE EDITING CERTIFICATE



DEPARTMENT OF BOTANY

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Date: 15th December, 2020

To Whom It May Concern,

REF: Language Editing and Proof-reading of Proposals/Articles/Mini-dissertations/Dissertations/Theses

Dear Sir or Madam,

This serves to confirm that I have proof-read and edited the MCom mini-dissertation of **SN Masuku** (22390308; orcid.org/0000-0002-0174-447X) entitled: **Developing a business proposal template in support of the establishment of a livestock farm in South Africa**. The candidate then later corrected all the identified language and technical errors to my and the supervisor's utmost satisfaction. Thus the document presented here is of sufficient and acceptable academic standards.

Editor

Prof. O Ruzvidzo