

**A SITUATIONAL ANALYSIS OF THE SMMEs IN THE MARULENG  
MUNICIPALITY IN THE LIMPOPO PROVINCE.**

**BY**

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## **DEDICATION**

I dedicate this study to my late grandmother, Sebolaishe, to my beautiful girls, Betty and Mokgaetji, my sons Mokgoanthesi and Matsuokwane, my mom in law Maishela Violet for being there for me during hard times. You are all my inspiration. Thank you for your support.

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## **LIST OF ABBREVIATIONS**

SMME: Small Medium and Micro Enterprise  
SME: Small and Medium Enterprises  
GDP: Gross Domestic Product  
LGDS: Limpopo Growth and Development Strategy  
LimDev: Limpopo Economic Development Enterprises  
LIMAC: Limpopo Manufacturing Advice Centre  
NAMAC: National Manufacturing Advice Centre  
LIBSA: Limpopo Business Support Agency  
SARS: South African Revenue Services  
LBSC: Local Business Service Centre  
DBSA: Development Bank of Southern Africa  
TIL: Trade and Investment Limpopo  
SDI: Spatial Development Initiative  
NEPAD: New Partnership for African Development  
RDP: Reconstruction and Development Programme  
DTI: Department of Trade and Industry  
NGOs: Non-Governmental Organizations  
CSIR: Centre for Scientific and Industrial Research  
RFIs: Retail Financial Intermediaries  
IDP: Integrated Development Programmes

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## **ABSTRACT**

This study investigates and analyses the situational analysis of SMMEs in the Maruleng Local Municipality in the Limpopo Province. It serves to identify the underlying factors that influence the sustainability of SMMEs in the municipality.

In order to gain an understanding on what factors influences the sustainability of SMMEs, a literature study and site analysis was employed as research method. Data were collected using a literature review and empirical investigation. The literature review provided a conceptual framework which included the background of SMMEs, the policies and procedures available for SMME development and promotion, the government intervention for SMME development as well as private sector support available for SMMEs. The empirical investigation was used to determine the situation of SMMEs in the local municipality.

Using a questionnaire designed according to a quantitative approach, a random sampling method was used to select a sample of 60 SMMEs out of a total of 331 SMMEs in Maruleng municipality. Respondents were requested to complete the questionnaires.

The important findings were discussed at length to determine the research objectives that resulted in the conclusion of this research. Based on the analysis of data, conclusion and recommendations were formulated.

# CHAPTER 1

## OVERVIEW OF THE STUDY

### 1.1 INTRODUCTION

Small Medium Micro Enterprises (SMMEs) have a significant role to play in job and wealth creation. However, here in South Africa, SMMEs are continuously confronted by challenges. According to Nieman, Hough, and Nieuwenhuizen (2007:8), the largest percentage of small businesses fail during the first two years of existence due to cash flow problems that arise because they could not manage growth.

According to Nieman *et al* (2007:4), it is important to note that the combination of all businesses; namely, small, micro, and medium sized enterprises as well as large national and international businesses, determines the state of the economy. Employment is closely linked to the state of the economy. When there is no growth in the economy, there are fewer employment opportunities available. The success of other leading countries in the world such as the United States of America, Japan, and England, has proven that the only growth sector in the economy is the SMME sector driven by entrepreneurs. This means that SMMEs should be established and should grow.

According to the Limpopo SMME strategy (2006: 22), in the international context, Japan serves as a model of a first world country where SMME programmes are implemented successfully. The SMME policy in Japan is said to be geared towards developing and growing a wide range of independent SMMEs for greater economic vitality. The government policy system is aimed at supporting self-help efforts for business innovation and start-ups. On the contrary, in Kenya, though SMMEs play a crucial role in the economy, it is estimated that it can only account for 12 – 14% of the GDP. Due to the vagaries of the economy and some internal weaknesses, the rates of collapse among the SMMEs seem very high.

According to GEM Report (2009: 29), approximately \$456 billion of venture capital has backed 27,000 companies in the United States since the early 1970s. In 2008, those venture backed companies employed more than 12 million people, or 11% of the private sector employment; and they generated 21% of the US GDP. In recent years, around 0.2% of GDP has been invested annually in US companies; in European companies approximately 0.05% of Europe's GDP; in Japanese companies 0.05% of Japan's GDP.

Israel is the most remarkable country on the issue. Its venture capital investment is slightly more than 1% of GDP. In some ways, venture capital in Israel and the United States are similar because most of it is invested in high-technology companies; but Israel invests around five times more of its GDP than the United States does. South Africa, with venture investment at 0.44% of GDP, ranks second after Israel, but the bulk of it is invested in the industries that are quite different from those in Israel and the United States. For instance, 52% of South African private equity investment in 2008 was in infrastructure, mining and natural resources, and retail sectors (GEM Report, 2009: 29).

According to Limpopo Employment, Growth and Development plan 2009 - 2014, Limpopo Province's contribution to the national GDP increased from 5.6% in 1996 to 6.8% in 2006 registering the highest percentage increase contribution over the period at 1.2%. This marked the Province as the fifth biggest contributor to the national GDP. Besides the Western Cape, it is the only province which has increased its contribution to the national economy. This trend, which needs to be accelerated, will surely boost Limpopo's vision to be a major contributor to the national economy by 2030 (LEGDP Document 2009-2014: 36).

The provincial economic development study of 2000, identified tourism, agriculture, mining and trade, and manufacturing as sectors with a potential for growth in the Mopani District. The Mopani District also has a large number and diverse under exploited tourism assets such as the northern portion of the Kruger National Park. National parks, nature reserves, and game farms cover almost half of the district, identified as one of the five best conserved ecosystems in the world, providing ample opportunity for Eco Tourism

and SMME development. The district also has comparative advantages in agriculture, manufacturing, and trade (Maruleng IDP, 2010 – 2015: 53).

Hereunder is an analysis of the district economy. A superficial glance at the available statistics suggests that Mopani District has one of Limpopo's more developed economies. 2006 per capita GDP (R24, 056) was above the provincial average (R21, 787) and the 2006 Mopani GDP (R27.3 billion) placed the district third behind Waterberg and Capricorn by way of economic contribution to the province. The Mopani economy grew by 4%, above the provincial and national average, between 1996 and 2006.

The Maruleng economy in the Mopani District of Limpopo Province is significant but small (R1.9 billion in 2006), influenced by the global and national economies, and structurally dependent on the economies of the Limpopo and Mpumalanga Provinces. Maruleng, despite a reasonable GDP, is one of poorer nodes with over 80% of households living below the households' subsistence level, only 28% of the adult population employed, and a significant number of households depending on pension/grants as their primary source of income. Growth in the Maruleng economy between 1996 and 2006 was volatile but averaged 3.1%, which is below the national (3.5%) and provincial (3.9%) average (Maruleng IDP, 2010 – 2015: 53).

In the South African economy, SMMEs are seen as the primary creators and drivers of new businesses; and therefore, they are distinguished as economic actors. SMMEs play a vital role in the survival and growth of any emerging economy. Due to low economic growth, high unemployment and an unsatisfactory level of poverty in South Africa, SMMEs become a critical solution in alleviating poverty. While the relationship between SMMEs and economic growth is multifaceted and complex, SMMEs' capability is a necessary ingredient of a country's capacity to sustain economic growth (Driver, Wood, Segal and Herrington, 2001: 6).

The SA government recognises the importance of developing a strong small, medium, and micro enterprise sector. Today it is internationally accepted and acknowledged that the SMME sector is an essential factor in promoting and achieving economic growth and development, and in the widespread creation of wealth and employment. To further this, a National Small business Act was promulgated in 1996 (RSA 1996).

A well functioning small business sector contributes to the economic and social growth of a country. It exerts a positive influence on the economies of all countries, particularly in the fast changing and increasingly competitive global market. Small, medium, and micro enterprises are recognised as playing a fundamental role in the advancement of prosperity in our communities. To ensure this economic prosperity in our country, the number of entrepreneurs who successfully established and developed SMMEs needs to increase significantly (Nieman *et al*, 2007: 28). Sunter (1994: 5), identified the need for large numbers of SMMEs to build up a successful economy in South Africa. Four years later, Sunter (1998: 2), in his second edition continued to call for SMME development arguing that “It is only through the creation of millions of enterprises that millions of jobs will be created”.

Small, medium, and micro enterprises development was identified by the new government, as a priority in creating jobs to solve the high unemployment rate in South Africa. The country’s unemployment figure currently stands at 24 per cent; In other words 6.9 million of people out of a possible economically active population of 18.8 million are unemployed (SSA, 2009). The growth of the labour force in South Africa is about 2.8 per cent per annum. An average annual real economic growth rate of approximately 6 per cent will be required to keep pace with labour force growth. The following table illustrates the fluctuations for unemployment rate since 2004 (SSA, 2009).

<b>Year</b>	<b>Unemployment rate %</b>	<b>Date of information</b>
2004	31	2003
2005	26.20	2004
2006	26.60	2005
2007	25.50	2006
2008	24.30	2007
2009	22.9	2008
2010	24	2009

Sunter (1994: 4), highlighted the following benefits of promoting SMMEs:

- Job creation;
- Poverty alleviation;
- Equity and participation;
- Wealth creation; and
- Social stability

The key to the SMMEs' success includes access to information, and the capacity to create advantage from effective use of that information. Therefore the larger enterprises and government agencies must work together to develop and implement policies, and activities that enable SMMEs to thrive. However; economic illiteracy makes it difficult for people to access the schemes and support programmes offered by government. The Department of Trade and Industry's SMMEs support programmes are well researched and well developed, but because of illiteracy, especially economic illiteracy, many people cannot make use of those programmes; A major issue that impacts the social and economic upliftment of Africa is unemployment. There is an urgent need to critically examine ways and means to improving prospects for growth and employment in Africa (ICT World Report, 2007: 3).

Development in Africa has long been hampered by poor communication networks, as Africa is a late starter in the area of SMME development through Information Communication Technology (ICT). This affects small enterprises in developing countries, as entrepreneurs fail or make wrong decisions, because they do not have access to appropriate information to assist them in making decisions. Investing in ICTs for SMME development will assist in resolving the constraints of communication and information flow experienced by small businesses. The use of ICTs will bring benefits to SMMEs, such that it can reduce time and costs of running business processes and improve the quality of such processes. On the other hand, it will put them in contact with a host of like-minded organisations and best practices, which act as an online university in guiding them, and empowering them with information that can add value in their lives (ICT World, Report, 2007: 3).

## **1.2. BACKGROUND TO THE RESEARCH PROBLEM**

Small, Medium and Micro Enterprises (SMMEs) are recognised as the key mechanisms for job creation globally. One of the first priorities of the new South African government was to begin with a process of changing the environment in which small and medium business could operate. Prior to 1994, there was no strategy for the development and promotion of the small business sector in the country. It was only after the President's Conference on Small Business in 1995, that a new innovative framework was put into place to support the development of this important sector of our economy (Van der Westhuizen, 2002: 34).

The SMME sector grew since the advent of the 1994 political and economic dispensation. The government policy of Reconstruction and Development Programme encourage people driven, people centred and community based activities throughout the country, especially among the previously disadvantaged people. The process of rapid urbanisation and unemployment brought about a conducive business environment within which SMMEs emerged and became a means of livelihood. The question is, how sustainable are these SMMEs (Phillip, 2002: 112)?

In order to realise the economic growth and to generate the much-needed employment, and the need to distribute income, the small business sector should and must assume a critical role. It is imperative that these small business ventures should subsequently be integrated within the existing national industries.

Over the years the SA Government's SMMEs strategy i.e., The White Paper on Small Business Development (1995) and National Small Business Development (2004), have been in place. However; in the country, especially in the rural areas, people continue to experience high unemployment rate. In the rural villages of the Limpopo province, specifically at Sekororo, Sofaya, Makgaung, and others, there are scores of remains on small business buildings (abandoned) and those few entrepreneurs in business who are struggling to make ends meet.

Despite the government's available initiatives, South Africans in general prefer and are content with service appointments, rather than self employment, and utilisation of self creative opportunities provided by SMMEs. South Africans are found to be less creative and innovative, less enthusiastic to take risks and initiatives. In comparison with any economy in developing versus developed countries such as Brazil and India, South Africa still lags behind, and has a small number of sustainable SMMEs (Stephen, 1993: 124).

Entrepreneurs throughout SA display a willingness to work on their own or with others in order to create new economic opportunities and introduce ideas. Their effort results in creating new business or self-employment opportunities, but also lead to the expansion of existing businesses. According to McCord (2004: 123), the magnitude of the structural unemployment crisis is such that, South Africa in September 2003 had about 4.6 million people were unemployed in terms of the strict definition, and 8.3 million in terms of the broad definition. McCord (2004: 123) further argues that unemployment is concentrated in the African population, for whom the narrow definition of unemployment is at 37%.

According to Labour Market Report (2010:4), international comparison of unemployment rate can be misleading as several organisations adjust unemployment rates to a common concept to allow accurate comparisons. The unemployment rate in Afghanistan, stands at 35.0% which is far above that of South Africa at 25, 3%. The unemployment rate in Australia of 5, 1% is lower than that of SA by far. In Botswana it is 7, 5% which is also lower than that of SA. Canada is at 7, 9% while China is at 4, 1%. There is a high unemployment rate at Islands (Australia) at 60%.

According to SSA (2010) the levels of unemployment hardly moved from quarter to quarter, and resulted in a virtually unchanged unemployment rate of 25, 3% up by only 0.1 of a percentage rate from what it was in the second quarter of 2010; While the unemployment remains almost unchanged, the levels of unemployment in SA remain high at approximately 4, 4 million. The highest rate was observed in the Free State at 29, 5%.

The provinces that had an unemployment rate that was lower than the national average were KwaZulu-Natal, 19.7%, Western Cape, 23.1%, and Limpopo at 25.1% respectively. Though Limpopo is better as compared to its two counterparts it still falls below the country's average which is an indication that many people are not employed in the province.

McCord (2004: 126), attributed this rate of unemployment to the fact that the South African economy is undergoing a major structural transformation, which manifests itself in a decline in labour intensive modes of production, caused in part by the declining primary sector activity. Due to the high unemployment rate in the municipality, members of the community saw SMMEs as a 'survivalist enterprises' owned by people who are unable to find a paid job or get into an economic sector of their choice.

### **1.3 PROBLEM STATEMENT**

Small, Medium, and Micro Enterprises are operated by an owner, together with few relatives. They are established to provide in most instances livelihood to family members, and as such, referred to as survivalist enterprises. SMMEs appeared in numbers, especially during the years of retrenchment throughout South Africa. The unemployed people started SMMEs with the intention of creating job opportunities and as a means to eradicate poverty.

SMMEs in Maruleng started to increase in numbers after 1994, especially during retrenchments and drought as well as a supportive environment put into place by the current government. Maruleng is situated in the lowveld area of Limpopo where fruits and vegetable fields are spread all over the area. SMMEs around Maruleng consist of almost one and the same agricultural products namely: tomatoes, bananas, cabbages, and related products. Maruleng SMMEs, similar to SMMEs found elsewhere, are limited in some other sectors and therefore contribute too little to the business growth, and development. It seems as if the SMMEs do not comply with business regulations, laws and requirements, and as a result this creates doubts as to what extent will these SMMEs survive and continue to operate.

SMMEs mushroomed particularly in the townships and around bus and taxi terminals, along the streets, and everywhere possible. However; within a very short space of time, some of these SMMEs ceased to operate. Some SMMEs would disappear within months or weeks. This suggests that SMMEs have problems of sustainability.

These types of businesses are run by unskilled owners with no resources, no infrastructure, and no formal structure. Business is about making money and profit. The question here is, to what extent do SMMEs generate money and profit? How do SMMEs survive and continue to operate? Do they really make any contribution towards the economy of their local community? The government has since generated a number of legal frameworks to assist in formalising SMMEs. Do SMMEs know about these initiatives and/or utilise them?

