

**SUSTAINABLE MICRO-ENTREPRENEURSHIP TO ENSURE POSITIVE
ECONOMIC GROWTH IN THE WESTERN CAPE**

by

Amanda Dale Richards


A thesis submitted in partial fulfillment of the requirements for the degree of
Masters in Business Administration
in the
Faculty of Business
at the
Cape Peninsula University of Technology

Supervisor: Professor André Slabbert

Date of submission: August 2006

DECLARATION

I, Amanda Dale Richards hereby declare that the contents of this thesis, *SUSTAINABLE MICRO-ENTREPRENEURSHIP TO ENSURE POSITIVE ECONOMIC GROWTH IN THE WESTERN CAPE*, represent my own and original unaided work and that the thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

A handwritten signature in black ink, appearing to read 'A. Richards', is written over a horizontal line.

Signature

ABSTRACT

The high unemployment rate in South Africa has forced many people to think of creative ways to derive an income. This in turn has resulted in the increase of micro-entrepreneurs who could contribute positively to the economy if given the opportunity. According to the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995), the objective is to stimulate and promote small businesses by providing access to requisite resources. However, what has become apparent is the lack of resources for micro-entrepreneurs, as well as problems with accessibility to the few available resources.

Popular literature often refers to money being made available by government or foreign donors to assist micro-entrepreneurs in getting businesses started. There is also much talk about empowerment of entrepreneurs via financial resources as well as through skills training. However, much of the assistance is available for opportunity entrepreneurs and not for the survivalist entrepreneurs.

Although there has been a commitment by government to promote small business, it yet again focuses on the opportunist entrepreneur rather than the survivalist entrepreneur. Survivalist micro-entrepreneurs face huge challenges in accessing any type of resources. Although there is much talk about promotion of small business, there seems to be a gap in what is being advocated and what is being done.

What has happened thus far is that small and medium enterprises have been branded under one label, proving detrimental to the micro-entrepreneur. The opportunist entrepreneur and the survivalist entrepreneur have vastly different needs and the resources made available should address the different needs.

This study focused on micro-entrepreneurship in the Cape Flats area of the Western Cape, specifically on survivalist micro-entrepreneurs, and excluded the opportunist entrepreneur.

The purpose of the research was three-fold:

- (i) to establish the reasons for the lack of resources available to survivalist entrepreneurs;
- (ii) to establish government's responses to challenges facing survivalist entrepreneurs; and
- (iii) to make recommendations so as to assist survivalist micro-entrepreneurs in accessing resources.

Existing government policy and strategies were investigated, after which available assistance, on government and non-government level, was discussed. (Chapter 2). The Department of Trade and Industry is the main role player in terms of small business development. There are also institutions providing financial assistance (for example Khula and the Industrial Development Corporation), institutions providing services (such as NEPA, SABS and CSIR), and finally, institutions providing indirect support (such as SACOB and DBSA).

The empirical results indicated that many of the respondents were not aware of the government initiatives in terms of small, medium and micro enterprises. The results also highlighted the difficulties experienced by the respondents when trying to access finance or business training. The results further revealed that various government organizations approached were regarded as ineffective in providing assistance to the respondents.

The extent of business development challenges in South Africa require a continued focus on quantity, i.e. assisting as many survivalist and micro entrepreneurs as possible as well as on quality, i.e. providing more detailed and higher quality advice to these businesses. Legal and regulatory hindrances to the operation of the SMME sector need to be identified and removed as part of an ongoing programme. Business bodies and professional organisations should be actively involved in providing advice and support to business start-ups.

Access to finance, business related training and skilled mentors are essential requirements to ensure that the micro entrepreneur enjoys sustainable development.

DEDICATION

I dedicate this thesis to the women in my life who have inspired me: my mother Verilla Parenzee (née Dirkse) who passed away peacefully on 9 March 2007 for her strength and unfailing support, my grandmother Ivy Parenzee who believed that I would make a difference and my daughter Kelly Leigh for her joie de vivre.

ACKNOWLEDGEMENTS

I wish to acknowledge the assistance and support of the following people:

- My supervisor, Professor André Slabbert, for his guidance and persistent encouragement.
- The CPUT Librarian, Fatima Darries, for her continued assistance with articles, journals and books.
- The Office Management and Technology staff for their support.
- Professor Liz van Aswegen for her guidelines on academic writing.
- All the respondents for their assistance with my research.
- My husband, Kevin and daughter, Kelly Leigh, for their love and patience, and for believing in me.
- My mom and dad, Verrila and Peter Parenzee, for their continued encouragement.

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

Unemployment affects at least one in every four people in South Africa. Using the strict definition of unemployment,¹ in 2001, 26,4% of South Africa's labour force or 4,24 million people were unemployed. Africans constituted the biggest portion, i.e., 85,5% of the unemployed. In the same year, the unemployment rate for the Western Province was 18,7%, the lowest of all the provinces (SAIRR 2001:213). The high unemployment rate in South Africa has forced many people to think of creative ways to derive an income.

It is believed that the most practical way to combat this problem is through entrepreneurship. Small, medium and micro enterprises (SMMEs) represent an important vehicle in addressing the challenges of job creation, economic growth and equity in the country in this regard (DTI 1995a:iv). Throughout the world one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. The stimulation of SMMEs could be seen as part of an integrated strategy to take South Africa's economy onto a higher road, one in which the country's entrepreneurship flourishes (DTI 1995b:5).

Government, national and international donors are particularly interested in the SMME sector because of the sector's contribution to employment creation and poverty reduction. In many countries, the wealth, political power and education are concentrated in a small group of people. Frequently it is these individuals who are the best educated and control political power. The gap between the privileged and the masses is immense and ever increasing. Donors (be they national or international) in particular, pursue the SMME sector with the objective of alleviating poverty. Various international donors are concerned with poverty alleviation and

¹ The unemployed are those in the economically active population who (i) "have not worked during the last seven days prior to being interviewed, (ii) want to work, and are available to start work within a week of the interview, and (iii) have taken active steps to look for work or to provide themselves with job interviews in the four weeks preceding the interview" (SAIRR 2001:213).

suggest that the Growth Employment and Redistribution Strategy (GEAR) has failed to create jobs, although it has won approval from big business and international communities. These donors tend to focus rather on micro and very small enterprises, as they prefer to target the individual *who is trapped in the poverty cycle* and not the business (Karungu, Marabwa & Stettler 2000:10).

Popular literature often refers to money being made available by government or foreign donors to assist micro-entrepreneurs in getting businesses started.

There is also much talk about empowerment of entrepreneurs via financial resources as well as through skills training. However, much of the assistance is available for the opportunist entrepreneur and not for the survivalist entrepreneur.

For the survivalist entrepreneur to access these resources is an intimidating and often fruitless exercise. According to McGrath (2003:59), the process is further hindered by:

- ◆ Education which is poor for a large proportion of the population, leading to a lack of the requisite skills.
- ◆ Cultural and social norms which often does not see entrepreneurship as a career choice.
- ◆ Financial support which involves red tape and very often is not available for entrepreneurs seeking small quantities of finance.
- ◆ Poverty and lack of assets resulting in collateral not being available to access formal loan finance.
- ◆ Government policy which intimidates survivalist entrepreneurs with administrative, labour and policy procedures.
- ◆ Lack of mentorship programmes to ensure sustainability.

Although there has been a commitment by government to promote small business, it yet again focuses on the opportunist rather than the survivalist entrepreneur.

