

RURAL NON-FARM ENTERPRISES: A VEHICLE FOR RURAL DEVELOPMENT IN SOUTH AFRICA?

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There is a need to determine the extent to which the development and promotion of small scale rural non-farm enterprises can be a vehicle to promote rural development and alleviate poverty. As a first step in developing an analytical framework to study the link between rural development and the rural non-farm sector in South Africa, this paper provides an analysis of the diversity and behaviour of non-farm enterprises in the rural areas of the Northern and Northwest provinces. From the analysis provided in this paper, it seems that there is a lack of diversity in the rural non-farm economy with a complete domination by trading and service related enterprises and a virtual absence of small-scale rural industries.

NIE-LANDBOU ONDERNEMINGS IN LANDELIKE GEBIEDE : 'N MOONTLIKE VOERTUIG VIR LANDELIKE ONTWIKKELING IN SUID-AFRIKA

Daar is toenemend 'n behoefte om te bepaal tot watter mate die ontwikkeling en bevordering van kleinskaalse landelike nie-landbou-ondernemings landelike ontwikkeling kan bevorder en armoede kan verlig. As 'n eerste stap om 'n analitiese raamwerk daar te stel om die verband tussen landelike ontwikkeling en die landelike nie-landbousektor te bepaal, analiseer hierdie referaat die verskeidenheid en gedrag van nie-landbou ondernemings in die landelike gebiede van die Noordelike en Noordwes provinsies. Die analise wys daarop dat daar gebrekkige diversifikasie in die landelike nie-landbousektor is met 'n totale dominansie van handels- en diensgeoriënteerde ondernemings en die relatiewe afwesigheid van kleinskaalse nywerhede.

1. Introduction

The potential contribution of small enterprises in generating employment and income in rural areas of Africa has become increasingly recognised (Liedholm, *et al.* 1994; Tager, 1991). Some analysts and policy makers view the development of the non-farm sector as a way to alleviate rural poverty. As a result the non-farm sector has become important in discussions of the rural economy. The view of considering rural non-farm enterprises as a panacea to the problems of rural areas, is mainly the result of the success of rural industrialisation in China and the four new industrialised countries in East Asia; the relative failure of previous industrialisation-oriented development strategies and the limited labour-absorptive capacity of agricultural intensification strategies (Saith, 1993).

There is thus a need to determine the extent to which the development and promotion of small scale rural non-farm enterprises can be a vehicle to promote rural development and alleviate poverty. It is, however, true that in many countries high participation in these non-farm enterprises often co-exists with a high incidence of rural poverty. Thus, the central policy issue with regard to rural non-farm enterprises is to design policy interventions that will enable these enterprises to fulfil their poverty alleviating function. The interdependence between agricultural growth and the rural non-farm sector should, however, not be ignored. The existence of strong farm-nonfarm linkages highlights the dependence of these enterprises on a healthy and growing agricultural sector.

As a first step in developing an analytical framework to study the link between rural development and the rural non-farm sector in South Africa, this paper provides an analysis of the diversity and behaviour of non-farm enterprises in the rural areas of the Northern and Northwest provinces. Thirty-four rural villages in the former homeland areas in the two provinces were visited and the number and type of enterprises recorded. A total of 1 479 businesses was recorded and 70, mainly micro-enterprises, were selected and interviewed. The

intention of the survey was to determine the types of non-farm enterprises located in these villages and also to determine the employment opportunities provided by these enterprises. In addition the characteristics and the behaviour of these enterprises are described.

2. Definitional aspects of non-farm activities

In order to discuss and analyse the extent and role of the non-farm sector, it is important to determine what is per definition included in the non-farm sector. The ambiguity over the terms "off-farm" and "non-farm" creates some confusion and should be cleared up. Off-farm activities could easily include an agricultural component with peasants working as labourers on commercial farms. On the other hand on-farm activities could also normally include a non-agricultural component. The term "farm" is therefore referring to a set of activities and not a location. As a result Saith (1993) correctly terms the activities considered in this paper as "non-agricultural activities", irrespective of whether they are conducted on the farm or somewhere else. However, this paper will not analyse the non-farm income generating activities of individual farm households but will determine the nature of non-farm enterprises, the so-called micro-entrepreneurs in rural areas.

A lot of conflicting evidence, controversies and confusion are found in the literature regarding the rural non-farm sector. Much of this confusion is related to the lack of clear definition and of an analytical framework characterising the nature and place of non-farm enterprises in the economic system (Mukhopadhyay, 1985). Much of the confusion disappears when the components of the rural non-farm sector are analysed. Mukhopadhyay (1985) identifies two broad proto-types of rural non-farm activities or two sub-sectors. The first comprises of products and/or activities with the following characteristics. The enterprises are mostly run on a more or less stable basis to generate surplus and growth using primarily hired labour. Also evident is a certain degree of technological sophistication. In South Africa these enterprises are typically located in rural

towns in "white" South Africa and also in the decentralisation growth points close to the former homelands.