This research intends to survey SMMEs in and around Maruleng municipality with the purpose of establishing factors influencing their sustainability and what challenges they are faced with.

#### **1.4. RESEARCH QUESTIONS.**

This study is premise on the following research questions:

- What is the situational status of SMMEs in the Maruleng municipality?
- Are the SMMEs bringing about any economic contribution to their local area?
- What are the challenges faced by SMMEs in the Maruleng municipality?
- Are the SMMEs aware of the government initiatives available to support them?
- If they are aware of government initiatives are they utilising them? and
- If they are not utilising the government initiatives why are they not utilising them?

#### **1.5. ASSUMPTIONS**

It is assumed that SMMEs in Maruleng municipality are not sustainable due to the fact that their operators are:-

- Not able to manage their finances;
- Not able to identify access markets for their products and services;
- Not innovative, creative and not prepared to take risks to enable them to establish a capital infrastructure; and
- Not able to perform the general management functions.

#### **1.6. AIM AND OBJECTIVES OF THE STUDY**

##### **1.6.1 AIM**

The overall aim of the study is to investigate the situation and/ or overall status of the SMMEs in the Maruleng Local Municipality in the Limpopo province. This is in order to facilitate their involvement in entrepreneurial activities in the South African economy

## **1.6.2 OBJECTIVES**

The objectives of the study are as follows:

- To identify SMMEs in the Maruleng local municipality who are involved in registered business ventures;
- To identify the types of businesses they are engaged in;
- To identify the challenges faced by these businesses;
- To establish whether business people are aware of government initiatives and support structures which are available for them;
- To determine whether they use those support structures or not;
- To identify specific areas of possible intervention that could stimulate entrepreneurship; and
- To recommend strategies that may stimulate entrepreneurial initiatives among local people in the local municipality.

## **1.7. THE SIGNIFICANCE OF THE STUDY**

The study is relevant as it focuses on topical issues of economic development of rural South Africa; income generation and creation of employment. The result will be of interest to different stakeholders that include government, parastatals, non government organisations, the corporate sector, and business owners themselves. The study will generate knowledge that will aid in improving and supporting SMMEs while the different stakeholders will know whom to support and how to support them. In addition the business owners will be able to evaluate their current status as a way of knowing and /or planning how to move forward for growth and contribution to the economic development of their area.

## **1.8. RESEARCH DESIGN.**

This is a cross sectional exploratory study, that will use both qualitative and quantitative data. The secondary data was collected through literature review while the primary data was collected through questionnaires and interviews.

A questionnaire was designed (see Appendix A), and used to collect data. The questionnaire was personally given to the respondents who were followed up after a period of one week. Further explanations were given where necessary to the respondents during this follow up session. The interview question guide was also developed (see Appendix B) to collect data. The respondents were issued with questions a week before they had face to face interview to acquaint themselves with the type of questions for the interview.

## **1.9. ETHICAL CONSIDERATIONS**

The following ethical issues will be considered:

- **Confidentiality**

Confidentiality and anonymity of the participant and the name of the institution taking part in this research will be protected in the report by making it impossible to link specific data to a specific person or institution. The participant has the right to expect agreed anonymity, and confidentiality.

- **Informed**

No participant will be forced to take part in the research. The purpose of the study will be explained to all the participants and they will participate voluntarily. The participants will first be consulted to obtain permission to involve them in the research. No participant will be harmed in the process, either physically or psychologically.

- **Termination**

Individual participant will participate voluntarily and may be allowed to withdraw if they wishes to do so.

- **Feedback**

A copy of the report will be made available and accessible to those stakeholders interested in it.

### **1.10. LIMITATIONS OF THE STUDY**

- The study was conducted only in one local municipal area, which means that the results may not necessarily be easily generalised.
- The data collection method used was a self administered questionnaire. This may influence the result as each individual may have their own way of interpreting the questions and there may be some bias involved. All these may have some effect on the results.

### **1.11 PROPOSED CHAPTER LAYOUT**

Chapter one gave the background and orientation of the study;

Chapter two will outline the literature review relevant to the study;

Chapter three will cover methodology and research design. This will show an overview of the design adopted for the collection of data;

Chapter four will present the results and the analysis of data; and

Chapter five will cover the interpretation of the results, the discussion of the findings, conclusions and recommendations.

## **Chapter 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION.**

This chapter gives an outline of literature that concerns entrepreneurship and SMMEs. It defines concepts, and their importance to economic growth especially rural, impoverished, communities. The chapter also discusses the government and other initiatives that are in place to assist the development and growth of SMMEs.

#### **2.2 DEFINITION OF TERMS.**

##### **2.2.1 SMALL MEDIUM MICRO ENTERPRISES (SMME)**

The National Small Business Act 102 of 1996 defines Small and Medium Enterprises (SMME) based on the annual turnover that such businesses are able to achieve the total gross asset value, and the total number of full time employees that the business is able to employ, and pay an amount equal to a minimum living wage.

The amendment thereof, i.e. the National Small Business Act 29 of 2004 defines SMMEs as a separate and distinct business entity, together with its branches or subsidiaries if any, including a cooperative enterprise and non -governmental organisations, managed by one owner or more predominantly carried on in any sector or sub-sector of the economy.

The NTSIKA Enterprise Development Agency (NTSIKA) report (1999: 12), in turn states that in South Africa, a small business has fewer than 200 employees; a micro business with fewer than 50 employees and a medium business with between 50 and 200 employees. The above implies that the act defines a small business in accordance with the turnover achieved the total gross asset value, and the number of full time employees the enterprise is able to maintain while NTSIKA only defines a small business in accordance with only the number of employees.

The South African Revenue Services (SARS), defines a business according to the turnover that such a business generates. According to SARS, it implies that SMMEs are businesses with an annual turnover of less than R300 000 regardless of the sector in which the business operates.

### **2.2.2 SMALL ENTERPRISES**

Small enterprises tend to be more established than micro enterprises, and their business practices tend to be more complex. Most often the enterprise has outgrown direct supervision by the entrepreneur, and has developed a secondary co-ordinating mechanism distinguishing it from a micro enterprise. Growth into a medium scale enterprise requires an accumulation of resources as well as the appropriate incentives for enterprise expansion. According to the Integrated Small Business Development Strategy, there are fewer black people who own and manage small enterprises as compared to those in micro enterprises. In employment terms, the small enterprise employs from eleven to fifty paid employees (The Integrated Small Business Development Strategy: 2003:14).

### **2.2.3 MEDIUM-SIZED ENTERPRISES**

The Integrated Small business Development Strategy (2003: 14), indicates that in terms of employment the maximum number of employees is 100, except for the mining, electricity, manufacturing, and construction sectors, where it is 200 employees. Although these enterprises are still owner-manager controlled, the ownership, and management structure is more complex. Often decentralisation of power to an additional management layer, division of labour, and functional differentiation, are characteristics that help distinguish between small, and medium sized enterprises. The separation of ownership and management is the natural barrier between medium and large enterprises. Black ownership in this size class is considerably less than in the others.

### **2.2.4 MICRO ENTERPRISES.**

The National Small Business Act (1996), defines micro enterprises as the smallest enterprises in the small business sector. They can be found in both formal and informal economies, but because of the size they usually do not qualify for value added tax (VAT)

registration. They have informal accounting and operations procedure. Their compliance with legislation is weak. Most of them are owned, and managed by black women and men. Most metal workers, furniture makers, spaza- shops, home based enterprises, and mini taxis fall under this category. However; they may also be artisans and professionals operating micro enterprises, although these are a small proportion of enterprises in this class size.

### **2.2.5 SURVIVALIST ENTERPRISES**

According to The Integrated Small Business Development Strategy in South Africa published in October 2003, there are many enterprises of survivalist nature to be found in SA. It has become clear that, it is not possible to determine the future of these smallest enterprises. Such micro enterprises are indeed very small businesses, often involving only the owner, some family members and at the most with one or two paid employees. They usually do not have “formality” i.e. not registered in relation to business licences, value added tax registration, and formal business premises, operating permits and accounting processes. Most of them operate with a limited capital base and elementary technical or business skills among their operators or owners.

The term “survivalist” is sometimes used to refer to, enterprises within the class of micro enterprises. These enterprises generate income that is less than the minimum income standard or the poverty line. Economic activity is directed at providing minimal means to keep the unemployed and their families alive. There are no paid employees and asset is negligible. Examples of survivalist enterprises include hawkers, vendors and subsistence farmers. The Small Business Act (1996), used the term very small to refer to enterprises in this class with less than ten paid employees, except in the case of mining, electricity, manufacturing, and construction sectors, where the limit is 20 employees. These enterprises operate in the formal economy, and have access to modern technology. Thus in employment terms, the Integrated Small Business Development Strategy consider this class of enterprise to cover the self-employed with no employees up to an enterprise with ten workers.

### **2.2.6 ENTREPRENEURSHIP**

Entrepreneurship is regarded as the ability to organise the resources into a creative combination, for the sole purpose of production. It requires some kind of initiative, and willingness to take risk to enable one to become involved in pursuing a business venture. Any business implies the element of uncertainty and risk. For SMMEs to be sustainable, entrepreneurs with innovations and willingness to take risks should operate them. SMMEs need not be mere copycats selling oranges or bananas at every street corner. Entrepreneurship must serve as a viable vehicle for SMMEs to survive throughout economic hardship. Research suggests that SMMEs must be in a position to contain and regulate the risk element prevalent within larger business activities (Haydam: 2004: 64).

Entrepreneurs are those people who make something happen from nothing, and are the force behind small enterprises. Government can provide support for the businesses, but it cannot make them happen without the energy and vision of individual entrepreneurs who can see opportunities at grass roots level, and who come up with the ideas to fill the need (The SMME business tool kit. ASCII, 2006: 4).

### **2.2.7 BLACK ECONOMIC EMPOWERMENT (BEE)**

Black Economic Empowerment is defined as the following:

- An integrated and coherent socio-economic process;
- A process that contributes to the economic transformation of the country;and
- A process that increases the number of black people that manage, own and control the country's economy (The SMME business tool kit. ASCII, 2006: 4).

### **2.2.8 BROAD BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)**

Broad Based BEE is the economic employment of all black people including women, youth, people with disabilities and people living in rural areas, through strategies which represent the seven key indicators of the Broad Based BEE Charter. These strategies are:

- Ownership;
- Management;
- Employment equity;

- Skills development;
- Preferential procurement; and
- Enterprise development (The SMME business tool kit. ASCII, 2006: 4).

### 2.3. THE IMPORTANCE OF SMMES

It is accepted today that SMMEs have unique qualities which enable them to create, and provide job opportunities, stimulate initiative and innovations, promote healthy competition, and fulfil an extremely important socio economic role far easier than big businesses. SMMEs are in a better position to stimulate economic welfare, and ensure economic balance (Nieman *et al*, 2007: 167).

Research studies internationally have shown that SMMEs can be significant in growing the economy of the country especially if managed well, for instance, Japan serves as a model of a first world country where SMME programmes are implemented successfully. The Small and Medium Enterprises (SMEs) policy in Japan is geared towards "developing and growing a wide range of independent SMEs for greater economic vitality". The government policy system is aimed at:

- Supporting self-help efforts for business innovation and start-ups i.e. support for ambitious enterprises;.
- Strengthening of management base (enhancement of management resources);
- Facilitating apt responses by enterprise for abrupt environmental change (providing necessary safety net); and
- Finance and taxation (common measures).

The implementation system of Japan's SMME's policy addresses the needs of Small, and Medium Enterprise. They have an Effective SME Implementation System that consists of:

- Administration: Sound administration service for SMEs is offered by an independent Organisation;
- Supporting Organisations: There are effective organisations supporting the implementation of SME programmes;

- **Business Support System:** There is support for business ventures;
- **Managing Support:** There is sound management support of SMEs; and
- **Sound Financial Support and Investment:** Sound financial support and investment in place for SMEs.

The Activities of the Administration Body addresses all Small and Medium Enterprises' Problems as follows:

- There are effective support centres and support networks for SMEs;
- There is an effective reinforcement of existing business activities through efficient SME training programmes; and
- SMEs are offered support to cope with the changing business environment.

According to Mureithi (2002:63), a survey conducted in Kenya indicated that Medium and Small Businesses (MSEs) play a crucial role in the economy. The survey estimated that small business accounted for 12 - 14% of the GDP. They also created up to 250 000 new jobs annually, but due to the vagaries of the economy and internal weakness, the rate of collapse among them was high. Mureithi (2002:63), indicates that 150 000 jobs were lost due to closures of small businesses, leaving a net of 100 000 jobs annually. The small businesses contributed significantly in poverty alleviation for households that would otherwise be desperately poor.

Mureithi (2002: 64) noted the following challenges among the small business in Kenya:

- The incomes among various SMMEs varied widely. Those in urban areas had more income than rural based businesses. Gender disparity was significant as is the level of education - women led businesses had less income than those led by men;
- Lack of capital; and
- Access to markets hampers expansion of SMMEs.

Mureithi (2002:64), argues that information is cited as a major constraint to growth. It is information regarding markets, and the difficulty in gathering it. Furthermore it includes cost of access, awareness and required skills. Whilst the issue of rural communications have been addressed through tele-centres, access to technology, and information are crucial to effective operation of SMMEs.

### **2.3.1 FACTORS WHICH UNDERLINE THE IMPORTANCE OF SMME**

- SMMEs are numerous: Purely from a numerical point of view, the value of SMMEs cannot be underestimated. Beside their numbers SMMEs play an important part in the provision of jobs, gross marginal product and turnovers.
- Employment provider, and creator of job opportunities: contrary to big enterprises which are characterised by mass production, and are capital intensive, SMMEs are particularly labour intensive. They are taking a very big portion of labour force especially in remote areas where circumstances do not justify large enterprises. Employment and job creation by the SMME sector is beneficial for socio-economic development in remote rural areas and ensures a healthy balance of economic growth in urban and rural areas.
- Economic stability and better distribution of activities: With an effective economic business strategy business cycle fluctuations could be limited. A large number of SMMEs which offer a wide variety of products, and services could make an important contribution to a decrease in business cycle fluctuations. SMMEs are usually widely spread which contributes to the economic stability of developing areas, and the country as a whole.
- SMMEs are innovative and initiative: SMMEs have more freedom and initiative to realise their aims and lend themselves well to the role of innovator of new products, ideas and techniques. SMMEs serve their own interest, are motivated and strive to improve.
- SMMEs are subcontractors for big industries: All enterprises, big and small are dependent on SMMEs for the serving and distribution of their products.
- SMMEs promote free competition: The large number of SMMEs makes a particular contribution to healthy price competition.

- SMMEs fulfil the socio-economic role: The socio economic contribution to community development is made in two ways:
  - SMMEs offer a wide choice; and high standard of personal service and products; and
  - Not only are the SMMEs willing but they are able to put back into the community what they have taken out. It is often easier for the owners of SMMEs to serve in local governments, welfare, cultural, service and social institutions.
- SMMEs are flexible and adaptable: Because of the smaller size and simplicity of SMMEs, they are able to adapt quickly, and effectively to environmental change and make timeous decisions. They are usually able to adapt to changes in demand, and new production techniques.
- Entry into the business world and learning school: SMMEs offer entry to many new entrepreneurs into the business world (Phillip; 2004: 100).