What has happened thus far is that small and medium enterprises have been branded under one label, proving detrimental to the micro-entrepreneur (Rogerson 1997: 5). In addition, the difference between the opportunist entrepreneur and the

survivalist entrepreneur has to be noted and treated accordingly as each has vastly different needs.

Survivalist micro-entrepreneurs face huge challenges in accessing any type of resources, and there-in lies the problem. Although there is much talk about promotion of small business, there seems to be a gap in what is being advocated and what is being done (McGrath 2003:58). Research into this gap will hopefully address a few of the challenges faced by the survivalist entrepreneurs.

1.2 CLARIFICATION OF BASIC TERMS AND CONCEPTS

◆ Sustainable

Business opportunity which is prolonged and productive.

◆ Entrepreneurship

In the broadest sense entrepreneurship is about the capabilities of people to combine scarce resources in new ways to respond to challenges and opportunities or provide solutions to problems.

◆ Micro-entrepreneurship

- (i) Survivalist entrepreneur – individual who has no other choice but to sell goods and services to earn an income. Survivalist enterprises are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business.
- (ii) Opportunity entrepreneur – is a very small businesses, often involving only the owner, some family member(s) and at the most, one or two paid employees. They usually lack formality in terms of business licences, value-added tax registration, formal business premises,

operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills.

- ◆ **Small enterprises** constitute the bulk of the established businesses, with employment ranging between five and about 50. They are usually owner-managed or directly controlled by the owner-communities. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements.

- ◆ **Medium enterprises** are basically owner-manager controlled, employ between 51 to 200 people and have capital assets of up to R5 million per annum.

1.3 STATEMENT OF RESEARCH PROBLEM

The unemployment rate in South Africa has forced many people to think of creative ways to derive an income. This in turn has resulted in the increase of micro-entrepreneurs who could contribute positively to the economy if given the opportunity. According to the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (DTI 1995b:15), the objective of the Act is to stimulate and promote small businesses by providing requisite resources or access to requisite resources. However, what has become apparent is the lack of resources for micro-entrepreneurs, as well as problems with accessibility to the few available resources.

1.4 LITERATURE STUDY

The economic improvement of South Africa depends largely on sustainable dynamic entrepreneurial activity. According to Chandra, Moorty, Nganou, Rajaratnam & Schaeffer (2001: v) the ever-increasing problem of unemployment can be attributed to the lack of a strategic plan by the national government. An entrepreneurial culture has to be nurtured through appropriate training programmes not only for the literate but also for the vast majority of uneducated South Africans who have the talent and

skills but lack the necessary business skills to access resources (Chandra *et al.*, 2001:10).

This viewpoint is supported by the Herrington, Orford and Wood (2004: 26) in the Global Entrepreneurship Monitor South Africa Report (GEM) 2004 who have affirmed that micro-entrepreneurs often lack managerial as well as technical skills which results in the business being mismanaged leading to the failure of the business. In addition, sustainable development programmes have to be made available so as to ensure that the entrepreneur's performance is monitored and that there is mentorship provided to assist with the development of the entrepreneur. The point has also been stressed that there has to be incentives for micro-businesses as environmental solutions which are designed for larger businesses cannot be applied to smaller businesses.

A lack of higher education also contributes to the lack of networking which often results in accessing resources vital for the sustainability of the smaller business. In addition, entrepreneurs who for geographic, cultural or social reasons, lack access to free information through personal networks and operate with less resources are placed at a disadvantage from the outset.

A continuing inability to find work will propel future generations of youth into self-employment. Small, medium and micro enterprises (SMMEs) fulfils two goals, providing both a livelihood and a personal stake in the economy for those with initiative but not much capital. The survey conducted by Ntsika (2000/2001) established that Black, Coloured and Indian people run 87% of survivalist enterprises but only 22% of very small businesses (Ntsika 2002). Women owned 42% of the survivalist enterprises but only 11% of the small enterprises. Although Ntsika predicts a long-run growth process for SMMEs, entrepreneurs will nevertheless face difficulties with regards to development, as they will find it difficult to access resources and obtain credit.

According to Foxcroft, Herrington, Kew Segal & Wood (2002:41), Khula, a small firm finance company established by the Department of Trade and Industry to increase finance among smaller companies, has only benefited 9.3% of applicants. One of

the reasons for the lack of impact by Khula is possibly the lack of awareness of the resources available from the organization. It is precisely this lack of information on the type of financial products available to the SMMEs which requires a co-ordinated marketing strategy from government departments.

1.5 RESEARCH QUESTIONS

This research explored the various resources available and initiatives being undertaken to assist survivalist micro-entrepreneurs. The following questions were posed so as to ascertain the information for the research:

- 1.5.1 What are the difficulties experienced by survivalist micro-entrepreneurs?
- 1.5.2 What resources are available for survivalist micro-entrepreneurs?
- 1.5.3 What programmes are in place to ensure sustainability for micro-entrepreneurs?
- 1.5.4 What plans do government have to address the challenges faced by survivalist micro-entrepreneurship?

1.6 OBJECTIVES OF THE STUDY

The objectives of this research are:

- 1.6.1 To establish what difficulties are experienced by the survivalist micro-entrepreneurs.
- 1.6.2 To establish what resources are available for the survivalist micro-entrepreneurs.
- 1.6.3 To establish what programmes are available to ensure sustainability of survivalist micro-entrepreneurship.
- 1.6.4 To establish what plans government has to address the challenges faced by survivalist micro-entrepreneurs.

1.7 RESEARCH DESIGN AND METHOD

The method to attain the requisite information was via personal interviews, using questionnaires which were compiled from a workshop conducted by the researcher with micro entrepreneurs. The information obtained was documented in a qualitative report.

The information was sourced from institutions such as Department of Trade and Industry (DTI), Cape Chamber of Commerce, CLOTEX, KHULA, Ntsika, Black Management Forum, Land Bank, Statistics South Africa, Global Entrepreneurship Monitor (GEM) and the World Bank.

The sample of thirteen micro-entrepreneurs interviewed included men and women on the Cape Flats involved in a range of services who have the ability to grow their businesses with the requisite assistance.

Interviews were standardised and was conducted on a one-to-one basis. The interviews were limited to the constraints of the questionnaire so as to provide findings which were objective and unbiased.

1.8 DELINEATION OF THE STUDY

The focus was on micro-entrepreneurship in the Cape Flats area of the Western Cape, focussing on survivalist micro-entrepreneurs, thereby excluding the opportunist entrepreneur.

1.9 SIGNIFICANCE OF THE STUDY

Research into survivalist entrepreneurship is vital as this type of entrepreneurship tends to be one response to poverty. Every attempt has to be made to alleviate poverty and improve the social economic conditions of all South Africans. This can only be achieved if government as well as industry commits to a partnership which not only provides financial resources but also continues providing support through a mentorship programme.

With the requisite resources the survivalist entrepreneur should progress to becoming an opportunist entrepreneur. This progression will not only address the problem of unemployment but will also assist in alleviating poverty as well as improving the social conditions in the local economy.

1.10 EXPECTED OUTCOMES, RESULTS AND CONTRIBUTION

The purpose of the research was three-fold:

1.10.1 to establish the reasons for the lack of resources available to survivalist entrepreneurs;

1.10.2 to establish government's responses to challenges facing survivalist entrepreneurs; and

1.10.3 to assist survivalist micro-entrepreneurs in accessing requisite resources.

