THE EFFECTIVENESS OF GOVERNMENT POLICY ON THE DEVELOPMENT AND PROMOTION OF SMALL BUSINESS IN SOUTH AFRICA: A CASE STUDY OF THE NORTHERN PROVINCE

by

M J MOTHIBA

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SUPERVISOR: Dr A Lotter
ABSTRACT

Since the first democratic elections of April 1994, the government of South Africa has been grappling with a wide range of social and economic development issues. The development and promotion of small, medium and micro-enterprises (SMMEs) is one of these critical issues. This is seen as vital for job creation, income generation and the promotion of sustainable and equitable economic growth. It is the view of government that the SMME sector also deserves attention because it has been neglected in the past. It is also widely acknowledged that SMMEs play a vital role in absorbing labour, penetrating new markets and expanding the economy in creative and innovative ways.

The stated general objective by the government was the need to create an enabling environment in which small businesses would flourish. There was an intensive process of consultations with key stakeholders on the SMME sector. This took the form of the 1994 White Paper (discussion paper) on Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro-Enterprises in South Africa, the President’s Conference on Small Business in 1995 and the Second National Conference on Small Business in 1997.

The highlight of these efforts was the enabling of the institutional support framework via the National Small Business Act of 1996 which aimed at providing a supportive environment for small business development. Several institutions were created under this act at national, provincial and local levels with the following aims and objectives:

- To coordinate the overall national policy on small business development.
To mobilize the maximum involvement by all stakeholders.

To facilitate the provision of financial and non-financial support services.

In general, to represent the interests of the SMME sector.

The aim of this study was to investigate how effective the government policy on the development and promotion of small business has been. The focus was the Northern Province, one of the nine provinces in South Africa. The researcher was specifically interested in looking at the establishment of the institutional framework at provincial and local government level, whether the products developed for small business support have been well-marketed to the SMME sector and whether the small business sector was benefiting from these products.

There were three main aspects to the conduct of the study.

Government officials in the Department of Trade and Industry (DTI) in the Northern Province were interviewed. Institutions that have been set up to provide support services to small business were also visited and officials at these institutions were also interviewed.

Further information was obtained from existing documentation at the DTI and from the institutions offering support services to small business.

A survey of the SMME sector in the Northern Province was conducted. A designed questionnaire was presented to a representative sample of small businesses.
The data obtained from interviews and existing documentation has been summarized descriptively. The data from the questionnaires has been analysed statistically. Graphical illustrations have been used to enhance the presentation.

Conclusions, recommendations and some final reflections are also included.
DECLARATION

I, Malesela Jacob Mothiba, hereby declare that, to the best of my knowledge, this is an original study done by me which has not been done before and it has not been reproduced or copied from some other source.

[Signature]

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ACKNOWLEDGEMENTS

I would like to express my appreciation to all my colleagues who assisted me through networking and all the SMME owners from the different parts of the Northern Province for their understanding and cooperation throughout the project. I would also like to thank Dr T. S. Misi for his help with this study.
DEDICATION

This effort is dedicated to all my family members and especially my mother, who has been an inspiration throughout my study.


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CHAPTER ONE

INTRODUCTION

1.1 CHAPTER INTRODUCTION

In this chapter, the background to the study will be defined. The fundamental principles underlying the government's national small business strategy and its plans for implementation are stated and explored. Implementation strategies by government are examined and the objectives of the study will also be formulated. The research methodology and the outline of the study are presented. The terminology used is also clarified.

1.2 BACKGROUND TO THE PROBLEM

The new democratic government of South Africa came into being in April 1994. Since then, the issues of economic empowerment and growth have been placed high on the agenda of the government. With millions of South Africans unemployed and underemployed, the government has no option but to give its full attention to the fundamental task of job creation and the generation of sustainable and equitable growth (RSA Government Gazette 1995).

Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in the country. Throughout the world, one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. The government is of the view that – with the appropriate enabling environment – SMMEs in South Africa can follow these examples and make an indelible mark on the economy. The stimulation of SMMEs must be seen as part of an
integrated strategy to take the economy onto a higher road — one in which the economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes (RSA Government Gazette 1995).

This study will look at the development and promotion of small business in South Africa since 1994 with a particular focus on the Northern Province, one of the nine provinces in the country.

In October 1994, the Ministry of Trade and Industry released a discussion paper on *Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro Enterprises in South Africa*. This draft document outlined a strategy framework for discussion among all the stakeholders in the small-enterprise sphere. It already reflected inputs by many institutions active in this field, including government departments, business organizations, foreign donor agencies and policy experts (RSA Government Communication and Information Systems 1996).

Workshops were held in both rural and urban areas to explain the contents of the discussion paper and to encourage critical comments as well as practical proposals for adjustments to the strategy. These sessions which were well attended and were supplemented by numerous press comments on the document, gave rise to a large number of written comments, including submissions from virtually all the major business associations, the provincial SMME coordinators and several central government departments (RSA Government Communication and Information Systems 1996).

All of these comments were taken into account in the revision of the document which became the *White Paper on National Strategy for the Development and Promotion of Small Business in South Africa* published in the South African Government Gazette of 28 March 1995. The white paper represented government’s thinking about what it can contribute to the process of stimulating small, medium and micro-enterprises. The government believes that the real engine of sustainable and equitable growth in the
country is the private sector. The government has committed itself to doing all that it can to help create an environment in which business can get on with the job. The government believes in the principle of working together with its partners in the private sector – big and small business – in realising the hopes and aspirations of this economy (RSA Government Communication and Information Systems 1996).

Since then, a National Small Business Strategy emerged with the following key objectives:

- Create an enabling environment for small enterprises.
- Facilitate greater equalization of income, wealth and earning opportunities.
- Address the legacy of apartheid-based disempowerment of black business.
- Support the advancement of women in all business sectors.
- Create long-term jobs.
- Stimulate sector-focused economic growth.
- Strengthen cohesion between small enterprises.
- Level the playing fields between bigger and small businesses as well as between rural and urban businesses.
- Prepare small business to comply with the challenges of an internationally competitive economy.
It is clear from this that from the onset, the government was eager to initiate discussions on the issues surrounding the small business sector.

The first President’s Conference on Small Business, organised by the Department of Trade and Industry and supported by the United Nations Conference on Trade and Development (UNCTAD) in March 1995, provided a platform for the various SMME stakeholders in South Africa to engage the President and other Government Ministries in serious dialogue on SMME development and support (RSA Government Communication and Information Systems 1996).

Over two thousand participants attended the conference from local, provincial and international SMME stakeholders. These included representatives of the public sector, financial institutions, Non-Governmental Organizations (NGOs), training institutions, parastatals, business organisations, trade unions, community organisations, and donor organisations. Never before in the history of South Africa had such a representative group of people been brought together to address the problems and challenges of small business (RSA Government Communication and Information Systems 1996).

As a platform for discussion, the Conference provided for the following (RSA Government Communication and Information Systems 1996):

- The development of a National Programme of Action for Government on SMME development.

- The identification of a broad programme approach and donor community involvement.

- The mobilisation of maximum involvement and commitment of all parties and sectors (private and public sector, and NGOs).
• The creation of a vision and strategy for the future of South African SMMEs.

• Harmonising scattered development efforts in support of SMMEs.

• Defining a broad role for the private and public sector in meeting the specific needs of emerging entrepreneurs in South Africa.

This was the most serious indication to date that the government was serious about creating a national programme on the development of the small business sector.

The institutional support framework was enabled by the National Small Business Act, 1996 (Act 102 of 1996), which aimed at establishing a supportive environment for small business development. The following main pillars of support were established.

1.2.1 The Centre for Small Business Development (CSBD).

The CSBD would act as the coordinator of the overall national policy framework. It would also coordinate support programmes directly or indirectly assisted by government.

1.2.2 National Small Business Council (NSBC).

The role of the NSBC, with its nine provincial councils, would be to represent the interests of the small business sector and advise the government on small business development.
1.2.3 *Ntsika Enterprise Promotion Agency (Ntsika).*

Ntsika's responsibility would be to render non-financial support services to the SMME sector through a broad range of intermediaries.

1.2.4 *Khula Enterprise Finance (Khula).*

Khula, a wholesale agency, would provide financial support to small businesses through intermediaries. Its financial products would include loans, a national credit guarantee scheme, grants and institutional capacity building.

1.2.5 *National Empowerment Fund (NEF).*

The NEF would aim to raise over R4 billion for the promotion and growth of small and medium businesses, with the first R1 billion becoming available in 1998. The capital would be raised predominantly via trusts set up from proceeds of privatisation sales. One of the NEF's functions would be investor education to ensure awareness of the economic environment and basic economic literacy. The Fund would operate on three levels; initially targeting low-income individual earners and progressing towards savings clubs and equity finance agreements for small and medium enterprises.

1.2.6 *Small Business Development Corporation Limited (SBDC).*

The SBDC would provide investment capital and value-adding business support to independently owned SMMEs. Finance of between R50 000 and R3 billion would be available to SMMEs in the form of equity as well as term loans.


This parliamentary act was the concretisation of all the efforts of the previous two years. Hopes sprang eternal that the act would not only help in
the development of small business, but that it would also act as a catalyst for the reversal of apartheid’s economic policies and the empowerment of women in business. The evidence so far (the Conferences and the National Small Business Act) was that there was a lot of preparation and supportive acts and actions for the support and development of SMME’s.

The second National Conference on Small Business (RSA Government Communication and Information Systems 1998) was held in November 1997. The main objectives of the conference were to:

- Expose local government to small business as an instrument to create jobs;

- Expose South African local government institutions to international best-practice with respect to the role of local authorities in the facilitation of small business promotion;

- Market products developed by the institutions for small business support, to local government officials;

- Mobilise maximum involvement of all parties in the implementation of the National Strategy for Small Business Promotion;

- Popularise small business development with local government; and

- Refocus stakeholders on the vision for small business and highlight the importance of small business promotion.

This conference was seen as a commendable effort by government to continue the dialogue on small business and to consolidate the numerous achievements. A solid foundation indeed had been laid.
Experience from other countries reveals a logical sequence of stages in the establishment of a support framework. Government identified the following distinct stages (RSA Government Gazette 1995):

- Awareness building;
- Needs identification and implementation planning;
- Resource identification;
- Strengthening the business and entrepreneurial culture;
- Training of support agency staff.

### 1.3 FUNDAMENTAL PRINCIPLES UNDERLYING THE GOVERNMENT’S NATIONAL SMALL BUSINESS STRATEGY

The government views itself in partnership with NGOs, parastatals and the private sector in the promotion and support of SMMEs. The following general principles serve as a guide to the role of government in this sphere (RSA Government Gazette 1995):

- The framework is based on a coherent, integrated vision of South Africa’s economic development process. This vision sees the different segments of the SMME sector as closely interconnected parts of the larger economy, which also includes big business, multinationals, parastatals, NGOs and other non-business activities. Relative to other segments, the small business sector has been neglected in the past, and this should be redressed.

- Government believes that it is necessary to break away from the traditional and static approach to small business development based
narrowly on the provision of financial support. Instead, the government has committed itself to a dynamic, demand-driven and creative approach which, in the first instance recognizes the multiplicity of needs of SMMEs.

- The need to instill a "fee for service culture" also applies to the small business sector. Wherever possible, services received by enterprises should be paid for.

- The government also feels strongly that small business support has to be linked to compliance with generally accepted standards of business behaviour. This relates as much to labour and managerial standards as it should apply to taxation, sector registration and reasonable social standards as well as financial and costing disciplines of firms. The strategy should enable SMMEs to comply with negotiated and broadly accepted, flexible standards, but it is also the objective of the strategy to encourage such compliance.

- The government believes that small firms can become dynamic and highly competitive, while striving for socially accepted labour standards, adopting new and more efficient technologies and effective work organisation techniques. The government is committed to promote development on this basis. This can be achieved through a range of organisational practices which include increased cooperation, coordination and networking amongst smaller firms in specific sectors so that services such as marketing, research and development, skills acquisition and even production can be shared. Through such cooperation, small firms can achieve, if not surpass, economies-of-scale benefits enjoyed by large firms without having to become large in size.

- It is accepted that the demand side of the small business sector can be an important factor in SMME growth and development. Thus, the national
framework is to include steps to improve access of small enterprises to state procurement, business purchases and export markets.

- Emphasis should also be placed on black advancement in the enterprise sphere, including in this context all the groups disempowered through the apartheid era.

- The scarcity of public resources available for SMME support constitutes a fundamental constraint upon all support policies. It also forces government to constantly weigh up the public sector cost of specific policies against the expected results of the support programmes. It is in this sphere where the need is greatest to learn from practices in other countries, to compare the experience gained by different institutions in these countries and to look for more efficient programmes. It is also necessary to curtail the range of support programmes. Preference would be given to policies which strengthen access to resources and steps to level the playing fields between established and emerging enterprises.

- Acceptance of the market orientation of the economic system and of the government’s fundamental budget constraints means looking at alternative funding, the leveraging of public funds, the effective use of foreign donor funds and technical assistance, the introduction of tax and other incentives to change private sector attitudes, and self-help or local community efforts to support small enterprises.

- Given the inevitability of budget constraints, it is accepted as a fundamental principle that the overall share of budget support available for small enterprises is too low compared to the importance of the role of this sector in the economy.

- The institutional framework for small business support has to be restructured in order to reflect the evolving institutional diversity, the
provincial thrust of policy implementation and effective bottom-up and top-down cooperation and coordination.