### **2.3.2 CHALLENGES FACING SMMEs IN SOUTH AFRICA**

In South Africa an unacceptable and disappointingly high number of SMMEs fail during their early years of operation, and they face challenges. According to Nieman *et al* (2007:32), the largest percentage of SMMEs fails during the first two years of their existence, due to cash flow problems that arise because they could not manage growth. Taking into account the high failure rate of new small enterprises, and their importance to the national economy, it is critical to look at how challenges facing SMMEs could be overcome. These challenges include:

- Access to start-up and expansion finance;
- Access to markets;
- Access to appropriate technology; and
- Access to resources (including human resources)

### **2.3.2.1 Access to start-up and expansion finance**

According to Nieman *et al* (2007: 33), access to appropriate finance is a major constraint on the successful development of SMMEs in SA. Too many creative ideas are not developed into viable new ventures, due to lack of finance. The reasons for this lack of access to finance include:

- Risk aversion of the banking sector towards SMMEs;
- There is a decline in strong alternative financial institutions; and
- Inadequate funding proposals and business plans

According to Nieman *et al* (2007: 33), the above challenges could be overcome by:

- Business success: The business success and profitability of SMMEs need to be improved;
- Financial products: Financial institutions and micro finance institutions (MFIs) should provide SMMEs with appropriate financial products;
- Training: SMMEs need to be trained and coached in conducting research on and presenting funding proposals, feasibility studies and business plans; and
- Financial guidance: financial institutions must provide guidance and direction to SMMEs that were denied finance as well as give them viable reasons why their loans were rejected.

### **2.3.2.2 Access to markets.**

The other challenge facing SMMEs, is the lack of sustainable markets for their products or services. They tend to produce and offer services that do not have a ready market.

The above challenge could be addressed by the following:

- Commitment to marketing training;
- Commitment to the market;
- Market-oriented products; and
- Networking.

### **2.3.2.3 Access to appropriate Technology**

The lack of technology is another constraint facing SMMEs. The use of appropriate technology is one of the most important factors behind a successful SMME's competitive advantage. The use of up to date, and new technology leads to:

- Better and more competitive products and services;
- Improved efficiency;
- Reduced operational and production costs; and
- Improved quality of product and services (Nieman *et al* 2007: 32-34).

## **2.4 ENTREPRENEURSHIP**

Entrepreneurship is the process of conceptualising, organising, launching, and through innovation nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment. Entrepreneurs are the founders of new ventures or revivers of dormant ones. Typically, they spot an opportunity, marshal resources, and organise these into a venture that offers something new or improved to the market. In this fashion, they act as agents of change and wealth creation. Following start-up, the aim is to grow the business to its fullest potential so that they can later enjoy the harvest and start afresh (Rwigema and Venter; 2004: 6).

### **1.4.1 CHARACTERISTICS OF AN ENTREPRENEUR.**

According to Wheeler (2007:10), an entrepreneur is someone who has a particular way of looking at the world, whether they work for themselves or an organisation. You can become an entrepreneur by adopting this stance as a way of life. Some of the characteristics of an entrepreneur include the following:

- **Adventurer**

The word entrepreneur has its roots in French and literally means someone who undertakes a venture. To do this, one has to be a risk taker, one who is prepared to see the venture through. An entrepreneur is an explorer who lives the adventure of realising a vision.

- **Business person**

Entrepreneurs are associated with business, small medium sized, social or corporate. To be entrepreneurial, you need to operate in a business arena, but not necessarily your own business.

- **Visionary**

Entrepreneurs know themselves, their potential and what they have to offer. They also understand what the world needs, and have an enterprise that combines what they offer with meeting what the world needs. They have a vision where individual and collective potential is realised and are in the creative process of manifesting this vision for a living.

- **Innovator**

Entrepreneurs create and thus innovate, in all they do. They have an inventive spirit that permeates all their endeavours. This stimulates inspiration, and growth in the people they work with and the people they add value to through their businesses

- **Rebel with cause**

Entrepreneurs influence industry and society. They are inherently rebellious, not only against mediocrity and stagnation, but for a purpose. That purpose benefits everyone involved.

- **Leader**

Because entrepreneurs have vision and the tenacity to implement it creatively and flexibly, they always find themselves leading people and processes. They set an example, of what they advocate, and teach others, often in challenging circumstances. Their influence is far reaching, for which they pay a price. They need to be responsible and also have fun.

- **Service provider**

Entrepreneurs have something to give, and they understand its value to the market, and to humanity. They help people live better lives. They are ultimately, agents of evolution. Being an entrepreneur is a way of managing yourself and engaging with others that applies equally to people in the free market and in jobs. It is a personal fulfilment, business success, and the future of the world as a whole (Business Report, 9 November 2007:10)

According to Rwigema and Venter (2004: 60), successful entrepreneurs share the following traits:

- Innovativeness;
- Initiative;
- Achievement drive;
- Willingness to take calculated risks;
- Flexibility; and
- Competitiveness.

#### **2.4.2 ADVANTAGES OF ENTREPRENEURSHIP**

- The independence emanating from ownership and management of one's own business allows entrepreneurs to pursue what they personally regard as important.
- The opportunity to realise full potential, entrepreneurship is an instrument for self actualisation.
- The opportunity to realise big profits.
- The opportunity to contribute to society.
- Opportunity to make own decisions (Sherpherd and Wiklund, 2005: 124).

#### **2.4.3 Disadvantages of entrepreneurship**

##### **(a) The personal and financial risks faced by entrepreneurs**

According to Rwigema and Venter (2004: 57), should the venture perform poorly or be dissolved, the entrepreneur would lose their investment while remaining liable for debt. Personal properties like homes, and savings could be repossessed, with dire consequences for the entrepreneur, and their family.

Most of the new businesses fail within the first two to three years, and a bigger percent within the first six years. Entrepreneurship subjects the entrepreneur to the following personal financial risks (Sherpherd and Wiklund, 2005: 99).

- Reputation and self confidence: A business failure implies personal failure. A business failure harms the entrepreneur's standing in the society.

- Uncertain income: Entrepreneurship does not guarantee a comfortable monthly income for the entrepreneur. Cost may exceed income during the development phase of the new business.
- Risk of losing all capital: Entrepreneurs are forced to invest personal capital in the new business. If the business fails, personal capital is also lost.
- Decreased quality of life: The majority of entrepreneurs enters the markets between the age of 25 and 39 years were during this time families are started. The long hours, and hard work required of the entrepreneur create tension in the family and socially.
- Responsibility: Entrepreneurs are forced to decide about matters with which they are not acquainted. This and the realisation that the success, failure of the business may depend on such a decision may be stressful for certain individuals.

**(b) Career risk**

It is further argued that many entrepreneurs abandon lucrative jobs to start their own business. Should the business fail, they might not regain previous employment or find a comparable job.

**(c) Family and social risks.**

Nurturing a business places extraordinary demands on the entrepreneur's time. Family life might suffer as a result. Children who grow up with a part time parent during their formative years may suffer emotional scars. For the entrepreneur, long hours and absence from home may impose guilt and stress. In the early years they have little time to relax. Friends and hobbies take the back seat. Entrepreneurs handle stress in various ways. Among these is networking and sharing experiences with counterparts. In that fashion, a shared burden becomes a lighter burden. Regular breakaways provide welcome relief, as does delegating and the cultivation of sound interpersonal relations (Rwigema and Venter, 2004: 57).

#### **(d) Psychological risk**

This pertains to the prospect of business failure. Apart from the financial consequences, the psychological damage of a failed venture may be devastating as the entrepreneur suffers self-doubt, and desertion by friends and relatives. Particularly in societies with limited entrepreneurial traditions, failure will encourage gloating. Even entrepreneurs who recover financially from previous failure, retain emotional scars though the subsequent triumph may compensate (Rwigema and Venter, 2004: 58).

### **2.5 THE SOUTH AFRICAN GOVERNMENT INITIATIVES FOR SMME SUPPORT**

Small businesses have qualities that enable them to create and provide opportunities, stimulate initiatives and innovations, to promote healthy competition and fulfil extremely important socio-economic role with more ease than big businesses. Most writers however; believe that small business will only stimulate growth with the assistance of the government legislation and policies that would create an environment conducive for their growth and sustainability.

Some countries would visualise to have a well driven economy. In the South African economy, entrepreneurs are seen as the potential primary creators and drivers of new business and therefore they are clearly distinguished as economic actors. Entrepreneurship plays a vital role in the survival, and growth of any emerging economy. Due to low economic growth, high unemployment rate, and a high level of poverty in S.A, SMMEs becomes a critical solution. More people are either choosing SMMEs as their career path, or they are forced to create their own employment, women included (Driver, Wood, Segal and Herrington, 2001:6).

SMMEs play an important role in the informal sector in S.A. where there is a greater direct link between the SMMEs' standard of living and the customer; if the customer does not buy, the SMMEs do not survive. While the relationship between SMMEs and economic growth is multi-faceted and complex, entrepreneurial capability is a necessary ingredient of a country's capacity to sustain economic growth (Driver *et.al.*2001:6).

There are different types of support services and programmes that the government came up with to stimulate small business development which among others include.

- Financial support;
- Development and adoption of relevant legislative framework;
- Capacity building programmes;
- Market linkages; and
- Provision of physical infrastructure.

The government initiatives are aimed at achieving the following goals:

- Deal with the unemployment problem;
- To be part to transformation in the South African economy;
- Poverty alleviation ( Youth empowerment, Rural communities, develop income generation, BEE, Employment creation); and
- Business growth (Report for business support unit, 2000: 38).

According to Pressly (2007:17), it was indicated that government has given notice that it will massively beef up its expenditure on small, medium and micro enterprises (SMMEs), in ten key areas of government procurement of services and goods. Government also wants to ensure that where payments are made to these entities, they must be done within 30 days. The aim of the government is not only to broaden the base of SMME involvement in government procurement in general, but to fast track black economic empowerment, particularly amongst the poorest of the poor. The idea was born out of the economic cluster of ministers, led the minister of trade and industry (Business Report, 2007: 17)

It was decided that for the 2009/2010 financial year 85 per cent of expenditure by departments on the set products, and services would be procured from SMMEs. It was indicated that the government has already spent hundreds of millions of rand on provision of services from SMMEs which will increase per year.

To ensure compliance to the call by government departments the auditor general's office will be required to report about the progress made by departments on procurement. The report must be included in the annual report of that particular department, (Business Report, 2007: 18).

This section will discuss programmes and legislation that are in place in South Africa in order to support SMME development.

### **2.5.1 GROWTH EMPLOYMENT AND REDISTRIBUTION**

The Government's strategy relating to SMMEs must be seen in the context of its overall micro-economic policy, the Growth Employment and Redistribution policy (GEAR) adopted in 1996. At the heart of GEAR is the assumption that accelerated economic growth is more likely to be achieved by supply side measures, rather than demand side measures. The South African GEAR economic policy was aimed at stimulating economic growth driven by the government. The government was expected to trim down (i.e. put in place fiscal measures), and create appropriate environment within the private sector, which was supposed to be want and willing to lead in economic growth (David, 2001: 325).

While globalisation might appear to be the only way to go, such a strategy rarely favours the growth and development of SMME sector unless it receives some level of protection. For the most part, only larger firms with sufficient resources are able to compete effectively on an international level. There are some 1.6 to 3 million SMMEs in South Africa, the majority of which are black owned micro enterprises (Berry, von Blotnitz, Cassim, Kesper, Rajaratman, and van Seventer, 2002: 13-14). If the emphasis is on economic growth, and employment creation through the SMME sector then these enterprises need to be nurtured. Globalisation contributes to overall job loss, and discourages the creation and growth of SMMEs as these are unable to compete on equal footing with large corporations for a stake in the global market (Rwigema and Venter, 2004: 315).

### **2.5.2 THE WHITE PAPER ON NATIONAL STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF SMALL BUSINESS IN SA.**

In 1995, the White paper on the National Strategy for the Development and Promotion of Small business in South Africa was promulgated. It was initiated as an attempt to create an enabling environment for the creation of SMMEs. The White Paper came about, as a result of consultations with key stakeholders. It was government's way of contributing towards stimulation and development of SMMEs. It outlines a national strategy for support of SMMEs.

The Department of Trade and Industry in SA conducted a series of studies, to assess the progress made in the SMME sector. Indications were that SMME policies do not as yet have an impact on the creation of an environment conducive for a self-sustainable SMME sector. The reason was that there was no coherent and integrated approach in terms of creating several support structures for SMMEs. As a result, in 1995 a National Strategy was put in place, which aimed at developing, and promoting SMMEs in South Africa. This Strategy was to be located within the context of the Growth Employment, and Reconstruction (GEAR) adopted in 1996.

### **2.5.3 THE NATIONAL SMALL BUSINESS ACT NO 29 OF 2004.**

The promulgation of the National Small Business Act no 29 of 2004 was intended to amend the National Small Business Act of 1996 and brought about the following measures:

- To repeal all provisions regarding to Ntsika Enterprise Development Agency (NTSIKA);
- To provide for the establishment of the Small Enterprise Development Agency (SEDA);
- To make provision for the incorporation of NTSIKA, the National Manufacturing Advisory Centre (NAMAC) and any other designated institution into the SEDA;
- To promote the needed transitional arrangements to this effect; and
- To promote small enterprise development and effect sustainability.

## **2.5.4 THE INTEGRATED SMALL BUSINESS DEVELOPMENT STRATEGY IN SOUTH AFRICA.**

The document lays out a strategy for the development of small businesses in South Africa over ten years from 2004 to 2014. It provides the rationale for a strategic and integrated response to the needs, challenges and opportunities facing small business sector.

In October 2003, when SA developed The Integrated Small Business Development Strategy, it was intended to develop the micro enterprise sector by increasing the long-term viability of micro enterprises and the job they create: -

- To enhance the prospects of micro enterprises developing into the small sector;
- To facilitate the movement of micro enterprises away from the informal economy into the formal economy; and
- To develop a better understanding of the dynamics of the micro-enterprise sector and it's potential for development.

Through this strategy; the roles of small business in job creation, economic empowerment, and poverty reduction are recognised, and enhanced. Regardless of whether they are found in urban centres or rural settlements; engaged in trading, manufacturing or services, run by men or women, small businesses are a representation of South Africa's entrepreneurial spirit. This strategy is mainly focussed on the following vision:

According to The Integrated Small Business Development Strategy in South Africa (2004 – 2014), South Africa is envisioned as an entrepreneurial nation that rewards and recognises those who see a business opportunity and pursue it. The vision encompasses a vibrant and competitive small business sector that contains enterprises of all sizes, and in which there is growth from the micro to the medium, and to the large enterprise.

Those who were once excluded from full participation on the economy will have had access to support, and development services to help them redress the deficits that stem from such exclusion, and are now competitive participants in local, national, African, and international markets. Over the period 2004 – 2014 the Integrated Small Business Development Strategy shall pursue the following objectives:

- Increase the contribution of small businesses to the growth of the South African economy;
- Create an enabling environment for small enterprises, which levels the playing field between big businesses and small business, reduce the disparities between urban and rural businesses, and is conducive to entrepreneurship;
- Create sustainable long term jobs for women and men in the small business sector;
- Ensure that previously disadvantaged individuals, women, people with disabilities, and young women and men are equitably represented in the business sector; and
- Increase the competitiveness of the small business sector so that it is better able to take advantages of opportunities emerging in national, African and international markets.

#### **2.5.5 THE DEPARTMENT OF TRADE AND INDUSTRY**

From the Department of Trade and Industry Report (2004:32 ) the following aspects were listed as a way of promoting and developing SMMEs in general. The DTI has implemented a number of incentives targeting SMMEs. These include the following (Berry *et al*, 2002: 36-37):

- Standard leased factory building scheme: makes general purpose factory buildings available for lease to SMMEs;
- Small medium manufacturing development programme: consists of tax- exempted establishment grant as a percentage of the investment for the first two years and a skills support programme for business with approved training programmes in terms of the Skills Development Act;

- Economic empowerment scheme: targets the establishment of previously disadvantaged entrepreneurs;
- Venture capital scheme: with which the Industrial Development Corporation (IDC) co-finances viable product ventures;
- Normal finance scheme: low-interest finance during expansion, and administered through the IDC;
- Import finance scheme: credit and guarantee facilities for the importation of capital goods, and services;
- Short term export finance guarantee facility: pre- and post- shipment export finance guarantees for SMMEs through the Credit Guarantee Insurance Corporation;
- Export marketing and assistance scheme: funding for primary market research, outward selling, and inward buying trade missions, as well as assistance to participate in exhibitions; and
- Ntsika's trade and investment development programme: technical expertise to help entrepreneurs to become exporters.