1.11 SUMMARY

For many survivalist entrepreneurs it is about paying the rent or putting food on the table. However, they should not be excluded from the long term plan of economic development in South Africa. Entrepreneurship is first and foremost about people. Although individuals may start off as survivalist entrepreneurs, they have the potential to grow their business with the necessary assistance.

To ensure sustainable micro-entrepreneurship, the most fundamental issues of poverty, education, resources as well as government policy has to be addressed in consultation with non-governmental organizations, industry, micro-entrepreneurship representatives and government, to ensure continued sustainable entrepreneurship.

Chapter 2 will focus on the various studies done in the field of SMMEs, the development of SMMEs and initiatives to assist SMMEs.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

Job creation and poverty alleviation are two pressing challenges facing South Africa. Addressing the high unemployment and poverty levels have been hampered by a poorly developed entrepreneurial culture (Visser 1999:2).

There is a recognition by government and business that micro entrepreneurship should be playing a major role in the South African economy, helping to break the cycle of poverty and create jobs. It is imperative that these entrepreneurial initiatives are supported, nurtured and encouraged. However, this recognition cannot ignore the imbalances imposed on micro and small business under the apartheid regime.

On Friday 2 February 1990, there was a dramatic turning point in the history of South Africa. After 42 years in power, the National Party's leader, President FW de Klerk made an announcement in Parliament, releasing political prisoners, unbanning political parties and calling for negotiations towards a new Constitution, based on one man one vote (Hetherington 1991:65). This announcement marked the end of apartheid under a racialistic and oppressive government, and the beginning of political change that led to the first democratic elections held in April 1994.

While applauding the decision taken by politicians, Hetherington (1994:72) indicated what he regards as true freedom, by stating the following:

Political liberation is important, but you cannot eat politics. Economic liberation feeds people. Economic liberation allows everybody to create wealth; to earn their own living; to feed, clothe and house their families; and buy better education for their children. Parliaments have their place but markets are more important.

The political change provided equal opportunities for all South Africans to participate in among others, the economic development of their country. It is internationally

acknowledged that small business compared to big business face a wide range of constraints and problems, even in effective functioning market economies. These constraints mainly relate to legal and regulatory environment, access to markets, finance and business premises, the acquisition of skills and managerial expertise, access to appropriate technology, quality of the business infrastructure in poverty stricken areas and, in some cases, the tax burden. The historical past in South Africa however, made the situation worse, particularly on entrepreneurs in rural areas and on women (White Paper 1995:12).

The current political scenario brought in new small business legislation at national and provincial levels in order to create opportunities for the development of small business. One of the biggest questions is to examine measures taken by the government to address these challenges; what are the options available and successes achieved thus far, broadly at national level and specifically at provincial level as far as small business development is concerned?

Thus far there has been limited coordinated government support for micro-entrepreneurship initiatives other than the general SMME support (Aliber 2001: 53). Nevertheless, some forms of micro-finance practice, even if not yet appropriately supported, are more recognised than others.

To ensure sustainable micro-entrepreneurship, the most fundamental issues of poverty, education, resources as well as government policy has to be addressed in consultation with non-governmental organizations, industry, micro-entrepreneurship representatives and government.

The Local Government's Minister of Finance in the Western Cape, Ebrahim Rasool, made a public announcement that the plight of the entrepreneur in the Western Cape would be examined (Rasool 2003). The speech was followed by similar speeches made by DTI at a national level (DTI 2004:)

According to the GEM 2001 report, it has been globally proved that countries that support their entrepreneurs have grown and prospered, as they have not only

assisted in curbing unemployment but have also assisted in reducing crime and uplifting the standard of living. The recognition of the importance of fostering the entrepreneurial sector in the Western Cape has an important role to play in the stimulation and growth of the local economy.

2.2 HISTORICAL BACKGROUND

South Africa gained its independence and thereby democracy in 1994 with less than fifty Black chartered accountants and one hundred engineers, this after nearly four hundred years of White colonial rule (Mbigi 2000: 4). Given such a bleak background, South Africans have displayed commendable determination, courage and innovation in handling the challenges of transformation.

According to Hetherington 1994:23, Black entrepreneurs were doing very well about 100 years ago. They dominated the transport industry, and many displayed agricultural prowess. They soon became highly skilled and productive farmers. Their knowledge pertaining to the breeding and care of cattle attracted international attention (Hetherington 1994:23). Black people quickly recognised the benefits of Western technology and were dissatisfied with the trade skills their children were being taught at mission schools. This resulted in the self-funding of their own private schools and the hiring of White teachers to teach their children the commercial and management skills they needed to become business owners rather than employees (Hetherington 1994:24).

Objections were voiced by White farmers as they felt they could neither compete nor attract Blacks to work on their farms and mining industries. This shortage of cheap labour and skills led to the importation of Chinese and Indian labourers to fill the gap.

The Natives Land Act of 1913 limited the economic activities of Blacks by prohibiting land ownership and restricting the entrepreneurial talents of Black people. African education was gradually reduced to the level required to make Blacks good labourers or junior clerks in government offices (Alibers 2001:7).

With the exception of a few historical remnants in 1950, Blacks owned no land and 87% of the land in the country was owned by a White minority. Blacks were not allowed to engage in manufacturing, form companies or employ Whites. Practically this meant that Blacks were only allowed to trade with other Blacks and then only for a very restricted list of daily provisions.

Resistance by Black businessmen was to no avail. This restriction imposed upon Blacks led to the formation of the National African Federated Chamber of Commerce (NAFCOC) in 1964. A concession made by the White government in 1979 allowed Blacks to manufacture, but only in Black townships, not in industrial areas which were designated White.

Bantu education continued to oppress and suppress Black people by restricting access to technical and professional skills for Black people. The government also banished all Blacks to live in the ten homelands which were constituted with their own assemblies, government departments and their own economies. Apartheid continued to confine the vast majority of Black people to the homelands. These homelands lacked basic amenities and resources, any type of infrastructure, were geographically isolated, lacked not only employment opportunities but also an entrepreneurial environment.

Added to these problems, the Group Areas Act uprooted millions of people from their places of residence and business and relocated them to areas which lacked any type of infra-structure. Racial segregation resulted in an increase in the distance between Black residential and working areas, and a restriction on property ownership. This carefully thought-out plan by the apartheid regime contributed not only to Blacks not being able to acquire assets which could serve as collateral for loans, but also to their exclusion in the long-term process of property growth as a result of an increase in property values (White Paper 1995b:11).

All remaining apartheid legislation was dismantled by early 1990 which meant that anybody could now purchase land anywhere and could also therefore establish any kind of business in any area. This sounded fair in theory but the reality was and still is that purchasing property or trying to open a business for the majority of non-White

South Africans have been hampered by the damage caused by the decades of suppression and would take many decades to repair (Hetherington 1994:23-25).

When discussing SMMEs a distinction has to be made between the group of established formal SMEs and the emerging SMMEs. The established formal SMEs are predominantly White owned and to a lesser extent Asian owned and are located mainly in the larger cities. The emerging SMMEs are predominantly Black or Coloured owned and are located in townships, informal settlements and rural areas. According to the White Paper, the survivalist entrepreneur is the largest component in the SMME sector, an estimated 2.5 million as compared to 800 000 in the rest of the SMME economy (White Paper 1995b:11).

