THE ROLE OF THE SMALL, MEDIUM AND MICRO-SIZED ENTERPRISES (SMME’S) IN THE SOCIO-ECONOMIC DEVELOPMENT OF BUFFALO CITY.

BY

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ABSTRACT

Thirteen years in the new democratic South Africa, South Africa is still faced with socio-economic problems such as high rates of unemployment, shortage of housing, crime and HIV/AIDS.

Buffalo city falls within the Amathole District Municipality (ADM). ADM population is estimated at +1, 67 million, being predominantly rural and living in low socio-economic conditions. The demographic trends of ADM population depict high poverty, illiteracy and unemployment rates, rendering them prone to high morbidity and mortality (www.amathole.gov.za, 2007).

The aim of this research was to assess the role of the SMMEs in the socio-economic development of Buffalo City.

This study is based on exploratory quantitative and qualitative research methodologies. Using a convenience sampling technique structured questionnaires were used to collect data amongst 28 SMMEs in Buffalo City.

The findings of this study suggest that SMMEs play a vital role in the socio-economic development of Buffalo City. The SMMEs create employment and incomes; provide human capital investment in form of training programs and HIV/AIDS programs; make donations to community structures; give sponsors to various sports clubs and food to the homeless. Finally SMMEs contribute towards tax revenues that in turn help reduce poverty and redistribute wealth. However, SMMEs in Buffalo City face a number of constraints, namely, lack of access to
funding, lack of operating space, and high cost of property to lease and difficulty in finding trained competent staff. Further, the perceptions of the SMMEs about the adjudication of tenders was some biasness in the adjudication of tender in favour of those who were close to the public officials. There was no accountability and professionalism amongst the adjudicating officials. Finally the government was not doing enough to encourage SMME development in Buffalo City.

In view of the socio-economic benefits of the SMMEs in Buffalo city, it is recommended that support programmes to the SMMEs should be enhanced.

On the basis of the findings in this study, it is suggested that assistance to the SMMEs should go beyond institutional support such as Ntsika, Khula, DTI and/or SEDA but should be targeted to funding opportunities for the SMMEs. Commercial banks should be involved in ensuring that SMMEs obtain access to funding. Infrastructural facilities such as affordable business premises should be provided for the SMMEs. Affordable premises will reduce the overhead costs of the SMMEs and in turn increase the profits of these SMMEs. Increase the profits of the SMMEs will ensure the survival of the SMMEs and will in turn contribute towards the upliftment of the socio-economic status of the people who would have otherwise been unemployed, destitute and poor.
TABLE OF CONTENTS

Chapter 1: INTRODUCTION

1.1 Introduction 1
1.2 The problem and its setting 3
1.3 The objectives of the study 4
1.4 The importance of the study 4
1.5 Research Methodology 5
1.5.1 Data collection technique 5
1.5.2 Sampling size and sampling technique 6
1.5.3 Data analysis 7
1.5.4 Geographic area of the study 7
1.5.5 Limitations of the study 7
1.6 Organisation of the study 8
1.7 Definition of terms ad concepts 9
1.8 Concluding remarks 10

Chapter 2: THE REGULATORY ENVIRONMENT OF THE SMMEs IN SOUTH AFRICA

2.1 Introduction 11
2.2 The restrictive legislation and policies towards African small businesses in South Africa 11
2.3 Changing policies towards the small businesses in South Africa 14
2.4 Creating enabling environment for SMME development 18
2.5 Conclusion 20

Chapter 3: THE ROLE OF SMMEs IN THE SOUTH AFRICAN ECONOMY

3.1 Introduction 22
3.2 An overview of unemployment in South Africa 25
3.3 The role of SMMEs in the South African economy 28
3.3.1 Economic growth rates in South Africa: 1994-2002 29
3.3.2 SMME contribution to GDP according to the size of the enterprise 30
3.3.3 SMME sectoral contribution towards employment creation 31
3.3.4 The contribution of SMMEs towards a development process 32
3.4 Conclusion 33

Chapter 4: CHALLENGES FACING THE SMMEs IN SOUTH AFRICA

4.1 Introduction 35
4.2 Challenges facing SMMEs in South Africa 36
4.2.1 Lack of access to finance 36
4.2.2 Access to markets 37
4.2.3 Lack of entrepreneurial skills & experience 38
4.2.4 Compliance costs 39
4.2.5 Access to technology and information 40
4.2.6 Lack of infrastructural facilities 41
4.3 Interventions to overcome the challenges and obstacles facing the SMMEs in South Africa. 42
4.3.1 Improving access to finance 42
4.3.2 Regulations and small enterprise 44
4.3.3 Sector investment strategies 45
4.3.4 Education and skills development 46
4.3.5 Infrastructure 49
4.4 Conclusion 50
Chapter 5: REPORT ON EMPIRICAL FINDINGS FROM THE SURVEYS OF THE SOCIO-ECONOMIC IMPACT OF THE SMMEs IN BUFFALO CITY

5.1 Introduction
5.2 Presentation of results
5.2.1 Demographic information
5.2.1.1 Gender
5.2.1.2 Race
5.2.1.3 Ownership
5.2.1.4 Qualifications
5.2.1.5 Nature of industry
5.2.1.6 Forms of business
5.2.1.7 Premises of business
5.2.1.8 Period of business
5.2.1.9 Number of employees
5.2.1.10 Fringe benefits
5.2.1.11 Employee salaries
5.2.1.12 Sources of funding
5.2.1.13 Training programs offered for employees
5.2.1.14 The effects of unemployment on SMMEs
5.2.1.15 Suggested solutions to unemployment by the SMMEs
5.2.1.16 The role of SMMEs towards poverty reduction in Buffalo city
5.2.1.17 Role of SMMEs towards HIV/Aids awareness
5.2.1.18 Social responsibility of the SMMEs
5.2.1.19 SMMEs contribution to Tax and Vat
5.2.1.20 Constraints and challenges facing the SMMEs in Buffalo city
5.3 Summary, interpretation of the findings and conclusions
Chapter 6: Summary of the main findings, recommendations and conclusions

6.1 Introduction 71
6.2 Summary and Recommendations 71
6.3 Conclusions 74

7. References 74

LIST OF FIGURES

Figure 3.1 : Unemployment in South Africa: 1995-2002 26
Figure 3.2 : Growth rate in South Africa : 1994-2002 29
Figure 3.3 : SMME contribution to GDP according to the Size of the enterprise 30
Figure 5.1 : Race categories and percentages 55
Figure 5.2 : Qualifications of the respondents 56
Figure 5.3 : The industry of the surveyed SMMEs 57
Figure 5.4 : Forms of businesses 58
Figure 5.5 : Period of business of the surveyed SMMEs 59
Figure 5.6 : Fringe benefits provided by SMMEs 61
Figure 5.7 : Salaries paid to employees 62
Figure 5.8 : sources of funding for the surveyed SMMEs 63

LIST OF TABLES

Table 3.1 : Percentage contribution of SMMEs per main industrial sector 31
Table 5.1 : Gender 54
Table 5.2 : Ownership 55
Table 5.3 : Premises of SMMEs 59
Table 5.4 : Number of employees 60

ANNEXURES

Annexure 1 : Survey Questionnaire 81
CHAPTER 1

INTRODUCTION, PROBLEM STATEMENT AND DEFINITION OF CONCEPTS

1.1 Introduction

Thirteen years in the new democratic South Africa, South Africa is still faced with socio-economic problems such as high rates of unemployment, shortage of housing, crime and HIV/AIDS. The Eastern Cape is one of the poorest provinces in South Africa with the total population of 6.3 million people. Eastern Cape is located in the south-east of South Africa, bordering Free State and Lesotho in the north, KwaZulu-Natal in the north-east, the Indian Ocean along its south and south-eastern borders, and Western and Northern Cape in the west. The province encloses 69 580 km$^2$, constituting 13.9% of the total land area of the country, making it in surface area the second largest province of the country (Statistics South Africa, 2003). The average population density during 2002 was 41 persons per square kilometre, and about 63% of the province’s people lived in rural areas.

Prior to 1994, the province was territorially divided into two areas that made up the ‘national state’ of Transkei, and another area that made up the ‘national state’ of Ciskei, while the rest of the province was under the provincial administration of the then Cape Province. These territorial divisions are no longer valid, but they are significant in terms of examining data distribution patterns (Tait, 1996).
The economies of East London, Port Elizabeth and Uitenhage are primarily based on manufacturing, the most important being motor vehicle manufacturing and related industries. The Eastern Cape’s agricultural potential is evident in its fruit orchards in the fertile Langkloof Valley; sheep- and angora-farming in the Karoo interior; pineapple, chicory and dairy production in the Alexandria-Grahamstown area; and coffee and tea cultivation at Magwa (SSA, 2003). Ostrich exports earn the province about R90 million per year in foreign revenues, while the game industry is having unprecedented demand in the international market. Large numbers of the population are employed in the forestry plantations of Keiskammahoek. Inhabitants of the former Transkei are dependent on cattle, maize and sorghum farming.

The province has a coastline of about 800 km, housing two harbours. Squid forms the basis of the fishing industry, while offering access to line-catches of hake and recreational and commercial fishing for other line fish. The province’s Gross Geographic Product at 2001 prices was rated at R81 027 million, and the province contributed 8.2% to the national Gross Domestic Product (GCIS, 2004). The Eastern Cape has the second highest poverty levels in South Africa (47% of households below the poverty line, which is based on imputed monthly expenditure of R800 or less) (SSA, 2000b), combined with the highest provincial unemployment rate (55%) in the country (SSA, 2003). Despite the improvement in the national growth rate in the recent years, with 3 per cent being quoted for the year 2000, the economy of the Eastern Cape has failed to keep pace and is estimated to still be growing at
only 1.5 per cent per annum (S.A. Report, 2004). The estimated growth rate of 6 per cent by 2014 will be realised only if PGDP initiatives and other development interventions are supported and embraced by every stakeholder concerned (S.A. Report, 2004).

1.2 The problem and its setting

The intervention by the local authority, its community and private sector partners assist in creating an enabling environment, infrastructure conducive to investment prospects, provide seed funding and advice that contribute towards development. In this case, intervention is perceived as a preferred option than leaving the development of the local economy purely to market forces. Important areas of intervention that local authorities choose from are based on the perceived existence of market failures and need to mitigate against them (Bennet 1988:50).