Through all these projects, the Department of Trade and Industry aims to grow the economy in a sustainable manner, to create employment for the presently unemployed and to create a fair, effective, and conducive business environment for SMMEs, and consumers. As a result of the strategy development processes including the small business conference, the four key government institutions were created, tasked with various aspects of the implementation of the strategy, namely: -

- Centre for Small Business Promotion (CSBP) chief directorate in the Department of Trade and Industry (DTI): The main aim of this centre is to implement, monitor and evaluate the effectiveness of the National Small Business Strategy, which aim to contribute to job creation, income generation redistribution of wealth, economic growth, and eventually eradication of poverty (Development Co-operations Report, June 2000: 24);

- Khula (Khula Enterprises Finance Schemes);
- Ntsika (Ntsika Enterprise Development Agency); and
- National Small Business Council.

**(a) The role of the Department of Trade and Industry**

The Department of Trade and Industry (DTI), has been set up to facilitate the most critical function of economic growth, which includes wealth, and job creation. The DTI had to establish an implementation strategy for the delivery of programmes that would contribute to economic growth. This has resulted in the establishment of the institutional framework for supporting SMMEs. The institutions established for SMME development are Ntsika Enterprise Promotion Agency, Khula Enterprise Finance and the Small Business council (Nieman *et al*, 2007: 170).

**(b) The role and functions of Ntsika.**

The objectives of Ntsika are clearly set out in the National Small Business Act of 1996. It states that Ntsika shall:

- Formulate and coordinate a national programme of policy research;
- Collect and disseminate information concerning small business;
- Facilitate the strengthening of small business service providers;
- Channel finance to small business service providers to deliver accredited services;
- and
- Facilitate increased demand-side interventions.

Ntsika promotes mainly business support centres, and the government's three major efforts in getting out into the market:

- Local business service centres (LBSCs);
- Manufacturing advice centre; and
- Techno-entrepreneur programmes designed to concentrate on manufacturing support for SMME ((Nieman *et al*, 2007: 170).

According to Nieman *et al* (2007: 170), Ntsika provides non financial support to SMMEs. It does not give out loans or grants. Ntsika provides the following services:

- Management and entrepreneurial skills training;
- Counselling advice and technical support;
- Service provider network development;
- Institutional funding;
- Research and the provision of information;
- Programme design services;
- Market access and business linkages; and
- Advice on tendering.

### **(c) The role of Small Enterprise Development Agency (SEDA)**

SEDA is a government Agency which was established through the enactment of the National Small Business Act 29 of 2004, as amended. SEDA is a member of the DTI group, and has footprints in all provinces within South Africa.

The mandate of SEDA is to implement the national government small business strategy in line with the DTI's Integrated Small Enterprise Development Strategy. Furthermore, SEDA should design, and implement a standard national and common delivery network that must uniformly apply throughout South Africa. Among others, SEDA is making its business to support, promote and grow enterprises, with special focus on co-operative enterprises located in rural areas (Limpopo Business, 2008: 126).

SEDA has a task of providing information on how to start a business. Assisting with the compilation of business and marketing plans, monitoring and coaching entrepreneurs, capacity building or training entrepreneurs, and also provide advice on the legal forms of businesses, franchising, tendering and how to access finance. SEDA also assist with the identification of opportunities, and business linkages for small enterprises. A key part of SEDA is to provide information to small enterprises, and prospective entrepreneurs that will help and encourage them to start and build sustainable businesses (Limpopo Business, 2008: 126).

#### **(d) The Local Business Service Centre (LBSC) programme**

The local business service centre (LBSC) programme is a vehicle for local partnerships development, and a mechanism for encompassing and directing SMME development activities within a national development framework. This is achieved through practical programme partnerships between all three levels of government, local communities, and the private sector (Nieman *et al*, 2007: 171). At the national level, the LBSC programme contributes to a number of national development priorities which includes:

- Job creation;
- Wealth creation; and
- Transformation and empowerment.

At local level the LBSC programme has been established to perform a number of important functions within local economies which include:

- Increasing access of local people to SMME support services;
- Increasing opportunities for participation in local communities;
- Providing a focal point for the expansion and development of local economic, employment and enterprise opportunities; and
- Increasing the flow of resources like money and expertise into the local community (Nieman *et al*, 2007: 171).

According to Nieman *et al* (2007: 171) the core services of the LBSC programme are set out below:

- Information;
- Training;
- Counselling and advisory services; and
- Networking and linkages.

There are a lot of overlaps between these institutions in terms of the rationale for their respective involvement, but quite frankly there are differences amongst them. Perhaps the differences could usefully be defined as differences in emphases. The overriding concern for the above institutions operating in this sector is to help South Africa to: -

- Deal with the unemployment problem; and
- To be part of transformation in the South African economy.

In the context of unemployment and transformation, there are two nodes of emphasis around which the activities of donors come together. These activities are Poverty alleviation and Business growth.

- **Poverty alleviation**

Most institutions see poverty alleviation as one of the key objectives of their involvement in the SMME sector. Programmes pursuing poverty alleviation acknowledge that South Africa is a middle-income country, but that below the GDP per capita figures are hidden vast disparities in family income. It is the existence of a very large poverty stricken segment of the population that justifies involvement in SA generally and in the SMME sector in particular. Some institutions suggest that while GEAR has won approval from the business community, and from the international community, it has failed to generate jobs. (Development Co-operations Report, June 2000: 21)

A whole array of ancillary objectives makes up the poverty alleviation focus of donor involvement in the SMME sector. These will include:

- Income generation;
- Employment creation;
- Black Economic Empowerment (BEE) and subsequently Broad Based Black economic Empowerment (BBBEE);
- Redressing gender imbalances;
- Youth empowerment; and
- Rural community development (Report for business support unit: June 2004: 38).

- **Business growth.**

A macro-economic growth strategy such as GEAR will succeed only to the extent that there is a business growth at the micro economic level. The economic philosophy that guided the design of GEAR has also been adopted by donors involved with SMME development. Its assumptions are that business growth will sooner or later lead to job growth, poverty reduction, and economic transformation.

Some of the subsidiary objective of business growth include the below following:

- Greater equalization of income, wealth, economic opportunities;
- Creation of employment;
- Economic growth;
- Strengthened cohesion among small enterprises;
- Levelling of the playing field between SMMEs and big business (BEE scorecard);
- Sustainable transformation in favour of the majority population;
- Black economic empowerment;
- Increased black equity holding;
- Increased competitiveness;
- International trade participation; and
- Improved productivity and appropriate technical changes (Report for business support unit: June 2004:38).

#### **2.5.6 BROAD BASED BLACK ECONOMIC EMPOWERMENT.**

Black Economic Empowerment (BEE) is the major driving force for economic development. BEE became applicable towards the end of the 1990's where a need emerged for a more directed approach to empowerment. This was an attempt to narrow the division between the first economy, and second economy by putting mechanisms in place to accelerate the entry of black people into the first economy.

A document known as a strategy for Broad Based Black Economic Empowerment (BBBEE) was released in 2003. The document does not only define broad-based BEE and the transformation imperative but also outlines the first Broad-Based score card comprising the seven elements of Broad-Based BEE.

The successful implementation of the BEE strategy will be evaluated against the following:

- A substantial increase in the number of Black people who have ownership and control of existing and new enterprises;
- A substantial increase in the number of black people who have ownership, and control of existing and new enterprises in the priority sectors of the economy that government has identified in its microeconomic reform strategy;
- A significant increase in the number of black empowerment enterprises and black engendered enterprises;
- A significant increase in the number of blacks in executive and senior management of enterprises;
- An increase proportion of the ownership and management of economic activities vested in community, and broad based enterprises and cooperatives;
- Increased ownership of land and other productive assets, improved access to infrastructure, increased acquisition of skills, and increased participation in productive economic activities in under developed areas including the 13 nodal areas;
- Accelerated and shared economic growth; and
- Increased income levels of black pensioners and reduction of income inequalities between and within race groups (DTI Strategy Document: September 2006).

The challenges that need to be addressed include:-

- High failure rate amongst black-owned start-ups due to lack of access to financing and other business support. Many black entrepreneurs struggle to take their businesses from a survivalist or micro level to the next phase owing to one or more of the following; lack of access to capital, lack of collateral, lack of

- education, training and experience. The act therefore attempts to address these challenges by providing recognition for inter alia,
1. Investments, loans, grants, guarantees, and provision of local capital,
  2. Access to credit, interest free loan, and relaxed security requirements, and
  3. Time spent on training and monitoring of black entrepreneurs start-ups (Broad-Based Black Economic Empowerment Act, The Code of Good Practice, 2007: 17).
- Job creation cannot be attained without the growth of the small business sector. Most analysts agree that growth with respect to job creation will predominantly come from the small business sector. This will only be made possible if small businesses are assisted to grow, develop and graduate from micro and survivalist to become sustainable, job creating enterprises. By providing recognition for various types of assistance to small, medium and micro enterprises with the objective of expanding their operational, and financial capacity, the principle seeks to ensure that such assistance is incentivised (Broad-Based Black Economic Empowerment Act (The Code of Good Practice: 2007: 17).

### **2.5.7 FINANCIAL INSTITUTIONS**

According to Radebe (2008: 60), it is generally accepted that SMMEs have a significant role to play in job and wealth creation. Ironically, this is a sector that continues to be underserved by commercial banks. In response to economic development challenges facing most developing economies including SA, significant resources are directed at larger sophisticated clients, leaving the SMMEs underserved.

This has left many SMMEs facing obstacles in accessing both business finance and non-financial support services. This means for going the gross domestic product (GDP) contribution to be made by SMMEs. Internationally, SMMEs contribute up to 90 per cent of GDP, while in SA their contribution is estimated at 40 per cent. The government has sought to address this market failure by establishing institutions such as the Enterprise Finance Khula.

The role of Khula is to maximise access to finance for SMMEs in a way that can lead to the development of sustainable SMMEs, job creation, growth and equity. Khula does not have a direct contact with its market, rendering the success of its product purely dependent on its intermediary partners (Radebe, 2008: 6).

Khula also provides mentorship services to SMMEs, in various aspects of managing their businesses. Khula Enterprise Finance Limited was established in 1996, in terms of a DTI initiative and operated as an independent, “limited liability” company. The importance of Khula is to promote economic liberation and to provide support and incentives to both small and large enterprises. Khula is a whole sale agency, which provides financial support to small business through intermediaries. Its financial products include loans, a national credit guarantee scheme, grants and institutional capacity building. Its roles and functions are categorised into support for financial intermediaries as retail distribution networks, and direct services to SMMEs. Khula was launched as a micro lending scheme, Khula Start, to meet the needs of SMMEs mainly, in the rural areas of the country. It provides loans of up to R3000 to survivalist entrepreneurs (Nieman *et al* 2007: 170).

A study by Finmark Trust, on the international experience of SMME banks, notes that a number of developing economies have established SMME banks; While these banks were set up primarily to address the challenge of access to finance by SMMEs, they have recognised that non-financial assistance, such as training in basic business skills, technical advice, linkages to markets, and mentoring is essential. The report indicates that as SMMEs grow; they need stronger management, better governance and typically, more equity capital. Successful SMME banks consider the full picture and not only provide finance (Radebe, 2008: 6).

The other government institution to assist SMMEs is Small Enterprise Development Agency (SEDA), which is mandated to design and implement a standard national delivery network to provide non-financial support services. The role of SEDA would be critical to SMME bank as it would provide the non financial support that is considered important in ensuring the success of SMMEs (Radebe, 2008: 6).

In SA, no significant effort is being put into partnering financial institutions providing funding to SMMEs with institutions such as SEDA. This lack of co-ordination leads to the inability to address the needs of this sector effectively despite the fact that the sustainability of SMMEs is essential in creating jobs, and wealth (Radebe, 2008: 6).

If there can be sufficient commitment from policy makers to reach the millennium development goals of halving unemployment by 2014, and significantly reducing poverty, it should be seeing much more attention to this sector. The first focus should be on determining how friendly the regulatory environment is to the growth of the SMME sector. Some factors would be tax incentives to encourage private sector involvement such as; in the provision of business support services, lessening the regulatory requirements of starting and closing down business, and considering more flexible labour laws. A second area of focus should be to review whether Khula's mandate gives it sufficient flexibility to reach its target market in a meaningful way (Radebe, 2008: 6).

## **2.6 THE ROLE OF THE LIMPOPO GOVERNMENT IN THE DEVELOPMENT AND PROMOTION OF SMMEs**

The purpose of the Limpopo SMME Strategy is to create a framework in the business environment to reach the following:

- To increase the contribution of small business towards the economic growth of the Province;
- Make more impact on job creation and reduction of poverty levels in the Province;
- Ensure that the Province's growing economy proportionally contribute to the GDP; and
- Ensure that there is effective and efficient co-ordination and integration of SMME programmes in the Province (Limpopo Growth and Development Strategy, 2005: 25).

The strategy has the following as its vision, mission and objectives:

**Vision:**

- To increase the contribution of small businesses to the growth of the Provincial economy.

**Mission:**

- Involving the SMMEs in the formulation and implementation of small business policies and strategies;
- Developing an appropriate support and strategic focus in the environment for SMME's to prosper; and
- Strengthening the links and co-operation between the small and big business sectors, government and the SMME service providers in the Province.

**Objectives:**

- To increase the capacity of SMMEs and production levels; and
- Identify and close the gaps in the delivery of services to entrepreneurs (Limpopo Growth and Development Strategy, 2005: 26)

Since 1995, Limpopo has consistently outperformed the national average growth rate, as business has grown, so has the need for support services at all levels across the economy. Business support services include; those services that are perhaps not regarded as critical to the direct economic success of a business, but which would be sorely missed if they happen to disappear one day (Limpopo Business, 2008: 121).

The provincial government has specific initiatives that are meant to support SMMEs. These initiatives will now be discussed.

### **2.6.1 THE LOCAL ECONOMIC DEVELOPMENT (LED)**

The political transition of 1994 significantly enhanced the autonomy of local governments, with the 1996 constitution providing that local governments are to promote social and economic development. The national government prioritised SMMEs developments which includes informal sector enterprises. In most cases very small and informal enterprises are not reached by national policy initiatives which mean that these

areas have become the *de facto* responsibility of local government (Annual Review of Small Business in South Africa, 2005 – 2007).

According to the Integrated Small Business Development Strategy in South Africa (2004 – 2014), local authorities must play an increasingly significant role in efforts to address poverty. The government has established local economic development to help strengthen implementation capacities of local authorities through trilateral initiatives focusing on capacity building and micro finance. The LED strategic framework has been designed to address small business needs.

The National Framework for LED in South Africa aims to support the development of sustainable local economies through integrated government action. This government action is the developmental and it stimulates the heart of the economy which comprises of those enterprises that operate in local municipal spaces. The framework is underpinned by an appreciation of the evolving practice of LED nationally, and is based on the unique South African context and challenges. It contextualises the move towards “new institutionalism” that breaks down the distinction between economy and society, showing how economic decision-making and actions are shaped by the shared values, norms, beliefs, meanings, rules and procedures of the formal and informal institutions of society. The normative agenda of the New Institutionalism is to develop shared meaning and values, and to strengthen the networks of social interaction. This has also been variously described as building social capital or developing social cohesion (National Framework for Local Economic Development in South Africa, 2006 -2011).