The quality of jobs for the survivalist entrepreneur cannot be regarded as ideal as wages are below minimum income and conditions are appalling. They find themselves trapped in a cage of poverty. The question should be asked whether survivalist entrepreneurship should be encouraged by the promotion of SMME as a way of dealing with poverty or are they two totally separate issues which must be dealt with by government.

SMME strategies are seen as one vehicle of addressing the inequalities of the past in terms of economic ownership (Chandra *et al.*, 2001:10). This strategy has to be carefully analysed by the various policy-makers as it would be foolhardy to depend on this as the only vehicle of economic redistribution. The core economic power is still White-owned. The small percentage which is Black-owned will not be able to make significant shifts to the income distribution and thereby economic power in South Africa (Rogerson 1997:6).

According to Archbishop Desmond Tutu in his Nelson Mandela memorial lecture, as reported in News24 (Tutu 2004), a successful SMME drive resulting in wealth to Black entrepreneurs would not mean a shift in economic power from the White minority to the Black majority but rather would only be to the benefit of a selected group of Black South Africans which would continue the existing situation and be to the detriment of the majority of Black South Africans.

It is acknowledged that small business compared to big business worldwide faces a wide range of constraints and problems, even in effective functioning market economies. These constraints mainly relate to legal and regulatory environment, access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, quality of the business infrastructure in poverty stricken areas and, in some cases, the tax burden. The historical past in South Africa however, made the situation worse, particularly on entrepreneurs in rural areas and on women (White Paper 1995:12).

The White Paper (1995) was based on the understanding that South Africa has a vast, largely untapped potential of entrepreneurs, encompassing all races, all sectors and all the provinces (Kirsten 1995:199).

This economic transformation refers to the fundamental change which makes the impossible possible. What we have to realize is that fundamental change and development do not start with capital goods and foreign investment, it starts with people.

Development is about helping people who can then help others. This is the essence of the African philosophy of Ubuntu, which literally translated means “I am because we are—I can only be a person through others”. The most definitive perspective of Ubuntu is given by Archbishop Desmond Tutu (Tutu 1999:34) in the following speech:

Africans have a thing called Ubuntu; it is about the essence of human beings, it is part of the gift that Africa is going to give to the world. It embraces hospitality, caring about others, being willing to go the extra mile for one another. We believe that a person is a person through other persons; that my humanity is caught up inextricably in yours. When I dehumanize you I inexorably dehumanize myself. The solitary human being is a contradiction in terms, and therefore you seek work for the common good because your humanity comes into its own in community, in belonging.

2.3 GOVERNMENT'S RESPONSE TO SMMEs

Although the SMME sector is a key element in the government's strategy to create employment, the sector is severely underdeveloped owing to obstacles of the past. Since the inception of GEAR in 1996, the strategy has not led to job creation; in fact between 1996 and 1999 unemployment has actually increased by more than 100 000 per year. The government therefore hopes that SMMEs will be part of the plan to remedy this problem of unemployment (Karangu *et al.*, 2000:6).

SMME microfinance is an indispensable part of South Africa's economic policy. In redressing the legacy of the past, the new government through the Ministry of Trade and Industry initiated a wide-ranging consultation and research process.

This process culminated in the production of a Discussion Paper on *Strategies for the Development of an Integrated Policy and Support Program for Small, Medium and Micro Enterprises in South Africa* in October 1994 and the White Paper^{*} in March 1995.

2.3.1 White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa

Throughout history, entrepreneurship has been found to be an important and meaningful contributor to society at various stages of political transition (Morrison 2000: 59-71). At each of these transition stages, entrepreneurship is seen as the solution to solving dilemmas by introducing innovation.

The essential act of entrepreneurship is about starting and running a business. This can be accomplished by entering new or established markets, either by a start-up enterprise, or through an existing enterprise via internal innovation (Kikooma 2002:5).

A number of SMME development initiatives were started since the election of the democratic government in April 1994. The government saw under-developed and

^{*} The White Paper, called "National Strategy for the Development and Promotion of Small Business in South Africa" was published by the Department of Trade and Industry on 20 March 1995.

undeveloped SMMEs as an opportunity to deal with the challenges of job creation, economic growth and equity in South Africa (Rogerson 1997:10). The starting point for the process of small business development was to create an enabling environment.

The discussion document on the strategy and policy for SMMEs was released at the end of October 1994. The White Paper on small business, published by the Department of Trade and Industry was tabled in Parliament on 20 March 1995.

The objective of the National Small Business Act 102 of 1996 is not only to regulate but also to stimulate and promote small business activities in South Africa. The spirit of entrepreneurship would be integrated in government, NGOs, private consultancies, partnerships and consultancies to address the needs of SMMEs as a whole.

Recognition of the type of enterprise was as a result of the size and diversity of the particular enterprise. The White Paper made the following differentiations:

- (i) Survivalist enterprises – activities performed by people who are unable to find a paid job or get into an economic sector of their choice. They form part of the informal sector and the income usually falls short of minimum standards. Skills training is lacking, very little capital is invested and there is an almost non-existent prospect for development and opportunities for this type of enterprise to develop into a viable small business enterprise.
- (ii) Micro-enterprises – very small businesses, often involving only the owner, some family member(s) and at most one to four paid employees. Many of these types of enterprises also frequently form part of the informal sector as they are often not registered and are run from home. Many also only have rudimentary skills and training. Although they may lack the formality, progress could be made to a sustainable small business.

- (iii) Small enterprises – constitute the bulk of the established business, with employees ranging between 5 and 100 employees. The enterprise will usually be owner-managed or directly controlled by owner communities.
- (iv) Medium enterprises – 100 to 200 employees and a turnover of R5 million per annum (White Paper 1995: 7-8).

SMMEs are a vitally important part of any economy and should not be treated as smaller versions of larger organizations. The difference in size and need between the four categories calls for a different approach to each of these entrepreneurs as well as special attention which has to be given to the disadvantaged. It has been recognized that the four categories require different strategies with regards to SMME funding and training (McGrath 2003: 57).

The government, through the Department of Trade and Industry (DTI), established the Centre for Small Business Promotion (CSBP) at national level. This Centre gave birth to Ntsika Enterprise Promotion Agency and Khula Enterprise Finance Limited. These are the main statutory bodies established to support and assist SMMEs (Kesper 2000:7)

2.3.1.1 Centre for Small Business Promotion

The Centre for Small Business Promotion (CSBP) is a Chief Directorate that falls directly under the Department of Trade and Industry. It is responsible for all policy related to the SMMEs and supports programs that are directly and indirectly assisted by government. The Centre also co-ordinates the implementation of the framework within central government, mobilizes the necessary funds and supervises the establishment of other new institutions as proposed in the White Paper.

2.3.1.2 Provincial SMME Desks

The Centre for Small Business Promotion gave a directive to all nine provinces to form Provincial SMME Desks at provincial level. Staff members who were attached to the Department of Economic Affairs by then constituted these divisions. The divisions

were the first point of contact of small business people with the government. The purpose of these divisions is to give SMME support in all the provinces.

2.3.1.3 Ntsika Enterprise Promotion Agency (NEPA)

The Ntsika Enterprise Promotion Agency (NEPA) was given the mandate to provide a wide range of non-financial services to local service delivery groups on a *wholesale* basis, meaning delivery of resources to local providers (that is, in the different provinces and their regions) that work directly with SMMEs. These services that are offered by accredited local service providers include institution building of these organizations, training programs for entrepreneurs, mentoring of individual firms, marketing, procurement advice and technology assistance (Carana Report 1999:25).