- The private enterprise sector, cooperatives, NGOs, business associations and foreign assistance programmes all have a crucial role to play in an integrated small business strategy.

The government is clearly faced with a difficult juggling act. While on the one hand it has to address inequities of the past, it has, on the other hand, to encourage modern, well-legislated enterprises that are able to compete in a free market economy. This is unquestionably the biggest challenge the government faces in the implementation of its policy on small business.

1.4 PAST SUPPORT POLICIES

A number of institutions have over the decades developed a limited, often fragmented range of small business support policies and programmes, some operating in competition with each other, and virtually all of them racially and gender-based. These included (RSA Government Gazette 1995):

- Homeland-based development corporations.
- Some specialized SMME-support agencies.
- The Development Bank of Southern Africa (DBSA).
- The Small Business Development Corporation (SBDC).
- The Industrial Development Corporation (IDC).
- Some of the commercial banks.
At the level of central government, there was little cooperation extended directly to the black business sector. For example, government procurement was largely channeled to white businesses. Most of the university-based small business units, while receiving financial support from the state, have until recently not succeeded in effectively addressing the needs of the black small business sector (RSA Government Gazette 1995).

In the private and NGO sectors, a wide range of small business support bodies have evolved over the last decade, often operating in competition with each other. While largely ineffective in their overall impact, this trend reflects the rise of attention to and support for small businesses among local stakeholders and donors, and it is also indicative of a growing stream of foreign aid earmarked for small business support (RSA Government Gazette 1995).

It is mainly due to the diversity and uncoordinated nature of all these support agencies and efforts – which in themselves need not be undesirable – that the call for coordination, cooperation and a clear national strategy framework has increased over the past few years. Lack of legitimacy made it impossible for the previous government to fulfill such a role, whereas the new government was now in a position and committed to do so (RSA Government Gazette 1995).

In the evolution of these different support agencies, both inside and outside the former homelands, many different policies and programmes have to be designed and implemented. Some will prove successful, others will fail and most will go through lengthy phases of experimentation and adaptation.

However, future strategies can not be based on the assumption that organisations active in certain fields in the past should necessarily continue with all their past programmes. A re-alignment of institutions and their responsibilities is seen as inevitable within the context of the evolving national support strategy.
The active promotion of SMMEs depends on the interaction of a wide range of actors in an equally wide range of support areas. It ranges from self-help activities of groups of small enterprises and the abolition of regulatory obstacles to the better cooperation between small and bigger enterprises with respect to subcontracting and the granting of direct financial or tax concessions by central or provincial governments. In this section we focus on support areas reflecting government involvement (RSA Government Gazette 1995).

1.5.1 CREATING AN ENABLING LEGAL FRAMEWORK

In order to formally recognise the importance given to the small enterprise sector in the process of economic reconstruction and development, and to facilitate policy implementation in different areas, the government is committed to pass a number of enabling acts. The experience from other countries shows that properly designed acts can play a positive role. In this regard, the government passed the National Small Business Act (1996) which gives formal recognition to the government’s involvement in small business support (RSA Government Gazette 1995).

1.5.2 STREAMLINING REGULATORY CONDITIONS

Inappropriate or unduly restrictive legislative and regulatory conditions are often viewed as critical constraints on the access of small enterprises into the business sector and as obstacles to their growth (RSA Government Gazette 1995). Since government is responsible for the legislative and regulatory framework and its ongoing adjustment, it is also its role to assure the appropriateness of these rules and regulations for the small business sector. Unduly restrictive regulations often harm small and emergent enterprises and benefit the larger, established ones, whereas less regulation may lead to aggressive competition market entrants, to the neglect of worker
interests, or to health hazards and environmental destruction. Government, therefore, commits itself towards appropriate regulations, which are the result of transparent, consultative processes, with all the interest groups having a chance to state their interests (RSA Government Gazette 1995).

Establishing a user-friendly environment also calls for the simplification and standardisation of documents. This includes:

- Business registration and licensing.
- Financial and loan applications.
- Purchasing and sub-contracting (tender) documents.
- Export documentation and other commercial documents.
- Registration of contracts at fair-trading boards.
- Simplified tax return forms for small businesses.

1.5.3 ACCESS TO INFORMATION AND ADVICE

Lack of access to appropriate, relevant and understandable information and advice is one of the most important problems of small enterprises. Due to past discrimination and lack of opportunities, this problem is most severe among black entrepreneurs (RSA Government Gazette 1995).

The significance of this constraint is recognized all over the world. In many of the more developed countries, the bulk of government-funded assistance
to the small business sector centres almost exclusively around these needs. In South Africa, some progress has been made with the preparation of information material relevant for small business enterprises and the dissemination of information and advice. Yet, to date, the number of enterprises effectively reached is small, compared to the vast number of people involved in self-employment in both urban and rural areas (RSA Government Gazette 1995).

As an operational principle, information and advice should be as focused and sector-orientated as possible and it should be supplied at grassroots level wherever this can be done. With the help of the national business strategy, government wants to get business information and advice within reasonable distance to all enterprises.

The involvement of government would be guided by the following principles (RSA Government Gazette 1995):

- The DTI accepts responsibility for the dissemination of both data and information related to the small business scene, the strategy framework and the availability of support services all over the country.

- In order to facilitate the systematic spread of business-related information and advice, the establishment of a decentralised, countrywide network of local service centres is envisaged.

- As a rule, the government would not be directly involved in the preparation or dissemination of information and advice. The bulk of this should be undertaken by private institutions, NGOs and self-help or group initiatives, with financial support – as far as possible within the constraints of budget – largely limited to information seekers unable to meet the cost of such services.
1.5.4 ACCESS TO MARKETING AND PROCUREMENT

Small enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of business and growth beyond mere subsistence levels. Responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small businesses which have to compete with others for the same clients, local government and business associations who should reconsider regulations hindering market access to newcomers, the established business community who should practice what they preach by opening up competition rather than controlling markets, and public-sector departments as well as big enterprises who should re-orientate procurement towards small-enterprise suppliers and subcontractors (RSA Government Gazette 1995).

The government is committed to facilitate this complex process in the following ways:

- Tax incentives.
- Procurement quotas.
- Simplifying tender procedures.
- Adjusting public procurement practices.
- Developing small enterprise export support programmes.
- Motivating the big business sector to expand its links with small enterprises (RSA Government Gazette 1995).
1.5.5 ACCESS TO FINANCE

Finance is one of the most urgently felt needs among small enterprises. The financial needs of different types of SMMEs vary widely, with access problems particularly severe in rural areas, among start-up micro-enterprises and among those owned and controlled by women as well as other formerly disempowered groups and in certain higher-risk business categories. The government is committed to strengthen the link between small enterprises and existing as well as evolving financial institutions, so that the available funds are channeled to areas where they are most urgently needed (RSA Government Gazette 1995).

Areas for direct or indirect government and parastatal involvement in the financial sphere include:

○ Commercial banks.

○ SMME-focused financing institutions.

○ Micro-enterprise finance.

○ Venture finance.

○ Credit guarantees.

○ Alternative collateral.

○ Information on access to finance (RSA Government Gazette 1995).
1.5.6 THE PHYSICAL INFRASTRUCTURE

The development and financing of business and industrial premises and infrastructure facilities, including the supply of electricity, water, telecommunication connections, sewage, street lights and parking facilities is usually seen as the responsibility of either the private sector or local authorities, rather than the government. Yet, due to the past neglect of the needs of black townships and emerging enterprises, a serious backlog of even basic facilities has emerged in both rural and urban areas and has been identified as one of the areas deserving special attention (RSA Government Gazette 1995).

Recent political changes, the prospects of less violence and crime in the townships, and the gradual emergence of legitimate local authority structures have increased the chances for greater private-sector and local-authority involvement in the improvement of township business infrastructures. In addition, parastatals and regional development corporations are increasingly involved in this sphere, with funds solicited from wholesale financing institutions, regional governments or foreign sources (RSA Government Gazette 1995).

In the rural areas and many of the resettlement villages there is often a critical shortage of built-up workspaces, combined with lack of access to electricity, water and telephones. Government matching-grant funding for physical infrastructure needs may have to focus very strongly on these basic needs, together with efforts to improve transport to remote places (RSA Government Gazette 1995).

1.5.7 TRAINING IN ENTREPRENEURSHIP, SKILLS AND MANAGEMENT

The acquisition of relevant vocational, technical and business skills is generally regarded as one of the critical factors for success in small
enterprises. In addition, literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from survivalist activities into larger and better-earning enterprises. Responsibility for education, training and experience transfers rests on a wide range of institutions. The government sees the following challenges as core elements in a national training strategy for small enterprises (RSA Government Gazette 1995):

- Knowledge about presently available training programmes has to be disseminated effectively to reach entrepreneurs all over the country.

- School curricula and other school-related activities should give more scope for the inculcation of entrepreneurial attitudes and a general awareness about self-employment opportunities.

- All suppliers of training have to reconsider the nature, content and effectiveness of their programmes, taking into account the small business environment in the different sectors of the economy and working closely with the business sector. Thus, training has to become far more sector-specific, focusing on the particular needs and practical problems of small enterprises.

- Training programmes have to be modular, so that trainees can combine training from different institutions. Linked to this is the need for some accreditation of small-business-related programmes, in order to protect trainees and allow training paths.

- Training incentives of different government departments have to be coordinated more effectively.

- Serious attention has to be given to the staff training needs of SMME-support agencies in order to expand their capacity to handle the challenges emanating from the government strategy on small business.
○ It is necessary to expand applied research about problems, needs and development trends in South Africa’s SMME sector, and about developments in southern Africa.

○ There is need for the rapid expansion of business-mentorship systems.

○ Business internships and traineeships for SMME managers at well-run enterprises should be encouraged for intensive experience exchange.

The government’s appreciation of the importance of training in the fundamentals of business is commendable.

1.5.3 INDUSTRIAL RELATIONS AND THE LABOUR ENVIRONMENT

The relationship between labour and small enterprise is complex and open to frequent misunderstanding. With respect to small and medium enterprises there is widespread belief that the relationship between labour and enterprise is adversarial, i.e. owners/operators want to keep labour’s remuneration as low as possible in order to be able to compete with larger enterprises. A view more in line with international thinking holds that more egalitarian labour relations in SMMEs and a participatory style of management, combined with deliberate attempts to improve the skills base results in higher levels of productivity, which enhances the competitiveness of enterprises (RSA Government Gazette 1995).

Steps to safeguard the basic interests of workers should not be confined to the rigid enforcement of existing industrial council agreements but should seek to develop the industrial relations system in such a way as to take into account the needs and interests of small enterprises (RSA Government Gazette 1995).
1.5.9 ACCESS TO APPROPRIATE TECHNOLOGY

Technology is an important factor influencing the success of small enterprises, but not always available to them. This applies to both the sophisticated technology needed for the competitiveness of small enterprises in the modern manufacturing and service sectors and the appropriate technology for small enterprises operating in the labour-intensive, low-skill spheres. Both of these areas deserve more attention and may justify some government support (RSA Government Gazette 1995).

At the grassroots level, the proposed network of local service centres would seem to be the best channel to filter technology information through to individual small enterprises and to identify needs that warrant subsidized research.

1.5.10 ENCOURAGING JOINT VENTURES

The needs of small and medium enterprises are often so complex that even a comprehensive range of support services cannot do justice to all the requirements. The most effective way to acquire experience and skills, enter new markets, structure additional funding and meet market competition is quite often the entering of a joint venture with an experienced local or foreign partner. Local service centers would be used to channel information about joint ventures and other types of partnerships, and facilitate networking at grassroots level. In addition, the government is to explore the need and scope for an appropriate coordinating mechanism (RSA Government Gazette 1995).

1.5.11 CAPACITY-BUILDING AND INSTITUTIONAL STRENGTHENING

South African business organisations are comparatively weak, and most of them have a very limited capacity to actually support and strengthen small
businesses. The government is concerned with the fragmentation and relative weakness of existing small-business associations. At the same time, it respects the autonomy of organised business, which looks back on a long tradition of voluntary membership and demand-driven services. Nevertheless, there might be need for government to bring about unity, more effective compliance to development policies and greater financial strength of organised business through compulsory membership of a national body and the delegation of certain statutory functions to these associations (RSA Government Gazette 1995).

1.5.12 DIFFERENTIAL TAXATION AND OTHER FINANCIAL INCENTIVES

Representations have been made for the differential treatment of small enterprises in order to reduce the tax burden and facilitate the re-investment of small-enterprise profits, which are often the only basis for new investments or the expansion of existing small enterprises. The following is a list of suggestions to be considered as part of the review of the tax regime (RSA Government Gazette 1995):

○ A lower rate of corporate taxes for small enterprises.

○ Exemption of a minimum amount of profit from taxation, in order to encourage investment.

○ More generous depreciation allowances.

○ Exemption to or rebates from import duties on manufacturing inputs and capital equipment.

○ Higher write-offs for expenses incurred, training, research, technology transfer and export marketing expenses.
○ Tax incentives to stimulate subcontracting by larger firms, encourage greater volumes of loans to small enterprises by the banking sector and to help overcome the gender bias.

○ Normalisation of tax arrears of SMMEs, including those involved in VAT, income tax, import duty and other tax non-payments.

○ Differentiation of rates and user charges at the local authority level.

These elements of the support mechanisms show the areas that government can involve itself in mobilizing support from all the stakeholders for the good of the entire small business sector.