## **2.6.2 THE LIMPOPO BUSINESS SUPPORT AGENCY (LIBSA)**

The formation of the Limpopo Business Support Agency (LIBSA), is a result of the Provincial Growth and Development Strategy, which focused on exploiting opportunities in all the economic sectors for business development and promotion amongst existing, and aspiring entrepreneurs in the whole of Limpopo Province. Although the mandate of LIBSA is to focus mainly on the growth sectors, the scope of services to the business

community is far beyond the scope given the dynamic environment within which LIBSA operates (Limpopo Business, 2008: 126).

With an evolution of the strategies on an ongoing basis, LIBSA provides business support services to the broader business minded population by stimulating the spirit of entrepreneurship amongst women, the disabled and the youth. The contribution of this institution in Limpopo Province is summarised as:

- Reducing poverty;
- Stimulating economic growth;
- Creating wealth; and
- Entrenching entrepreneurial concepts, and practices in rural and economically disadvantaged communities (Limpopo Business, 2008: 126).

LIBSA provides easy access to essential business development services, including education, market access, and promotion to entrepreneurs who need support to realise their business dreams. This is done through the three main programmes, namely:

- The incubation programme;
- Cooperative development programme; and
- Training and development programme (Limpopo Business, 2008: 126).

LIBSA's training and development programme focuses mainly on the capacity building of enterprises (both cooperatives and SMMEs), that are registered with the organisation called "incubates". These enterprises are called incubates as according to LIBSA, they are placed into the incubator at an infant stage and assisted with different support programmes, until they are well matured, and sustainable according to sustainability criteria as set out by (Limpopo Business, 2008: 126).

### **2.6.3 LIMPOPO ECONOMIC DEVELOPMENT ENTERPRISE (LimDev)**

LimDev is a social and economic development enterprise, operating within the Limpopo province. LimDev delivers key services such as enterprise development, housing finance and assistance, and investment projects (Limpopo Business: 2008: 126).

LimDev is a juristic person established in terms of the Northern Transvaal Development Corporation Act No. 5 of 1994, and operates as a Provincial Government Business Enterprise, entitled to make profit, as listed in schedule 3D of the Public Finance Management Act, Act No. 1 of 1999 (as amended by Act No. 29 of 1999).

LimDev is mandated to provide development finance to SMMEs, to stimulate the growth and development of the Limpopo economy. Its vision is to be a pre-eminent catalyst and partner in economic growth and empowerment in Limpopo. It is on a mission of establishing and advancing a sustainable SMME sector through the provision, and facilitation of business and investment opportunities, by providing finance to our subsidiaries to facilitate:

- Industrial and economic development;
- Employment creation; and
- Accelerated BBBEE (Broad Based Black Economic Empowerment (Limpopo Business: 2008: 126).

#### **2.6.4 THE SMALL ENTERPRISE DEVELOPMENT AGENCY LIMPOPO (SEDA)**

SEDA is a government Agency which was established through the enactment of the National Small Business Act 29 of 2004, as amended. SEDA is a member of the DTI group, and has footprints in all provinces within South Africa. The mandate of SEDA in Limpopo is to implement the national government small business strategy in line with the DTI's Integrated Small Enterprise Development Strategy. Furthermore, SEDA should design, and implement a standard national and common delivery network that must uniformly apply throughout South Africa. Among others, SEDA is making it its business to support, promote and grow enterprises, with special focus on co-operative enterprises located in rural areas (Limpopo Business: 2008: 126).

## **2.9 SUMMARY**

The chapter illustrated literature on SMME development programmes. The background on SMMEs in the National government, Limpopo Province, and the local municipality were presented. There are government initiatives aimed at developing and promoting SMMEs so that they can contribute optimally to economic growth and create jobs.

The next chapter will outline the research methods used in the collection of data for the study. The data collection methods for the study will be outlined as well as the kind of instrument to be utilised in the collection of data.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

The aim of this chapter is to explain the research design and techniques used in the collection of data for the situation analysis of the SMMEs in Maruleng Municipality in the Limpopo Province.

Methodology is the theory of how research should be undertaken. According to Babbie and Mouton (2001:104), methods are techniques sufficiently general to be common to all sciences, or to a significant part of them. Thus, methods include such procedures as forming part of concepts and hypotheses, making observations and measurements, performing experiments, building models, and theories, providing explanations, and making predictions. The aim of the methodology; then, is to describe and analyze these methods, throwing light on their limitations and resources, clarifying their presuppositions and consequences.

#### **3.2. RESEARCH DESIGN**

The research methodology should be presented according to information regarding the research design, subjects, instruments or procedures used in a study. In designing research, one attempts to understand and grasp the basic logic of a research project.

Babbie and Mouton (2001:104), defines research design as a plan that will assist the researcher to conduct the research in order to solve the research problem. Research methodology, refers to the methods, techniques, and procedures that are employed in the process of implementing the research design or research plan. It can also be defined as the study of the logic underlying the implementation of the scientific approach to the study of reality.

The current study is a cross sectional, explanatory survey using both qualitative and quantitative data. The secondary data was collected through literature review and some documents from the local municipality while the primary data was collected through the use of questionnaires and interviews. A questionnaire was designed specifically for this study (see Appendix A).

### **3.3 POPULATION AND SAMPLE**

#### **3.3.1 TARGET POPULATION**

Babbie et al (2001:104), defines population as the full set from which a sample for research is taken. The target population of this study is all registered SMMEs in the Maruleng local municipality.

The target population for the current study were the SMMEs who are registered in the Maruleng Local Municipality, the officers working in supply chain in the provincial department in Maruleng sub region and the officials responsible for SMME development in the Local municipality.

All registered and SMMEs in the Maruleng Local Municipality were included as the overall target population for this study. On checking with database registration from the seven sector departments in the municipality as well as from the local municipality, a total of approximately three hundred and thirty one (331) SMMEs were identified which formed the target population.

#### **3.3.2 SAMPLING**

Sampling refers to the procedure by which a given number of subjects from a population are selected to represent that population. According to Babbie et al (2001:104), sampling is taking from any portion of a population or universe as representative of that population or universe.

There are approximately three hundred and thirty one (331) SMMEs in and around Maruleng municipality from which the researcher obtained a convenient sample that comprised of twenty per cent of the target population which is 60 SMMEs. All seven government sector department having SMMEs registered on their databases were selected for interview and one local municipality which means that 8 officials were interviewed.

### **3.4 DATA COLLECTION METHODS**

Data collection methods refer to the tools or equipments that are used by the researcher to collect data. There are different instruments that could be used to gather research information. The following methods will be discussed and employed in the collection of data, namely: questionnaire and interviews. There were two types of groups to collect information from; The first group comprised of government officials from different departments. The purpose of collecting data from this group was to gather information on the kind and the amount of support SMMEs receive from government departments. The second group was a sample of 60 SMMEs that was selected from the overall target population. The purpose of collecting data from this group was an attempt to answer the research questions as outlined in chapter one of this current study.

#### **3.4.1 INSTRUMENT FOR DATA COLLECTION**

##### **3.4.1.1 Questionnaire**

A questionnaire is a printed list of questions which respondents are asked to answer. A questionnaire was developed (Appendix A) and distributed to a sample of 60 SMMEs in the Maruleng municipality in the Limpopo Province. Both close-ended and open-ended questions were used to obtain data. The questionnaires were divided into the following sections:

- Bibliographic data;
- Knowledge of policies and regulations;
- Access to finance;
- Awareness and utilisation of Government sector departments support, Local government support, Private sector support;
- Capacity building; and

- Access to markets.

The questionnaire was designed in line with the aims and objectives of the study indicated in chapter one of the study. The questionnaires were completed by respondents to be utilised for data collection. The questionnaire consists of the following sections:

- Demographic information which analyses the respondents according to age, gender, marital status, educational background, the type of business they are involved in and the number of employees employed by those SMMEs and their annual turnover;
- Challenges faced by SMMEs which includes access to finance, financial and bookkeeping skills, business management skills as well as the marketing skills; and
- Awareness and knowledge of SMME supporting initiatives which includes awareness of policies and regulations, government support to SMMEs and the support from NGOs and private sector.

The researcher located the respondents to ask for their permission to participate in the study. Respondents were given questionnaires to complete and they were told not to submit their responses, and that there will be a follow up session where in clarity will be given where necessary after a period of one week.

#### **3.4.1.2 Interview.**

A document for interview guideline questions was developed (Appendix B) and face to face interview with government sector department officials were executed. The researcher called the respondents to request for their permission to participate in the study. The researcher issued out interview guide questions to respondents two weeks before the actual interview in order for them to acquaint themselves with the type of questions.

An interview guideline was issued to Government Sector Department officials in the supply chain. The researcher called the respondents to request for their permission to participate in the study. The researcher issued out interview guide questions to the

respondents two weeks before the actual interview in order for them to acquaint themselves with the type of questions.

### **3.4.2 Method of collecting Data**

The researcher located the respondents to ask for their permission to participate in the study. The respondents were personally given questionnaires to answer. They were then asked to wait for a follow up session which was a week later wherein further clarity was given face to face before finalising and handing them back to the researcher. The questionnaire was self - administered by the respondents which allowed them time to think about the questions and answers. Through the quantitative data that was collected using the instrument described, the researcher was able to draw conclusions.

An interview guide questions was also designed, and officers responsible for supply chain section from government departments, as well as officials from the local municipality were called to make an appointment with them. A question guide was handed over to them and then personally collected by the researcher after a period of one week. The qualitative data was collected with the same questionnaire through open ended questions which was analysed to complement the quantitative data.

The researcher chose survey, questionnaire, and interview as the methods of collecting information, in order to make an analysis of SMMEs in the local municipality, to investigate the type of support required for SMMEs to stay competitive and sustainable. These methods were relevant to meet the objectives and to answer the research questions. Semi-structured interview was conducted with government officials in the municipality. Interview guideline questions and questionnaires were developed and are attached as appendixes A and B. Answers were instantly recorded in a written format, i.e., notes were made during the interview.

### **3.5 DATA ANALYSIS**

One of the fundamental elements of qualitative research is to conduct a phenomenological analysis of the collected data. The researcher made use of the Statistical Package for Social Sciences (SPSS), to analyse and interpret the data. Excel was also used for data analysis. At the end the researcher was able to produce charts and tables from which summaries were drawn. In addition the findings of the open ended questions of the questionnaires were matched against data collected in a quantitative manner, coded and common themes looked at.

### **3.6 SUMMARY**

This was an illustration of the research method utilised in the process of collecting data for the current study. The data collection methods were discussed, as well as the data analysis procedures engaged.

The next chapter will indicate the analysis of data, and the interpretation of that collected data for the study. The analysed data will be presented in the form of tables, charts and graphs.

## CHAPTER 4

### RESULTS OF THE STUDY

#### 4.1. INTRODUCTION

In this chapter the data collected on SMMEs in Maruleng Local Municipality will be presented. The chapter will indicate the identified SMMEs in the Maruleng local municipality who are involved in registered business ventures. It will further indicate the type of businesses they are engaged in. The study will also check whether these SMMEs are aware of government initiatives available to support, and improve them and if they are using those available initiatives to their advantage or not. Data was analysed using frequency tables as well as common themes.

#### 4.2. RESEARCH RESULTS

##### 4.2.1 Demographic Information

During the current study three hundred and thirty one (331) SMMEs were identified from which a sample of sixty (60) SMMEs, which comprise 20% of the identified SMMEs, was randomly selected. All the 60 SMMEs, responded to the questionnaires which were sent to them.

##### 4.2.1.1 The age group of respondents

The following table indicates the results obtained from the respondents concerning their age group.

**Table 4.1: Analysis of respondents according to age.**

<b>Category</b>	<b>Age range</b>	<b>Number of respondents</b>	<b>Percentage</b>
Youths	18 -35	25	42%
Adults	36 - 60	31	52%
Pensioners	61+	4	6%
<b>Total</b>		<b>60</b>	<b>100%</b>

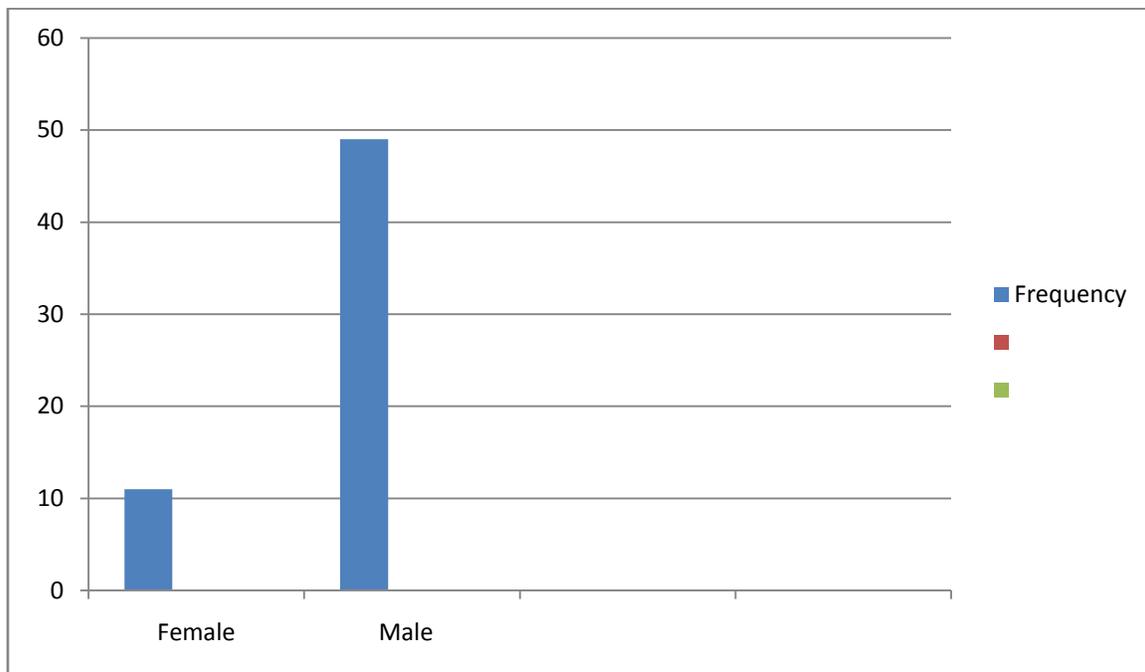
Table 4.1 indicates that 42% of the respondents are youths and 52% are adults while only 4% are pensioners. An indication that the majority of SMMEs in Maruleng local municipality are mostly adults between 36 to 60 years of age followed, by youth aged between 18 to 35.

#### 4.2.1.2 Gender of SMME owners

The following table 4.2 indicates the results obtained from the respondents according to their gender during the data collection process of the study.

**Table 4.2: Analysis of respondents according to their gender.**

Gender	Frequency	Percentage
Female	11	18%
Male	49	82%
<b>Total</b>	<b>60</b>	<b>100%</b>



**Figure 4.1: Analysis of respondents according to their gender.**

Table 4.2 indicates that 82% of the respondents are male while only 18% of the respondents are female. An indication that there might have been some bias in the selection of the sample for the study or an indication that not many rural women are entering the SMME sector. This can also be due to the fact that women remain at home to take care of families, while their male counterparts go to bigger towns looking for employment, and perhaps when employment fails they find other ways of supporting their families. The respondents indicated that females are not taking advantage of the support services available for SMME development and promotion programmes.

#### 4.2.1.3 Marital status

The following table 4.3 indicates the results obtained from the respondents about their marital status.