Examples of local service providers are: the Business Development Service (BuDS) which was set up to co-ordinate the development of the Local Business Services Centres (LBSCs), the Tender Advice Centre (TACs) and the Manufacturing Advisory Centres (MACs) who would be networking with NGOs, Educational Institutions and Community Based Organisations (CBOs).

Ntsika was established to (i) expand, co-ordinate and monitor the provision of training, advice, counselling and any other non-financial services to small business in accordance with the National Strategy and (ii) to provide financial support to service providers that provide the services mentioned in (i).

This is achieved by:

- i. Identifying priorities and design interventions that will promote the development of SMMEs.
- ii. Providing information to policy-makers, business-development practitioners and entrepreneurs in order to create and further develop an SMME-enabling environment.
- iii. Establishing an effective Service Provider Network which will implement and deliver efficient services to SMMEs and liaise with SMME stakeholders and entrepreneurs.

-
- iv. Promoting the development of an entrepreneurial culture in South Africa, in order to increase self-employment and business growth (Ntsika 2002:1).
 - v. Consulting with the government, The National Small Business Council (NSBC) or any other service provider to facilitate the provision of business advice and counselling services, access to raw material and other products, and to strengthen the capacity of service providers to support small business (Ntsika 2002:1).

(a) Local Business Service Centre (LBSC)

Economic development at local level cannot be over-emphasized. This is where there is much work in terms of SMME development. The LBSCs, defined in terms of their functions, are owned by the local business people and managed by the local people. Their services include training, marketing and linkages, counselling and referrals and information gathering and dissemination (White Paper 1995b:46).

Major challenges to these centres are in developing SMMEs in rural communities. These SMMEs operate in a sea of poverty and unemployment. Most of the SMMEs in rural communities are survivalist enterprises who have poor infrastructures and a reduced access to markets as the outflow of wealth is to larger urban centres.

Rogerson (1997:4) indicated that the enormous challenge of upgrading the position of disadvantaged rural SMMEs cannot be resolved by local government alone. Rural SMMEs require a targeted strategic set of interventions, which will require support from national, provincial as well as local levels of government.

(b) Tender Advice Centre (TACs)

Tender Advice Centres provide non-financial support to small businesses in the area of market access and procurement. They provide information about government tenders, counselling and support service to entrepreneurs. Examples of this support include assistance in the completion of tender documents and the provision of advice

and information on tender opportunities. These services are made available to SMMEs through workshops and seminars about tendering procedures. The TAC program is run by accredited organisations around South Africa (SEDA Undated).

(c) Manufacturing Advisory Centres (MACs)

Manufacturing adds much value to growing economies. In a country where Blacks were not even allowed to manufacture anything, the importance of Manufacturing Advisory Centres (MACs) cannot be over-emphasized (Ladzani 2001: 6). These centres provide information and advice to small and medium manufacturing firms.

(d) Others

Other service providers that work closely with Ntsika are among others, non-governmental organizations (NGOs), Educational Institutions and Community Based Organisations (CBOs).

2.3.1.4 Khula Enterprise Finance Limited

Khula Enterprise Finance Limited was established in 1996 under the Companies Act, in terms of a Department of Trade and Industry initiative. It is an independent, limited liability company, with its own board of directors and is dedicated to improving access to finance for the SMMEs.

This implementing agency for providing capital for small business is a response to the seemingly inability of banks to support small enterprises, especially those in disadvantaged communities. Khula took over the credit guarantee facility from the former Small Business Development Corporation (now Business Partners).

The other main activity of Khula is to provide 'wholesale' finance to the NGOs that offer micro loans to starter entrepreneurs. This is done through the development of Retail Financial Intermediaries (RFIs) that are financially sound, with the commitment and the capacity to serve the SMME sector. Khula works through an array of intermediary organizations, such as banks and NGOs providing loans, a National

Credit Guarantee Fund providing seed loans, equity funds and institutional capacity building.

It is emphasized that Khula's operations must be premised on *commercially sound business principles* (de Graaff 1996: 10). Moreover, the agency is to *promote growth and prosperity by increasing access to finance for SMMEs, particularly those that were previously disadvantaged* (De Graaff 1996:10).

(a) Retail Financial Intermediaries (RFIs)

As a wholesale organisation, Khula does not lend money directly to the small and micro business people. It makes finance available to the SMMEs through three of its lending programs. These programs are the Credit Guarantee Scheme (CGS), the Retail Financial Intermediaries (RFIs) and the Micro Credit Outlets (MCOs).

The RFIs borrow money from Khula to lend to the SMMEs, who must repay the loan to these organisations according to the agreed terms and conditions of the loan. Small business operators can borrow amounts of R5 000 to R50 000. Micro Credit Outlets (MCOs) lend money to very small entrepreneurs, mostly in the rural areas and informal settlements in urban areas (Directory of Retail Financial Intermediaries).

(b) KhulaStart

KhulaStart is an intervention strategy by Khula Enterprise Finance Ltd. whose objective is to promote greater access to micro credit in rural areas. It is a group lending scheme for the lower end of the micro-enterprise market. It targets historically disadvantaged communities, particularly women in rural areas and informal sectors. KhulaStart is based on a United Nations Development Program (UNDP) initiative called MicroStart and has been adapted to suit the conditions prevailing within rural South Africa (Khula Credit 2004).

(c) Credit Guarantees

Khula Credit Guarantee provides a range of guarantee products to banks in the private sector whereby Khula will assume a portion of the risk associated with lending into the SMME sector. In order to raise capital to acquire assets or for working capital, banks may require applicants to provide guarantees to secure the loan. Khula will furnish these guarantees to approved applicants with three products: Individual, Institutional and Portfolio Guarantees. Loans of between R60 000 and R600 000 can be guaranteed through this scheme. (Khula 2004).

Semi-government organizations and the private sector also offer assistance to SMMEs. The Industrial Development Corporation (IDC) for example, assists in tourist development, venture capital, low interest empowerment and emerging entrepreneur schemes. The South African Bureau of Standards (SABS) through its missing link programme offers quality assistance and awareness to SMMEs and the Council for Science and Industrial Research (CSIR) through their National Manufacturing Centre provides product improvement and manufacturing assistance to SMMEs. There are also small business units in many banking institutions and companies that assist small businesses in one way or another.

Government initiatives do not however imply that there were no SMME support structures in place during the minority rule government. There were a number of programmes and small business-support policies during that time. A number of institutions that developed over the years were unfortunately mostly racially and gender-biased.

The semi-government institutions like the Development Bank of Southern Africa (DBSA), the Small Business Development Corporation (SBDC) and the Industrial Development Corporation (IDC) developed as financiers and SMME-support agencies. The regional development corporations whose focus was to a large extent to develop Black entrepreneurs made a limited impact.

There was little co-operation extended directly to the Black business sector from central government level. An example is the public tendering system that favoured

established and larger businesses (largely White businesses). It was very difficult, if not impossible, for newly established businesses to enter the public tendering system. University-based small business units, the private and NGO sectors were also involved in small business development but were not effective in their overall impact as they were often in competition with each other and uncoordinated. These sectors could not make an impact in addressing the needs of the majority of the South African populace.

It is against this background that the call for co-ordination, co-operation and a clear national strategy framework increased over the past few years. Lack of legitimacy made it impossible for the previous government to fulfil such a role (White Paper 1995b:54).