1.6 IMPLEMENTATION OF THE STRATEGY

The responsibility for the support and assistance to the small business sector falls upon a wide range of organisations, associations or agencies. They include all levels of government, a whole range of parastatals, a large number of NGOs, community-based organisations, the full spectrum of business associations, an increasing number of private institutions and several foreign donor agencies. The commitment to this national strategy and the degree of cooperation between all these organisations largely determines the effectiveness of the national small business support system. The government has to ensure that scarce public resources are channeled in the most effective way through this system (RSA Government Gazette 1995).

1.6.1 THE DEPARTMENT OF TRADE AND INDUSTRY (DTI)

Within the national government, the DTI is the coordinating body for all policies related to the small business sector and for all SMME-support programmes directly or indirectly assisted by the government. It is also responsible for the coordination of small business strategies pursued by the
provincial governments within the national policy framework. The DTI will maintain strict control over organisations receiving or channeling public-sector funds for small business support (RSA Government Gazette 1995).

1.6.2 WHOLESALE FUNDING AGENCIES

A number of national development agencies have in the past played a significant role in the provision of capital and recurrent funding for small-enterprise support programmes. In some cases, these programmes have been implemented directly by these bodies, whereas others have channeled their funds through provincial or local implementation agencies which can be viewed as "retailers" (RSA Government Gazette 1995).

While the government is keen to see some rationalization and streamlining of the complex structure of national, regional and local funding and implementation bodies, the present structure can only change gradually (RSA Government Gazette 1995).

1.6.3 SMALL BUSINESS SUPPORT AT PROVINCIAL LEVEL

The national strategy to support small enterprises is based on the explicit understanding that responsibility for such support is shared between national and provincial governments. It is clear that provincial governments, regional development corporations and organised business feel strongly about their partnership role in the shaping of policies and their adaptation to local and provincial needs and circumstances.

Thus, although much of the policy implementation will be planned at national level, with the active and continuous participation of provincial representatives, it will be operationalised at grassroots level through a whole range of organisations. Provincial SMME desks are to be established with their main focus on the effective linking of national or sectoral programmes and local or regional implementation bodies. They should also facilitate forum-type contact between all the SMME stakeholders in the provinces and
channel their grievances or proposals to relevant implementation or policy-making bodies (RSA Government Gazette 1995).

1.6.4 LOCAL AUTHORITIES

There is increasing realisation that the most effective level for the promotion of SMMEs is the village, town, city or metropolitan area. Local authorities have direct contact with each enterprise and their administrative infrastructure could be useful for the implementation of support programmes. Where local authorities play a proactive, facilitatory role in this coordination process, they can be of great help to the provincial desks (RSA Government Gazette 1995).

In the past, local authorities have seldom played a significant role with respect to SMMEs. More recently, there has been a greater understanding and tolerance in matters like informal markets, hives and incubators, flexible zoning and business-infrastructure facilities. This trend is likely to increase rapidly, as the composition of elected local councils changes and new municipalities struggle to increase local job creation and rates-generating business activities (RSA Government Gazette 1995).

1.6.5 LOCAL SERVICE CENTRES

A nation-wide network of local service centres (or business service centres) is to be formed as one of the most important instruments to spread support for small enterprises at local level. The establishment, maintenance and gradual expansion of a national grid of local service centres constitutes the most important vehicle for small business support. In fact, this would be the one programme to best help integrate services available for small enterprises at the local level (RSA Government Gazette 1995).

Although the policies are national, the implementation would have to be localized to the provincial and local government levels.
1.6.6 NON-GOVERNMENTAL ORGANISATIONS (NGOs)

Many NGOs are actively involved in small business support, with their funding coming from local or foreign sponsors. While it is not foreseen that these NGOs will in future be fully funded by either the Department of Trade and Industry or other government departments, they should be eligible for programme funding with respect to areas of their expertise. In addition, NGOs could function as local service centres, with some of their activities directly assisted by government. Those wanting to be eligible for support would have to be accredited (RSA Government Gazette 1995).

1.7 OBJECTIVES OF THE STUDY

In this section, the objectives of the study are outlined.

1.7.1 PROBLEM STATEMENT

It is accepted that the government has made a clear commitment to the SMME sector. The question of this research is to investigate whether the government policy on the development and promotion of small business has so far been effective.

1.7.2 THE PURPOSE OF THE STUDY

The establishment of the institutional framework via the National Small Business Act of 1996 is the centerpiece of government policy on the development and promotion of small business. On the government's side, the implementation of the national strategy for small business support is obviously a partnership between the three levels of government, namely national, provincial and local. This study investigated how effective the implementation of this policy has been in the Northern Province, one of the nine provinces in South Africa. Specifically, the study aimed to answer the following questions:
Is the institutional framework well established at the provincial and local government level?

Have the products developed for small business support been effectively marketed to the SMME sector?

Is the SMME sector well aware of the institutional framework set up by government?

Is the SMME sector benefiting from the non-financial services offered by Ntsika?

Is the small business sector benefiting from the financial support offered by Khula?

In order to answer these questions, the following objectives need to be achieved:

**Objective 1**

The study has to determine the institutions that have been established by government or with government support for the development and promotion of small business in the Northern Province.

**Objective 2**

The strategies for marketing the institutions and the products developed for small business support should be studied.

**Objective 3**

The effectiveness of the marketing strategies should be determined.
Objective 4

The benefits accrued from the support services developed for small business should be determined.

1.8 RESEARCH METHODOLOGY

There were three main aspects to the conduct of the study.

- Government officials in the Department of Trade and Industry (DTI) in the Northern Province were interviewed. Institutions that have been set up to provide support services to small business were also visited and officials at these institutions were also interviewed.

- Further information was obtained from existing documentation at the DTI and from the institutions offering support services to small business.

- A survey of the SMME sector in the Northern Province was conducted. A designed questionnaire was presented to a representative sample of small businesses.

1.9 OUTLINE OF THE STUDY

The following is the outline of the dissertation that resulted from the research study that was carried out.

In Chapter 1, the background to the study is defined. The fundamental principles underlying the government's national small business strategy and its plans for implementation are stated and explored. Implementation strategies by government are examined and the objectives of the study are formulated. The research methodology and programme of investigation are also outlined. The terminology used in the study is also clarified.
The following programme of investigation to gather data was adopted:

- Literature review.
- Interviews.
- Perusal of documentation.
- Questionnaire design.
- Conduct of survey.
- Data analysis.
- Report.

In Chapter 2, the available and popular literature regarding small business development in South Africa and elsewhere is presented. This provides theoretical guidelines and ideas about small business.

Chapter 3 sets up the physical context of the problem, the research methodological orientation and the epistemological clarification. The use of both quantitative and qualitative research methods is also discussed as well as the data collection methods.

In Chapter 4, an analysis of the data collected is presented. The data obtained from interviews and existing documentation will be summarized descriptively. The data from the questionnaires will be analysed statistically. Graphical illustrations will be used to enhance the presentation.

In Chapter 5, conclusions drawn from the study are presented together with some recommendations. Some final reflections are also included.
1.10 CLARIFICATION OF TERMINOLOGY

The following abbreviations are used in this study.

SMME: Small, Medium and Micro-Enterprises.
NGO: Non-Governmental Organization.
CSBD: Centre for Small Business Development.
NEF: National Empowerment Fund.
SBDC: Small Business Development Corporation.
DTI: Department of Trade and Industry.
ESKOM: Electricity Supply Commission.
GCIS: Government and Communication and Information System.
MEC: Member of Executive Committee (Provincial).
CBSC: Central Business Service Centre.
LBSC: Local Business Service Centre.
RFI: Retail Financial Intermediary.
ABC: Agashana Business Credit.
SEF: Small Enterprise Foundation.
MCO: Micro-Credit Outlet.
BPL: Business Partners Limited.
LSC: Local Service Center.
VAT: Value Added Tax.
CCMA: Commission on Conciliation, Mediation and Arbitration.
CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

In this chapter, the available and popular literature regarding small business development in South Africa and elsewhere is presented. This provides theoretical guidelines and ideas about small business.

2.2 WHAT CONSTITUTES A SMALL BUSINESS?

Small businesses are easier to describe than to define. The Bolton Report (1971) described small business as follows:

- In economic terms, a small firm is one that has a relatively small share of its market.

- It is managed by its owners or part owners in a personalised way, and not through the medium of a formalised management structure.

- It is independent in the sense that it does not form part of a larger enterprise and that the owner/managers should be free from outside control in taking their principal decisions.

Although there have been various recent variations to the definition of a small business, this definition captures the essence of what constitutes a small business and is still relevant in this changing environment.

This classic description of a small business is supported by Burns (1996) who states: “The characteristic of a small firm’s share of the market is that it
is not large enough to enable it to influence the prices or national quantities of goods sold to any significant extent. Personalised management is, perhaps, the most characteristic factor of all. It implies that the owner participates in all aspects of the management of the business and in all major decision-making processes. There is little devolution or delegation of authority. One person is involved when anything material is concerned. Independence from outside rules out those small subsidiaries which, though in many ways fairly autonomous, nevertheless have to refer major decisions to a higher authority.

The South African government (RSA Government Gazette: 1995) defines four categories of small businesses:

- **Survivalist enterprises** are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises.

- **Micro-enterprises** are very small businesses, often involving only the owner, some family member(s) and at most one or two paid employees. They usually lack "formality" in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support.
Small enterprises constitute the bulk of the established businesses, with employment ranging between 5 and about 50. The enterprises will usually be owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors.

Medium enterprises constitute a category difficult to demarcate. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets of about R5 million are often seen as the upper limit. In the present context, the government is concerned with medium-sized enterprises which face obstacles and constraints which cannot be solved through normal market forces and private-sector action.

Lucas (1992:49-50) gives the following definition of a small business:

“A business is defined as a small business enterprise if it meets at least one obligatory qualitative criterion and two obligatory quantitative criteria:

One obligatory qualitative criterion:

- The business is privately (sole proprietorship, partnership, close corporation or private company) and independently owned, managed and controlled and may have more than one branch or unit.

Two of the following three obligatory quantitative criteria:

- The business has a total annual turnover of less than R2.5 million (1992 prices).
- The business has a total asset value of less than R2.0 million (property and buildings excluded) (1992 prices).
- The business has a total of fewer than 50 full-time employees.”

The small business sector is, therefore, highly diverse, with structures, problems, growth potential and access to support differing widely between segments. Apart from the descriptive definitions, attempts have been made at quantitative definitions of small businesses. Recognising that one single definition would not cover industries as divergent as those included in the small business sector, the government has come up with a table (see Table 2.1) quantitatively defining small businesses in terms of type of sector, size or class, total full-time equivalent of paid employees, total annual turnover and total gross asset value, (RSA Government Gazette: 1995).
### TABLE 2.1 DEFINING SMALL BUSINESS QUANTITATIVELY

<table>
<thead>
<tr>
<th>Sector or sub-sectors in accordance with the Standard Industrial Classification</th>
<th>Size or class</th>
<th>Total of full-time equivalent of paid employees</th>
<th>Total annual turnover</th>
<th>Total gross asset value (fixed property excluded)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>Medium</td>
<td>100</td>
<td>Less than</td>
<td>R4.00m</td>
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<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>Less than</td>
<td>R2.00m</td>
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<tr>
<td></td>
<td>Very small</td>
<td>10</td>
<td>Less than</td>
<td>R0.40m</td>
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<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>Less than</td>
<td>R0.15m</td>
</tr>
<tr>
<td><strong>Mining and Quarrying</strong></td>
<td>Medium</td>
<td>200</td>
<td>Less than</td>
<td>R30.00m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>Less than</td>
<td>R7.50m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>Less than</td>
<td>R3.00m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>Less than</td>
<td>R0.15m</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>Medium</td>
<td>200</td>
<td>Less than</td>
<td>R40.00m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>Less than</td>
<td>R10.00m</td>
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<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>Less than</td>
<td>R4.00m</td>
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<td>Micro</td>
<td>5</td>
<td>Less than</td>
<td>R0.15m</td>
</tr>
<tr>
<td><strong>Electricity, Gas and Water</strong></td>
<td>Medium</td>
<td>200</td>
<td>Less than</td>
<td>R40.00m</td>
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<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>Less than</td>
<td>R10.00m</td>
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<td></td>
<td>Very small</td>
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<td>R4.00m</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>Less than</td>
<td>R0.15m</td>
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<tr>
<td><strong>Construction</strong></td>
<td>Medium</td>
<td>200</td>
<td>Less than</td>
<td>R20.00m</td>
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<td>Small</td>
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<td>R5.00m</td>
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<td>Very small</td>
<td>20</td>
<td>Less than</td>
<td>R2.00m</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>Less than</td>
<td>R0.15m</td>
</tr>
<tr>
<td><strong>Retail and Motor Trade and Repair Services</strong></td>
<td>Medium</td>
<td>100</td>
<td>Less than</td>
<td>R30.00m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>Less than</td>
<td>R15.00m</td>
</tr>
<tr>
<td></td>
<td>Very small</td>
<td>10</td>
<td>Less than</td>
<td>R3.00m</td>
</tr>
<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>Less than</td>
<td>R0.15m</td>
</tr>
<tr>
<td><strong>Wholesale Trade, Commercial Agents and Allied Services</strong></td>
<td>Medium</td>
<td>100</td>
<td>Less than</td>
<td>R50.00m</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>Less than</td>
<td>R25.00m</td>
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<td></td>
<td>Very small</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>Less than</td>
<td>R0.15m</td>
</tr>
</tbody>
</table>
### 2.3 SPECIAL CHARACTERISTICS OF SMALL FIRMS

Small firms are not just scaled-down versions of large ones. They have some special characteristics that set them apart and make the process of management different from that of larger firms. These characteristics also make most small firms inherently riskier than larger firms. These characteristics include the following (Burns 1996):

- **One person, the owner-manager, has an overwhelming influence on the firm.** Their views and values will influence all aspects of its activities. This means that business decisions will often become personal decisions and the logic of the balance sheet will not always apply. There is also the risk of overdependency upon one individual for the well being of the firm.