**Table 4.3: Analysis of the respondents according to their marital status.**

<b>Marital status`</b>	<b>Frequency</b>	<b>Percentage</b>
Single	11	18%
Married	26	43%
Divorced	18	31%
Widowed	5	8%
<b>Total</b>	<b>60</b>	<b>100%</b>

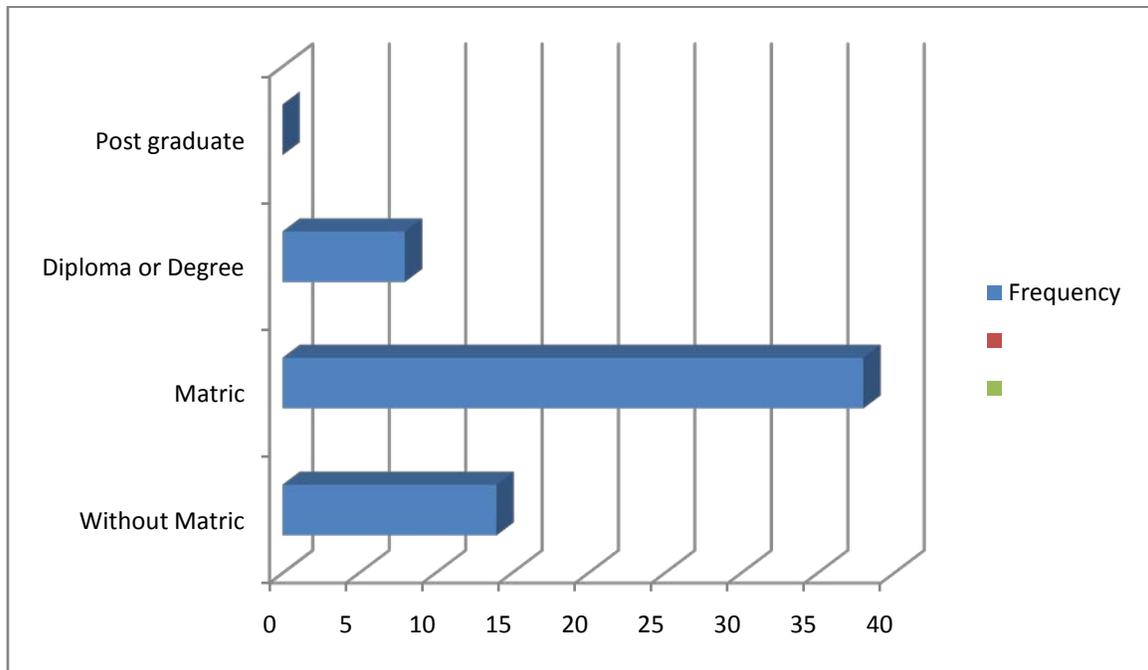
The above table indicates that 43 percent of the respondents are married, followed by 31 percent of those who are divorced, and 18 percent of those who are single, and 8 percent of those who are widowed. The results indicates a high number of married, and divorced people who are main breadwinners showing that they may have started their business to survive, and to take care of their families.

#### 4.2.1.4 Educational Background

The following table 4.4 indicates the results obtained from the respondents concerning their educational qualifications.

**Table 4.4: Analysis of the respondents according to their educational qualification.**

Qualification	Frequency	Percentage
Without Matric	14	23%
Matric	38	63%
Diploma or Degree	8	14%
Post graduate	0	0
<b>Total</b>	<b>60</b>	<b>100%</b>



**Figure 4.2: Analysis of the respondents according to their educational qualification**

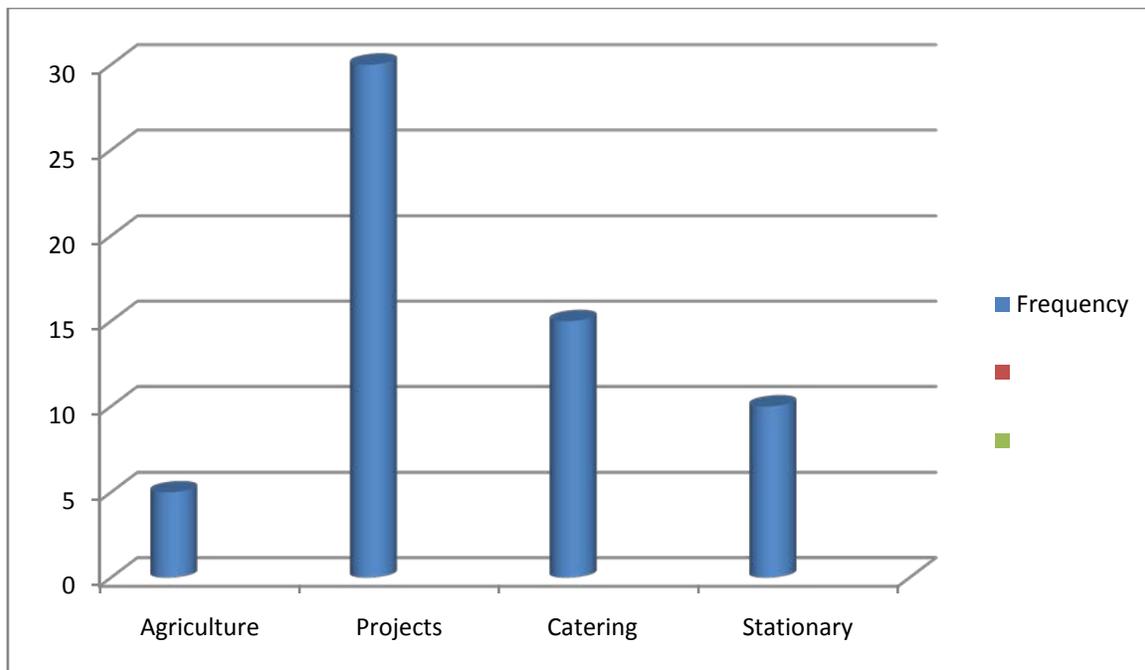
Table 4.4 indicates that a large percentage of respondents (86%) have only matric certificate and lower. The worrying factor is that 23% of the respondents have no matric, which may mean low educational level, and thus a higher possibility of not understanding policies relating to SMMEs as well as how financial institutions operates.

#### 4.2.1.5 Type of business

The following table 4.5 indicates the types of business the respondents were involved in.

**Table 4.5: Types of businesses**

SMME sector	Frequency	Percentage
Agriculture	5	8%
Projects, Construction and maintenance	30	50%
Catering	15	25%
Stationary	10	17%
<b>Total</b>	<b>60</b>	<b>100%</b>



**Figure 4.3: Analysis of the respondents according types of businesses they are involved in.**

The above figure 4.3 indicates that 50% of the respondents are involved in projects, construction, and maintenance with 25% doing catering followed by 17% in stationery and only 8% for agricultural products. In terms of construction respondents get tenders from the department of roads to construct roads. In the case of maintenance, they do road maintenance activities on the road as a form of projects; whereas in agriculture SMMEs are trained by the department of agriculture, and they provide them with a land to practise on and they sell the products they get from the land. In the case of catering SMMEs are requested by government departments to cater when they have events. For stationery they supply office stationery to departments.

#### 4.2.1.6 How long the business has been in operation

The following table 4.6 indicates the results obtained from the respondents concerning the number of years their SMME has been operating.

**Table 4.6: Number of years SMME has been operating.**

<b>Duration in years</b>	<b>Frequency</b>	<b>Percentage</b>
1 - 5	9	15%
6 - 10	13	22%
11 - 15	29	48%
16+	9	15%
<b>Total</b>	<b>60</b>	<b>100%</b>

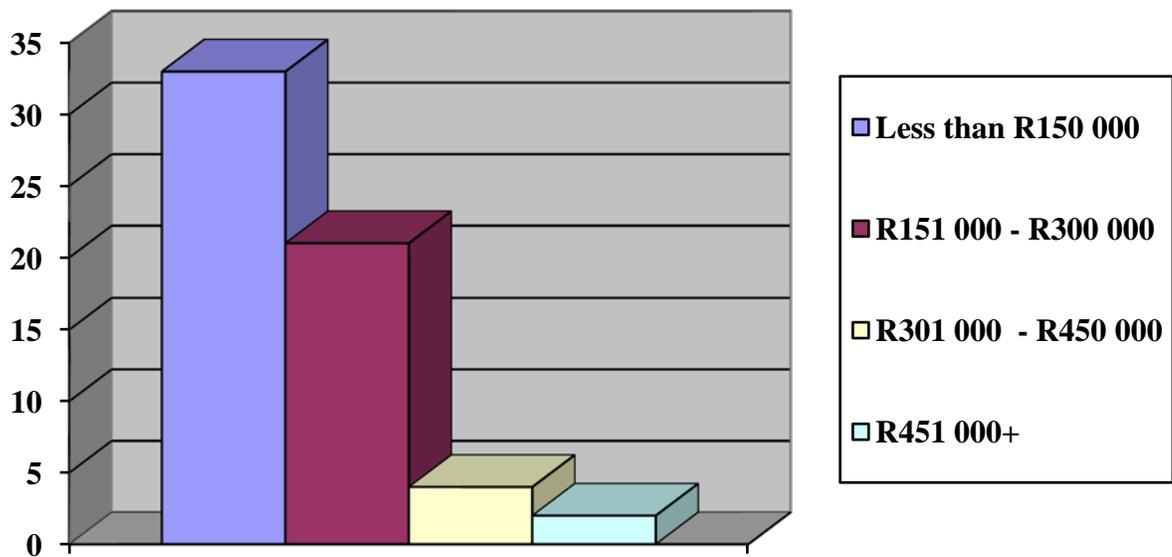
Table 4.6 above indicated that the majority, 63, 3% of SMMEs have been operating for eleven years and more, while 21.6% of respondents have been in business for six to ten years. This may be an indication of their sustainability. From this data collected it is evident that 85 % of SMMEs mushroomed after the new dispensation in 1994 as they are 15 years and younger.

#### 4.2.1.7 SMME turnover per annum

The following table indicates the results obtained from the respondents concerning the annual turnover of their SMMEs.

**Table 4.7: Analysis of the respondents on their SMME turnover per annum.**

<b>Annual turnover</b>	<b>Frequency</b>	<b>percentage</b>
R0 - R150 000	33	55%
R151 000 - R300 000	21	35%
R301 000 - R450 000	4	7%
R451 000+	2	3%
<b>Total</b>	<b>60</b>	<b>100%</b>



**Figure 4.4: Annual turnover for the SMME**

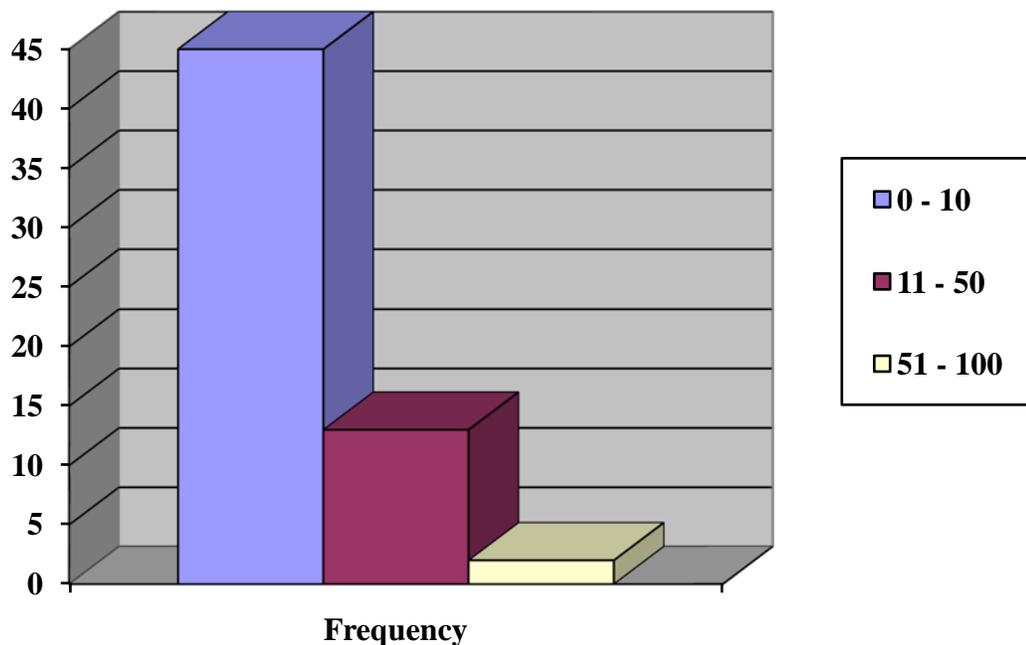
According to the Integrated Small Enterprise Development Strategy 2004 - 2014, turnover of less than R450 000 per annum is micro or survivalist. The above table 4.6 and figure 4.4 indicate that 97% of respondents are still micro and survivalist. As a result of the small annual turnover, SMMEs are not able to contribute much towards the economic growth of these projects.

#### 4.2.1.8 Number of employees per SMMEs

The following table indicates the results obtained from the respondents concerning the number of employees, employed by the SMMEs during the data collection process of the study.

**Table 4.8: Number of employees per SMMEs.**

Number of employees	Frequency	Percentage
0 - 10	45	75%
11 - 50	13	22%
51 - 100	2	3%
<b>TOTAL</b>	<b>60</b>	<b>100%</b>



**Figure 4.5: Number of employees employed by SMMEs.**

The above table and figure indicates that 75% of the respondents are micro enterprises with a number of employees ranging from zero to ten employees. Further analysis of their responses, indicated that about 51% of the 75% do not have any permanent employees but only appoint some when they require a service to be rendered on an ad-hoc basis.

According to this study 22% of the respondents, are classified as small enterprises on the basis that they have 11 to 50 employees on their payroll every month. According to the respondents only 3% can be classified as medium-sized enterprises based on the fact that they have more than 50 employees. This is an indication that SMMEs in Maruleng, show very little potential for growth as the majority of them have been in operation for more than five years but are still regarded as survivalist with nil or few employees on their monthly payroll. In addition, SMMEs in Maruleng, do not contribute much to development and economic growth as they have very few people in their employment.

The study further suggests that, the growth of SMMEs is very slow. It is envisaged that SMMEs should graduate from micro enterprise to small business which will allow a constant balance within the system. When SMMEs are not growing, they create fewer opportunities for new SMMEs to enter the market. This potentially results in fewer individuals being able to participate in the sector, and a greater chance of these individuals being unemployed and thus impoverished.

## **4.2.2 CHALLENGES FACED**

### **4.2.2.1 Access to finance**

About 90% of the respondents revealed that they never received any financial assistance from financial institutions. The concern raised was that access to finance is one of the largest barriers for entry to SMMEs. The key reasons identified by the respondents were the following:

- Limited or no collateral or assets;
- Unrealistic cash flows;
- High cost of finance charges;
- Poor credit rating;
- Lack of track record.;
- Poor perception of SMME market by funding institutions; and
- The unavailability of financial information.

The restriction of access to finances is a primary barrier to entry for the establishment and growth of SMMEs. This barrier also stops people from seeking employment in this sector leading to limited access to this sector. Engagement of micro finance industry in the various SMME initiatives appears to be low or non-existent.

#### **4.2.2.2 Financial and bookkeeping skills**

About 90% of the respondents indicated that they are not in possession of any skill in terms of financial management and bookkeeping. They do not have the expertise to run their day to day finances. As a result; they cannot come up with a business plan which can motivate the financial institutions to offer them assistance. The 10% which indicated that they do have bookkeepers with some skill to keep their financial records and balance their books also indicated that they never managed to secure a loan from financial institutions for their businesses due to their credit ratings.

According to this study most of the SMMEs lack skill to manage the day to day operations of their businesses. They lack financial skills especially to run the finances of their businesses.. A common trend noted is the inability of SMMEs to properly understand finances and cash flows which often results in the SMME overestimating or underestimating the funds required from funding institutions.

#### **4.2.2.3 Business Management Skills**

About 90% of the respondents indicated that they lack business management skills. It was evident that they are not able to draw up their business plan, in a way that they can make an inventory control, and be able to draw their bill of quantity which will assist them in making estimates for their budget needs. Business plan is regarded as the point of departure for any business to survive. The issue of them not being able to plan their businesses in advance, and write proper business plans, further complicates their ability to present themselves to potential creditors. Poor management practices like poor stock control, cash flow budgeting, and buying habits contribute to unsustainable business practices.