The Quality of Life Survey conducted from 2 477 households in 2001 by Buffalo City and Institute of Social and Economic Research (ISER) at Rhodes University provided census details on the fact that, a typical Buffalo City household is made up of four people, almost a quarter of people are aged between 10 and 19 years of age, the next common age group just under a fifth of the population is 20 to 29 years (Buffalo City IDP, 2002).

More than 40% of people have completed Grades 8 to 12 in school, and almost 10% of adults have never gone to school (Buffalo City IDP, 2002).
The social and economic problems facing the Buffalo City are high level of unemployment, poverty, and lack of suitable skills for the development of the economy of the Buffalo City, poor infrastructure and high rates of HIV/Aids (Buffalo City IDP, 2002).

1.3 The objective of the study

The purpose of this study was to investigate the socio-economic impact of the SMMEs in the Buffalo City. In other words this study seeks to find out how the SMMEs in the Buffalo City address the socio-economic problems of this city.

1.4 The importance of the study

Many countries have recognised the importance of SMMEs in generating employment and thereby creating a more equal distribution of income. International experience has demonstrated that SMMEs play a valuable role in enhancing productivity, driving technical change, and above all, fostering entrepreneurship.

South Africa’s SMME sector is largely regarded as the key to some of the country’s economic woes. The ruling party’s slogan is ‘better lives for all’. It is the objective of the government to improve the socio-economic status of the peoples of South Africa. In view of high rates of unemployment in South Africa, especially amongst the youth, the development of the SMMEs is the route to follow. It is hoped that the SMME sector is able to create jobs thereby improving the socio-economic status of the South Africans (Viviers & van Eeden, 2002).
1.5 Research methodology

Exploratory quantitative and qualitative research methodologies were employed in this study. To this end, structured questionnaires were used. In order to formulate the conceptual framework of the study, secondary sources such as books, academic journals, conference proceedings, newspapers, magazines and Internet were used.

1.5.1 Data collection technique

In order to provide an accurate presentation of information, face-to-face interviews with the owners of the SMMEs were conducted.

Ssegawa (2000) states that face-to-face interviews provide an opportunity to observe and verify practically the procedures in place. The fieldworkers asked questions beyond those included in the questionnaires. This is particularly aimed at gaining qualitative data. As stated by Fox (1999), "the strengths of qualitative data is that they focus on naturally occurring, ordinary events in natural settings. Thus the data have a strong handle on real life, have richness and holism".

Data was collected by two trained undergraduate students from Walter Sisulu University. The field work was undertaken during June and July 2007 under the direct supervision of the researcher.
1.5.2 Sampling size and sampling procedure

A judgmental sampling technique was used in this study. Judgmental sampling technique is a form of convenience sampling in which the population elements are selected based on the judgment of the researcher (Malhotra, 1999:335). The researcher exercised judgment or expertise to choose elements that are representative of the population of interest in this study.

A total number of 45 businesses were visited and 28 businesses responded. The response rate was therefore 62%. The rest of the businesses (n=17) either refused to complete the questionnaire or the owner was not available for the interview.

1.5.3 Data analysis

The data was analysed quantitatively using descriptive statistics.

1.5.4 Geographical area of the study

The sample was drawn from the SMMEs in the Buffalo City. Buffalo City consists of merged municipalities of East London and King William’s Town. Businesses which were visited were in the following areas: Southernwood, Berea, Vincent, Quigney, Beacon Bay, Gonubie, Amalinda, Mdantsane.
1.5.5 **Limitations of the study**

Fieldwork was not as extensive as one would like it to be due to insufficient funds and resources to do this research. Due to the limited number of respondents the results of this survey cannot be used for generalisation.

1.6 **Organisation of the study**

**CHAPTER 1:** *Introduction – An overview of the proposed study, Problem statement, and definition of some key concepts.*

**CHAPTER 2:** This chapter presents the regulatory environment of the SMMEs in South Africa.

**CHAPTER 3:** This chapter reviews the literature pertaining to the role of SMMEs in the South African economy.

**CHAPTER 4:** This chapter presents the challenges encountered by SMMEs, and the interventions to overcome those obstacles in the entrepreneurial arena.

**CHAPTER 5:** Presents the empirical findings of the study.

**CHAPTER 6:** Recommendations and Conclusion.
1.7 Definition of terms and concepts

1.7.1 Economic Development
Economic development is a process of growth and change aimed at raising people’s living standards. It involves growth in total and per capita income, and is accompanied by fundamental changes in the structure of an economy (Rees & Smith 1998:14-16).

1.7.2 Social development
Social welfare refers to an integrated and comprehensive system of social services, facilities, programmes and social security to promote social development, social justice and the social functioning of people (Rees & Smith 1998).

1.7.3 Small, Medium and Micro-enterprises (SMMEs)
The National Small Business Act of 1995 classifies SMMEs according to five size categories, namely survivalists, micro enterprises, very small enterprises, small enterprises, and medium enterprises as follows:

1.7.3.1 Survivalist enterprise:
The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers;

1.7.3.2 Micro enterprise:
the turnover is less than the VAT registration limit (that is, R150 000 annually). These enterprises usually lack formality in terms of registration. They include,
for example, spaza shops, minibus taxis and household industries. They employ no more than five people;

1.7.3.3 Very small enterprises:
These are enterprises employing fewer than ten paid employees, except mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology;

1.7.3.4 Small enterprises:
The upper limit of small enterprises is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices;

1.7.3.5 Medium enterprise:
The maximum number of employees in medium enterprises is 100, or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterized by the decentralization of power to an additional management layer (Department of Trade and Industry, 1998).

1.8 Concluding remarks
Having outlined the problem statement, the objectives of the study, the importance of the study, research methodology, definitions of terms and concepts in this introductory chapter, the following chapter will focus on the regulatory environment of the SMMEs in South Africa.
CHAPTER 2

THE REGULATORY ENVIRONMENT OF THE SMMEs IN SOUTH AFRICA

2.1 Introduction

Power and control over the small business sector in apartheid South Africa was exercised through official policy and legislation (Mosdell, 1994:54). Business sector was predominantly governed by local economic legislation, and the efficacy and efficiency of local governments play decisive roles in the success and prosperity of SMMEs in South Africa.

This chapter seeks to analyse the regulatory environment of the SMMEs in South Africa. The chapter begins by outlining the historical restrictive legislation on small businesses in South Africa. This is followed by a discussion on the post apartheid policies towards the development of SMMEs in South Africa. The chapter concludes by a look into the creation of an enabling environment for SMME development in South Africa.

2.2 The restrictive legislation and policies towards the African small businesses in South Africa

Historically the Black Land Act of 1913 and the Development Trust and Land Act of 1936 prevented blacks from owning land outside special reserves (Tager, 1988). However, in 1978 the introduction of a 99-year leasehold title symbolized the recognition of blacks as permanent residents of South Africa. This form of tenure enabled the holder to occupy and develop the land, as well as to
dispose of and bequeath the land. Each transfer of the leasehold title to another person required that the 99 years would start afresh.

However, the absence of business sites for blacks, the prohibition of the use of residential sites for business purposes and other restrictive provisions forced prospective black entrepreneurs into the informal sector.

According to Section 24(3) of the Development Trust and Land Act of 1936, all black traders and professionals, in addition to obtaining the normal trading license, had to obtain permission from the Minister of Trade and Industry annually before they could trade (Tager, 1988).

As these measures served to force many prospective black business people into the informal sector, these regulations were also used to restrict even the informal activities. Township managers abused the legislation and usurped their powers to curtail any economic activity they chose. However, both Proclamation 293 of 1962 and Regulation 1036 of 1968 were repealed in 1988. These regulations were applicable to urban areas and the homelands respectively and imposed strict conditions on any black economic activity (Tager, 1988).

The examples of the impact of these regulations on the small businesses, particularly black owned small businesses, were as follows:

- A person was prohibited from raising capital or from sharing his profits with a non-black without permission;
- A black person could not employ a non-black;
• He/she had to submit a medical examination and keep the business books open for inspection by township managers;
• He/she could not dispose of his business without permission and was vulnerable to the possibility of having his/her trading rights cancelled;
• A person’s right to trade could be cancelled if his/her municipal service levies were in arrears or if he/she was convicted of certain criminal offences (Tager, 1988: 10).

For decades, if not centuries, the majority of South Africans were deprived of viable business opportunities in the following ways:

• Bantu education restricted opportunities for the acquisition of technical and professional skills by black people;
• There was total absence of entrepreneurial education or sensitizing 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 homeland areas which were not only the poorest in terms of living standards and business opportunities, but also lacked a dynamic business;
• Even outside the homelands the system of apartheid made it impossible for black would-be entrepreneurs to participate in business apprenticeships and partnerships with more established 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 enterprises;

- Segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business; et cetera (White Paper, 1995:10).

The extent of legislation governing black business activity has been such that it is quite remarkable that a business community has been able to emerge at all. Only since 1979 blacks outside the homeland areas were permitted to undertake any form of industrial activity (Tager, 1988:5).

2.3 Changing policies towards the small businesses in South Africa


A policy measure that contributed towards a change in attitude towards African small businesses was the abolition of influx control regulations, which restored the freedom of movement to blacks in South Africa (Mosdell, 1994:58).

The relative freeing of black mobility in South Africa with the removal of the Group Areas Act in 1991 resulted
in increased urbanization, which in turn led to increased urban unemployment (Mosdell, 1994:58). With this information it stands to reason that more and more people will shift towards the small businesses for a living.


Since no black persons were allowed to trade in the Central Business Districts (CBDs) of the metropolitan areas in South Africa before 1991, the new Act required the local authorities to reformulate the by-laws regarding the supervision and control of small businesses in the CBDs (Donaldson & Van der Merwe, 1999:150).

This transformation process brought about changes that resulted in professional blacks gaining access to offices, infrastructure, technology and services in the formal economy. The affirmative action policies also contributed to the rapid increase in the number of blacks being admitted to the formal tertiary economic sector.