2.3.1.5 Private Sector Support Systems

The government plays the role of a facilitator and not an implementor in this transformation process. In fact, small business support programmes are best implemented by institutions that most closely reflect the entrepreneurship and risk characteristics of small business themselves. Such institutions are typically small localised NGOs, private consultancies, partnerships and companies (White Paper 1995a:8).

Nagoyi (1997:10) for example, gave Matchmaker Services, Get Ahead Foundations and Triple Trust as examples of NGOs that are committed to the promotion and development of the small business sector among disadvantaged South Africa. Sources of finance apart from government institutions are commercial banks, Community Based Organisations (CBOs), local private sector institutions and international development agencies. Chambers of business and industry associations also play a role in the support of SMMEs. Those business associations that directly supply services to their clients are also eligible for state support provided such services are related to state-assisted programmes.

2.3.1.6 Services Sector Education and Training Authority (SETA)

Services SETA was established in terms of Section 9(1) of the *Skills Development Act, 1998 (Act 97 of 1998)* to ensure that skills requirements for all sectors of the economy are identified and training is provided. Each SETA must perform its functions in accordance with this Act and its constitution (South Africa. Office of the President. 1997:16).

The majority of SETA members are small and micro enterprises, which necessitated an SME department. This department addresses the needs of the small and micro enterprise sector. The institution also undertakes research regarding SME demographics, determines fundamental training needs and marketing strategies, and opens channels between the formal and the informal sector (SETA 2002:1).

2.3.1.7 Triple Trust Organisation (TTO)

As an NGO, the Triple Trust Organisation was established in 1988 to provide support to unemployed people in South Africa. The organisation addresses unemployment by providing skills and business training and access to finance and markets (TTO 2006:1).

The TTO offers training courses throughout the Cape Town area and in the Eastern Cape. The courses consist of competency-based training methods and action learning methodology. In total, four key courses are offered: business introduction, business action plan, business growth and expansion, and business restructuring courses. There are also skills training courses which include sewing, leatherwork, machine knitting and silkscreen printing (TTO 2006:2).

Other services provided by the TTO are marketing where marketing awareness workshops are conducted, participants visit markets to gain exposure, enterprise finance assists participants to compile a marketing plan and the TTO Club which provides support and aftercare service (TTO 2006:3).

2.3.1.8 Business Partners

With the establishment of a wholesale finance agency (Khula) and Ntsika to deal with loan finance, foreign-donor contributions and credit guarantees for SMMEs, the role of the Small Business Development Corporation (SBDC) was in question. The subsequent transition and privatisation was gradual, with emphasis on the decentralisation of powers, funding and responsibilities on provincial and local levels (DTI 1995b:7).

Business Partners emerged as a specialist investment group, providing investment, mentorship and property management services for small and medium enterprises. The group's mission is to invest capital, skill and knowledge into viable small and medium enterprises (Business Partners 2002:1). Investments are made in the fishing, agro-industry, manufacturing, services and trade sectors in amounts ranging from R150 000 to R5 million. Venture capital from R5 million to R15 million is also offered as well as premises where appropriate (Cape Regional Chamber 2002:95).

2.3.2 National Small Business Act, 1996 (Act 102 of 1996)

The consequence of the strategic framework, was the proclamation of the *National Small Business Act of 1996 (Act 102 of 1996)* which provides for the establishment of two statutory bodies, namely the National Small Business Council (NSBC) and the Ntsika Enterprise Promotion Agency (NEPA) (South Africa. Office of the President 1996:2 and DTI 1996a:6). The latter was formed to facilitate and co-ordinate the implementation of different support strategies outlined in the strategy document. To ensure bottom-up support and transparency, the NSBC was established with a small business council in each province, nominating members to the NSBC. Both the NSBC and NEPA were established as juristic bodies, which must perform their functions in accordance with the Act and its constitution.

2.3.3 Skills Development Act, 1998 (Act 97 of 1998)

Financial access is vitally important for the operation of SMMEs, but so is the access to acquiring the requisite technical skills. Karungu *et al.*, (2000:7) confirms that the

lack of technical skills need to be addressed before headway is made in the SMME sector. In order to address the above, the Skills Development Act should be seen within the framework of the *National Small Business Act of 1996*, as more of a supportive role.

The Skills Development Act was proclaimed in 1998 to provide a framework to develop and improve the skills of the South African workforce, to provide for learnerships that lead to recognised occupational qualifications, and to provide financing for skills development by means of a levy grant scheme, amongst others (South Africa. Office of the President 1997:2).

The Act prescribes the establishment of the National Skills Authority, SETA learnerships and skills programmes. The purpose of the Act is to assist persons to enter special education and training programmes, to find employment, to start income-generating projects, and to participate in special employment programmes (South Africa. Office of the President 1997:28).

2.4 INDIRECT SUPPORT FOR SMMEs

The companies listed below are therefore only indirectly involved with SMME development, yet their role in terms of SMME development cannot be neglected.

2.4.1 Development Bank of South Africa (DBSA)

The mandate of DBSA is to address socio-economic imbalances and help improve the quality of life of the people of South Africa by investing in infrastructure through financially sustainable development (DBSA Undated:1).

The policies of DBSA include optimising development impact, addressing socio-economic development backlogs and maximising the impact of projects in respect of sustainable job creation, appropriate technology, community participation and environment sustainability (DBSA Undated:2).

The bank has various areas of competency and development partners and works with donors and its other partners at international, national and provincial levels to build relationships with all key role players so to ensure the best use of resources to reach goals and development initiatives (DBSA Undated:3).

2.4.2 South African Chamber of Business (SACOB)

SACOB promotes participation and creates opportunities for SMMEs by adopting a socio-market approach to achieve growth levels to reverse social imbalances, unemployment and under-development, and promotes human resource training programmes for its members and their employees, with particular emphasis on skills development (SACOB 2006).

SACOB established an SMME desk to represent the interests of business in this sector through the local chambers. This is being done by:

- i. Lobbying to create an environment conducive for small, micro and medium enterprises to strive in.
- ii. Working with local chambers to design and develop products that appeal to members who are categorised in this sector.
- iii. Identifying national, provincial and local government policies that present opportunities for SMMEs, ensuring that members take advantage of these policies, and also ensuring public/private enterprise partnerships at all levels.
- iv. Involving members directly in addressing challenges they are faced with and also canvassing opinion on matters of importance through the SACOB SMME committee.
- v. Collecting, assessing and disseminating information regarding sources to assist the SMME sector.
- vi. Continuously exploring opportunities for business linkages between businesses locally, and for market access opportunities for businesses ready for international trade (SACOB 2006).

2.4.3 South African Bureau of Standards (SABS)

The SABS is a statutory organisation governed by Act 29 of 1993. As South Africa's official body for the preparation and publication of standards, the SABS renders an important service to government, trade, industry and the consumer. Its main objectives are to strengthen the economy and to enhance the quality of life for all South Africans by promoting quality and standardisation (SABS 2001).

The SABS established an SMME development department so as to share their expertise, experience and facilities with SMMEs thereby assisting in the growth of the economy (SABS 2001).

The Missing Link Programme was initiated to provide information that will assist SMMEs to understand the requirements of high quality products and services, as well as training in specific industries. The training programmes are run in conjunction with accredited and reputable training centres (SABS: 2001).

SABS was contracted for Track 2 of the Trade and Investment Development Programme (TIDP) of the Ntsika Enterprise Development Agency. The TIDP programme is funded by the European Union and is aimed at developing the competitiveness of SMMEs through product and market development. Its ultimate aim is to assist small enterprises in competing in domestic, regional and international markets (SABS 2001).