#### **4.2.2.4 Marketing Management Skills**

About 80% of the respondents revealed that they do not have any marketing expertise, and that they are not able to identify markets available for their products. They do not advertise, or promote their products, and mostly rely on word of mouth. As they do not have some skill they are not able to brand their products to be unique from those of the competitors. They also cannot do market research to see which markets need their services.

#### **4.2.2.5 Infrastructure**

About 82% of the respondents revealed that they do not have any form of an infrastructure. They do not have offices to operate from, and that they do not have a telephone line or internet access. They depend entirely on their mobile cell phones. They do not have a fax line where in they can receive documents with ease. About 54% of the respondents indicated that they do not have any mode of transport, and they depend on public transport which is difficult for them to access information with ease as offices are distances apart. The same 82% of the respondents without offices also revealed that they do not have computers or laptops in their custody and they rely on internet cafe to write documents, access emails and the internet.

### **4.2.3 AWARENESS AND KNOWLEDGE OF SMME SUPPORTING INITIATIVES**

#### **4.2.3.1 Policies and regulations**

There are a number of legislative policy frameworks adopted to develop, improve, and promote small business growth in South Africa, and create a conducive environment for SMMES. Policy frameworks with relevance to SMMES include:

- The Integrated Small Enterprise Development Strategy;
- The micro economic reform strategy;
- The poverty alleviation strategy;
- The BEE strategy;
- The local economic development strategy; and
- The provincial growth and development strategy.

Legislation includes:

- The National Small Business Act;
- The Co-operatives Act; and
- The Companies Act.

Regulation and administrative procedures include:

- Company regulations;
- Tax regulations;
- Intellectual-property regulations;
- Procurement regulations; and
- Trade administration.

According to the current study, 70% of the SMMEs are not aware of policies, and regulations regulating the promotion of SMMEs. The 30% who are aware of the policies are not able to utilise them as they have a problem with comprehending the information because of language difficulty. They also reported that they do not know of any formal structure that can help them to understand those policies.

About 80% of the respondents also stated that tendering documents are also written in English, which they have difficulty understanding. This may be linked with the number of respondents in the study who have no matric. These make it difficult for them to complete forms and they end up being compelled to hire professionals or others who are too expensive. They further argued that tenders are awarded to the same SMMEs on a regular basis. These may perhaps be those who already understand the procedure, and are confident to tender. According to the current study the following issues with regards to tender and BEE procurement were raised:

- Tender processes are too restrictive and heavily based on price and do not consider other aspects like locality;
- Documents which are complex and not easy to understand and interpret; and
- Respondents experience difficulty in completing the application forms in the English language.

Consequently many of the SMMEs are unable to participate in tenders and BEE procurement processes. This results in SMMEs being excluded from economic participation in allocation of tenders and BEE procurement opportunities.

According to this study, it is quite evident that while extensive National, Provincial and Local Government policies for SMME development exist, their level of implementation is still at stake. The sample interviewed showed that the SMME participants are not aware of these policies. The benefit of having a thriving SMME sector which includes job creation and economic development will not be achieved if the implementation of policy related to SMMEs are not defined or acted upon effectively. The officers interviewed from the government department indicated that the ignorance is on the part of the SMMEs themselves as the government departments are doing everything possible to make them accessible.

From the current study, ensuring compliance to various laws, and regulations such as, taxation is an extremely lengthy, unclear, and onerous task for these emerging SMMEs. Although they do not understand these laws and regulations non compliance to laws and regulations will result in punitive measures being placed on them. This punishment will negatively affect their business operations and ultimately affect their sustainability.

According to the Integrated Small Business Development Strategy in South Africa (2003: 22), a conventional taken by many governments to the development of small businesses has been to provide financial and business development services, either directly through their own agencies, or through intermediary agencies that may be closer to their target market. There are three common roles that describe the relationship government has with SMMEs which are:

- Government as regulator that design and implement laws and regulations that govern the activities of SMMEs;
- Government as a facilitator to provide an environment that is conducive to business promotion and bring key stakeholders together in the initiation and

support of SMMEs development efforts, by mobilising civic, private and public sector resources; and

- Government as a promoter that intervenes directly to small enterprise development projects and processes and makes them explicit programmes of government.

The government must facilitate joint action by key stakeholders in the delivery of financial and business development services, and review policies, and laws to ensure that they are responsive to SMME experiences, making compliance easier, and more beneficial for SMMES. Local government must put in place the necessary infrastructure and legal and regulatory environment for SMME development.

#### **4.2.3.2 Government support to SMMEs.**

100% of the respondents are not aware of the government initiatives available to provide assistance to SMMEs through sector departments and as a result are not utilising them. According to the Limpopo SMME Strategy (2006: 68), the Department of Economic Development Environment and Tourism in Limpopo Province has put in place institutions to provide programmes directly to SMMEs catering for both financial and non-financial resource requirements which include the following:

##### **(a) Limpopo Business Support Agency (LIBSA)**

LIBSA is a Section 21 company and was established in 1999 by the Provincial Department of Economic Development, Environment and Tourism to ensure viability of small, medium, and micro enterprises. LIBSA's mandate is to provide non-financial support services to the SMMEs in Limpopo Province. Its core functions are crucial to reduce poverty, and create employment opportunities in Limpopo Province (Limpopo SMME Strategy, 2006: 68).

The SMMEs in the municipality seem not to be having knowledge of how to access support services offered by LIBSA. They are only aware of the LIBSA offices at the district level in Mopani in Giyani which is approximately 134 kilometres away from the municipality. They stated that they only visit LIBSA when they want to register their new businesses. The local municipality only have pamphlets of LIBSA in their offices which are also not accessible to SMMEs as the offices are located about 78 kilometres from the villages and public transport is a problem.

**(b) Limpopo Manufacturing Advisory Centre (LIMAC)**

Limpopo Manufacturing Advisory Centre's mandate is to: "improve the competitiveness and growth of South Africa's small and medium sized manufacturing firms; Its clients are small, and medium-sized manufacturing enterprises within the region". The organisation assists its clients to have ready access to high quality business, and technical support services to improve their productivity and enhance their competitiveness. The organisation addresses the following SMME needs:

- Help in diagnosing the SMME problems;
- Increase their productivity and competitiveness;
- Improve access to technologies;
- Access to better business management practices;
- Access to markets and better marketing techniques;
- Better human skills development of their workforce;
- Improve access to finance; and
- Increase awareness of available assistance resources (Limpopo SMME Strategy, 2006: 68).

**(c) Limpopo Economic Development Enterprise (LimDEV)**

The mandate of LimDEV as contained in the Northern Province Development Corporation Act and reflected in its mission is to "establish and advance a sustainable SMME sector through the provision, and facilitation of business, and investment opportunities".

#### **4.2.3.3 Local Government Support to SMMEs**

The Municipal SMME programmes are often encapsulated in their Integrated Development Programmes (IDPs). Most municipalities focus on Local Economic Development Programmes. The municipalities are aware of their mandate to develop, and implement SMME programmes, but the common problem amongst most municipalities is capacity and access to funding.

Provincial governments are ideally placed to fulfil a co-ordinating, gap filling, and bridge building role in the supply of support services. However; their funding resources are extremely limited. They must play a critical role in the establishment and seed funding of provincial development agencies, or corporations which are active in the SMME support sphere. Sector supports in certain departments like the department of roads and transport, agriculture, health and, social development was noted although many intervention strategies used are not formalised or structured.

All sector departments do not have a budget, and do not procure to an extent which they can visibly promote SMME development or BEE procurement. The department of roads and transport was acknowledged by 30% of SMMEs as having provided procurement through the Extended Public Works Programme (EPWP) projects, for roads maintenance activities in the municipality since 2008. The problem is that there is no clear policy on what percent of projects done in Maruleng Municipality should be tendered by SMMEs from the local municipality.

The department of Health is having a procurement responsibility at the hospital and 25% of the respondents, showed that they used to get tenders from the department. In the department of Agriculture 11% of the respondents showed that they receive assistance in agricultural farming from the department. The department train them on farming, and award them plots to practise their acquired skills.

About 100 % of the respondents indicated that they are not aware of opportunities available from the municipality to promote and develop SMMEs. According to this study, 80% of the respondents complained about the difficulty, and long procedure they undergo when acquiring land to establish their businesses. They further argued, that there are no proper structures or forums responsible to facilitate their application to access land and infrastructure.

According to the current study, it appears to be a perception that the value to be added to the municipality by the SMMEs seems not to be seen, or appreciated by various constituents in the municipality. This perception results in a lower priority being given to SMME issues in addition to inadequate resources applied to the development, and growth of this sector. Lack of coordination and interaction of the various SMME related activities in the municipality is one of the perceived critical barriers limiting the development of SMMEs.

According to the respondents in this study the municipalities do not coordinate, and mobilise the public about the value of the SMMEs and as a result, the SMME sector is viewed as the last choice by the youth, and entrants to the job market. In addition, the economic value of SMMEs is not well understood. Many of the potential entrants to the sector are turned away, because of its negative image. This will also restrict a number of people engaged in this sector, and reduce the number of high calibre innovative people that want to join this sector.

The resources and emphasis applied by the municipality in the development of SMMEs are considered by about 80% of the respondents as not reflecting the true potential of the sector. It further appeared that the role of SMMEs is underrated from a number of perspectives. This is in terms of the potential economic value, and in terms of the fulfilment of the objective of the municipality and the national government to improve the quality of life of all its citizens by creating economic activity and employment.

#### **4.2.3.4 Non-Governmental Organisations (NGO) and Private Sector Support to SMMEs**

According to the current study 90 per cent of the respondents revealed that they are not aware of opportunities to develop and promote SMMEs from Non Government Organisations (NGOs). The ten per cent of the respondents which indicated that they are aware of those benefits available for them from NGOs indicated that they never utilise them due to the lengthy and complicated process of accessing them.

### **4.3 SUMMARY OF THE RESULTS**

The chapter presented the findings based on the current study. It was evident that the SMMEs in the Maruleng local municipality are experiencing challenges.

#### **4.3.1 Demographics**

- A higher percentage of the respondents were adults older than 36 years of age, and younger than 60;
- Eighty two (82%) of the respondents were men;
- (43%) of them are married, while 31% are divorcees, 18% single and the widowed being the least at 8%;
- (86%) have only matric and lower;
- 50% of the respondents are involved in projects, construction, and maintenance followed by 25% of catering, 17% for stationery and 8% in Agriculture;
- Only 15% of the respondents started business before the democratic era 1994 while 85% of the respondents mushroomed after the democratic era;
- A higher percentage of 97% of the respondents are micro enterprises, or survivalist as they are making a turnover of R450 000 per annum or less; and
- A high percentage of 97% only employ 0 to 50 employees, also supporting the fact that they are mostly survivalist in nature.

#### **4.3.2 Challenges faced**

- About 90% of the respondents revealed that they never received any financial assistance from financial institutions,
- The same 90% revealed lack of skill in financial management and bookkeeping,
- The same percentage indicated that they lack business management skills, and
- About 80% of respondents indicated that they do not have any marketing skill.

#### **4.3.3 Awareness and knowledge of SMME supporting initiatives.**

- Seventy percent (70%) of the respondents indicated that they are not aware of policies and regulations regulating the promotion of SMMEs.
- All the respondents are not aware of government initiatives available to assist SMMEs.

#### **4.3.4 Local government support of SMMES**

- About 100% of the respondents indicated that, they are not aware of opportunities available from the municipality to promote and develop SMMES.

#### **4.3.5 NGO and private sector support.**

- A high percentage of 90% of the respondents revealed that they are not aware of opportunities to develop and promote SMMEs from Non Government Organisations.

In summary it is evident that SMMEs in Maruleng are not in possession of the necessary business management skills to run their daily business activities. They lack the financial management skills, to be able to account for their financial records. Despite the government initiatives to assist SMMEs in the country the SMMEs in Maruleng still find it difficult to access, and utilise those services.

The next chapter will make conclusion on the study, and come up with recommendations to assist the SMMEs in the Maruleng Local Municipality in order for them to remain sustainable.

## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This chapter discusses the conclusion deduced from the results based on data collected in the current study. Recommendations for future research, and further SMME development are presented as well as limitations of the study. From the research findings, one could deduce that SMMEs in Maruleng Municipality in the Limpopo Province, are not stable, sustainable, or rather viable. There are no systems put in place to ensure that the SMMEs in the municipality continue to operate, and remain stable. The government has come up with a number of initiatives to develop SMMEs globally but the problem stays with the ways of implementing those initiatives. The local government must play a critical role to ensure that the strategies aimed at SMME development, and promotion are taken into consideration to realise the government's goal of having sustainable SMMEs which contribute towards economic growth, and create employment.

#### **5.2 CONCLUSION**

##### **5.2.1 Demographic Information**

According to the study an inference was made that the youth and women in the Maruleng municipality are not taking an advantage of the support available for SMME development, and promotion as initiated by the democratic government of South Africa. The male adults are still in the majority as compared to women and youth.

The SMMEs in Maruleng municipality have a problem of coming up with new ideas, and creative mind to come up with new products, or services which are not available in the municipality. They are not entrepreneurial as they depend mostly on government tenders and procurement, and are not able to produce, and manufacture their own products. According to responses there has been quite a minimal level of innovation. New entrants into the sector see SMME as a last resort, and do not come up with creative ideas to start with new products but model the existing products.

This will result in the saturation of the SMME sector at entry level, and will impact negatively on the sector as it will force a large number of these businesses into a marginal existence as there will be too many of them doing the same thing. This is clearly evident in some sectors like selling of fruit, and vegetables, and liquor.

According to this study SMMEs in Maruleng municipality are growing at a very low rate as their annual turnover on registration, and currently do not show any improvement at all. It is only three percent of the SMMEs which show a potential for growth. As a result of the saturated turnover they are not able to employ permanent employees on their payroll, and their income is only meant to support their families. Due to the little turnover and the few employees they do not contribute much to the economic growth and are also not able to create employment for the community. There is high unemployment rate in the municipal area, and those employed are farm workers in the neighbouring farms.

### **5.2.2 CHALLENGES FACED BY SMMEs**

#### **(a) Access to finance**

According to the current study, a conclusion is made that the SMMEs in Maruleng municipality are not able to access finances from the financial institutions because of the lack of financial skills to draw up their budget as well as business plans. These skills will help them to indicate their cash flows, which will motivate the financial institutions to fund their businesses. The respondents also do not have collateral when applying for finance. Not having finance to run their own business also means that their chances of growing are much slimmer.

#### **(b) Financial and bookkeeping skills**

The present study indicated that the SMMEs in the Maruleng municipality do not have the necessary skills to keep their books to an extent that they can have certified financial statements for their businesses. The government support services to provide the necessary skills are available but simply because of poor coordination from the government they are not able to access them.

### **(c) Business Management Skills**

The SMMEs in Maruleng local municipality lack the basic business management skills because, they are not able to draw their own business plans. They are not able to draw their own budget, and as such it is difficult for them to approach assistance even if they are aware of it. They also do not keep permanent employees; something that deprive them on improvement as they will need to train employees all the time.

### **(d) Marketing management skills.**

According to the study SMMEs in the municipality face a challenge of not being able to look out for market for their own goods and services. They are not able to brand their products, and as such being labelled as delivering goods, and services of a poor quality. The stigma of delivering poor quality products tarnishes their image to an extent that they are not given tenders by the government.

### **(e) Infrastructure**

According to the current study SMMEs in the Maruleng municipality are not technologically current. They do not have office structure. They do not have a telephone line and a fax line; they are dependent on the cell phones. Most of the SMMEs do not have transport to run their day to day business activities. SMMEs in Maruleng do not have a computer to process their documents with. They are not able to access internet, and emails.