Apart from the development of African small businesses in the formal sector, there has been an emergence of a lower socio-economic class of informal business entrepreneurs
who also gained access in the former white central business districts (CBDs) of the major towns in South Africa (Donaldson & Van der Merwe, 1999).

Khumalo & Shane, (1995:8) maintain that South Africa already has a developed formal market economy, whilst the SMMEs are still underdeveloped. It, therefore, follows that the government’s strategy should be to integrate the SMMEs into the mainstream of the economic activities.


In particular, SMMEs are perceived as a vehicle to:

- Address the problem of high unemployment levels in South Africa as they have a high labour-absorptive capacity (Kesper, 2000).
- Activate domestic competition by creating market niches in which they grow until they identify a new niche as a response to demand changes, and to be internationally competitive because of their flexibility.
- Redress the inequalities inherited from the Apartheid period – in terms of patterns of economic ownership and restricted career opportunities for black employees.
- Contribute to black economic empowerment in that the majority of SMMEs is reported to be initiated, owned or controlled by those members of society
who were discriminated against in South Africa’s past (Kesper, 2000); and

- Play a crucial role in people’s efforts to meet basic needs in the absence of social support systems during restructuring processes – which refers in particular to South Africa’s micro-enterprise segment and especially survivalist activities characterized by low entry barriers for inexperienced job seekers (Kesper, 2000).

Annual Review (2000:23) reflects that a society with a vibrant entrepreneurial spirit is an economically healthy society. Such a spirit is usually visible through the role and importance of SMMEs. SMMEs play an increasingly significant role in terms of providing access to job market to work effectively and participate in the economy. This is evidenced by the government’s interventions and strategies embarked upon to focus on providing an enabling environment for businesses to flourish in an effort to stimulate investment and employment creation.

2.4 Creating an enabling environment for SMME development

Ndu, (1997:143) states that the thrust of the government’s small business policy is to stimulate and activate the small business sector in order that it constitutes an important force to generate employment and more equitable income distribution.

Over the past thirteen years South Africa has been relatively successful in creating an enabling environment for SMMEs in which they can proliferate and grow. The
government established National Small Business Council and Ntsika Enterprise Promotion Agency, to co-ordinate the activities of the small business development effort and to make funds available to small and micro-enterprises. Khula Credit Guarantee Limited was established in 1996 to encourage commercial banks to lend loans to SMMEs. Furthermore, Khula Credit Guarantee organizes local and international agencies to support South Africa’s small businesses by funding the initial start up cost of small businesses (Khumalo & Shane 1995:8).

The government’s progress in creating this conducive environment has not only been in improving the SMMEs’ access to support services, access to information, access to finance, access to government contracts, and a reduction of the tax burden, but it has been on stimulating economic growth more broadly and improving the structure of the South African economy (Hendricks, 2006).

The creation of the enabling regulatory environment for the SMMEs, provides new opportunities, initiates a national entrepreneurial drive, in particular youth entrepreneurs, and expand education and training for small businesses to enter the market (Hendricks, 2006).

The South African government realised that small business development does not reach the majority of people living in previously disadvantaged areas. The government through Department of Trade and Industry (DTI) in the quest to create an enabling environment for SMME development introduced a strategy that focuses on stimulating small business development. To this end the government
established the Small Enterprise Development Agency (SEDA) in 2004.

SEDA was established in terms of the National Small Business Act of 2003 to support and promote co-operative enterprises, particularly those in the rural areas. The agency is carried out in line with the DTI’s Integrated Small Enterprise Development Strategy. Regarding business infrastructure facilities, the strategy is expected to link up closely with the current local economic development (LED) efforts in all municipalities (http://www.seda.org.za, 2007).

Creating an enabling environment for the SMMEs helps SMMEs to access markets, use technology and to have strong business systems and processes. It is expected that investing in SMME development will lead to positive impact of the SMMEs towards socio-economic factors in the areas where these SMMEs operate (Hendricks, 2006).

2.5 Conclusion

This chapter outlined the historical restrictive legislation and policies that governed the South African economy during the apartheid era. Substance is given to reflect the changing policies towards SMMEs, in trying to redress the atrocities of the past that were meant to frustrate and discourage the development of small businesses and entrepreneurial spirit.

The government realised that despite the new democracy in South Africa, social problems still persists. To this end, SMMEs are seen as suitable vehicles to address the socio-economic problems of South Africa. The government
therefore adopted an interventionist approach in order to ensure that an enabling environment conducive to the development of SMMEs is created in South Africa.

The government established National Small Business Council and Ntsika Enterprise Promotion Agency, to coordinate the activities of the small business development effort and to make funds available to small and micro-enterprises. Khula Credit Guarantee Limited was established in 1996 to encourage commercial banks to lend loans to SMMEs.

Despite these efforts by the government to leverage the SMME sector, a number of SMMEs still remained on the periphery. It is against this background that the government established the Small Enterprise Development Agency (SEDA) in 2004.

It is hoped that the government’s efforts to boost the SMMEs in South Africa will go a long way in ensuring that the social ills such as unemployment, and poverty in South Africa are addressed.

From the foregoing paragraphs it is clear that the SMMEs are playing an important role in the economy of South Africa. The role of SMMEs in the South African economy is the topic of the next chapter.
CHAPTER 3

THE ROLE OF SMMES IN THE SOUTH AFRICAN ECONOMY

3.1 Introduction

Given South Africa’s situation of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is perceived as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets (internally and internationally), enhance productivity and technical change, and through all this stimulate economic development (White Paper, 1995).

Small business sector play a crucial role in people’s efforts to meet basic needs and help marginalized groups, like female heads of households, disabled people and rural families. Job creation increases as each small business organization is striving towards partnering with marginalized groups, in that way gaining credibility in the tendering processes and to comply with Black Economic Empowerment (BEE) policies, as well as, contributing significantly towards alleviating poverty.

Ntsika, (1999:16) states that the small business sector plays a major role in creating jobs and wealth in any economy. Small organizations have features common with other organizations but also have unique characteristics and attributes that are reflected in the manner in which they are organized and managed. In managing a small organization creativity, adaptation, change, ambiguity,
flexibility, problem-solving and collaboration occur regularly. According to Ehlers, (2000:43-44) small organisations often break down their tasks into functional subsections and assign employees to the selected task.

According to Kroon & Moolman, (1992:129) small organizations provide economic stability and a better distribution of economic activities. Small businesses are multitudinous, suppliers of employment and creators of work opportunities, innovators and initiators, subcontractors for large organizations, entry point to the business world. According to Thurik & Wennekers, (2001) small businesses are both a vehicle for entrepreneurship and a source of employment and income. The SMMEs play an important role in improving welfare, alleviating poverty, and also it is a source of wealth and employment creation (Riley, 1993:11).

Small businesses are labour-intensive, need limited capital, and make use of the local resources available. It is believed that by channeling these scarce capital resources to the small business sector, particularly in a growing and developing economy like South Africa, employment opportunities can be maximized and people will be given the opportunity to contribute to the development of the economy (Franz, 2000; Ntsika Enterprise Promotion Agency, 2000).

Big public sectors and large corporations have in the past dominated the South African economy. However, the post-apartheid era brought the realization that there was a need to diversify the South African economy to allow
entrepreneurship flair to blossom. By developing the SMMEs productivity and global competitiveness are enhanced. Increased productivity and global competitiveness are pre-requisites for job creation and economic growth in South Africa (White Paper, 1995).

Since the formal sector’s labour absorption capacity has declined sharply over the past decade (Barker, 2003:91), the development of the SMMEs is critical for the survival of many poor households (Riley, 1996:799). Government, municipalities, local economic development and other relevant structures make every effort in understanding the needs of SMMEs in order to address them and enhance the socio-economic development. Ndu, (1997:143) states that the thrust of the government’s small business policy is to stimulate and activate the small business sector in order that it constitutes an important force to generate employment and more equitable income distribution. The main objective of the government is to improve the economic structure by supporting business growth, eradicate poverty, increase job creation and improve the living standards of people through SMME development. Small, Medium and Micro Enterprises have a potential to make a significant contribution to the economy of South Africa (Kesper, 2001).

This chapter seeks to outline the role of the SMMEs in the South African economy. The chapter begins by an overview of the unemployment levels in the South African labour market. The chapter concludes by a discussion on the contribution of the SMMEs to the economy of South Africa.
3.2 An overview of unemployment in South Africa

Unemployment is the most severe problem in South Africa and it is conceivably the root cause of many other problems such as poverty, crime and violence (Barker, 2003:200). Unemployment is described according to two definitions, namely, narrow or official definition and expanded or broad definition of unemployment.

According to the official definition, the unemployed are those people within the economically active population who are able and are available to work and have taken active steps to look for employment or self-employment in the previous four weeks before the survey. According to the expanded definition, the criterion of ‘having taken active steps to look for work’ is dropped (Barker, 2003).

For the purposes of this study, a broad definition of unemployment will be used because an individual searching for a job may be waiting to hear of job opportunities from his/her employed relatives or friends. Further, some of the unemployed persons may be discouraged work-seekers. Discouraged work-seekers are a consequence of constraints such as poverty, high costs of job searching, transport problems, lengthy periods of joblessness, jobless qualified graduates, and high local unemployment rates (Barker, 2003).
Figure 3.1 below shows the unemployment trend from 1995 to 2002 according to Statistics South Africa.

**Figure 3.1: Unemployment in South Africa: 1995 - 2002**

Based on the broad definition of unemployment, Statistics South Africa calculates the unemployment rate for 2002 to have been 41.8%, the highest since 1995 (figure 3.1). Abedian (2001) states that one of South Africa’s biggest challenges is for the economy to create more jobs and alleviate poverty. Unemployment increased from 29.20% in 1995 to a high of 37.60% in 1997. According to Statistics South Africa, the South African economy lost half-a-million jobs since 1998. Statistics South Africa estimates that unemployment rose from 36.3% in 1999 to 41.8% in 2002. The high and rising unemployment levels in South Africa are accompanied by an overall decline in employment levels. Clearly, the economy’s capacity to create formal employment is gradually declining (Viljoen & Levin, 2000:45).
Since unemployment rates are gradually increasing in South Africa and there are no signs that unemployment will diminish, it is understandable that many will shift to small businesses for survival.