The second sub-sector comprises of activities that are often seasonal, which are run with the help primarily of unpaid family labour, using rather primitive technology and catering mostly to the local market.

This broad classification of activities in the rural areas, highlighting the heterogeneity within the sector, could well be used to provide clarity of the nature and role of the sector in development. Mukhopadhyay (1985) found that the prevalence of activities and enterprises in the second sub-sector is directly linked to landlessness or near landlessness. These enterprises are typical survivalist micro-enterprises and are the majority of enterprises included in this survey. Typically enterprises in the first sub-sector are the more dynamic, have high turnovers and employ a large number of employees. It is also evident that these entrepreneurs own their business and their land.

The enterprises or activities discussed in this paper are located in rural villages in the former homelands in the Northern and Northwest Provinces. The entrepreneurs typically do not own land and per definition fall within the second category of enterprises. The paper describes the activities of these entrepreneurs to get a sense of the nature and composition of the non-farm sector in the former homeland areas. This could also provide an indication of the linkages that could exist between the farm and non-farm sector. Bearing in mind that the majority of the farm households in these areas are subsistence oriented it is expected that these linkages could be very weak.

3. A descriptive profile of non-farm enterprises in the Northern and Northwest Provinces

A total of 1 479 enterprises was recorded in a total of 34 villages in the two provinces. Only 70 of these

enterprises were interviewed to determine more detailed characteristics such as business size and employment. The survey of enterprises excluded the major rural towns such as Pietersburg, Mmabatho, Thohoyando, etc. as well as the major industrial growth points established under the previous government's decentralisation policy. The majority of these enterprises are in any case white-owned and as such would be of little benefit to be included in the survey, although they might be important employers in the region.

The different business types recorded in the 34 villages are summarised in Table 1. From the data in Table 1 also presented in Figure 1 it can be determined that the majority (40%) of enterprises are commercial and trading enterprises that include general dealers, cafes, spaza shops, bottle stores and butcheries. The second important sector (17%) is transport enterprises, comprising mainly of taxi operators and lorry drivers. Around 20% of all recorded enterprises are providing personal and community services. Taken together it is estimated that 77% of enterprises in the selected rural districts are commercial, service or transport enterprises. Thus only a handful of enterprises (around 23%) mainly manufacturing, processing and construction enterprises are involved in some value-adding activities.

The results discussed above, largely correlates with the results from the October Household survey (CSS, 1995) which estimated that 55% of informal enterprises in the Northern Province are providing social services while around 25% are trading enterprises. Manufacturing and construction enterprises were estimated at 11% and 8% respectively.

To obtain some detailed information on the businesses listed in Table 1, 70 enterprises were interviewed to determine the nature of their activities, business size and employment. These enterprises were randomly selected and are classified in economic sectors as follows:

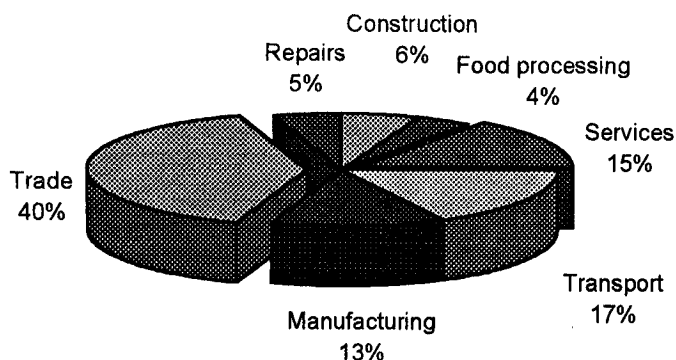


Figure 1: Classification of enterprises recorded in the Northern and Northwest Provinces

Table 1: Number and type of businesses recorded in selected districts

Type of business	Northern Province				Northwest Province			Total	
	Mutale (6)	Ga-Matlala (4)	Mavijjan (1)	Masashane (4)	Bakenberg (1)	Masemola (1)	Molopo (11)		Odi (5)
Building and construction	8		12	4		3	43	19	1
Food Processing (baking, beer brewing, milling)	12	1	2	9	2		27	8	1
Services (hair, crèche, day care centre)	12	3	8	19	2	1	92	81	1
Transport (taxis, contractors)	11	6	70	33	2	4	23	103	4
Manufacturing (dressmaking, furniture, crafts, metal work, wood work, brick making)	85		3	19	1	1	72	11	
Trade (hawkers, spaza shops, general dealers, cafes, bottle stores, shebeen, wood)	204	9	86	91	2	26	64	95	11
Repairs (Radio+TV, shoes, cars, exhausts, radiators)	14		10	4	3	1	7	35	
TOTAL	346	19	191	179	12	36	328	352	18