- **Most small firms are unlikely to be able to exert much influence on their market.** They are price-takers in the classic economic sense and are likely...
to face significant competition. This makes the risk of failure high and means that the competitive strategy is of paramount importance. However, some small firms combat this danger very effectively by differentiating their product or service and/or segmenting their market and developing a market niche for themselves.

- Small firms are likely to operate in a single market, or a limited range of markets, probably offering a limited range of products or services. This means that the scope of the firm's operations is limited and less of a strategic issue than in large firms. However, it also means that, unlike larger firms, they find it more difficult to diversify their business risk.

- Small firms are likely to be over-reliant on a small number of customers. This means that they are particularly vulnerable to losing any one customer and the effect on the firm of such a loss will be disproportionately large. This is another reason why they are riskier than large firms are.

- Small firms are not public companies. This means that they often have problems raising capital and this can significantly constraint their choice of strategies. Indeed, for many small firms seeking growth, raising finance can become a major strategic issue and relationships with financial institutions such as banks can become a major resource issue.

Small firms are not homogeneous. Each is different and has special characteristics. Trying to generalise is clearly dangerous, but it is important to differentiate two types of firms.

- Firstly, there is the "lifestyle" business that has been set up to provide the owner-manager with an acceptable income at a "comfort level" of activity. Once that level of activity is reached, management becomes a routine, tactical activity. There is probably little thought about strategic
management, unless things start to go wrong, and the most likely thing to
go wrong is that the market changes without the owner-manager realising
it. Most small firms fall into this category.

- Secondly, there is also the "entrepreneurial" business set up with the
intention of growth. In this case, the owner-manager is far closer to the
classic concept of entrepreneur, where innovation is a driving force.
These firms present many of the classic change management problems.
They are not easy to manage and extremely risky. Most will probably not
survive without encountering at least one crisis that will threaten their
survival. Effective strategic management is vital if the firm is to develop
(Burns 1996).

It is important to have a clear definition of small business. This is obviously
difficult to do given the diversity of the sector. As a result, there are a
number of definitions. In these two sections, an attempt has been made to
synthesize the most common features.

2.4 THE SIGNIFICANCE OF THE SMALL BUSINESS SECTOR

SMMEs represent an important vehicle to address the challenges of job
creation, economic growth and equity. Throughout the world, one finds that
SMMEs are playing a critical role in absorbing labour, penetrating new
markets and generally expanding economies in creative and innovative ways.
The stimulation of SMMEs must be seen as part of an integrated strategy to
take the economy onto a higher road – one in which the economy is
diversified, productivity is enhanced, investment is stimulated and
entrepreneurship flourishes (RSA Government Gazette 1995).

In South Africa, the small business sector has been neglected during much of
the century following the discovery of diamonds and gold, and the
establishment of a modern, capitalist economy with almost exclusive white
control. While the importance of large industrial, mining and other enterprises for the growth of the economy can not be denied, there is ample evidence that the labour absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation is vital for many of the challenges facing the South African economy (RSA Government Gazette 1995).

Given South Africa's legacy of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets (both domestically and internationally), enhance productivity and technical change, and through all of this stimulate economic development (RSA Government Gazette 1995).

Taking into account the very large micro-enterprise segment of the small business sector, as well as those struggling in survivalist activities, it should be clear that the small business sector plays a crucial role in people's efforts to meet basic needs and help marginalised groups – like female heads of households, disabled people and rural families – to survive during the current phase of fundamental structural changes where the formal economy is unable to absorb the increasing labour supply, and the social support systems are grossly inadequate (RSA Government Gazette 1995).

Experience has shown that in the past black people have been able to make far greater progress in the micro- and small-enterprise segments of the economy than in medium-sized and larger enterprises. Thus, the SMME sector has – all its impediments notwithstanding – proven to be a highly significant vehicle for black economic empowerment (RSA Government Gazette 1995).
A steady supply of new small firms is an important part of a healthy economy, either as a source of self-employment, as a service to the companies and to the community, or as a "seed-bed" for the future, (Birley 1982).

In its 1996 Annual Report for Small Business Development (ESKOM Annual Report 1996:3), ESKOM states that: "It is widely accepted, both in South Africa and internationally, that the small, medium and micro-enterprise sector is an essential vehicle to promote economic wealth and development, and in the South African context, to create badly needed jobs".

According to Clem Sunter, Chairman of Corporate Affairs for Anglo American Corporation, when Fleetwood Ralston discovered the first diamonds in Kimberley in July 1871, it was not a giant mining company that moved in to exploit the discovery. "There was a mad scramble by individual prospectors to peg claims and dig down in their small plots of ground. The energetic impulse to the whole enterprise was small business. Rhodes, Beit, Barnato and all other famous names associated with Kimberley started out as small-time wheeler-dealers before ascending to the status of mining magnates. If one takes the Kimberley mine over its entire life from 1871 to 1914 when working ceased and 14.5 million carats had been extracted from the ground, one has a microcosm of how industry evolves. Never in this century has the South African economy seen the same surges in entrepreneurial activity as occurred in Kimberley and Johannesburg. Those two places were not just frenzied diamond and gold rushes; they laid the foundation for today's economy. Somehow, we must now repeat the vibrancy of those early days of industrialization, but in other areas" (Sunter 1997a).

As one of the Seven Pillars of Growth, Clem Sunter says: "We must go flat out on small business development where the majority of jobs will in future be created" (Sunter 1997b).
The Government Communication and Information System (GCIS) states that the promotion of the small-enterprise sector is not only of great importance for its potential for job creation and income generation, but it deserves particular attention since the sector has been greatly neglected in the past (RSA Government Communication and Information Systems 1998).

The Deputy Minister of Trade and Industry, Phumzile Mlambo-Ngcuka, speaking at the official launch of Khula Enterprise Finance's products in Johannesburg in January 1997 stated that with a viable small, medium and micro-enterprise (SMME) sector, the South African economy would withstand tough international competition (Mashalaba 1997).

Gauteng's MEC for Finance and Economic Affairs, Jabu Moleketi, at the opening of the Premier's Conference on Small Business in March 1999, stated that government's policy was to create an enabling environment in which SMMEs can prosper (Madiseng 1999).

It would seem that small firms are in a better shape to meet the challenges of the new millennium than many large firms are for the following reasons (Burns 1996):

- With their flat, flexible organisations, they are more sensitive and responsive to market changes than large firms.
- With the owner-managers' network of contacts and information, they can often perceive a market opportunity better than larger firms.
- Because the owner-manager depends for his/her livelihood on the success of the business, this can be a highly motivated organisation.
Because of their small size, they are better able to form personal relationships with customers — an important service element — particularly if selling a relatively undifferentiated product.

Economies of scale are becoming less important to many customers and at the same time easier to achieve on a global scale of small firms.

The number of small firms is likely to increase because of market opportunities and factors of social change such as increasing unemployment. Indeed, an increasing number of people are likely to have more than one job, often dipping into self-employment as a part-time activity. As Charles Handy (1994) put it: “It is the end of the age of the mass organisation, the age when we could all confidently expect to be employed for most of our lives if we so wanted and over 90% so wanted....We cannot wait for great visions from great people, for they are in short supply at the end of history. It is up to us to light our own small fires in the darkness.”

In the new millennium, small firms will be integrated more and more into the mainstream of economic activity, not looked down upon but rather regarded as part of our daily lives, (Burns 1996).

The importance of the small business sector in any economy can not be overemphasized. In South Africa, given its apartheid past, this importance is further magnified.

2.5 THE IMPORTANCE OF THE INFORMAL SECTOR IN AFRICA

Most large cities in Africa are under pressure from an intense urban migration. The formal sector of the economy, including government institutions, factories and large shops, is only able to grow sufficiently in order to keep pace with migration. The result is a continually growing problem of urban unemployment. In fact many developing countries consider
this problem as one of the major problems that they will have to face during this and the coming decades (Andersson 1987).

The urban migration is often due to rural overpopulation and a shortage of land which forces young people to leave the countryside. Besides, town-life is very attractive to many people. From a political point of view, the towns are often melting pots where tribalism yields to nationalism and where industrious men and women can develop themselves regardless of their family background. To the last point it should, however, be added that many people do not succeed; but those who do, nurture the dream of others (Andersson 1987).

How do these thousands of unemployed people manage to make ends meet and to survive in a tough city jungle with no social security? Crime and prostitution are two ways, but the informal sector offers the most frequent and positive solution to this problem. Petty trade is the dominating activity in the informal sector. Many of these traders are hawkers who walk up and down the streets looking for customers while they are carrying bundles of cloth, watches or whatever they have for sale. In Yaounde, Cameroon, for example, approximately 80% of all informal businesses deal only in petty trading (i.e. they only produce distributional services) (Andersson 1987).

A certain share of the informal sector comprises businesses that produce goods and services similar to those produced on a larger scale in the formal sector. This part of the informal sector is called the modern informal sector and it is made up of a wide variety of activities such as tailoring, car-repairing, cabinet-making, wood- and metalworking and watch repairing (Andersson 1987).

Typical traits for these modern informal enterprises are (Andersson 1987):

- They are small and employ few qualified workers.
They often employ young boys as apprentices.

They use small amounts of capital.

They are unknown and unregistered by the government.

Apart from creating employment, the informal sector works as an apprentice school where young men learn not only the trade, but also value systems that are adapted to the African way of life. The products of the informal sector are often more adequate, in price and quality, to cater to the needs of the poor (Andersson 1987).

The size of the informal sector is of considerable importance. Estimations of the urban informal sector, as a percentage share of the total urban labour force, range from 20% to 70% in various large Third World cities, the average being close to 50% or more. It is thus not unlikely that hundreds of millions of people all over the Third World depend economically upon this sector as producers and/or consumers (Andersson 1987).

The rapid urbanisation will most certainly continue to be a problem in the future. There are no indications that the formal sector will be able to absorb the masses of surplus labour, and consequently, the informal sector will have to continue its role as a generator of employment. The modern informal sector plays an important and positive role in the economy of many developing countries for a number of reasons (Andersson 1987):

1. In a situation of high unemployment and a shortage of capital, which is the case in most developing countries, capital is used productively and labour-intensive employment is created.

2. Unemployed youth are given a fair chance to learn a trade within the value system of their culture.
To cater to the basic needs of the poor, the production units are close to the market and familiar with the needs of the market.

Industrious entrepreneurs with insufficient schooling may channel their ambitions and have a chance to succeed.

To millions of people in urban centers all over the world, the informal sector offers the only legal way of making a living and surviving.

There is growing interest in small businesses among politicians and research workers. There are several reasons for this (Andersson 1987):

- The small-firm sector is often looked upon as an economic seedbed where entrepreneurship is fostered and new ideas are tried out. Both of these are of crucial importance for the future development of any economy.

- Small firms also account for a large share of the output and employment in most nations, and when unemployment becomes a burning issue, politicians attach lots of hope in small firms' efforts to create more jobs.

It is evident, therefore, that the informal sector in Africa and other developing regions of the world, is the primary generator of small enterprise activity.

### 2.6 CONSTRAINTS FACING THE SMALL BUSINESS SECTOR

Compared to big business in South Africa and in other countries, small businesses face a wide range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies. These constraints relate, among others, to the following (RSA Government Gazette 1995):
The legal and regulatory environment confronting SMMEs.

The access to markets.

Finance.

Business premises.

The acquisition of skills and managerial expertise.

Access to appropriate technology.

The quality of the business infrastructure.

The tax burden.

In the South African context, because of the legacy of apartheid, the following specific constraints can be identified (RSA Government Gazette 1995):

- Bantu Education restricted opportunities for the acquisition of technical and professional skills by black people.

- There was total absence of entrepreneurial education or sensitising for young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship.

- Apartheid confined the majority of the African people to the homeland areas which were not only the poorest in terms of living standards and business opportunities, but also lacked a dynamic business environment.
• Even outside the homelands, the system made it impossible for black would-be entrepreneurs to participate in business apprenticeships and partnerships with more established (non-black-owned/controlled) enterprises.

• Racially segregated residential areas, enforced through the Group Areas Act, not only uprooted millions from the places of residence and business, but also led to large capital losses and virtually destroyed the fabric of black small business.

• Segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business.

• The drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan financing. This also excluded them from the long-run process of capital accrual and growth through rising property values and share prices.

• Apartheid left no real space for the business environment of black women. Marriage laws reduced women to unions with no contractual capacity at all. Even though marriage laws have changed, customary law remains intact and there are cultural, behavioural and attitudinal constraints which affect women’s participation in business, particularly in rural areas. There are also restrictions in terms of access to land.