A shift towards small businesses is an international trend. Changing economic and social conditions are leading an increasing number of people into the growing business sector from the self-employed individual to an entrepreneur who starts a small business enterprise employing staff to enhance their operational levels. The importance of this trend and the reason why governments in countries such as Canada and Argentina are throwing their weight behind SMMEs is that SMMEs create jobs (Viljoen & Levin, 2000).

South Africa is following the same trend, the pace has accelerated over the past few years as both private, and public sectors restructure and retrench. There are many people out there with valuable skills and experience, often with the backing of a retrenchment package. Small business is an obvious route for this group, especially to the youth who do not want to be tied to a corporation’s strings.

Unemployed persons usually spend time and effort everyday looking for employment instead of directing that energy towards the possibility of starting up their own businesses. It therefore follows that the development and the enhancement of the SMMEs in South Africa should be regarded as the most important social priority (Ncwadi, 1999).
The unemployment remains high or over 26% (www.info.gov.za, 2007). The goal of reducing unemployment to below 15% and halving the poverty to less than one-sixth of households will not be achieved without sustained and strategic economic leadership from government and effective partnerships between government and stakeholders such as labour and business (www.info.gov.za, 2007).

3.3 The role of SMMEs in the South African economy

South Africa is characterized by a low growth rate, a high inflation rate, taxes such as Value Added Tax (VAT) and a high rate of unemployment (DTI, 2005). An important reason for the disappointing economic and social development since 1980s may be that policy makers have grossly underestimated the role of SMMEs in the South African economy.

Today SMMEs account for nearly half of national output, and close to 60% of the employed are working for SMMEs, or employed in domestic service or in informal sectors of South Africa (DTI, 2005).

Figure 3.2: Growth Rates in the S.A. economy – 1994 - 2002

The South African economy grew at a growth rate of 2.5% during 1994, the first year after the first democratic elections and the opening of global trading boundaries for importing foreign products and exporting local products. In 1995 the growth rate improved to 2.9%, but with the depreciation of the Rand in 1996, the growth rate declined sharply to a mere 0.1% in 1998 (Ntsika, 1999:17). The actual growth rate for the South African economy in 2000 was 3.10%. The growth rate in 2001 decline to 2.9% but increased to 3.00% in 2002 (http://www.citadel.co.za, 2007).
3.3.2 SMME contribution to GDP according to the size of the enterprise

Figure 3.3  SMME contribution to GDP according to the size of the enterprise

Source: Ntsika Promotion Agency: 2000

Figure 3.3 provides a breakdown in terms of the size of each sector’s contribution to GDP. On average approximately a third (34.8 %) of the GDP is generated by SMMEs whereas 65.2 % is generated by large enterprises (Figure 3.2). The above figure reflects that SMMEs are important within the context of the formal economy in South Africa.

Ntsika, (1999) states that of the total 906 700 firms operating in South Africa, large enterprises constitute only 6 000 in number, or 0.7 percent of the total. The remainder is made up of SMMEs, including survivalist and micro enterprises. Of course, in terms of GDP, the large firms contribute a big percentage to their numerical share, more than 65 percent, as compared to small, medium & micro enterprises.
All large enterprises rely heavily on SMMEs’ performance for supply and demand reasons, meaning that SMMEs should operate efficiently and effectively in order to increase demand from customers and for large firms to determine the supply volumes.

3.3.3 SMME sectoral contribution towards employment creation

The contribution of SMMEs to employment in the respective industrial sectors is portrayed in Table 3.1.

| Table 3.1: Percentage contribution of SMMEs per main industrial sector |
|---------------------------------|--------|--------|--------|--------|--------|
|                                 | MICRO  | SMALL  | MEDIUM | LARGE  | TOTAL  |
| Agriculture                     | 4.17   | 13.81  | 52.31  | 29.71  | 100.00 |
| Mining                          | 0.92   | 2.51   | 2.59   | 93.97  | 100.00 |
| Manufacturing                   | 8.39   | 10.57  | 24.58  | 56.46  | 100.00 |
| Electricity                     | 0.00   | 0.00   | 0.00   | 100.00 | 100.00 |
| Construction                    | 2.93   | 37.28  | 13.45  | 46.34  | 100.00 |
| Trade                           | 35.77  | 23.73  | 13.00  | 27.49  | 100.00 |
| Transport                       | 11.38  | 25.50  | 20.84  | 44.27  | 100.00 |
| Business Services               | 25.14  | 19.18  | 5.20   | 50.48  | 100.00 |
| Other services                  | 52.68  | 18.22  | 8.23   | 20.86  | 100.00 |
| Average: all sectors            | 17.38  | 16.34  | 20.76  | 45.52  | 100.00 |

Source: Ntsika Promotion Agency: 2000

SMME employ 54.5% of all the formal, private sector enterprises, compared to 45.5% in the large enterprises (Table 3.1). Within the respective sectors, approximately more than 50% of employment occurs in the agriculture, construction, trade, transport and business and other services sectors. Clearly, the SMMEs contribute largely to employment than to GDP.
3.3.4 The contribution of SMMEs towards a development process

Within the framework of NEPAD, the development of SMMEs is crucial for the achievement of broader development objectives. The development of SMMEs provides an opportunity to alleviate poverty by providing employment to those who would have otherwise been unemployed (Brinders, Memela & Mlosy, 2003).

Promotion and development of small business is recommended not only for economic improvement, but is also one of the main vehicles of social and political stability in search of excellence (Peters and Waterman, 1982). Small enterprise contribution towards a development process can be summarized as follows:

- Small enterprises are labour-intensive and tend to lead to a more equitable distribution of income than large enterprises. They play an important role in generating employment and thus alleviating poverty, often providing employment opportunities at reasonable rates of remuneration to workers from poor households and women who have few alternative sources of income.
- Small enterprises contribute to an efficient allocation of resources in developing countries. They tend to adopt labour-intensive production methods and thus more accurately reflect the resource endowments in developing countries where labour is plentiful and capital is scarce.
- Small enterprises operate in ‘informal’ markets, the factor and product prices they face also provide a better reflection of social opportunity costs than the prices faced by large enterprise.

- Small enterprises support the building of systemic productive capacities. They help to absorb productive resources at all levels of the resilient economic systems in which small and large firms are interlinked. They also tend to be more widely dispersed geographically than large enterprises, support the development and diffusion of entrepreneurial spirit and skills, and help to reduce economic disparities between urban and rural areas (Brinders, Memela & Mlosy, 2003).

Small businesses allow the economy to be more adaptable to structural change through continuous initiatives embodying new technologies, skills, processes, or products (Ibielski, 1997 cited in Kuratko et al, 2001:293).

3.4 Conclusion

Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa. Throughout the world, SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. The real engine of sustainable and equitable growth in South Africa is the private sector.
This chapter provided an exposition of the contribution of SMMEs to the economy of South Africa. The contribution of the SMMEs to employment creation exceeds its contribution to the GDP. It would seem therefore that the jobs created by SMMEs are not new jobs but rather employment opportunities that used to be found in large enterprises. Owing to their extremely flexible structure and varieties of activities, SMMEs provide opportunities for those individuals who would otherwise be poverty stricken due to lack of employment opportunities.

From the foregoing paragraphs in this chapter, it is clear that the role played by the SMMEs in the South African economy cannot be underestimated. Nevertheless, the SMME sector is faced with a number of obstacles and constraints. The challenges and constraints facing the SMME sector are outlined in the next chapter.
CHAPTER 4

CHALLENGES FACING THE SMMEs IN SOUTH AFRICA

4.1 Introduction

South Africa has lower rates of entrepreneurial activity compared to other developing countries (Orford, Herrington & Wood, 2004). South Africa lacks behind other developing countries, such as, Argentina, Botswana, Brazil, Chile, South Korea and Malaysia in terms of employment and GDP growth (Ntsika, 1999: 17). The SME sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries (Sunter, 2000: 23). Confronted with rising concerns about unemployment, job creation, economic growth and international competitiveness in global markets, policy makers have responded to the evidence with a new mandate to promote the creation of new businesses, that is, entrepreneurship (Reynolds, Hay, & Camp, 2000). Entrepreneurs are meeting the economic needs through the creation of thousands of new businesses each year. Governments in most countries have tried to assist their SMMEs wherever possible but the results have generally been poor (Ntsika, 2000).

The objective of this chapter is to analyse the constraints faced by the SMMEs in South Africa and also to examine ways in which this sector can be encouraged to grow and develop.

The chapter begins by an analysis of the factors inhibiting the growth and development of the SMMEs, and concludes by examining the opportunities available and
strategies to overcome the constraints facing the SMMEs in South Africa.

4.2 Challenges facing SMMEs in South Africa

The Minister of Trade and Industry reported in May 2000 that the government had underestimated the structural obstacles impeding the growth of small businesses (The Star and Sunday World, 2000). SMMEs form an integral part of the national economy and, as such are influenced by various factors (Cant, Strydom & Jooste, 1999:23). The factors that inhibit the development of SMMEs are lack of access to finance, the poor quality of education available through national school system, the quality and availability of entrepreneurship education and the quality of government support services available to small enterprises (Orford et al, 2004). It is imperative to analyse the impact of challenges facing SMMEs in order to create an environment that facilitates SMME growth and development, that foster entrepreneurship, and to find ways to minimize the burden on the enterprises. This section will focus on the constraints inhibiting SMME development and expansion.

4.2.1 Lack of access to finance

A lack of sufficient capital and credit is often a major handicap to the development of SMMEs, particularly in their early growth stages (Iwisi, Kitindi & Tesfayohannes, 2003). Lack of access to finance is mainly affecting the previously disadvantaged individuals (PDI) who do not have collateral and networks like their wealthy counterparts (Iwisi et al. 2003). The Minister of Trade and Industry alluded to the fact that historically
disadvantaged groups do not have access to collateral that is required by financial institutions before they approve loans. On the other hand financial institutions are not familiar with the community and economic background of black businesses, as a result cannot evaluate risk for black-owned companies. Furthermore, lack of financial support by banks especially for start-up small businesses due to high transaction costs is an impediment to the development of the SMMEs (The Star and Sunday World, 2000).