Note: Number of villages surveyed per district is indicated in brackets

Manufacturing and processing (food preparation): 5 enterprises (7%)
 Services (including repair activities): 13 enterprises (19%)
 Transport (taxis and tractor contractors): 15 enterprises (21%)
 Trade (General dealers, cafes, bottle stores): 32 enterprises (46%)
 Construction: 5 enterprises (7%)

3.1 Business size

The size of businesses in the rural non-farm sector is usually measured in terms of the number of workers employed. From limited empirical evidence Chuta and Liedholm (1990) found that the vast majority of rural non-farm enterprises in developing countries are undertaken by very small "micro" firms which have fewer than 10 workers. In Sierra Leone, for example, 99% of the firms employ fewer than 5 workers.

From the analysis presented in Table 2 it is evident that the same trend is to be found in rural South Africa. All the enterprises interviewed in the two provinces are clearly micro-enterprises employing less than 10 workers. Around 90% of the firms interviewed employ not more than 3 workers including a number of self employed entrepreneurs. The one man/woman concerns or owner/operators include beer brewers (single women), taxi owner/operators, the small repair shops for shoes or electronic equipment and lastly, spaza shops.

To get a sense of the extent of the business activity of the enterprises interviewed, Table 3 provides an indication of the monthly turnover of the firms in each of the sectors. Since very few of the entrepreneurs do keep proper records, the reliability of the information provided can be questioned. It nevertheless provides interesting trends with the taxi operators and general dealers and bottle store owners showing higher monthly

turnovers. The micro nature of many of the enterprises is again confirmed by the information provided in Table 3.

3.2 Employment in the non-farm economy

The evidence from a number of surveys in developing countries indicates that non-farm activities provide an important source of primary rural employment in developing countries with between 19 and 28 per cent of the rural labour force employed in non-farm activities (Chuta and Liedholm, 1990). Similar or higher figures can be expected in some of the rural areas of South Africa. From the information obtained from our brief survey of micro-enterprises in the two provinces it was, however, only possible to determine the relative share of rural non-farm employment of each of the different sectors identified earlier. This is presented in Figure 2.

As was expected, Figure 2 shows that the shopkeepers employ the largest share (45%) of the work force in the non-farm sector. Thus, despite the micro nature of the individual businesses in the trade sector, it is an important employer in the rural non-farm sector. Chuta and Liedholm (1979) estimate that the composition of rural nonfarm employment typically includes one-third manufacturing and one-third commerce, with services, mining and construction making up the remainder. Our analysis here shows that the shopkeepers employ almost half of the rural nonfarm labour force, with manufacturing only contributing 12%. The picture in rural South Africa therefore tends to be somewhat different from other developing countries. The coexistence of a developed and developing economy within one country could partly explain this phenomenon.

Monthly wages paid by the shopkeepers are low - an average monthly wage of R200 was recorded. Full-time workers in the other subsectors received similar monthly wages, ranging between R150 and R200 per month.

Table 2: Number of workers employed by micro-firms in the various sectors

Sector	Number of workers employed		
	Self-employed (0) (Number of firms)	1 - 3 workers (Number of firms)	4 - 7 workers (Number of firms)
Manufacturing	1	2	2
Services	3	12	-
Transport	8	7	-
Trade	2	23	3
Construction	-	3	2

Table 3: Monthly turnover of micro-enterprises per sector

Sector	Monthly turnover				
	R200 - R1000 (No of firms)	R1001 - R3000 (No of firms)	R3001 - R6000 (No of firms)	R6001 - R10000 (No of firms)	> R10 000 (No of firms)
Manufacturing	1	-	3	-	-
Services	8	6	3	-	-
Transport	-	3	2	1	4
Trade	3	3	4	3	2
Construction	-	4	-	1	-