Due to these processes, small business support policies for a considerable time have to focus on the particular needs of black-owned enterprises and ways to overcome the remaining consequences of the apartheid legacy. This does not imply that policies should only focus on black-owned or
-controlled enterprises or business-infrastructure facilities in formerly black-
reserved towns, but that policy differentiation will have to include
affirmative elements (RSA Government Gazette 1995).

All over the world, small business support policies have become targets of
active vested interest lobbying. All too often, government is pressurized to
overcome constraints, even though enterprises - either individually or
through joint action - could also resolve the problems. This applies in
particular to segments of the small business community which are well-
organised, well-articulated and skillful in the channeling of their requests,
thereby laying claim to a disproportionate part of the limited resources
available for small business support (RSA Government Gazette 1995).

The government has committed itself not to allow the channeling of
disproportionate shares of limited state resources - at both national and
provincial levels - in directions that can not be reconciled with national
priorities. This would be done through negotiation and by appropriate legal
safeguards and guidelines (RSA Government Gazette 1995).

There are numerous and inherent obstacles facing the small business sector.
Any policy has to carefully take into consideration these constraints (RSA

2.7 \textbf{PUBLIC POLICY}

Effective public policy requires an understanding of the factors which
influence the birth, death and growth of smaller firms. The growth in
importance of smaller firms means that it is no longer possible to discuss
economic policy without recognising the role which small firms play in the
economy and the rest of society more generally. Public policy towards small
firms cannot be considered in isolation from other influences in the economy
and, perhaps equally important, cannot simply be left to those with a
particular interest in smaller firms. In short, public policy towards small
firms is now so important that it cannot be formulated by small business interests alone (Storey 1994).

The government could pursue the following policies as part of its small business support strategy:

**2.7.1 Macroeconomic Policies**

Overall, there can be little doubt that government macroeconomic decisions do play a key role in influencing the viability of small firms. Interest rates and the level of aggregate demand in the economy are of prime importance, but decisions on these items are taken with a view to their impact on all sizes of firm rather than simply on those which are small (Storey 1994).

**2.7.2 Deregulation and Simplification**

This means two things: Firstly, freeing markets and increasing the opportunities for competition. Secondly, lifting administrative and legislation burdens which take time, energy and resources from fundamental business activity (Storey 1994).

**2.7.3 Sectoral and Problem-specific Policies**

These are target policies for high-tech firms, rural enterprises, community enterprises, co-ops, and ethnic businesses (Storey 1994).

**2.7.4 Financial Assistance**

This could be in the form of grants, loan guarantee schemes, business start-up and expansion schemes (Storey 1994).

**2.7.5 Indirect Assistance**
Possible assistance in this regard would be in the form of information and advice, business growth training and other types of relevant training (Storey 1994).

2.7.6 Relationships

The government could initiate the formation of small business associations, (Storey 1994).

From the ensuing discussion, it is clear that public or government policy on small business development has to weigh in various competing imperatives.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter sets up the physical context of the problem, the research methodological orientation and the epistemological clarification. The use of both quantitative and qualitative research methods is also discussed as well as the data collection methods. Issues of reliability and validity are also discussed.

3.2 PHYSICAL CONTEXT OF THE PROBLEM

The research was conducted in the Northern Province of South Africa. The institutional framework that has been established by government to assist in the development of the SMME sector at provincial level was closely scrutinised. Information was also gathered through interviews, documentation and questionnaires distributed to a sample of SMMEs in the Northern Province.

3.3 RESEARCH METHODOLOGICAL ORIENTATION

The research was conducted in two phases. In the first phase, the researcher examined the institutions for small business support that have been put in place in the province. In the second phase, information was obtained from a representative sample of SMMEs in the province.
3.4 EPISTEMOLOGICAL CLARIFICATION

The first phase of the research was qualitative. The aim was to find out the institutional framework for small business support that has been put in place at both the provincial and local government level. The researcher attempted to determine whether this has been adequate or not.

The second phase of the study was quantitative. Using the information gathered from a sample of SMMEs in the province, the researcher tried to determine how effective the institutional support to the small business sector has been. The effectiveness can be measured in terms of both the quality of service provided and the extent of availability of support.

3.5 QUALITATIVE RESEARCH

Qualitative implies an emphasis on process and meanings that are not examined or measured in terms of quantity, amount, intensity or frequency. Qualitative research emphasises the socially constructed nature of reality, the intimate relationship between the researcher and what is being studied and also the situational constraints that shape inquiry, (Denzin & Lincoln 1994). Yin (1993) further points out that qualitative data is data that cannot be readily converted to numerical values.

Qualitative researchers are interested in knowing how things occur. Meanings and interpretations are negotiated with human data resources because it is the subject's realities that the researcher tries to reconstruct. Objectivity and truthfulness are critical because the researcher seeks credibility which is based on coherence, insight and instrumental utility (Cresswell 1994). In a qualitative research rules and procedures are not fixed but open. Such designs call for an individual who is willing to take risks inherent in an ambiguous procedure. The researcher's values are not kept out of the study. Language used is personal and informal. Qualitative data must reach the researcher in the form of words.
Qualitative research tries to understand human phenomena in their entirety in order to develop a complete understanding of a person, programme or situation (Rudestam & Newton 1992). This indicates that the qualitative researcher is concerned with human beings where interpersonal relationships, personal values, meanings, beliefs, thoughts and feelings are important. Information derived from qualitative research is not static. Data will change if circumstances change.

Qualitative designs are unique and flexible. This minimizes the likelihood of gathering data that is rich in detail. Knowledge gained from qualitative research enriches one’s imagination (Crabtree and Miller 1992). This is due to the fact that the researcher is in control and informants are also able to provide historical information (Cresswell 1994). This indicates that qualitative procedures are not highly structured and that there is a high degree of flexibility.

Qualitative research enables people to investigate problems outside traditional boundaries of inquiry (Bulmer and Warwick 1983). It is important where direct measurement of characteristics and understanding of behaviour and attitude is difficult.

One weakness of qualitative research is that at times the researcher has to address reality that is contradictory, illogical and incoherent. The researcher is faced with a challenge since procedures for organising images are ill defined and rely on processes of inference, insight, logic and luck (Morse 1993). Qualitative data collection techniques are both time consuming and labour intensive (Crabtree and Miller 1992).

Another problem is that if data is collected through interviews, the presence of the researcher may lead to biased responses from subjects (Cresswell 1994). This particularly refers to face to face interviews. Telephone interviews may also have a negative impact since information is provided in a restricted place and not in a natural environment.
The interview is a common method of collecting qualitative data. It involves verbal interaction between individuals. Anderson (1990) defines it as a specialised form of communication between people for a specific purpose associated with some agreed subject matter.

The purpose of an interview is to find out what is in someone else’s mind. People are interviewed in order to find out from them those things that we cannot control directly. As human beings we cannot observe feelings, thoughts and intentions. We cannot observe behaviour that took place at some previous point in time. We cannot observe how people have organised the world and the meanings they attach to what goes on in the world. The purpose of interviewing is to allow us to enter into other people’s perspective. The interviewer must provide a framework within which people can respond comfortably, accurately and honestly to question (Patton 1982).

There are different types of interviews that can be used as research techniques. They are:

**Structured Interviews**

A structured interview is one in which the procedure to be followed is determined in advance. An interview schedule is prepared in which the pattern to be followed, the wording of questions and instructions and the method of coding or categorizing the answers are detailed (Behr 1983).

**Unstructured Interviews**

In this type of interview a number of questions are also prepared beforehand. The interviewer is allowed to use his/her own discretion and depart from the set questions as well as their order of presentation (Behr 1983).
The Focus Group Interviews

Focus group interviews are a qualitative method of collecting data. They enable the interviewer and the respondents to interact with one another. Focus group interviews are non-directive because open-ended questions are used. No boundaries are set for the participants. The respondents have ample time to comment, explain and share experiences and attitudes (Krueger 1994). A focus group is a special type of group in terms of purpose, size, composition and procedures. It is composed of participants who are selected because they have certain characteristics. A focus group consists of a minimum of three individuals. Focus group interviews are created in order to accomplish a specific purpose through a defined process. The main purpose is to obtain information of a qualitative nature from a pre-determined and a limited number of people. Focus group interviews provide an environment in which disclosures are encouraged and nurtured. Focus group interviews produce qualitative data which provides insight into attitudes, perceptions and opinions of the participants. Results are solicited through open-ended questions and a procedure in which respondents are able to choose the manner in which they respond. Focus group interviews present a more natural environment than that of individual interviews because participants are influenced by others just as in a real life situation.

Individual Interviews

Individual interviews are interviews conducted on a one-to-one basis. These can be structured or unstructured. The interviewer could also allow interaction with the respondent.

3.6 QUANTITATIVE RESEARCH

Quantitative research emphasises measurement and analysis of causal relationships between variables (Denzin and Lincoln 1994). Reality is viewed as singular, objective and independent of the researcher.
Questionnaires are often the instruments used for data collection. Quantitative research is value free, formal and unbiased. This enables the researcher to report realities faithfully. Quantitative research makes use of inductive methods where theories and hypotheses are chosen before the study begins. Quantitative studies have carefully worked out procedures where rules for research exist. Collection and analysis of data involves a shorter period of time than that required in qualitative designs. Quantitative research is impersonal and experimental (Cresswell 1994).

3.7 DATA COLLECTION

Phase 1:

In the first phase, government officials in the Department of Trade and Industry (DTI) in the Northern Province were interviewed. Institutions that have been set up to provide support services to small business were also visited and officials at these institutions were interviewed. Further information was obtained from existing documentation at the DTI and from the institutions offering support services to small business.

Phase 2:

For the second phase, a survey of the SMME sector in the Northern Province was conducted. A designed questionnaire was presented to a representative sample of small businesses. The population was all the SMMEs in the Northern Province. The definition of an SMME was in terms the characteristics used in the National Small Business Act of 1996. The sample was then obtained by means of simple random sampling from the registry of the Chamber of Business.
3.7.1 CRITERIA FOR SELECTION OF RESPONDENTS

- Businesses within the geographical area of the Northern Province.
- Businesses in rural and urban areas.
- Companies representative of the small, medium and micro-enterprise industry.

3.8 RELIABILITY AND VALIDITY

The reliability and validity of the data obtained from the interviews was assured by the scrutiny of the data by an independent professional (Dr T S Misi). The respondents were government officials and managers of the institutions that were set up to provide support services to the small business sector. The data was also supported by existing official documentation.

The sample for the survey was selected using simple random sampling. Every effort was made to ensure statistical validity and representivity. However, the researcher would have preferred a larger sample.

3.8.1 TRIANGULATION

Building checks and balances into a design through multiple data collection strategies is called triangulation. The triangle is the strongest of all geometric shapes and triangulated designs are aimed at increasing the strength and rigor of a study. Using more than one data collection approach permits the researcher to combine strengths and correct some of the deficiencies of any one source of data.
There are four basic types of triangulation:

1. **Data triangulation:**

   The use of a variety of data sources in a study, e.g. interviewing people in different status positions or with different points of view.

2. **Investigator triangulation:**

   The use of different researchers.

3. **Theory triangulation:**

   The use of multiple perspectives to interpret a single set of data.

4. **Methodological triangulation:**

   The use of multiple methods to study a single problem, such as interviews, observations, questionnaires and documents.

The logic of triangulation is based on the premise that no single method ever adequately solves the problem of rival causal factors. Because each method reveals different aspects of empirical reality, multiple methods of observation must be employed.

Triangulation is ideal but expensive. Most research involves limited budgets, short time frames and political constraints. In the real world of limited resources, attempts at triangulation may mean a series of poorly implemented methods rather than one well-executed approach. Where possible, triangulation is highly recommended.

Triangulation is a powerful solution to the problem of relying too much on any single data source or method and thereby undermining the validity and
credibility of the findings because of the weaknesses of any single method. Triangulation is the recognition that the researcher needs to be open to more than one way of looking at an issue. Indeed, purity of method is less important than the dedication to relevant and useful information. Mixing parts of different approaches is a matter of some philosophical controversy. Yet, the practical mandate to gather the most relevant information outweighs concerns about methodological purity based on epistemological and philosophical arguments. The use of multiple sources of evidence allows the researcher to address a broader range of historical, attitudinal and behavioural issues. Any finding or conclusion is likely to be much more convincing and accurate if it is based on several different sources of information (Patton 1987).

When a lawyer uses qualitative data, his method is best described as triangulation, and involves sifting the evidence, viewing it from different angles or perspectives. For example, the method of triangulation applied to the workings of the SMMEs might involve viewing the firm as a balance sheet, as a hirer of factor services, or a seller of products. More generally, triangulation involves "a situation in which a hypothesis can survive the confrontation of a series of complementary methods of testing". An aspect of triangulation is the combined use of qualitative and quantitative methods. Thus "qualitative work can assist quantitative work in providing a theoretical framework, validating survey data, interpreting statistical relationships and deciphering puzzling responses, selecting survey items to construct indices, and offering case study illustrations (Fielding and Fielding 1986).

Triangulation of data collection and choice of respondents will impact the reliability and validity of the study. In this study, different methods of data collection were used, namely questionnaires, interviews and existing documentation. Various sizes of companies were also used as respondents.
3.9 CHAPTER SUMMARY

In this chapter the researcher has set up the physical context of the problem, the research methodological orientation and the epistemological clarification. The use of both quantitative and qualitative research methods has also discussed as well as the data collection methods. Issues of reliability, validity and triangulation have also been discussed.
CHAPTER FOUR

DATA SUMMARY AND ANALYSIS

4.1 INTRODUCTION

In this chapter, the data collected is summarised and analysed. The data was both qualitative and quantitative.