Approximately 95 percent of micro-enterprises rely solely on owners’ personal resources and/or loans from friends to finance the enterprises (www.pmg.org.za/briefings.php, 2007). SMMEs access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate, their ability to assess, manage and price the risks associated with loan products for SMMEs (Maas, De Coning & Smit, 1999).

4.2.2 Access to markets

SMMEs have limited market access due to a lack of quality systems to tap on new opportunities, and many SMMEs are in dire need of an upgrade in their methods of operation. Local businesses tend to rely on traditional production techniques that diminish their attractiveness to potential investors and lower their scope for expansion (www.trabsport.gov.za/frames/sp090507, 2007).

Barriers to enter lucrative markets deter competition and allow limited new investment opportunities
Lukacs (2005) indicates that as SMMEs grow, they increasingly need connectivity to export markets and the world economy. Access to global markets for small businesses can offer a host of business opportunities, such as larger and new niche markets; possibilities to exploit scale and technological advantages; upgrading of technological capability; ways of spreading risk; lowering and sharing costs, including research and development costs; and in many cases, improving access to finance.

Gaining access to global markets can help prospective high-growth firms to realize their potential and is often an essential strategic move for SMMEs with large investments in intellectual property (Lukacs, 2005). It is for these reasons that lack of access to markets remains an impediment to the growth of South African economy and closes opportunities for foreign direct investment.

4.2.3 Lack of entrepreneurial skills and experience

Lukacs (2005) states that SMMEs typically lack entrepreneurial skills, have deficiencies in accounting, production management, and business planning. Deficiencies in the internal environment such as management skills, financial knowledge, and lack of experience in marketing and human resource management are the major causes of SMME failure (Ligthelm & Cant, 2000:3). The skills base is poor among entrepreneurs in remote areas, among those with lower literacy levels, and
in some of the high-growth sectors where skills requirements change rapidly (DTI, 2005).

Other reasons for failure of SMMEs include the inability to set strategic goals and to plan forward. The reluctance to seek advice, lack of management commitment and unwillingness to adapt to change are also cited as challenges facing the development of the SMMEs in South Africa (Ligthelm & Cant, 2002: 6).

4.2.4 Compliance costs

Regulation is a reality in the South African market. Regulation without the necessary checks and balances can create as many problems as it provides solutions. Businesses are influenced by markets as well as regulatory and institutional environment established by governments. In South Africa the cost of compliance is significant, and is proportionately higher for small businesses than larger enterprises. Tax compliance cost is one type of regulatory costs that is often viewed to have a large negative impact on SMMEs. The administration of tax, the planning system, municipal regulation, the administration of labour law, and in specific sectoral regulatory environments, unnecessarily hampers the development of businesses. Many small businesses do not have dedicated in-house tax specialists or human resources staff to help them navigate red tape (www.pmg.org.za/briefings, 2007).
An enterprise has to register as an employer. The employer is compelled to register as a taxpayer in terms of paragraph 15 of the 4th schedule to the Income Tax Act. Business with annual taxable income of more than R300 000 must register for VAT (www.doingbusiness.org.za, 2007).

Internationally, and in the South African context the cost of compliance with regulation is noted as a key inhibitor to SMME development. Regulatory compliance costs impose a deadweight burden on firms and should be minimized. Increasingly governments are realizing that, while regulation may be necessary, the cost of regulation should be monitored and controlled, and tax changes will be required to unlock the South African SMME market (Chamberlain & Smith, 2006).

4.2.5 Lack of Access to Technology and Information

The lack of ICT related skills has been blamed for minimal uptake and entry of SMMEs within the ICT sector (www.trabsport.gov.za/frames/sp090507, 2007). Electronic communication is a key commercial and social infrastructure. Business access to technology as well as levels of competitiveness needs to be improved. Plans to be implemented include the implementation of a strategy to rapidly grow South Africa’s broadband network.

Small businesses have particular difficulty in accessing, absorbing and exploiting new knowledge to create innovative products and services. There is no single comprehensive information resource from which entrepreneurs and small business owner/managers can access information relating to starting up, developing and growing a business. There is currently no coordinated
national approach to encourage and support entrepreneurship and there is no systematic programme of entrepreneurship education at primary, secondary and third levels. Implementation of a plan to reduce telephone costs more rapidly; the completion of a submarine cable project that will provide competitive and reliable international access, especially to Africa and Asia; and the provision of subsidies to encourage the establishment of SMME portal, Internet cafes, telecommunications and labour-intensive business in poor areas is currently under consideration (www.pmg.org.za/briefings, 2007). It remains of vital importance that improvement of small business access to technology and levels of competitiveness are sustained (Hendricks, DTI, Opportunity Magazine, 2006).

4.2.6 Lack of Infrastructural facilities

Infrastructure consists of numerous variables, such as education system (Gartner, 1985; Romanelli, 1989; Bull & Winter, 1991), the nature of the local labour market (Pennings, 1982; Gartner, 1985; Mason, 1989), incubator organisations (Gartner, 1985; Young & Francis, 1989) information accessibility (Romanelli 1989) and availability of premises (Cross, 1981; Storey, 1982; Gould & Keeble, 1984; Mason, 1989). Small enterprises are inhibited by a lack of adequate infrastructural facilities.

The above-mentioned challenges facing SMMEs are evidenced by the fact that the survival rate of SMMEs is relatively low in South Africa. Less than half of newly established businesses survive beyond five years. It is estimated that the failure rate of SMMEs is between 70% and 80%,
because of lack of experience to operate a business. Problems encountered can be described amongst others as environmental, financial or managerial in nature (Ligthelm & Cant, 2002:1).

4.3 Interventions to overcome the challenges and obstacles facing the SMMEs in South Africa

4.3.1 Improving access to finance

Access to finance is one of the core constraints on developing South Africa’s SMME economy. White Paper (1995) reflects that most of the university-based small business units, while receiving financial support from the state, have not yet succeeded in effectively addressing the needs of the small business sector. Opportunities around the issue of access to finance are created by supporting initial start-up equities, concessionaries, commercial funding and ongoing subsidisation. By providing micro-enterprises with finance, venture finance, credit guarantees and information on access to finance, the initial initiative will be strengthened further.

Khula Enterprise Finance and Khula Credit Guarantee established in 1995 carry the central responsibility for expanding access to finance.

Khula Enterprise Finance is a wholesale agency that provides financial support for small businesses through intermediaries’ financial products that include loans, a national credit guarantee scheme, grants, institutional capacity-building, equity funds and mentorship scheme.
Khula supplies seed capital to SMMEs until they achieve a level of sustainability. If certain conditions are fulfilled and targets attained the seed capital is returned into a grant. In addition, Khula offers an extensive loan capital facility that operates at a subsidized rate of interest, below prime (DBSA, 1997). To ensure the long-term financial viability of the programme, Retail Finance Intermediaries (RFI’s) are assessed, approved and monitored.

However, Khula officials concede that a number of loans that have been made to NGOs have been insufficient to give the SMME community in South Africa access to finance (DBSA, 1997). The challenge is to expand the availability of financing through encouraging existing NGOs to broaden their activities by creating new branches and to encourage the operations of suitable new RFIs, particularly in rural areas (DBSA, 1997).

A programme that has been introduced by Khula to deepen the reach of and broaden access to finance throughout South Africa is the establishment of the Khula Credit Guarantee facility. Khula Credit Guarantee facility is aimed at encouraging the network of commercial banks to function in the area of SMME financing by reducing their risks. First, many banks appear not at all seriously committed to the business of SMME financing. Second, the banks head offices do not always transmit the details of credit guarantee programme to the branches that service rural areas and small towns, where the need to access finance is greatest (DBSA, 1997). The achievements of Khula can be categorized into support to financial
intermediaries as retail distribution networks and direct services to SMMEs.

4.3.2 Regulations and small enterprise

The government is committed to review, monitor and recommend changes to the existing regulatory structure with a view to changing the overall culture of regulation, increasing the co-ordination of efforts and providing national consistency in regulations (South African Report, 2004).

Creating an enabling legal framework with special attention to a national Small Business Act, a Transaction and Procurement Act and a Small Business Finance Act is a critical government strategy. South African Report (2004) suggests that improving the regulatory environment can have a positive influence on the growth and survival of new and small enterprises. In the 2004 Budget Speech the Minister of Finance, Trevor Manuel stated that reducing the regulatory burden on small businesses is a key element of Government’s strategy for encouraging employment creation. The government tries to make compliance easier to small businesses with less complex administrative procedures and paperwork, complemented by more practical assistance.

The government attempts to improve the tax system for small enterprises in South Africa. The Vat registration threshold is increased to R300 000 relieving firms below the registration threshold of the necessity of administering the tax, a concessionary income tax rate of 15% is now available on the first R150 000 of taxable
income, and the revenue threshold for enterprises to qualify for lower company taxes was raised from R3 million to R5 million in the 2003 budget. The SARS initiative of granting small businesses a tax-free relief is part of a broader government initiative to reduce compliance burden and remove regulatory barriers to SMME growth (South African Report, 2004). These interventions are the means to streamline the regulatory processes, and to ensure that new legislation is assessed for its impact on small businesses.

4.3.3 Sector Investment Strategies

In order to promote private sector investment, sector strategies are prepared and some are underway. Two sectors were identified for special priority attention: business process outsourcing and tourism, and a third one is at a less advanced stage of development, biofuels. What all of these industries have in common is that they are labour intensive, rapidly growing sectors worldwide, suited to South African circumstances, and open to opportunities for Broad Based Black Economic Empowerment (BBBEE) and small business development. The sector has the potential for 100 000 additional direct and indirect jobs by 2009. Government and business have a joint project, supported by the Business Trust, led by the Minister of Trade and Industry and the Chair of Standard Bank to remove obstacles and refine incentives to achieve this goal (www.pmg.org.za/briefings, 2007).

The other high immediate priority sector is tourism which has already grown rapidly in South Africa but is ready for a second phase of growth that could take its contribution to GDP from about 8% to 12% by the year
2010, and increase employment by up to 400 000 people. Key issues are marketing, air access, safety, and skills development. This industry also entails a strong government/private sector partnership, which was established during the first phase of growth. The other high priority industries but less advanced in preparation are to follow in the agriculture and agro-processing field and include biofuels, referred to above (www.pmg.org.za/briefings, 2007).