2.5 REGIONAL SUPPORT: WESTERN CAPE

Other key support for SMME development found in the region include Wesgro and the Provincial Administration Western Cape.

2.5.1 Wesgro

The Western Cape Investment and Trade Promotion Agency (Wesgro) was reconstituted as a Section 21 company in 1996. Wesgro focuses primarily on foreign as well as local investors, the marketing of investment opportunities and the

facilitation of investment projects. It is also involved with trade promotion and fulfils tasks for various stakeholder groups (Wesgro 1998:10).

Wesgro has to closely co-operate with national, provincial, regional and local authorities, all of which play a role in the stimulation of economic development. Close interaction with the private sector is required, as most initiatives for investment originate in the private sector and therefore requires closer interaction. Wesgro has the challenge of developing and maintaining an effective network of foreign investment contacts for investment and trade purposes (Wesgro 2006).

Wesgro always encourages equity participation by previously disadvantaged groups. Wesgro hosts workshops for small businesses wishing to export, assists metropolitan and rural initiatives to support small businesses, and devises policies and strategies in areas where small business development is needed (Wesgro 2006).

Wesgro also initiated the Library Business Corners (LBCs) to assist would-be entrepreneurs with relevant knowledge of business principles which are not readily available. Although LBSCs were to serve as information centres to provide these principles as well as facilitate training and supply a range of services, only a few materialised owing to the exorbitant start-up costs (Thomas 2001:2). Thus an alternative solution was required and certain libraries expressed a willingness to fulfil this role.

The library enters a commitment with the LBC-team of Wesgro to increase the availability of small business-related material in its library. Following this, the library receives a launching grant of R5 000 to R10 000 to acquire books, journals, shelving, files, videos, or other material. A corner of the library is then transformed to establish a business corner. Libraries are also encouraged to engage in other business-related activities such as training workshops at the library, notice boards for neighbourhood activities, storage of pamphlets on SMME support and linking up with schools (Wesgro 2006).

The LBC which is a low risk venture, can gradually expand and may possibly be the only way in which to indirectly support small business across the country (Wesgro 2006).

2.5.2 Provincial Administration Western Cape

In the Western Cape the Department of Economic Affairs, Agriculture and Tourism was tasked with SMME development through its Business Promotion and Tourism branch. The branch is tasked with creating conditions conducive to economic growth and strives to offer high quality services for the benefit of all the people of the province (DEAAT 2002:1). To achieve this, the *White Paper on sustainable tourism development and promotion in the Western Cape* and the *White Paper on preparing the Western Cape for the knowledge economy of the 21st century* were presented to Cabinet in 2001.

The White Paper on preparing the Western Cape for the knowledge economy of the 21st century has a core objective of creating jobs for the people of the Western Cape. This document seeks to lay foundations for the province: (i) to become a leading learning region equipping its people and businesses with the necessary knowledge to survive in a changing world; (ii) to be effectively linked to the rest of South Africa and the world; and (iii) to become a leading centre for entrepreneurship and innovation capable of promoting sustainable growth and development and improved quality of life for all (DEAAT 2001:19).

Available evidence suggests that the Western Cape offers a friendly environment for new business start-ups, but that the local experienced and trained entrepreneurs are insufficient to drive the 6-7% growth rate required to promote job creation. There are still needs in terms of provision of venture capital, introduction of effective incentives and a more flexible regulatory framework. The constraints and a lack of finance particularly in the rural areas prevent many small to medium businesses from participating effectively (DEAAT 2001:44).

The business promotion and tourism branch also compiled a work pack to start a business. The work pack was compiled to reduce the risk of failure by providing a

useful checklist and summarised guide for entrepreneurs in the process of starting a business. These brochures are distributed free of charge (DEAAT Undated:2).

2.5.3 The Red Door Business Plan

The Western Cape Department of Economic Development and Tourism has identified a very distinctive gap, which exists in offering efficient and quality business support and advice services to SMMEs and attempts to address problems of SMMEs in the Western Cape, through the concept of the Red Door. The concept of the Red Door is not new – it borrows extensively from other models. Successful examples of this concept are Investec's initiative, "The Business Place", Brazil's SEBRAE, Northern Ireland's Business Support Centres and Israel's Small Business Development Centres (Red Door Business Plan 2006).

The Red Door concept will be located in the community in which it will operate, supportive of national small business development strategy – enhancing the objectives of the Small Enterprise Development Agency (SEDA).

The Red Door is a one-stop-centre where SMMEs are able to access a single point to seek assistance. Entrepreneurs will have access to reliable business information as well as government and private sector tender opportunities. The Red Door will also provide a resource facility, internet access and a training and capacity building curriculum.

Buy-in and support of local and national stakeholders is vital to the success of the running of the Red Door initiative. Partners in this project will include national and provincial government departments, parastatals, members of the DTI (e.g. CSIR, Khula, Ntsika, Umsobomvu Youth Fund and NPI), local government, Library Business Corners, labour, civil society, business associations and chambers of commerce, informal business associations (e.g. hawker's associations), big business and local SMME-support organisations (both private and NGO sectors).

The objectives of Red Door are:

- (a) Provide advice, information and support to small businesses;
- (b) Design, develop and implement small business support programmes in order to:
 - Build sustainable and competitive enterprises.
 - Promote and enhance entrepreneurship.
 - Assist in the creation of an enabling operating environment for small business.
 - Provide access to non-financial resources and capacity building services.
 - Facilitate access to finance by service providers to small businesses and small enterprise organisations.
 - Provide market access, procurement and market linkages for small businesses.
 - Strengthen the capacity of service providers to support small businesses.
 - Strengthen the capacity of small businesses to compete successfully domestically and internationally.
 - Build and maintain a network of competent support service providers (Staff Reporter 2005:12).

2.6 EVALUATING SMALL BUSINESS DEVELOPMENT INITIATIVES

A number of SMME development initiatives were started since the installation of the democratically elected government in April 1994. The government saw underdeveloped and undeveloped SMMEs as a window of opportunity to address the challenges of job creation, economic growth and equity in South Africa. The starting point for the process of small business development was to create an enabling environment.

The discussion document on the strategy and policy for SMMEs was released at the end of October 1994. This document resulted in the White Paper on a National

Strategy for the Development and Promotion of Small Business in South Africa that was passed by the government in March 1995. The President's Conference that was held at the end of March 1995 discussed and endorsed the national framework for small business development and promotion.

The National Strategy for Small Business Development and Promotion was followed by the challenge of implementation. Structures and programmes were put in place. Broad time frameworks were also set. Short-term implementation was mainly preparatory work. This work included preparation for the Discussion Paper and analysis of grassroots feedback, and preparation of the White Paper.

South Africa's SMME strategy has come under heavy criticism over the past few years (Sukazi 2004). Government has put various support structures in place to assist small business but to date these efforts have not met with far-reaching success. The previous Minister of Trade and Industry admitted that his department had failed in its chief objective of supporting and growing the small business sector in South Africa (Erwin 2000:11). Minister Erwin attributed this to weaknesses in government procurement strategies, a lack of human resources and poor co-operation by banks as the biggest shortcomings in its mission to create employment in small business. In addition he stated that government's slow turnaround time in paying small businesses places a severe drain on the cash flow of small business.