4.2 THE STATE OF THE REGULATORY ENVIRONMENT

It has been variously argued that the regulatory environment needs to be conducive to the development of the small business sector. The National Small Business Regulatory Review was set up in 1997 by the Minister of Trade and Industry to help create an enabling environment for the small business sector. An Advisory Board, comprising representatives of the private sector, government, business and trade unions, was duly appointed. The Advisory Board appointed eight task teams to conduct research and review legislation and regulations in the following areas:

- Finance
- Taxation
- Labour
- Business Trade
- Property and Land Ownership
The Advisory Board was tasked with overseeing the diagnostic investigation work on the legal and regulatory framework done by the task teams and to make appropriate recommendations to the Minister, who, in turn, would present the recommendations to Parliament to reflect upon and make the necessary changes in legislation (Malgas 2000).

The broad objectives of the regulatory review are:

1. To change the overall culture of regulation;

2. To establish co-ordination and consistency in regulations. This has the potential to:
   i. Establish clear responsibility for regulating particular activities between and within jurisdictions;
   ii. Facilitate the development of uniform regulatory standards and their national application; and
   iii. Provide a framework for the efficient enforcement of regulations;

3. To make compliance easier for small businesses. This could be done by simplifying administrative procedures that they are required to follow, and by giving them more practical assistance; and

4. To provide proposals for the adjustment of legislation, practices and other measures which unduly impede the development of small
4.2.1 THE FINAL REPORT OF THE NATIONAL SMALL BUSINESS REVIEW

A summary of the final report of the National Small Business Review is presented in terms of the eight clusters (Malgas 2000).

4.2.1.1 FINANCE

Recommendations

- The Usury Act and the Credit Agreement Act be repealed and replaced with comprehensive consumer legislation;

- An exemption be created under the Banks Act that would allow retail finance intermediaries which are not registered as banks or mutual banks to accept wholesale deposits of not less than R1m from institutional investors for purposes of advancing micro loans;

- Banks should be obliged to support communities within which they operate as a concomitant to enjoying various forms of state support. The draft disclosure legislation pertaining to lending for housing purposes to be extended to community reinvestment as a whole;

- Dedicated institutions providing a variety of financial products to be promoted;

- The formal debt recovery process be improved and a national credit register be established;
○ Section 10(1)(cJ) of the Income Tax Act of 1962 should be extended to include lending for SMME purposes;

○ Consideration should be given to the possibility of establishing a Registrar of Pledges and to the desirability of allowing a small percentage of a member's withdrawal benefit in terms of the Pension Funds Act, to be used as security for SMME purposes;

○ Investors and investees should be brought together to create a primary market for very small, small and medium enterprises; and

○ Reconsideration should be given to the investment limitation imposed on pension and provident funds. These institutions could be required to direct a portion of their investment towards SMMEs.

Developments

○ There is a process underway under the auspices of the Policy Committee for Financial Regulation attached to the Reserve Bank, to look at legislative measures for diversification of the financial industry to allow for more entrants who are not banks into the financial industry.

4.2.1.2 TAXATION

Recommendations

○ There is need for a government sponsored education programme to counter the wide-spread perception that the tax system is unfair to SMMEs;

○ Government should investigate the advisability from a fiscal, economic and financial point of view, of amending the Income Tax Act to extend
the tax deductibility of losses suffered as a result of irrecoverable loans to SMMEs;

- Consideration should be given to the possibility of granting tax benefits to SMMEs and that the qualifying criteria be directly linked to job creation;

- There ought to be investigations into regulations which would have the effect that SMMEs are taxed on a receipt basis;

- All tax documentation should be simplified;

- The deduction of non-capital expenditure that is incurred in the ordinary course of business should be allowed for.

**Developments**

- In the 2000 budget, the Minister of Finance introduced a graduated tax rate structure in terms of which qualifying small corporations would pay tax on the scale of 15% on the first R100 000 of taxable income and 30% thereafter. To qualify, small enterprises must be incorporated either as close corporations or companies.

- In the 2001 budget, the Minister of Finance announced the extension of tax privileges for SMMEs to allow for the immediate deduction of investment expenditure in manufacturing assets;

- From October 2001, a new tax measure was to be introduced which would be simpler in administration and compliance;

- Diesel fuel concessions to farmers, foresters and miners were also to be introduced;
In December 2000, the government published the Taxation Laws Amendment Bill, the purpose of which was to introduce the taxation of capital gains in the Income Tax Act. Capital Gains Tax would be levied on any proceeds realised on the sale of an asset in the year of assessment which is in excess of the base cost of the asset. Of importance to small businesses was the provision that would allow natural persons to disregard capital gains arising in respect of the disposal of small business assets when determining their aggregate capital gain or loss.

4.2.1.3 LABOUR

Recommendations

- A code on organisational rights for firms employing 20 or less employees;

- A change to the criteria for the extension of Bargaining Council agreements to non-parties;

- Improvements in the council exemption system;

- A single conciliation/arbitration process by the Council on Conciliation, Mediation and Arbitration (CCMA);

- Clearer guidelines for determining procedural fairness in unfair dismissal cases involving smaller firms;

- Limitations of an employee’s right to recourse in the case of dismissal for poor performance or incapacity during the first six months of employment.
Developments

- The government is currently negotiating with Nedlac on amendments to the Labour Relations Act and the Basic Conditions of Employment Act.

4.2.1.4 BUSINESS TRADE

Developments

- The Competition Act of 1998 as amended by the Competition Second Amendment Act 30 of 2000 seeks to protect small businesses against unfair competition by the bigger and better resourced businesses. Of particular interest to SMMEs is the prohibition of restrictive practices and agreements that have the effect of substantially preventing and lessening competition and the prohibition of abuse of dominance by dominant firms.

4.2.1.5 PROPERTY AND LAND OWNERSHIP

Developments

- In December 2000 the Department of Minerals and Energy published the draft Mineral Development Bill. One of the fundamental principles of the Bill is the promotion of local and rural economic development and social upliftment of communities affected by mining. The Bill empowers the Minister of Minerals and Energy to give financial assistance to persons or association of persons from historically disadvantaged groups to conduct prospecting or mining activities. Historically disadvantaged is defined in the Bill as people who suffered racial discrimination. This should benefit historically disadvantaged small-scale miners who are most often the neediest.
In 2000 the Department of Provincial and Local Government published the Property Rates Bill for comment. The Bill seeks to create a policy for the determination of property rates by local governments. Of interest to SMMEs is that the Bill stipulates that when a municipality determines its rates policy, the policy must allow the municipality to promote social and economic development. The Bill would give municipalities the opportunity to stipulate different rates that would benefit SMMEs without unfairly discriminating against any other category of rate payers.

4.2.1.6 MISCELLANEOUS LEGISLATION, BY-LAWS AND REGULATIONS

Developments

- The Tobacco Products Control Act of 2000 aims to prohibit and control smoking in public places. Compliance with the Act has cost implications for all who trade in these products, including SMMEs.

- The Promotion of Access to Information Act of 2000 seeks to give effect to the Constitutional right of access to any information held by the State and any information held by and other person and that is required for the exercise or protection of any rights. This Act may be of importance to SMMEs in matters relating to procurement, public sector and the granting and/or refusal of licences, although there are cost implications in that in appropriate cases a fee may be charged for providing the information sought.

- The Promotion of Administrative Justice Act of 2000 gives effect to administrative action that is lawful, reasonable and procedurally fair and to the right to be provided with written reasons for administrative action as contemplated by the Constitution. The Act applies to administrative action of organs of State. It entitles any person adversely affected by
administrative action to request to be provided with written reasons for the action and to review such action in a court or tribunal in appropriate cases. Most significantly for SMMEs, this means that where they are adversely affected by administrative action, such as the refusal of a licence, they are entitled to be afforded the opportunity to make representations before the decision is made and to be provided with written reasons for the decision and in appropriate cases they may approach the courts to review and set aside the adverse decision of the administrative organ.

4.2.1.7 PROCUREMENT

Problem

It has been identified that there is lack of accessibility to tenders by SMMEs due to the following factors:

- Lack of information about tenders;
- Onerous tender procedures and requirements;
- Corruption in the tendering process;
- Unfair competition from big business; and
- Inconsistent policies and practices of the different spheres of government and parastatals.
Recommendations

- A national procurement framework needs to be implemented for uniformity and consistency of approach by government if SMMEs are to access procurement;

- A uniform system of tendering at national, provincial and local level to be implemented;

- Development of clear criteria that allows for the constitutional definition of organs of state to apply to parastatals;

- Monitoring of awards to SMMEs and setting up a compliance office to ensure compliance with the national procurement policy;

- A uniform, clearly understood and consistently applied preference system to be implemented;

- Contract requirements that primary contractors form partnerships with and train SMMEs to be prescribed;

- National tenders boards, provincial tender boards and appropriate local government institutions must drive the process in terms of the national framework to ensure accessibility of contract documents;

- The system of advertising government contracts to be improved;

- Publication of clear rules of the adjudication process;

- Funds to be allocated for supply-side support measures that will enhance the capacity of SMMEs to procure government contracts;
Early payment mechanisms and clear policy guidelines on guarantees to be investigated;

Codes of conduct for officials, politicians and tender boards to be implemented. Tender boards to be regularly reconstituted with politicians and officials playing an active watchdog role.

**Developments**

The Preferential Procurement Policy Framework Act of 2000 sets a framework for the award of tenders within which organs of State must determine and implement their preferential procurement policies. It creates some certainty about the criteria to be applied in awarding tenders to the extent that it stipulates a preference point system. Specifically, the Act stipulates that gender, race and disability are factors that may be taken into account in considering tenders. The Act does not provide any further guidelines that benefit SMMEs in particular nor does it contain any monitoring provisions to ensure compliance with policy.

**4.2.1.8 WOMEN AND RURAL DEVELOPMENT**

The Recognition of Customary Marriages Act of 2000 recognises customary marriages and provides that a wife in a customary marriage shall have, in addition to any rights and powers she may have by customary law, full status and capacity, including the capacity to acquire assets and dispose of them, enter into contracts and to litigate. The Act should especially assist rural African women entrepreneurs who otherwise would be disadvantaged by the requirement that they obtain the consent of their husbands to engage in commercial activity.
4.3 THE INSTITUTIONAL FRAMEWORK IN THE NORTHERN PROVINCE GOVERNMENT

In this section we look at the institutions that have been set up in the Northern Province government with the view to render support to the small business sector.

4.3.1 THE NORTHERN PROVINCE SMME DESK

The provincial nerve-centre for the development and promotion of small business is the SMME Desk in the Department of Trade and Industry. The provincial SMME Desk was established in 1996 and it is headed by a Director. The SMME Desk was established to play a crucial role of ensuring provincial representation and participation as well as grassroots involvement in the implementation of the national strategy for the development and promotion of small business. The Desk was meant to strengthen the bottom-up approach to service delivery. It is the central hub for coordinating, providing information, facilitating training, creating linkages and keeping a database of SMMEs.

4.3.2 THE SMME NORTHERN PROVINCE SUPPORT AGENCY

In November 1999, the SMME Northern Province Support Agency was launched. This Section 21 Company has taken over some of the small business support services that were housed under the provincial SMME Desk. There are plans afoot to make it a parastatal.
4.3.3 POLICY STRATEGY

There is a deliberate policy to direct the SMME sector into the following underrepresented areas:

- Tourism
- Manufacturing
- Mining
- Agriculture.

In order to spur further development, Economic Growth Points (or Incubation Points) are being initiated.

4.3.4 PROGRAMMES

The Provincial Procurement Committee

The aim of the committee is to streamline the various procedures and facilitate access by SMMEs to Provincial Government contracts.

Targeted Assistance Programme

The programme aims to support enterprises owned by women, the disabled and the youth to move their business into the mainstream of the economy. The programme offers non-financial support to the target groups.
Women in Mining Programme

The Northern Province South African Woman in Mining Association was launched to identify opportunities for women in the mining and associated beneficiation industries.

Pottery Project

The province facilitated a three week training course of women pottery groups. The training was on product development, quality control and designing.

Local Business Service Centres (LBSCs)

The Province has grown from one accredited LBSC in 1996 to seventeen currently. Five of the LBSCs are sponsored by the provincial government while the remaining twelve are sponsored by Ntsika.

4.3.5 MARKETING

Publicity of the various programmes is attained through the following:

- Annual reports.
- News bulletins.
- Media (Radio, Newspapers and Television).
- Workshops.
- Trade fairs.
4.4.1 NTSIKA ENTERPRISE PROMOTION AGENCY

Ntsika Enterprise Promotion Agency was established under the National Small Business Act (1996) with the following main functions:

- To expand, coordinate and monitor the provision of training, advice, counselling and any other non-financial services to small business in accordance with the National Small Business Support Strategy.

- To provide financial support to service providers.

- To consult with any organ of government, the National Small Business Council or a service provider in order to:
  
  i. facilitate the provision of business advice and counselling services to small business;

  ii. facilitate access by small business to raw materials and other products;

  iii. facilitate international and national market access for products and services of small business, and

  iv. generally, strengthen the capacity of:
      
      ◊ service providers to support small business, and

      ◊ small business to compete successfully in the economy.

- To investigate the effect of existing and proposed legislation on small business.
To provide information and analysis on the implementation of the National Small Business Support Strategy to organs of government.