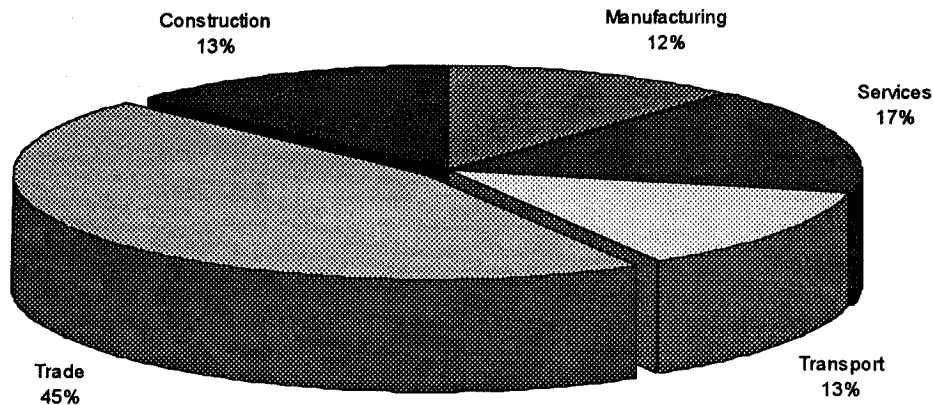


Figure 2: Employment in rural non-farm enterprises per sector (share of total non-farm employment)

It was found that in certain sub-sectors of the non-farm economy females dominate, while men are the majority of entrepreneurs and employees in other subsectors. Females are dominant in activities such as hair salons, trading stores (as shop assistants), spaza shops, hawking, dressmaking, shebeens. Men, on the other hand dominate in activities such as construction, brick making, metal and wood work, contract work, taxi's and repair services.

3.3 Characteristics and activities of non-farm enterprises

In this section I briefly review the activities of the micro-enterprises included in the survey to get a better sense of the composition of the non-farm sector in the two provinces.

3.3.1 Manufacturing

Manufacturing enterprises recorded in the survey areas were limited to metal work (mainly burglar bars, window frames and fence making), brick making, furniture making, tailoring (dressmaking) and woodcarving.

Brick making is often the only viable manufacturing activity in many villages. Up to around 450 hollow blocks (bricks) could be manufactured per day mainly by hand operated machines such as pan mixers. River sand is the predominant raw material for brick manufacturing but some brick makers use burnt coal from nearby power stations or hospitals. The local village people are the customers of the brick makers and deliveries are done by tractor or bakkie.

Enterprises doing metal work were mainly welding works manufacturing burglar bars, window frames, door frames, gates, brick and block forms. Most of these goods are sold locally and manufactured according to the client's specifications.

Wood carving micro-enterprises were quite common close to tourist attractions, especially in Mpumalanga (the former Eastern Transvaal). These enterprises are faced with a number of problems which will influence

the survivability of many individual enterprises. These factors are amongst others increasing competition in a limited market as well as increasing exploitation of the natural resources (trees) in the search for the basic raw material.

In the survey areas a large number of self-help groups were found manufacturing crafts such as tapestries, sisal rugs, hand knitted jerseys, beads, embroidery, hand painted cloth garments, clay pots and stamped batik. These rural crafts are mainly sold to tourists. In some villages manufacturing of leather goods, such as bags, shoes and belts, were also prevalent.

Women entrepreneurs are often involved in sewing or dressmaking enterprises. Products produced by these women include skirts, dresses, pinafores, cushions and school uniforms. Prices range from R5 to mend trousers and dresses, R60 for a skirt and R80 for a school uniform to R180 for a dress. In some communities it is custom for married woman to wear a pinafore over their casual dresses. As a result there is always a demand for pinafores throughout the year, guaranteeing business for these sewing enterprises. Mending of trousers and dresses are also common due to the relative poverty of many of the communities and thus not being able to afford new clothes. In many communities dressmakers are normally taking on jobs on a part-time basis with traditional clothes (such as pinafores) and lady dresses being the major source of income.

3.3.2 Processing

Enterprises in this subsector included, beer brewers, small-scale maize millers, home bakeries.

The activities of the beer brewers are interesting and require some elaboration. Traditional brewing is mainly carried out by groups of between 5 and 12 women. In some districts one in every 10 women is involved in beer brewing activities. Traditional sorghum beer is brewed from sorghum purchased from retailers or produced in backyard plots. The beer is usually sold over weekends at 60c per litre. Usually beer is brewed for rituals and celebrations. In these cases beer is served to friends and family free of charge.

3.3.3 Services

Enterprises in the service sector consisted mainly of repair shops and hair salons. Businesses specialising in a range of maintenance and repair activities are quite common. These entrepreneurs deal mainly with maintenance of motor vehicles, taxis and trucks; tyre punctures and welding. Some are also involved in panel beating and spray painting. Other repair activities were also widespread. Some entrepreneurs repair radio and television sets and other electronic equipment while others specialise in shoe repairs.