## **5.2.3 POLICIES AND REGULATIONS**

Policies and regulations are put in place by the government to create a conducive environment for SMMEs to function effectively. The local government has got three roles to play in order to implement the policies and strategies aimed at developing, and promoting SMMEs in the country. The government must act as a regulator regarding the regulations for SMMEs and as a facilitator to facilitate the available strategies available for SMME development, and promotion. The government must monitor the implementation of the initiatives, initiated by the government.

According to this study policies and regulations are not well understood by the respondents. They perceive them as poorly administered, and rather poorly coordinated which leaves SMMEs being frustrated, and not having ways on how they can be assisted. The majority of SMMEs are not VAT registered, and the only compliance is in taxation because in order for them to be able to register in the government databases they should have tax clearance certificates.

According to the current study, the issue of policy co-ordination, which is policy creation, and policy enforcement; do not appear to be working together. This problem creates ineffective implementation of laws, regulations, and policies as SMMEs are not aware of them. For purposes of proper planning, implementation, reporting, monitoring, and review of the impact of the development programmes of Government, there is a definite need for up-to-date information on business activities, trends, and progress made.

## **5.2.4 AWARENESS OF SMME SUPPORT INITIATIVES**

### **5.2.3.1 Government**

According to the Limpopo SMME Strategy (2006: 68), the Department of Economic Development Environment and Tourism in Limpopo Province has put in place institutions to provide programmes directly related to SMME development and promotion. These cater for both financial and non-financial resource requirements.

It can then be concluded that the SMMEs in Maruleng municipality are not aware of initiatives the government has initiated for SMME development. Those who are aware of the available initiatives are not able to access them, and utilise them for their own advantage, because of economic illiteracy, and the fact that from the list of institutions listed in chapter four of this study, they know only of LIBSA which is situated at a distance of approximately 134 kilometres from the municipality. The local municipality is not aware of the value that can be added by the local SMMEs if given the necessary support. As a result the SMMEs in Maruleng municipality are not growing to graduate from survivalist to become small enterprise and grow further into medium sized businesses.

### **5.2.3.2 NGO and Private Sector**

According to the study it was evident that the SMMEs in Maruleng municipality are not utilising the support services available for them from the private sector as well as from non-governmental organisations. The fact that private sector support is coordinated through the government, it is not possible for SMMEs to access private sector support, since it is not possible for them to access government support.

## **5.3 RECOMMENDATIONS**

### **5.3.1 SMME PROFILE.**

From SMME profile an inference was made that SMMEs in Maruleng are not entrepreneurs based on the characteristics of an entrepreneurship. They do not have the entrepreneurial skills, and they do not take risks. Initiatives should be taken to ensure that on making an application to register a business, applicants are guided on how to become entrepreneurial. They should be encouraged to put up an office structure which has become one of the qualifications to become registered in the government departments' databases. This will help them to enhance their image, especially in the eyes of their potential customers. The SMMEs should be compelled to have a physical address with an office with a telephone line and fax line to avoid mobile offices.

### **5.3.2 DEMOGRAPHIC INFORMATION**

The local municipality should consider the implementation of an active learning, and entrepreneurship skill development programme at secondary school level which will facilitate the germination of new business ideas. There must be a better coordination of SMME activities, to encourage women, and youth to take advantage of the available opportunities for SMME development and promotion.

The municipality must create an SMME Desk which will serve as an incubator for existing SMMEs as well as new entrants in the sector. The SMME Desk should comprise of all stakeholders in the SMME sector including the sector departments, SMMEs, private organisations engaged in the development of SMMEs, the local municipality as well as members of the community.

The SMME Desk should coordinate all the SMME activities. The SMME Desk should be coordinated, and managed by the local municipality, and house various stakeholders who are involved in the development and management of SMMES. The municipality must house the Desk, and provide personnel to work on a full time bases to coordinate SMME activities. The business unit from the municipality should take the responsibility of the SMME Desk in terms of all the required resources in order for the municipality to contribute towards SMME development and promotion.

Through the SMME Desk, SMMEs entering the market should be guided to look for innovation by evaluating their existing product and service offerings. SMMEs should be stimulated to grow via the use of incentives, and awards which will popularise the existence of the SMME Desk, and increase trade in other less traded sectors. The creation of the learning youth programme at high schools, could also facilitate this approach in the long term, and will attempt to manage the problem at the entry point as opposed to the exit.

There should be a proper coordination of the existing policy together with the benefits of policy implementation which needs to be done by all stakeholders including departments which are engaged in the implementation of various policies and regulations for SMME operations, and development and to assist SMMEs to meet regulatory requirements. Accountability for policy creation and implementation should reside with the SMME Desk. Compliance based tools should be developed to ensure that existing policies are adequately implemented. The monitoring role should be ongoing and could also form part of the internal audit process. The internal audit should come up with statistics with regard to non compliance to laws and regulations by SMMES.

The SMME Desk should support businesses across the spectrum from survivalist to the well established SMMES. Queries made to the SMME Desk should be tracked, and monitored to ensure that effective follow up is executed.

Urgent focus needs to be given to the better provision of support services to SMMEs in order to assist them to comply with various laws and regulations which should include:-

- Increasing the awareness of the available support structures and programs;
- Coordinating the activities of various organisations that are involved in SMME support to improve their effectiveness; and
- Improving communication between various organisations involved in SMME support; Consideration should be given to engaging the various SMME stakeholders at a broad based forum.

The creation of the SMME Desk would be a long term solution in improving SMME support. A well coordinated support centre would be the foundation in improving, and increasing service delivery support to SMMEs. The municipality should also review the resource allocation to SMMEs. This will assist SMMEs in selling healthy products to the community, and also create a healthy environment to SMMEs. Policy coordination needs to be reviewed to increase transparency, and to allow management and enforcement in working together to implementing policies, and meeting its objectives.

### **5.3.3 CHALLENGES**

The SMME Desk should compose a committee which will be responsible for the assistance of SMMEs to be able to draw up business plans which will be enough to be motivated by financial institutions to Khula to facilitate their financial needs. There must be a way in which Khula can interact directly with SMMEs rather than be an intermediary. South Africa must also have SMME banks like other countries.

The SMME Desk should improve skill levels of SMMEs. This should be done through evaluating the existing skills development initiatives that can be provided by the municipality, sector departments and external organisations. This would involve that all the relevant stakeholders that are engaged in this field to be fully understood, and well documented with their responsibilities with those of their agencies. A gap analysis had to be performed, and the identified gaps should be addressed in terms of intervention strategies.

The development of a detailed compliance monitoring program together with periodic compliance visits would allow for meaningful measurement of the levels of skills. SMMEs should be trained in basic business management skills so that they can be able to run their day to day business processes. SMMEs should be trained to account for their finances. They should also be trained to be able to identify an opportunity, grab it and be able to utilise it to their advantage.

#### **5.3.4 SMME SUPPORT INITIATIVES/SERVICES**

According to the Integrated Small Business Development Strategy in South Africa (2003: 24), provincial governments are ideally placed to fulfil a co-ordinating, gap filling, and bridge building role in the supply of support services. Although their funding resources are extremely limited they can however play a critical role in the establishment, and seed funding of provincial or regional development agencies or corporations which are active in the SMME support sphere.

The level of SMME and BEE participation in the sector departments should be reviewed, and evaluated. The review should include the formalisation of strategies in implementing preferential procurement processes. The strategy should have a detailed action plan with possible targets to be met regarding locality, disability, women, and youth. Mentorship and business development programmes should be jointly identified, and undertaken to increase the capacity of the identified SMMEs.

The SMME Desk should play a role in engaging established businesses to utilise SMMEs and BEE products, and services in order to create business linkages. The SMME Desk should play a role in establishing a quality control measure for the sector which would provide a level of assurance to potential buyers of products and services who could potentially utilise SMMEs and assist in removing the stigma that exists, that SMMEs cannot add value to the value chain. The SMME Desk should facilitate the context of understanding the value added by SMMEs to both communities, and economic base sector. Knowledge on key performance indicators, and strategies should be shared and workshops should be facilitated.

The desk should investigate the central coordination of all SMME development activities. The central coordination will allow SMMEs to lobby with one loud voice around legislative issues that hinders their growth, and development taking consideration of educational level of SMMEs. Current tender processes needs to be simplified, and be more transparent in nature. SMME participation in procurement should be improved. The procurement procedure should be aimed at providing support to SMMEs development. The weighting allocated to pricing should be reviewed and more points given to locality. Consideration should be given to the conversion of tender documents and BEE procurement documents into more official languages or perhaps into simpler plain English and non technical language.

The SMME Desk should undertake a proactive approach in order to market the SMME sector through:-

- Building a unique SMME brand;
- Advertise the roles and responsibilities of the various organisations participating in SMME assistant and development;
- Promoting SMME opportunities, and benefits using a medium that is understandable by all in the sector; and
- Continuous use of role models from the community that have successful SMMEs.

The local municipality must facilitate the issue of allocating business sites to SMMEs. The SMME Desk should assess the allocation of resources to this sector. In addition to the allocation of additional resources for the development of SMMEs the SMME Desk must also ensure that all stakeholders in the municipality are fully aware of its mandate and role. The SMME Desk should also look at the provision of reduced rentals for SMMEs, via the utilisation of the existing unutilised municipality buildings in the local municipality. The SMME Desk must come up with a way on how to access private sector support, and encourage SMMEs to utilised the available opportunities from private sector for SMME development.

In summary the following are cited as recommendations for SMMEs in the Maruleng municipality to become stable and viable:

- The establishment of the Maruleng SMME Desk is highly recommended;
- Proper communication of the existing trade policies together with policy implementation benefits needs to be done through the SMME Desk;
- The SMME Desk should find a way of ensuring that SMMEs becomes aware of the available initiatives available to support; and promote SMMEs;
- The SMME Desk should make sure that the available support services are also accessible to all SMMEs in the municipality;
- The desk must ensure that SMMEs have an access to available resources required for SMME development and promotion;
- Serious consideration should be given to the implementation of active learning through skill development programmes;
- SMMEs should be improved in financial skill, marketing, and overall management skills;
- SMMEs should be informed of the available policies, support initiatives, and how to access those initiatives; and
- SMMEs should be trained to be able to draw up business plans before they can be evaluated by financial institutions.

#### **5.4 LIMITATIONS OF THE STUDY**

- The study was conducted only in one local municipal area, which means that the results may not necessarily be easily generalised.
- In addition the sample size was small.
- The data collection method used was a self administered questionnaire. This may influence the result as each individual may have their own way of interpreting the questions and there may be some bias involved. All these may have some effect on the results.

## **5.5 SUMMARY**

The current study aimed at analysing the situational status of the SMMEs in Maruleng local municipality. According to the study, it was evident that the SMMEs in Maruleng are not stable as they are faced with challenges of not being able to access the available initiatives by the government to assist them.

They unfortunately also contribute very little to the overall economic development, and upliftment of their community as they are survivalist in nature; employ very few people with small annual turnovers. They are faced with challenges of not being able to access finances due to the lack of financial management skills, not being able to draw up business plan and mostly lack of collateral. They do not possess the general business management skills which will enable them to run their day to day business activities.

It is therefore recommended that the SMME DESK should be established in the Maruleng Local Municipality; which will serve as an incubator for the new registering and existing SMMES in the municipality. The role of the SMME DESK should be well distinguished, and be understandable by all SMMEs. The SMME database should be updated and the growth of each and every SMME should be monitored. The gaps should be identified and the SMME DESK should come up with ways on how to close those gaps to the advantage of the SMMEs. Training and development of existing as well as aspiring SMME owners should be seen as a priority.

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**APPENDIX A**

**SMME QUESTIONNAIRE**

**1 DEMOGRAPHIC INFORMATION**

- 1.1 Age of the owner.....
- 1.2 Sex of the owner.....
- 1.3 Marital status.....
- 1.4 Educational qualification.....
- 1.5 Type of SMME.....
- 1.6 How long has it been running.....
- 1.7 Number of employees when it started.....
- 1.8 Number of employees currently.....
- 1.9 Annual turnover when the business started.....
- 1.10 Annual turnover currently.....

**2 SMME PROFILE**

**COMPLETE BY FILLING IN THE SPACE PROVIDED**

- 2.1 The name of your SMME.....
- 2.2 Your Registration Number : .....
- 2.3 Owner .....Sex.....  
Owner .....Sex.....  
Owner .....Sex.....
- 2.4 Location.....
- 2.5 Residential Address.....  
.....  
.....
- 2.6 Postal Address.....
- 2.7 Contact Numbers.....
- 2.8 Cell No .....

### 3 POLICIES AND REGULATIONS

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Do you understand the SMME policies and regulations? If no, what makes it difficult to understand? ..... .....		
2	Are you involved in policy formulation and implementation? If yes, how are you involved and if no, how would you like to be involved? ..... .....		
3	Is the process of tendering transparent to SMME participants?		
4	What are the challenges and problems with tendering the process? ..... .....		

### 4 ACCESS TO FINANCE

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Have you ever received a loan from a bank?		
2	Do you have any level of skill in financial management?		
3	Are you aware of financial offers available for SMME development?		
4	Do you know the new affirmative procurement policies which stimulate the development of SMMEs?		
5	Do you understand the opportunities available for SMMEs regarding finances?		
6	Do family members provide financial support?		

**5 THE GOVERNMENT DEPARTMENT SUPPORT TO SMME**

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Do you receive any kind of support from government departments?		
2	If yes is it adequate?		
3	From which department did you receive business support?		
4	What kind of support did you receive?		

**6 LOCAL GOVERNMENT SUPPORT**

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Do you receive any support from the local government?		
2	Are you aware of opportunities available from local government?		
3	Does the local government facilitate access to land and infrastructure?		
4	Are you aware of any SMME forum in the local municipality?		
5	Is there any code of conduct available to ensure that SMMEs are conducted responsibly?		
6	What kind of support service do you expect from the local municipality?		

**7 PRIVATE SECTOR SUPPORT TO SMMEs**

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Do you receive any kind of support from NGOs?		
2	If yes, is it adequate? .....		
3	Are you aware of opportunities available from NGOs?		
4	What kind of support services do you expect from NGOs ?		

## 8 SKILLS DEVELOPMENT

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Do you feel that you have adequate business management skills to run your business?		
2	In what kind of skills do you wish you could receive training and development?		
3	Who do you think should train you?		

## 9 ACCESS TO MARKETS

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Are you aware of the markets available for your product?		
2	Are the markets available accessible to SMMEs?		
3	Are you in possession of any marketing skill?		
4	Do you market your business?		
5.1	If yes, how.....		
5.2	If no, how do people know about your business ..... .....		
6	Do you think it is important to market your business?		

**11 THE USE OF TECHNOLOGY**

MAKE A CROSS IN THE APPROPRIATE COLUMN

ITEM	QUESTION	YES	NO
1	Do you own any computer?		
2	Do you know how to use a computer for simple typing?		
3	Do you know how to surf the internet?		
4	Do you have access to a website?		
5	Do you have access to e-mail?		

**COMMENTS.....**  
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**APPENDIX B**  
**INTERVIEW GUIDE QUESTIONS**

**1. BACKGROUND TO THE SMME**

- 1.1 What are the ranges of services offered by your department to SMMEs?
- 1.2 How does your department impact on SMMEs?
- 1.3 Provide a description of your capabilities in regard to SMME support.
- 1.4 Do you think the resources you have are sufficient to ensure that your objectives are met?
- 1.5 How are your services marketed to SMMEs?
- 1.6 Where can SMMEs obtain information about your department?
- 1.7 What are the key weaknesses that you perceive in the current SMME environment?

**2 SMME DEFINITIONS**

- 2.1 What is your understanding of SMMEs?
- 2.2 What are the key challenges faced by SMMEs?