4.3.4 Education and skills development

Training in entrepreneurship skills and management by means of sharing knowledge, changing school curricula, modularising training programmes, training initiatives, research and a business mentorship system is taking its shape in trying to redress the imbalances of the past. There is a need of greater promotion of entrepreneurship in South Africa so that more people are drawn into the sector, including support in creation of new forms of enterprises such as co-operatives. Higher levels of education are associated with higher levels of entrepreneurial activity (www.info.gov.za, 2007).

Key measures to address the skills challenge in the educational sphere are:

i) The QUIDS UP programme aimed at achieving high levels of literacy and numeracy in the lowest grades;

ii) The Maths and Science (Dinaledi) programme for 529 high schools to double Maths and science high school graduates to 50 000 by 2008;

iii) An upgraded career guidance programme; and
iv) A huge upgrading of Further Education and Training colleges. In addition, the Adult Basic and Education Training programme is ramped up, based on a model developed in Cuba and New Zealand (www.pmg.org.za/briefings, 2007).

The basic advantages of ABET are that it provides literacy education to the elderly people to be able to read and write, understand the intricacies of the changing environment, and take advantage of opportunities available to them.

Other key skills projects include the deployment of experienced professionals and managers to local governments to improve project development implementation and maintenance capabilities. The project managed by the Development Bank of Southern Africa is to deploy an estimated total of 150 expert staff, with the first 30 deployed in April 2006. The project also includes skills transfer to new graduates in the form of internship and learnership programmes. The DBSA is compiling a database of retired experts for this initiative and further possible deployments (www.pmg.org.za/briefings, 2007).

The Umsobomvu Youth Trust is driving a number of initiatives, many of which entail youth volunteers, to support a range of skills development programmes. The Joint Initiative for Priority Skills Acquisition (JIPSA) is a structure led by a committee of key ministers, business leaders, trade unionists, education and training providers or experts. Its job is to identify urgent skills needs and quick and effective solutions. Solutions may include special training programmes, bringing back retirees or South Africans working out of Africa, and
drawing in new immigrants where necessary. It may also include mentoring and overseas placement of trainees to fast track their development (www.pmg.org.za/briefings, 2007).

Equally as important, the formal education and training systems are vital components in ensuring that the national human resources are developed in a manner consistent with the evolving economic structure. In order to deal with skills requirement certain steps have to be taken into consideration, such as, the SETAS and public-sector training institutions, including FET colleges and universities; business associations active in the respective sectors; NGO or Community Based Organisation (CBO) focusing on social advancement in the particular areas; mentoring initiatives available in the sector. To facilitate cooperation around these tasks and possibly provide co-funding, SEDA or other agencies may further support these initiatives. In these efforts local business-information contact points should also play a supportive role (DTI, 2005).

4.3.5 Infrastructure

Supportive infrastructure for business promotion may be divided into two categories. Firstly, there is the “hard infrastructure”, consisting of, inter alia, transportation, communication and urban/business amenities. Secondly, there is the existence of appropriate “soft infrastructure”, in the form of suitable business associations, the availability of relevant and reliable statistics and supportive collective efficiency. The existence of suitable infrastructure reduces transaction costs, improves trade
reliability and creates opportunities for business networking, which generates economies of agglomeration in information and transaction management (Ntsika, 1999).

Efforts to enhance existing initiatives in these fields include areas such as, a continued roll-out of infrastructure facilities with particular emphasis on townships and rural areas, including roads, telecommunication links, electricity supply, street lighting, business and public premises; support for an extension of services, utilities and further improvements of the affordability. Infrastructure facilities roll-out happens in the spheres of public and freight transport, postal services, waste removal, security, health, social services and libraries; continued use of the Small and Medium Enterprise Development Programme (SMEDP) for cost-sharing between government and individual enterprises; co-funding of local industrial-park incubators and other small-enterprise-focused facilities in industrial development zones and other spatial development projects. These facilities should be linked to mentorship and training support, related to specific sector-development strategies (DTI, 2005).

Lukacs (2005) reflects that in order to succeed, sustainable SMME development requires concerted efforts among the various parties concerned including commercial and rural banks, leasing companies and equity providers, consulting and training firms, Internet providers, as well as local business associations. Governments do not have the finances or the ability to get involved directly in economic activities such as SMME financing and service provision. Emerging international experience is demonstrating that government is not the
appropriate vehicle to implement and coordinate such efforts, and that public-private partnerships for SMME development are a critical element for the success of these efforts (Lukacs, 2005).

4.4 Conclusion

This chapter has highlighted the challenges facing the SMMEs in South Africa, namely, lack of access to finance, lack of access to markets, lack of entrepreneurial skills and experience, compliance cost, lack of access to technology and information and lack of infrastructural facilities. It is no wonder that the failure rate of the SMMEs in South Africa is high. As a result of the failure of the SMMEs in South Africa, the government decided to adopt an interventionist approach to assist the SMMEs.

One of the goals of the government is to improve the lives of the peoples of South Africa. The ANC slogan is ‘better lives for all’. The SMMEs is the route to follow especially in the light of declining labour absorption in the formal sector. To this end the government established Khula Enterprise Finance and Khula Credit Guarantee scheme. Khula Enterprise Finance is a wholesale agency which provides financial support for small businesses through intermediaries.

The government also committed itself to ease the regulations imposed on SMMEs. The government has tried to make compliance easier to small businesses with less complex administrative procedures and paperwork. The VAT registration threshold has been increased to R300 000.00
relieving firms below the threshold of the need to register for VAT.

The government has also established the Umsobomvu Youth Fund with a view to support a range of skills development programmes. The establishment of SETAs and various public sector training institutions are some of the endeavors by the government to improve the skills levels of the SMMEs.

The initiatives to improve the infrastructure include road constructions, telecommunication, electricity supply, street lighting, and business premises. However, international experience demonstrates that the government should not be the only vehicle to implement and coordinate these efforts but public-private partnership is important.

It is clear from the foregoing paragraphs that the government interventions to assist the SMMEs in South Africa will to a large extent improve the socio-economic problems that continue to plague the country.

The next chapter presents the empirical findings of the surveys on socio-economic impact of the SMMEs in Buffalo City.
CHAPTER 5
REPORT ON EMPIRICAL FINDINGS FROM THE SURVEYS OF THE SOCIO-ECONOMIC IMPACT OF THE SMMEs IN BUFFALO CITY

5.1 Introduction

Buffalo City falls within the Amathole District Municipality (ADM). ADM population is estimated at +1, 67 million, being predominantly rural and living in low socio-economic conditions. The demographic trends of ADM population depict high poverty, illiteracy and unemployment rates, rendering them prone to high morbidity and mortality (www.amathole.gov.za, 2007).

The low socio-economic conditions prevailing in ADM contribute to changes in lifestyles and consequently to incidences of communicable diseases such as Tuberculosis (TB), polio, measles etc; and non-communicable diseases such as hypertension, diabetes mellitus, cancer and mental illness.

Inequity in the access to health care and other basic factors such as water and sanitation is a direct impact of low socio-economic conditions under which ADM communities live.

Since 1998, Buffalo City has lost 40,000+ textile jobs. Unemployment is 40%; the figure is higher in semi-skilled and unskilled labor sets. The net loss in consumer spending is incalculable (www.sacities.net/led_buffalo.ppt, 2007).
Buffalo city is facing one of the most challenging social housing problems. The demand for housing in the Buffalo city outstrips the supply. At the same time the property prices are on the rise. Clearly the majority of the people who are unable to find jobs in the formal sector have to find ways of survival. The unemployed poor are prone to engage in criminal activities in order to survive.

The aim of this chapter is to present the empirical findings from the surveys on socio-economic impact of the SMMEs in the Buffalo City. The chapter begins by providing a descriptive analysis of the findings and concludes by a discussion on the implications of the findings.

5.2 Presentation of results

5.2.1 Demographic Information

5.2.1.1 Gender

Table 5.1: Gender

<table>
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</tbody>
</table>

Source: Survey data (2007)

Approximately 68% of the respondents were males whilst the remainder 32% was females (Table 5.1).
5.2.1.2 Race

Figure 5.1: Race categories and percentage

Approximately 37% of the respondents were white, 37% were black, 16% were Coloureds and the Asians made up 10% (fig 5.1).

5.2.1.3 Ownership

Table 5.2 Ownership

<table>
<thead>
<tr>
<th>OWNERSHIP</th>
<th>N</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>21</td>
<td>75%</td>
</tr>
<tr>
<td>Manager</td>
<td>7</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey data (2007)

The respondents were asked to indicate their positions in the businesses. Approximately 75% intimated that they were owners of the businesses whilst 25% intimated that they were managers. The field workers ensured that the questionnaires were completed by the persons who were in senior positions and responsible for the operations of the businesses. Only 7 females (n=7) in the sample, were
owners of the businesses and the remainder (n=14) were males.

5.2.1.4 Qualifications

**Figure 5.2: Qualifications of the respondents**

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree</td>
<td>53.33%</td>
</tr>
<tr>
<td>Diploma</td>
<td>23.33%</td>
</tr>
<tr>
<td>Certificate</td>
<td>3.33%</td>
</tr>
<tr>
<td>None</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Survey data (2007)

The respondents were asked if they had business related studies. The majority (53%) of the respondents had B-degrees whilst approximately 23% intimated that they had diplomas, followed by 20% who had no business related qualifications at all. The remainder 4% had certificates in business related studies (Fig 5.2).
5.2.1.5 Nature of industry

The respondents were asked to indicate the industry in which they were involved. The highest percentage 33.3% of the SMMEs were in other, namely, professional services, hospitality, catering and events. The respondents operating within the industry of retail and wholesale, finance, construction, and training and research constituted 13.3% each, whilst 6.7% respondents operated within the foods and agriculture industry. The respondents who operated within the IT industry constituted 3.4%. Approximately 3.4% of the respondents operated in the transport industry (Fig 5.3).
5.2.1.6 Forms of Business

**Figure 5.4: Forms of businesses**

The highest percentage (37%) of the respondents was Close Corporations, whilst 20% of the respondents were sole traders. Approximately 20% of the respondents operated in partnerships and 17% operated as private companies. The remainder 7% operated as other, namely, trust companies. There were no family businesses in the sample (Fig 5.4).