3.3.4 Transport

Taxi operators are the majority of the enterprises included in the survey. A small number of contractors that provide ploughing and transport services to the community were also interviewed. Owners of tractors, bakkies, and lorries provide services to the community such as the collection and delivery of wood, building sand, stones and other building material. Most of the lorries used are old models which often are not in a road worthy condition.

3.3.5 Trade

The non-farm enterprises categorised under this sub-sector included general dealers, cafés, tuckshops, spaza shops, bottle stores, shebeens and hardware stores. As indicated earlier these enterprises form the major component of the non-farm economy in the former homeland areas of the two provinces. These "shopkeepers" are also the major employers in the survey areas as was shown in Figure 2. Females are predominantly employed by the shop keepers to do cleaning and packing of goods on the shelves. Men are often employed to drive delivery trucks, handle heavy and bulky products such as building material and bags of maize meal.

Economic deregulation resulted in an increase in the number of shebeens and spaza shops established in rural villages. Shebeens are typically operated by men and women from their homestead. In most cases no labour is hired and children sometimes assist in serving customers. Beers of all blends are served in 750 ml bottles. The main suppliers to the shebeens are the local bottle stores.

Unlike shebeens, spaza shops buy their goods directly from wholesalers or stores in the major towns such as Pietersburg, Mmabatho, etc. The spaza shops compete directly with the licensed general dealers. Like the general dealers, the spaza shop owners do sell goods on credit to customers with the understanding (normally a verbal agreement) that accounts are settled at the end of each month. It is usually customers relying on monthly remittances from spouses or children that engage in these credit arrangements. The spaza shops stock a variety of goods and serve customers in the immediate surroundings of the business. The advantages of these enterprises are that the distances between the shops and clients are reduced and that services are provided until late in the evenings when all formal businesses have already closed. Spaza shops are also characterised by their higher prices and the wide variety of goods stocked.

3.3.6 Building contractors

In many of the survey areas the major construction activity would be the construction of houses for the local people. Houses are build almost daily by semi-skilled building contractors. Many of these "contractors" are basically brick layers. Many of them are not qualified to be bricklayers but learned some of the skills while they were employed with large construction companies. These small contractors are employed by local people to build houses.

From the typology of micro-enterprises in the former homelands it is again evident that very little value added activities do take place. Most enterprises are service and trade related. The majority of the enterprises surveyed were survivalist enterprises struggling to support themselves and their families.

3.4 Sources of finance

Virtually all the enterprises surveyed made use of their own finances and the use of external sources was rare. Start-up capital came from personal savings. In many cases owners are employed elsewhere hence could save and start a business.

A survey amongst micro and small enterprises in the Northern Province is currently in the planning phase and hopefully this will shed more light on the financial contracts and access to finance amongst these enterprises. We think here of the credit purchases from suppliers or credit sales to clients. Hopefully this survey will enlighten us as to the financial behaviour of small and micro-enterprises in the rural non-farm sector. This paper has to some extent assisted in identifying the important sub-sectors in the micro-enterprise economy of the Northern Province. The focus of the study will therefore be on the trading sector, dressmakers, brick makers, metal workers, repair services and finally building contractors.

4. Summary and concluding remarks

This paper provided a brief overview of the non-farm enterprises in the rural economy of the former homelands in the Northern and Northwest provinces. This was done in an effort to understand the nature and size of the non-farm economy to be able to assess the developmental potential within this sector. This is done in acknowledgement of the limited potential of agriculture to alleviate poverty and improve livelihoods in certain areas of the two provinces covered by this survey. From the analysis provided here, it seems however, that there is a lack of diversity in the rural non-farm economy and a virtual absence of small-scale rural industries. One important reason for this could be the existence and relative proximity (because of well-developed infrastructure) of an industrial sector manufacturing goods of superior quality and price. It is therefore very difficult for small-scale industries to compete with these large industrial concerns. In line with other studies in rural Africa it is important to determine the growth of employment in small enterprises. In many countries it was found that small enterprises are a dynamic part of rural African economies with new firms being created every year at a high rate. But, is this the case in South Africa's rural areas?

While agriculture remains an important component of the rural economy, this survey has shown that small-scale income earning opportunities outside of agriculture are important components of livelihood activities in rural areas of South Africa. There is however, a tendency for these rural enterprises to be more closely linked to agriculture.

In conclusion, it is important to emphasise that growth of the rural non-farm sector will always be dependent on the performance of the agricultural sector. As a result agriculture has a crucial role to play in rural enterprise employment generation and cannot be neglected.

Notes:

1. Post-graduate students in the Department of Agricultural Economics, Extension and Rural Development at the University of Pretoria made valuable contributions to this study and are acknowledged with thanks.

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