To make recommendations to organs of government on existing and proposed policy affecting small business.

To improve the general understanding of the public regarding the contribution of small business to economic growth, job creation and welfare.

Ntsika has produced different programmes in the following areas:

4.4.2 BUSINESS DEVELOPMENT SERVICES

Ntsika provides services to the SMME sector through accredited Local Business Service Centres (LBSCs) which play the role of retail intermediaries in the delivery of the following non-financial support services to SMMEs:

- Business skills training, advice and counselling;

- General assistance in procedures of establishing a company;

- Development of business plans;

- Referral services; and

- Information provision on markets and tenders.
4.4.3 MARKET ACCESS AND BUSINESS LINKAGES

Tender Advising

The Tender Advice Centres programme was started in May 1997 with the aim of providing assistance and training to SMMEs on the government tendering process.

Infrastructure Development

Under the Infrastructure Development Programme, conceptualisation and pre-feasibility or market analysis studies of the Local Industrial Parks (LIP) have been done. LIPs are aimed at providing much needed infrastructure for SMMEs. Ntsika has entered into partnerships with a number of institutions in order to accelerate the implementation process.

Group-Purchasing Scheme

The Group-Purchasing Scheme was introduced to help SMMEs buy raw materials at lower prices by buying in bulk.

International Competitiveness Programme

The globalisation of the world economy has put small businesses under immense pressure to become competitive. The International Competitiveness Programme seeks to prepare small businesses to cope in the face of the increased pressure of globalisation. To this end, it provides business skills and technical training to SMMEs in order to make them players in the international market.
4.4.4 TARGETED ASSISTANCE

**SLOT and Grime Busters**

The SLOT and Grime Busters programmes are designed to help young entrepreneurs. SLOT aims to provide training to out-of-school youth living in rural and peri-urban areas. The Grime Busters project seeks to develop business opportunities for youth by teaching them how to put waste material to use through recycling.

**Small Scale Food Processing Programme**

The Small Scale Food Processing Programme is designed to help the rural populations.

**Programme for Disabled Persons**

This programme aims to promote innovation in businesses operated by people with disabilities by providing them with relevant business and skills training, counselling and advice.

**Gender Programme**

The main objective of this programme is to improve the situation of women by providing support to the small businesses they run. It also pays attention to sectors such as tourism and clothing where the participation rate of women is very high.

4.4.5 MANAGEMENT AND ENTREPRENEUR DEVELOPMENT

Organisations that support small businesses need to have expertise in the areas of business skills and training in order to assist them. To help such organisations build in-house capacity in these areas, Ntsika uses accredited
service providers specialising in the relevant areas to run courses for them. The courses include:

- Training of trainers for business start-ups;
- Information management; and
- Industrial extension and counselling.

Sector specific training is also provided.

4.4.6 TECHNOLOGY

The Technopreneur Programme has been designed to facilitate the creation of a vibrant SMME sector through increasing its access to appropriate technology, skills transfer and support services. The programme is being implemented in technical colleges across the country.

4.4.7 POLICY, RESEARCH AND INFORMATION

This focus area aims to support SMME policy formulation as well as programme design and implementation. It is responsible for the following activities:

- Gathering and analysis of data on SMMEs to establish trends by enterprise size-class, sector, region and population group;
- Funding, performing or contracting out research, and subsequently developing policy proposals for designing intervention packages;
- Interacting with other institutions through joint research, and collating their research findings and statistics on the SMME sector; and
Publishing reports, organising seminars and workshops, and producing, each year the State of Small Business in South Africa Review.

4.4.8 NTSIKA IN THE NORTHERN PROVINCE

At the provincial level, Ntsika works through Local Business Service Centres (LBSCs). The LBSCs have to apply for accreditation. This is done by Ntsika in conjunction with the provincial SMME Desk. Since 1996, seventeen (17) LBSCs have been accredited in the Northern Province. Twelve (12) of these are funded by Ntsika while five (5) are funded by the SMME Northern Province Support Agency. The performance of the LBSCs is closely monitored and regular reports are prepared.

4.5.1 KHULA ENTERPRISE FINANCE

Khula is a national wholesale finance company that was set up to form part of the implementing institutional framework of the national strategy on the promotion and development of small business. Its mission was to promote growth and prosperity by increasing access to finance for South African SMMEs, particularly those that had been previously disadvantaged. This would be done through the development of Retail Financial Intermediaries (RFIs) and Micro Credit Organisations (MCOs). Khula has so far introduced the following products:

4.5.2 THE KHULASTART PROGRAMME

This is an entry level programme that provides group loans to rural women in the survivalist and/or micro industry. These loans are provided through a broad range of intermediary organisations called Micro Credit Organisations (MCOs). The loans are primarily to first time borrowers who need small amounts of money to maintain their dependents through “survivalist” economic activities.
Larger loans are provided by Retail Financial Intermediaries (RFIs) through the Micro Lending Programme. The average loan sizes vary between R600 and R500 000.

4.5.3 CREDIT GUARANTEE SCHEME

This scheme aims to assist the more established entrepreneur wishing to acquire or expand a business, to access a bank loan whilst not in a position to provide the necessary security or collateral. The bank, in such an instance, has the option of applying for alternate security available in the form of a Khula Credit Guarantee.

ABSA and Standard Bank have been the major performers under this scheme.

4.5.4 KHULA MENTORSHIP PROGRAMME

This programme provides both pre-loan support (business plan development and advisory service) and post-loan assistance (“after care” or mentoring) to small and medium entrepreneurs applying for commercial bank loans. The main objective of the scheme is to stimulate and increase the utilisation of the Khula Credit Guarantee Scheme by commercial banks. The mentorship programme provides practical training and “on-the-job” support to entrepreneurs.

4.5.5 SEED LOANS

Khula would provide seed loans to organisations who want to become RFIs but require start-up capital. These loans can be used to cover start-up operational expenses and to start loan portfolios by granting small loans to small businesses.
The objective of this scheme is to increase access to finance by SMMEs in South Africa. The scheme is made available to the RFIs who have to service the small business sector but with the provision that they meet certain criteria specified by Khula. Under the scheme Khula would give loans to the RFIs for on-lending to SMMEs. The size of the loan may range between R1 million and R100 million.

**Eligibility Criteria**

RFIs would be assessed, approved and monitored according to Developmental and Institutional Criteria.

The Developmental Criteria include:

- Job creation.
- Outreach to targeted groups (women, youth and disabled) and previously disadvantaged areas (e.g. rural areas).

- Support to promising sub-sectors.
- Outreach to new SMME clients.

The Institutional Criteria include:

- Number of SMME clients.
- Portfolio performance – repayment rate.
- Efficiency – number of clients per officer.
○ Sustainability – cost of servicing the portfolio.

In addition to meeting the developmental and institutional criteria, The RFI would also be appraised on financial performance, management capacity, efficiency, portfolio composition and outreach.

4.5.7 OTHER GUARANTEE PRODUCTS

Khula also maintains the following guarantee products:

**Institutional Guarantee:**

An institutional guarantee would enable an RFI to access funding from its financiers for on-lending to the targeted SMME sector. The extent of the indemnity would be 70% of the financier’s irrecoverable loss.

**Portfolio Guarantee:**

A portfolio guarantee would indemnify an RFI for a portion of losses on a new SMME portfolio in a predetermined sector. The extent of the indemnity would be 80% of the RFI’s irrecoverable loss.

**Individual Guarantee:**

An individual guarantee would enable SMME entrepreneurs to access funding from the RFI to establish, expand or acquire a business.

The following terms and conditions would apply to institutional and portfolio guarantees:

○ The sub-projects should be economically sound on a sustainable basis.
○ The amount guaranteed must not exceed 50% of the RFI's approved projects.

○ The guarantee may not be used to finance the purchase of personal vehicles, the payment of dividends, personal consumption needs of the borrower or speculative investments.

○ The repayment period of loans guaranteed to finance working capital would be a maximum of 180 days, including a grace period of 60 days.

○ The repayment period of guaranteed loans to finance the purchase of fixed assets would be a maximum of 720 days inclusive of a grace period of 180 days.

RFIs would have access to two types of individual guarantees: The Standard and the Emergent Entrepreneur schemes. Although these schemes would have similar general conditions, the specific terms and conditions of each would differ slightly. The SMME would have to be independently owned, with assets of less than R2 million before financing. Owners would have to have appropriate business skills and the business should be profit oriented.

4.5.8 INSTITUTIONAL DEVELOPMENT SERVICES

Khula would facilitate and directly provide support services to RFIs to strengthen their long-term capacity to grow and deliver financial services efficiently. Some of the interventions include:

○ Loan officer training.

○ Study tours to international best practice institutions.

○ Management and financial system design and support.
Financial product design and testing.

4.5.9 RFIs IN THE NORTHERN PROVINCE

There are three RFIs in the Northern Province. These are Agashana Business Credit (ABC) in Pietersburg, Small Enterprise Foundation (SEF) in Tzaneen and HND Project Management Services in Pietersburg. Khula offers loans to the RFIs for on-lending to SMMEs. These RFIs in turn offer loans in the range of R500 to R30 000. ABC offers both individual and group loans. Group loans are only offered on presentation by a group of small business people not individuals. SEF offers group loans only and this is mostly to women. HND only offers loans to building contractors and developers.

Khula monitors the RFIs on a monthly basis through account statements, progress reports and on-site visits. It is the responsibility of the RFIs to market themselves.

While it is clear that Khula in partnership with the RFIs in the province have made a lot of progress in making finance accessible to the wider SMME community, there is obvious need to increase the coverage of the whole province. It is obvious that the next frontier is institutional development to enhance the capacity of both the RFIs and the SMMEs.

4.5.10 MICRO CREDIT ORGANISATIONS (MCOs) IN THE NORTHERN PROVINCE

Another type of intermediary is the Micro Credit Organisation (MCO). There are three in the province situated in Elim, Lebowakgomo and Portgietersrus. The MCOs offer loans in the range of R300 to R3000 to groups of women entrepreneurs primarily for start-up and operating costs.
4.6.1 THE BANKING SECTOR

The Banking Sector identifies three sets of high-level forces which bear on banks financing of the SMME sector:

- The imperatives which dictate that the South African economy must be substantially transformed, the distribution of income equalised and large numbers of people integrated into the mainstream of South African life;

- The soundness of the South African financial sector must be maintained; and

- The practical difficulties in lending to start-up businesses with a debatable business proposition, no risk capital or collateral and limited management resources.

The Banking Sector recognises that failure to create opportunities for the previously disadvantaged to fulfill their potential and expectations is likely to result in the destabilisation of the democracy. The Banking Sector therefore views that it is important to stimulate the development of:

- Medium and small businesses which are likely to be the "job" creators of the future, and

- Very small and micro businesses which tend to provide subsistence-level self-employment opportunities.

The Regulator of South African Banking must ensure that:

- The Banks meet the international standards of minimum capital adequacy for a developing country such as South Africa;
Banks maintain international standards of best practice in relation to the conduct of their business; and

That the Banks make decisions upon commercial criteria.

The banks have been accused, in some quarters, of not doing enough to finance SMMEs, and of being excessively cautious and “risk averse”.

The imperatives of bringing large numbers of people into the mainstream of the economy on the one hand, and of maintaining sound banking practices and of measuring up to international standards of capital adequacy and supervision on the other hand, are somewhat contradictory. Somewhere between the two there must be a knife edge.

When making any loan, a bank has four fundamental requirements:

- The capital amount of the loan must be repaid;
- The loan must generate sufficient revenue to pay the interest which has to be paid by the bank to its depositors;
- The loan must additionally generate sufficient revenue to pay the costs of granting, administering and recovering the loan, mentoring the borrower and covering any losses that might be incurred; and
- Furthermore, the loan must generate sufficient revenue to provide the shareholders with a satisfactory market-related return on their investment.
Loans to established businesses which are appropriately capitalised

Banks currently do a considerable amount of business advancing loans to small and medium enterprises which are going concerns for the following reasons:

- It is much easier to assess the viability of the business and the sustainability of the loan;
- No mentoring is necessary; and
- The funding of the business is stable, and on the basis of experience the losses of the banks are materially lower.

Start-up micro-business loans

The rate of interest that would be paid by the applicant to cover the costs of the bank is very high. The loan itself is not sustainable regardless of whether collateral security is available.

Very small start-up business loans

The loan can not be regarded as sustainable for the following reasons:

- The costs of granting and administering the loan;
- The mentoring costs; and
- The level of bad debts on this category of loan.

For theses reasons, the banks have established Sizanani and Sizabantu schemes to cater for this category of loan. In these schemes, the banks have pooled money together for this category of loans.
Small and medium business loans

Most medium and small businesses, it is assumed, were established with the necessary risk capital and have subsequently proved that they have the capital, a market and the necessary managerial skills to make the business viable. This category of business do not generally experience difficulty in access to finance but rather with the cost of finance, red tape, access to markets, unfavourable tax comparisons and labour inflexibility.

Empowerment loans

Empowerment loans are granted to enable the previously disadvantaged to take over existing businesses. That enables the bank to evaluate the viability of the business on its previous track record.