5.2.1.7 Premises of business

**Table 5.3: Premises of SMMEs**

<table>
<thead>
<tr>
<th>Business Premises</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renting</td>
<td>17</td>
<td>60.71%</td>
</tr>
<tr>
<td>Owning</td>
<td>11</td>
<td>39.39%</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: Survey data (2007)

The respondents were asked to indicate whether they were renting or owning the business premises. The majority of the respondents (61%) were renting the business premises,
whilst 39% of the respondents were owners of their business premises.

5.2.1.8 Period of business

The respondents were asked to indicate the period of the businesses. Approximately 40% of the respondents had been running their businesses for approximately 5 years, whilst 30% of the respondents had been operating for approximately 10 years, followed by approximately 17% respondents who had been in the business operation for about 15 years. The respondents who had been operating for approximately 20 years constituted 6.7% and those businesses who exceeded 20 years in business were also about 6.7% (Fig 5.5).
5.2.1.9 Number of employees

Table 5.4: Number of employees

<table>
<thead>
<tr>
<th>Employee Number</th>
<th>n</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>11</td>
<td>36.67%</td>
</tr>
<tr>
<td>6-10</td>
<td>8</td>
<td>26.67%</td>
</tr>
<tr>
<td>11-20</td>
<td>4</td>
<td>13.33%</td>
</tr>
<tr>
<td>21-30</td>
<td>2</td>
<td>6.67%</td>
</tr>
<tr>
<td>31+</td>
<td>5</td>
<td>16.67%</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: Survey data (2007)

The respondents were asked to indicate the number of employees in their businesses. The highest percentage (37%) of the respondents employed between 1 and 5 persons, followed by 27% respondents who employed between 6 and 10 persons. Approximately 13% of the respondents employed between 11 and 20 persons whilst 6.67% SMMEs employed between 21 and 30 persons in their businesses. Businesses that employed over 31 persons were approximately 16.67% (Table 5.4).
5.2.1.10 Fringe Benefits

Figure 5.6: Fringe benefits provided by SMMEs

The respondents were asked to indicate the types of fringe benefits they offer to their employees. The highest percentage (43%) of the respondents offered medical aid, insurance, provident or pension fund, retirement annuities and group life, whilst 23% of the respondents did not offer any fringe benefits at all. The respondents who offered leave (annual, maternity, sick) constituted 10%, whilst similarly 10% of the respondents offered their employees computers and laptops. Approximately 6.7% intimated that they offered their employees UIF (unemployment insurance fund) and allowances, such as performance bonus, profit sharing, transport, and bursaries. Similarly approximately 6.7% of the respondents offered their employees other fringe benefits such as protective clothing, farm goods supplements and tips from customers. It must be noted that there were overlaps in some of the fringe benefits for example a particular company would offer medical aid as well as other benefits such as UIF, leave, pensions, provident fund etc.
Approximately 27% of the respondents pay their employees a monthly salary of between R1000 and R2000, whilst the other 27% paid their employees a monthly salary between R3000 and R4000. Approximately 17% of the respondents paid their employees between R100 and R1000 per month whilst the other 17% paid a monthly salary between R2000 and R3000. The remainder 13% of the respondents paid their employees a monthly salary in excess of R4 000 (Fig 5.7).
5.2.1.12 Sources of funding

*Figure 5.8: Sources of funding for surveyed SMMEs*

The respondents were asked to indicate the sources of funding for starting their businesses. The majority (53%) of the respondents used their own funds as capital to start their businesses, followed by 40% of the respondents who received bank loans and the remaining 6.7% respondents used other means of funding.

5.2.1.13 Training programs offered for employees

The SMMEs were asked which training programs are offered to the employees. Two (n=2) of the respondents intimated that they provide building construction courses, like bricklaying, carpentry, HV regulations-electrical. Twenty (n=20) respondents provide a variety of training programs such as computer literacy, project management, research, entrepreneurship, accounting, facilitation, Tax, audit, information technology, Management, team building, retail programs, product training, customer care, in-service training. Six (n=6) respondents provide management of animals, driver’s licenses, English proficiency, soft
5.2.1.14 The effects of unemployment on SMMEs

Nineteen (n=19) respondents intimated that theft of materials, equipment and vehicles, break-ins in offices is prevalent. Theft put a strain on the businesses’ profitability. Nine (n=9) businesses intimated that people begging outside the shops have become a burden and a nuisance.

5.2.1.15 Suggested solutions to unemployment by the SMMEs

Three (n=3) respondents claim that unemployment could be solved by vigorous training of the unemployed with skills to help commercial, industry and communities. Eighteen (n=18) respondents state that self-employment and capacity building is the best option. There is a need to create more jobs and on-the-job training, and enterprises must be encouraged to provide internships.

Two (n=2) of the respondents state that partnership between government, private sector and civil society to enable a conducive environment for job creation is needed. Five (n=5) respondents intimated that small businesses must be exempted from some of the labour laws. There must be less red-tape, reduced taxes, and minimal operating costs, Work ethics improvement. More industries need to be developed in the Buffalo City area. Education, job creation and sustainable development programs could even stop alcohol abuse and crime.
5.2.1.16 Role of SMMEs towards poverty reduction in Buffalo City.

Fourteen (n=14) respondents intimated that they bring consultants to equip people with required skills to ensure marketability, and provide opportunities for HDI’s to gain professional career based training. Fourteen (n=14) respondents pay higher hourly rates than gazetted. Assist with business plans, close corporation registrations. These SMMEs hire casuals most often and also liaise with Welfare Department to channel assistance to the needy.

5.2.1.17 Role of SMMEs towards HIV/Aids awareness

Eight (n=8) respondents provide financial assistance to FAMSA, an NGO working on AIDS related training and employ HIV/AIDS consultants to run workshops on HIV/AIDS. These SMMEs also intimated that they distribute information, pamphlets and condoms made available by activists.

Two (n=2) respondents provide design services for schools, clinics and hospitals. One (n=1) respondent does not provide formal programs but encourage open frequent conversation around HIV/AIDS to spread the message. Seventeen (n=17) respondents are not engaged in any kind of HIV/AIDS programs.

5.2.1.18 Social responsibility of the SMMEs

Fifteen (n=15) respondents take care of existing employees, support NGOs, ensure advocacy and sustainability of training within the communities. Two (n=2) respondents empower community leaders by providing training free of charge. Two (n=2) respondents repair damages at school buildings, children’s homes, make
donations to community structures, and electrify community centers.

Three (n=3) respondents assist SMMEs with Tax, business plans, company registration, provide internship training, sponsor surfers, provide food to homeless people, sponsor house on the rock (HIV/AIDS center) and soccer clubs. Six (n=6) respondents did not respond to this question.

5.2.1.19 SMMEs contribution to Tax and Vat
A large number (n=25) of SMMEs were registered for Value Added Tax (VAT) whilst all (n=28) businesses surveyed were registered with the South African Revenue Services (SARS).

5.2.1.20 Constraints and challenges facing the SMMEs in Buffalo City.
Sixteen (n=16) respondents intimated that lack of access to funding, lack of operating space, and high cost of property to lease and difficulty in finding trained competent staff were major constraints. Three (n=3) respondents mentioned that consistent bad weather (rain) which cause difficulty to reach rural areas was a constraint to their businesses. Nine (n=9) respondents complained of poor work ethics of their staff. These businesses also mentioned that the adjudication of tenders by the local municipality was biased because of the excessive involvement in project management processes. There was no accountability and professionalism amongst the adjudicating officials. Finally the government was not doing enough to encourage SMME development in Buffalo City.
5.3 Summary, interpretation of findings and conclusions.

The above descriptive results suggest that the SMMEs in Buffalo City play a major role in the social upliftment of Buffalo City. The SMMEs in the sample are fairly exposed to formal education, with more than half of the owners holding university degrees. The racial and the gender spread of the SMME owners in the sample reflect the demographics of South Africa.

A large number of the SMMEs in the sample operate as Close Corporations (CC). Anecdotal evidence suggests that registration of CCs is much easier and quicker than registering a company. Further, most SMMEs are forced to register as CCs in order to compete for tenders. A large number of the SMMEs in the sample are fairly new businesses, i.e. operating for a period of 1 to 5 years.

All SMMEs surveyed in this study employed a number of people and the highest salary paid to the employees is above R4000.00 per month. Based on this finding, one may argue that SMMEs create employment opportunities and create incomes for people who would have otherwise been unemployed, poor and destitute. In addition to salaries, the SMMEs contribute to the social welfare by means of fringe benefits offered to the employees. These fringe benefits include medical aid, pension schemes, provident funds, paid leave, UIF (unemployment insurance fund) and allowances, such as performance bonus, profit sharing, transport, and bursaries. Fringe benefits raise the income levels of the employees and improve the quality of life of these employees and their families.
SMMEs offer training programs such as building construction courses, like bricklaying, carpentry, HV regulations-electrical, computer literacy, project management, research, entrepreneurship, accounting, facilitation, Tax, audit, information technology, Management, team building, retail programs, product training, customer care, in-service training, management of animals, driver’s licenses, English proficiency, soft skills, First Aid levels 1-3, life skills, safety, Basic & Advanced Homecare Instructor Trainer to the employees. These skills are developmental and therefore add value to the stock of human capital investment in Buffalo City.

The SMMEs also contribute towards poverty reduction in Buffalo City. Consultants are brought on board to equip employees with required skills. Other businesses pay higher hourly rates than stipulated by law.

Of greater importance is the role played by SMMEs in Buffalo City on HIV/AIDS. SMMEs employ HIV/AIDS consultants to run workshops on HIV/AIDS. These SMMEs also distribute information, pamphlets and condoms made available by activists.

The SMMEs in Buffalo City assume social responsibilities. Amongst other things, the SMMEs take care of employees, support NGOs, ensure advocacy and sustainability of training within the communities. They empower community leaders by providing training free of charge. SMMEs also repair damages at school buildings, children’s homes, make donations to community structures, and electrify community centers.
SMMEs provide platforms for internship training, sponsor surfers, provide food to homeless people, sponsor house on the rock (HIV/AIDS center) and soccer clubs.

Finally SMMEs contribute towards tax revenue in Buffalo City. Tax contribution plays a vital role in the redistribution of wealth in South Africa. Broadening tax base through the development of SMMEs will ensure that public services reach a large number of people who would have otherwise been excluded from such services.

Despite the above positive impact of SMMEs in Buffalo City, like all SMMEs in South Africa, the SMMEs in Buffalo City experience a number of constraints. Lack of access to funding, lack of operating space, high cost of property to lease, poor work ethics of staff, non-transparency and nepotism in adjudicating tenders are, amongst others, major constraints facing the SMMEs.
CHAPTER 6

SUMMARY OF THE MAIN FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

6.1 Introduction

Unemployment, poverty, housing backlogs are, amongst others, the most severe problems in South Africa and are conceivably the root cause of many other problems such as crime and violence. Changing economic and social conditions are leading an increasing number of people into the growing business sector from the self-employed individual to an entrepreneur who starts a small business enterprise employing staff to enhance their operational levels.

6.2 Summary and recommendations

The SMME sector was neglected in the past and was suppressed by the discriminatory laws of the past government. However, since the dawn of democracy in South Africa, the new government has adopted an interventionist strategy to develop the SMME sector. The activities of the small, medium and micro-enterprises (SMMEs) economy are critical for addressing the socio-economic problems in South Africa. In view of the failure of large businesses in creating employment, the SMMEs are seen as engines of employment creation, poverty reduction and income generation.

Despite the important role of the SMMEs in South Africa, the SMMEs still experience a number of challenges. These challenges are, amongst others, lack of access to
finance, lack of access to markets, lack of entrepreneurial skills and lack of infrastructural facilities.

In view of the challenges facing the SMMEs in South Africa, the government instituted a number of SMME support institutions, namely, Ntsika Enterprise Promotion Agency, Khula and most recently SEDA. The objective of these SMME support institutions is to provide support needed by the SMMEs and to ensure that SMMEs are sustainable.

The findings of this study suggest that SMMEs play a vital role in the socio-economic development of Buffalo city. The SMMEs create employment and incomes; provide human capital investment in the form of training programs and HIV/AIDS programs; make donations to community structures; give sponsors to various sports clubs and food to the homeless. However, staff in some of the SMMEs does not have a work ethic. Unmotivated staff places a burden and a limitation to the success of the SMMEs.

In view of the socio-economic benefits of the SMMEs in Buffalo city, it is recommended that support programmes to the SMMEs should be enhanced.

Assistance to the SMMEs should go beyond institutional support such as Ntsika, Khula, DTI and/or SEDA but should be targeted to finding opportunities for the SMMEs.

Commercial banks should be involved in ensuring that SMMEs obtain access to funding. Infrastructural facilities such as affordable business premises should be
provided for the SMMEs. Affordable premises will reduce the overhead costs of the SMMEs and in turn increase the profits of these SMMEs. Increase the profits of the SMMEs will ensure the survival of the SMMEs and will in turn contribute towards the upliftment of the socio-economic status of the people who would have otherwise been unemployed, destitute and poor.

The staff working in the SMMEs should be motivated in order to boost their work ethics. However, issues related to staff working in the SMMEs falls beyond the scope of this study.

Adjudicating of tenders should be made more transparent and nepotism should be avoided by all means. Informing SMMEs about the outcomes of their tenders even if they are unsuccessful will go a long way in ensuring that the process is transparent. As long as the SMMEs are not informed about the final decisions of the adjudicators, that is who won the tender and on what grounds, SMMEs will always feel that the process is non-transparent.

Finally, it is recommended that future research on the socio-economic impact of the SMMEs should involve the employees. The employees of the SMMEs are the indirect beneficiaries of the SMME support provision in South Africa. Assessing the quality of life of the SMME employees and their families will give a balanced view of the socio-economic impact of the SMMEs in Buffalo City.
6.3 Conclusions

Although the results of the study are based on a small sample, they do point out that the SMMEs have a positive socio-economic impact. On the basis of the results, one can argue that both public and private investments in boosting and developing the SMMEs in the Buffalo City yields positive social returns. These returns are employment creation, income generating, fringe benefits, spread of HIV/AIDS awareness programs, donations to various sports clubs and contribution towards the tax base. The SMMEs are therefore a suitable vehicle to alleviate poverty in Buffalo City.
7. REFERENCES


Magazines:


(http://www.trabsport.gov.za/frames/sp 090507.html)
www.sacities.net/led buffaloppt. 2007.
ANNEXURE 1: Survey Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

Name of business:
.........................................................................................................................
...
Full Names of respondent:...........................................................................................

Address of business:
..............................................................................................................................
..............................................................................................................................
.......
Telephone/Cell number of the respondent/business
..............................................

1. Please indicate your gender.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>1</td>
</tr>
<tr>
<td>Female</td>
<td>2</td>
</tr>
</tbody>
</table>

2. Please indicate to which population group you belong (for statistical purposes)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>1</td>
</tr>
<tr>
<td>Coloured</td>
<td>2</td>
</tr>
<tr>
<td>Black</td>
<td>3</td>
</tr>
<tr>
<td>Asian</td>
<td>4</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>5</td>
</tr>
</tbody>
</table>

3. Are you the owner of this business? YES/NO

4. What is your position in this business?.................................................................

5. Do you have any business related qualification? (degree, diploma, certificate?)YES/NO

6. If your answer is YES in question 5 above, state the qualification..........................

7. Identify the nature of industry in which your business operates.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer and/or Wholesaler</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturer</td>
<td>2</td>
</tr>
<tr>
<td>Finance</td>
<td>3</td>
</tr>
<tr>
<td>Foods &amp; agriculture</td>
<td>4</td>
</tr>
<tr>
<td>Construction</td>
<td>5</td>
</tr>
<tr>
<td>Travel &amp; Tourism</td>
<td>6</td>
</tr>
<tr>
<td>Training &amp; research</td>
<td>7</td>
</tr>
<tr>
<td>Information &amp; Technology</td>
<td>8</td>
</tr>
</tbody>
</table>
8. Does your business operate in the local market? Yes/No

9. Does your business operate in the global market? Yes/No

10. State form of business:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1</td>
<td>Sole Trader</td>
</tr>
<tr>
<td>10.2</td>
<td>Close Corporation</td>
</tr>
<tr>
<td>10.3</td>
<td>Private Company</td>
</tr>
<tr>
<td>10.4</td>
<td>Partnership</td>
</tr>
<tr>
<td>10.5</td>
<td>Family business</td>
</tr>
<tr>
<td>10.6</td>
<td>Other (please specify)</td>
</tr>
</tbody>
</table>

11. Are you renting these premises from which you run your business or do you own the premises? RENTING/OWNING (choose the applicable answer)

12. If renting, how much is your rent per month? ......................

13. Do you make use of computers in running your business? (YES/NO)

14. Do you have access to Internet? YES/NO

15. Do you have a telephone line (Telkom) connection in your business? YES/NO

16. Do you have access from the main road leading to your business for delivery? YES/NO

17. Do you have electricity in your business? YES/NO

18. How long has your business been running in this area? ......................

19. How do you market your business? ........................................

20. How many employees do you have in your business? ....................

21. List the fringe benefits offered by the business for employees: ...........................................

....
22. What is the average gross monthly income \((\text{before deductions})\) of your business? \((\text{This information will be treated with strictest confidentiality})\)

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than R 50000.00</td>
<td>1</td>
</tr>
<tr>
<td>R50 000.00 – R100 000.00</td>
<td>2</td>
</tr>
<tr>
<td>R100 000.00 – R150 000.00</td>
<td>3</td>
</tr>
<tr>
<td>R150 000.00 – R200 000.00</td>
<td>4</td>
</tr>
<tr>
<td>R250 000.00 – R300 000.00</td>
<td>5</td>
</tr>
<tr>
<td>R350 000.00 – R400 000.00</td>
<td>6</td>
</tr>
<tr>
<td>R400 000.00 – R450 000.00</td>
<td>7</td>
</tr>
<tr>
<td>R450 000.00 – R500 000.00</td>
<td>8</td>
</tr>
<tr>
<td>Above R500 000.00</td>
<td>9</td>
</tr>
</tbody>
</table>

23. How many other businesses sell similar products close to your business? 

24. State the minimum wage per employee?

25. Do you save some of your income generated from business?

26. What were the source(s) of funding for starting your business?

27. Mention the areas in which your employees live:

28. Do you have any training program(s) within your business for your employees? YES/NO

29. If yes in question 28 above, mention such training program(s):
30. From your business perspective, how does unemployment affect your business?

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

31. From your business perspective, what are the solutions to unemployment levels in your area?

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

32. Do you keep any records of your income and expenditure of your business? YES/NO

33. How would you rate crime in this area? HIGH/MEDIUM/LOW (choose the applicable answer)

34. Have you ever had any burglary/robbery in your business? YES/NO

35. If YES in question 34 above, explain the nature of burglary/robbery that occurred in your business

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

36. Is your business VAT registered? YES/NO

37. Are you registered at the South African Revenue Services? YES/NO

38. Has your business played a significant role in reducing poverty levels in the area? YES/NO

39. If Yes in question 38 above, briefly state interventions undertaken by the business in order to ensure that poverty levels are reduced in this area.

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................


40. Do you have any staff member who is HIV positive? YES/NO

41. Does the business have HIV/AIDS programme in place? YES/NO

42. What role does your business play in enlightening your community about HIV/AIDS?

.................................

.................................

.................................

43. Would you be willing to be a distribution outlet for condoms? YES/NO

44. What do you regard as your (business) social responsibility?

.................................

.................................

.................................

45. Is the business committed to or planning to engage in social responsibility programmes, (eg. sponsorships, school lunch programmes, donations) YES/NO

46. Have you had any assistance from the local business service centres? YES/NO (LBSCs are organisations aimed at assisting in the development of SMMEs)

47. If yes in question 46 above, please name the LBSC you visited

48. Are you satisfied with the municipal services in your area? YES/NO

49. State reasons for your answer in question 48.

.................................

.................................

.................................

50. Do you regard your business as being successful? YES/NO

51. State the reasons for your answer in question 50.

.................................

.................................

.................................

52. State ANY constraints/challenges that affect your business negatively
53. Briefly explain what motivated you to start this business

54. List the training needs that will help you run your business successfully