4.7 Analysis and Interpretation of Data from Questionnaires

A questionnaire was prepared as an instrument for data collection. This was distributed to a variety of small businesses. 45 questionnaires (Appendix B) were returned and the data from this sample was analysed. The basic characteristics of the sample were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employees</td>
<td>9</td>
<td>1</td>
<td>36</td>
</tr>
<tr>
<td>Total Assets</td>
<td>R359 000</td>
<td>R15 000</td>
<td>R2 800 000</td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>R1 202 000</td>
<td>R200 000</td>
<td>R6 000 000</td>
</tr>
<tr>
<td>Number of Years in Operation</td>
<td>12</td>
<td>2</td>
<td>43</td>
</tr>
</tbody>
</table>
The sample comprised of 16 urban-based businesses and 29 rural-based businesses (Fig 4.1).

**FIG. 4.1 LOCATION OF BUSINESS**

There was a variety of businesses represented in the sample, with the majority being retail (Fig 4.2).
The following table explains the abbreviations used in Fig 4.2:

<table>
<thead>
<tr>
<th>ABBREVIATION USED</th>
<th>TYPE OF BUSINESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>RETAIL</td>
<td>Retail</td>
</tr>
<tr>
<td>TRANSPOR</td>
<td>Transport</td>
</tr>
<tr>
<td>CATERING</td>
<td>Catering</td>
</tr>
<tr>
<td>SOCIALS</td>
<td>Social Service</td>
</tr>
<tr>
<td>CONSTRUC</td>
<td>Construction</td>
</tr>
<tr>
<td>AGRICULT</td>
<td>Agriculture</td>
</tr>
<tr>
<td>MANUFACT</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>BUSSERV</td>
<td>Business Service</td>
</tr>
</tbody>
</table>

The data for the questionnaires was analysed using categorical data analysis. This analysis was conducted by the use of the statistical computer software STATISTICA. The report includes the interpretation derived from this analysis.
4.7.1 AWARENESS OF GOVERNMENT POLICY

Respondents were asked if they were aware of government policy on the development and promotion of small business. 58% said NO while 42% said YES. Below is the graph illustrating this.

**FIG. 4.3 ARE YOU AWARE OF GOVERNMENT POLICY ON SMMEs?**

4.7.2 AWARENESS OF THE INSTITUTIONAL FRAMEWORK

The following list of institutions (which form the core of the government's institutional framework for the support of small business) was presented to the respondents:

- The Centre for Small Business Development (CSBD)
- National Small Business Council (NSBC)
- Ntsika Enterprise Promotion Agency (Ntsika)
- Khula Enterprise Finance (Khula)
- National Empowerment Fund (NEF)
- Small Business Development Corporation (SBDC)
- Business Partners Limited (BPL)
- Local Service Centers (LSC)

a) Respondents were asked if they were aware of the institutions. 62% (28) said they were not aware of any of the institutions while 38% (17) said they were aware of some of the institutions. There were 11 respondents who were aware of Khula, 8 knew about Ntsika, 12 knew SBDC, 1 knew CSBD and another 1 knew NEF. The rest of the respondents had not heard of any of the institutions.

b) Respondents were also asked if they had any dealings with the institutions. 98% (44) of the respondents had had no dealings with any of the institutions. Only one respondent had attempted to obtain a loan from Ntsika, which was turned down.

4.7.3 BANKS

Respondents were asked which banks they had used. ABSA, NEDBANK, STANDARD BANK and FNB were the banks that were mentioned with similar frequencies (see Fig. 4.4 below).
73% (33) of the respondents had used the banks for ordinary banking while 27% (12) had used the banks to obtain overdraft facilities (see the graph below).
4.7.4 OTHER INSTITUTIONS AND SERVICES

Respondents were asked if they had used other institutions for any services related to their small businesses. None of the respondents had used any other institutions for any service.

4.7.5 IS THERE ADEQUATE SUPPORT FOR SMALL BUSINESSES?

When respondents were asked this question, only one said there was enough support for small businesses at the national level. The rest said that in their opinion, there wasn’t adequate support for small businesses at all levels.

4.7.6 SUGGESTIONS

Finally, respondents were asked for suggestions on how support for small business could be improved. 17 respondents suggested loans, 7 suggested training while 4 suggested that the institutions set up for the promotion of
small business should be widely publicized. The rest of the respondents had no suggestions.

4.7.7 CHAPTER SUMMARY

In this chapter, the data obtained from interviews and existing documentation has been summarized descriptively. The data from the questionnaires has been analysed statistically. Graphical illustrations have been used to enhance the presentation.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In this chapter, conclusions drawn from the study are presented together with some recommendations. Some final reflections are also included.

5.2 CONCLUSIONS

- The Minister of Trade and Industry set up the National Small Business Regulatory Review in 1997 in order to help create an enabling environment for the small business sector. The Review Board has since recommended certain reforms to regulations and laws that impact on SMMEs. In some cases, amendments have been effected and in others, processes have been put in place to realise the recommendations. The government ought to commended for these efforts.

- The SMME desk was set up in the Northern Province Department of Trade and Industry (DTI) in 1996 to coordinate the government’s policy on the development and promotion of small business at provincial level. The SMME desk was established with the main focus on the effective linking of national or sectoral programmes and local or regional implementation bodies. It should also facilitate contact between all the SMME stakeholders in the province. The SMME desk is also responsible for the publicity of the institutional framework for the support of small business. It is essentially supposed to be the nerve center for government’s policy on small business in the Northern Province.
Although it is headed by a Director, the researcher's impression is that this department is grossly understaffed. This has obviously affected the performance of the SMME desk.

- One of the institutions enabled by the National Small Business Act of 1996 was the establishment of Centers for Small Business Development to coordinate the overall national policy framework and support programmes directly or indirectly assisted by government. In the Northern Province this has taken the form of the SMME Northern Province Support Agency. This Section 21 has taken over some of the small business support services that were housed under the provincial SMME desk.

- One of the key elements of the institutional framework set up by government was the proposed establishment of a nation-wide network of Local Business Service Centers (LBSCs) as one of the most important instruments to spread support for small enterprises at local level. In the Northern Province seventeen (17) LBSCs have so far been set up. These LBSCs assist in the provision of non-financial services to the SMME sector. The LBSCs have to be accredited and their performance is closely monitored through regular reports. The LBSCs seem to be working from a firm footing. The only concern is that the number of LBSCs are far too few to effectively cover the province. Having said that, it is still acknowledged that this is a good beginning.

- Ntsika Enterprise Promotion Agency was one of the main organs established by the National Small Business Act of 1996 with the aim of providing non-financial services to the SMME sector. At provincial level, Ntsika works through the LBSCs. It accredits the LBSCs and continually monitors them. There is an apparent good working relationship between Ntsika and the LBSCs. This seems to be one of the few success stories.
Khula Enterprise Finance is the other main organ established by the National Small Business Act of 1996 with the aim of providing financial services to the SMME sector. In the Northern Province, KHULA works through three Retail Financial Intermediaries (RFIs) and three Micro-Credit Organisations (MCOs). Through these intermediaries, strides have been made in providing access to finance for SMMEs that might not have previously benefited. Support comes in the form of loans, credit guarantees, grants and institutional development services to enhance long-term capacity. The next challenge is the provision of institutional development services to enhance the long-term capacity and sustainability of both the RFIs and SMMEs in the province. One of the problems observed was that the financial support did not always go towards the development and promotion of small business. It was also apparent that the majority of small businesses were not aware of the services available.

From the questionnaire data, it is apparent that there is dismal awareness by the small business community in the province of government’s policy on small business development and support, and the institutions that have been set up to carry out this mission. It would seem that the marketing of the institutional framework and the support services available has not been very effective.

The banking industry has indicated its commitment to playing a constructive role in the development of small business. The stated difficulty is apparently the need to strike a balance between the imperatives of bringing large numbers of people into the mainstream of the economy on the one hand, and maintaining sound banking practices and measuring up to international standards of capital adequacy and supervision, on the other hand. Banks can play a crucial support role to the SMME sector through the provision of financial services to small business. Although every SMME questioned uses some bank, it is only
for ordinary banking services. It would seem that the traditional problems, like the lack of formal collateral, that have always prevented the SMME sector from fully utilizing the banks’ business services are still in place. The banks do not seem to be doing anything special to help in the promotion and development of small business. This is a poor reflection on the whole banking sector as a whole and it will not help allay the already prevailing view that banks are primarily for “big business”.

- The overwhelming majority of the respondents believe that there is inadequate support for small business at all levels. This is a poor reflection on government’s efforts so far.

- There was significant consensus that the improvement of loan acquisition services and the provision of training would greatly benefit the small business community.

5.3 RECOMMENDATIONS

- Both the Provincial SMME Desk and the SMME Northern Province Support Agency, being of such vital importance to the implementation of government’s policy on small business, should have more money and staff allocated to them. It seems obvious that the modest success so far can be attributed in part to the problem of understaffing. Legislation should also be speeded up to make the SMME Northern Province Support Agency a parastatal as required by parliament.

- A handful of programmes for the promotion and development of small business have been set up in the province. There is need to set up more programmes.
- The number of Local Business Service Centers (LBSCs) should dramatically be increased from the current seventeen in order to effectively cover the province.

- Khula should increase the number of its intermediaries in the province, develop strategies for improving the long-term capacity and sustainability of its intermediaries and ensure that funds are used for the purpose of developing and promoting small business.

- The Provincial SMME Desk, the SMME Northern Province Support Agency (NPSA), Ntsika, Khula and the various role players in the province need to step up their campaign to inform the SMME sector about the support and services available in the province.

- Banks should take a hard look at themselves and find a way to get more involved with small business. Some of the big banks (ABSA and Standard Bank) are already making strides in the right direction.

- Ways should be found to improve the provision of loan services and training.

5.4 RECOMMENDATIONS FOR FURTHER RESEARCH

- There is need for a more expanded research study in the province. This should involve interviews with government officials at the provincial and local levels, officials of NGOs in the province and managers of all the intermediaries providing support to the SMME sector. A larger survey would also have to be carried out with more coverage of the province and a larger sample.

- A national study would also go a long way in helping the government to assess the successes and failures of its implementation strategies so far.
During recent years, research on the trends, problems and needs of small enterprises among South African universities, technikons and other research centers has increased significantly. Yet the volume of research with a practical orientation and/or policy relevance is still limited compared to the needs of the country and the overall research capacity. This relates in particular to the systematic development of base data and trend indicators on the SMME sector with all its complexities. Such reliable data is critical for the assessment of policy efforts and the planning of policy reforms.

It is hoped that research agencies and local as well as foreign funders would adjust their priorities in order to generate more of such relevant research. Particular emphasis would be placed on joint projects between local and foreign research bodies or teams and on cooperative research projects between different local institutions. There would also be need for comparative research on the needs for SMME support in the different provinces and in the different regions of southern Africa.

5.5 SELF CRITIQUE

The researcher was pressed for time and resources. As a result, the study was not as expansive as the researcher would have wanted it to be. The researcher would have wanted to conduct interviews with more stakeholders and to have a much larger survey.

5.6.1 CONCLUDING REMARKS

- The government has to be commended for laying the groundwork for its policy on the development and promotion of small business in the country, involving the various role players along the way, passing enabling legislative acts of parliament and creating or facilitating the creation of institutions to support small business. The problem seems to
be that of implementation. The government has to do a better job of delivering on its good intentions.

- In the final analysis, government policies are about ordinary people. It was interesting to listen to the people. The government will do well to listen as well.
BIBLIOGRAPHY


APPENDIX A1:

INTERVIEW QUESTIONS (PROVINCIAL SMME DESK):

1. Has an SMME desk been set up in the provincial Department of Trade and Industry?
2. What government institutions have been set up in the province for the specific purpose of supporting the promotion and development of the SMME sector?
3. How are the support services for the SMME sector publicized?
4. How does NTSIKA operate in the province?
5. How does KHULA operate in the province?
6. Is there a Central Business Services Center in the province?
7. How many Local Business Service Centers are operating in the province?
8. How many Retail Financial Intermediaries are there in the province?
9. How many Micro-Credit Outlets are currently operating in the province?
APPENDIX A2:

INTERVIEW QUESTIONS (SMME NORTHERN PROVINCE SUPPORT AGENCY):

1. What is the role of the SMME Northern Province Support Agency (NPSA) in general?
2. What are the specific objectives?
3. What are the structures in place?
4. How are the services publicized?
5. Who are the stakeholders and how involved are they?
6. Is the SMME sector fully aware of the SMME Northern Province Support Agency and its functions?
7. Is the SMME sector taking full advantage of the services provided by the SMME Northern Province Support Agency?
8. What are the successes so far?
9. What are the failures?
10. What needs to be done from now on?
11. What is your overall assessment of the programme?
12. Has any evaluation been done at any level, and if so what were the results?
APPENDIX A3:

INTERVIEW QUESTIONS (BANKS):

1. Are there any special services tailored for the small business sector?
2. How are these services publicised?
3. Is the small business sector taking advantage of these services?
4. What are the main problems/obstacles?
5. Is the Bank involved with Khula or any other agency set up by government for the development and promotion of small business?
6. What are the bank’s future plans with regard to the small business sector?
APPENDIX A4:

INSTITUTIONS INVOLVED IN THE STUDY

The researcher conducted interviews with officials at the following institutions:

- The SMME Desk in the Department of Trade and Industry in the Northern Province.
- The SMME Northern Province Support Agency
- NTSIKA Enterprise Promotion Agency
- KHULA Enterprise Finance
- ABSA
- Standard Bank of South Africa
- Agashana Business Credit
APPENDIX C:

MAP OF THE NORTHERN PROVINCE, SOUTH AFRICA