Alistair Ruiters, director-general of The Department of Trade and Industry (DTI) from 2000 to 2005 emphasised that the DTI needs more money, more skills and a long-term vision for economic growth (Boyle 2005).

Tanya van Meelis, trade and industry co-ordinator for the Congress of SA Trade Unions, was of the opinion that although Ruiters had been effective and open, his departure could be seen as an opportunity for labour and for the economy (Boyle 2005). Echoing criticism from several business analysts, she said his focus on restructuring the department had, to an extent, been at the cost of delivery to business and labour.

Business also faulted the DTI on the lack of an accessible, broad strategy tying together the various initiatives coming out of a strong research capability. They joined the chorus of criticism about trying to get in touch with the department, if one did not have the cellular telephone numbers of the key players with whom one needed to talk .

According to the DTI and its latest available statistics in conjunction with Statistics South Africa, the small business sector employs close to 50% of the country's workforce (Stats SA:2005:17). It nevertheless appears that almost 80% of SMMEs fail annually due to a lack of management expertise (Karangu *et al.*, 2000:47). Mrs Lindiwe Hendricks, Deputy Minister of Trade and Industry, confirmed this finding that appointed institutions such as Khula and Ntsika, that were established to provide finance and training, had failed in their efforts to make the expected impact (Monteira 2004).

2.6.1 Khula Enterprise Finance Limited

The Khula guarantee scheme, in which government acts as guarantor for loans through its agency, is a good idea in principle, but has been poorly implemented in many instances as well as ineffectively marketed.

Khula, was established to increase access to finance among smaller firms. Khula provides an 80% guarantee to banks for loans offered to smaller firms. The GEM Report (2002:41) established that only 9.3% of applicants loans were successful. This is an indication that Khula's services are benefiting very few disadvantaged entrepreneurs. As a result, disadvantaged entrepreneurs are once again unable to secure bank loans.

2.6.2 Ntsika Enterprise Promotion Agency (NEPA)

NEPA recognised the lack in capacity of retail service providers (especially LBSCs) owing to the difficulties with the implementation of the National Strategy and the lack of a network of NGOs ready to act as service providers (Saldanha 2003:4). NEPA was therefore occupied with setting up such a network to give SMMEs non-financial

assistance. Karungu *et al.*, (2000:31) mention in this regard that the staff also feel restricted by being a wholesale provider only, and would prefer to act as a retail service provider in certain instances.

Severe criticism on past delivery was recorded, which provides information that can be used in fine-tuning the newly formed Small Enterprise Development Agency (Seda) offering and management systems. Seda was formed as a result of the merger between Ntsika and Namac.

Seda will hopefully learn from the following complaints as documented in the Mehlo report (Mehlo 2005:67-78):

2.6.2.1 Unskilled and Inexperienced Enterprise Development Workers

The quality of LBSCs was inconsistent and Ntsika's attempts at accrediting service providers did not work. The main reason for this seems to be that unqualified and inexperienced business advisors were employed. Participants noted that serious retraining of service providers was needed for better service delivery, or people with some business experience should have been employed to interact with the business clients.

A big problem identified was that not many mentors were able to help small business owners. A mentor's intervention must be tailor-made and highly individually crafted for the specific business owners. There was more of a need for a business coach than a business mentor - someone who could help develop business owners individually. Mentors were of a low standard. They were not equipped with the right knowledge, and many tended to mentor businesses in such a way that the business became dependent on them.

An organisation which had the experience of dealing with a range of service providers found that the LBSC and Ntsika service providers were *the weaker ones when it came to delivery* (Mehlo 2005:67-78). Further Education and Training colleges were better qualified to offer the training. The best ones were private

operators. Mentors and business advisors were underpaid, which was very demotivating, especially since they helped other people to make money.

Experiences with the DTI call centre varied and it was even described as excellent, although a lot of complaints were recorded when the user went beyond the first level of interaction with the call centre.

2.6.2.2 Bad Customer Service

The majority of salaried enterprise development officers were not motivated enough, it was noted. As a result the quality of personal service (not the products) was very bad. It was in fact so bad that, as some respondents indicated, business clients were rather not referred to the DTI. Ntsika's phone correspondence was specifically mentioned and criticised.

2.6.2.3 Inappropriately Structured Products

After entrepreneurs were trained, many did not return for training or workshops because the training happened in isolation. Training should be linked to specific business advances. It was indicated that government subsidised mentorship programmes were too short. The current vogue of demand-driven services is leading to training and business plan development for people who want to start businesses in hopelessly overtraded markets.

2.6.2.4 Wrong Approach or Emphasis

It was noted that the products were generally too generic. They lacked a sector focus. There was too much emphasis on business plan development, marketing plans and bookkeeping skills, and too little emphasis on personal development training – working on people's attitude.

Current support services neglected screening candidates for entrepreneurship. They took on all clients just to get the numbers through the door, instead of referring them for vocational training.

Tendering advice emphasised filling in the form, and neglected business training aspects such as costing and pricing and project planning. NAMAC had been criticised for ignoring new businesses.

2.6.2.5 Disorganisation

Ntsika's mandate changed very often, causing constant change of their products and forcing business centres to realign their services all the time, resulting in confusion in the market. There was also a high management staff turnover.

Some participants indicated that the TAC programme was excellent, but that Ntsika let the funding dry up. Similar stories were told by business owners who were not funded for approved programmes.

2.6.2.6 Delays and Red Tape

It was noted by many participants that the process of accessing products and services was just too cumbersome. This led to many opportunities going astray. DTI incentive schemes were particularly inaccessible and user-unfriendly. It was proposed that DTI agencies should be more flexible in their approach to intermediaries. Some participants felt that the Brain website needed to be updated more frequently with business procedures and where and how to access information and tenders. It was also stated that it should be integrated with walk-in-centres for assistance, as many participants were unfamiliar with surfing the Internet.

2.6.2.7 Very Low Public Profile

The quality of the services and products, whatever they may be, were totally overshadowed by the inaccessibility of the institutions, many participants felt. Khula, Ntsika and NAMAC were not known in the market and only a fraction of those that knew about these services had used them.

2.6.2.8 Profound Pessimism

Some profoundly cynical opinions, which went beyond categorising under the headings above, were also recorded. It was stated by a few that Seda should disband and leave enterprise development to the business world.

Positive remarks about current and past enterprise development products were much fewer than complaints, and often they came with a “but”:

- The TAC was an excellent product, but Ntsika let the funding dry up.
- The MAC programme was excellent but should also be adapted to small and micro enterprises.

The DTI call centre was considered by some to be a professionally run service, but suffered from the fact that the services and offices to which they referred callers lacked efficiency.

Although they complain a lot, many of the business owner participants acknowledged the support they got through services such as training, consulting on productivity issues and mentorship.

Let's hope there's a better institution this time. If they fail this time then I don't know where or how they are going to get the confidence back. The merger of Ntsika and Namac to form Seda is fine and hopefully they will provide a package...You (have to) get a package... that lifts you up. (Business owner cited in Mehlo 2005:67-78).

2.6.3 Local Business Service Centre (LBSCs)

LBSCs do not, however, function effectively, because the cost of such a network of LBSCs turned out to be far too high for NEPA and the DTI to finance. Furthermore, LBSCs have limited access, and entrepreneurs are frustrated about the lack of access to information at these centres (Thomas 2001:1). The lack of access to information at these centres is also exacerbated by the location of LBSCs.

2.6.4 Red Door Business Plan

The key issues confronting our people are job creation and poverty alleviation. Ebrahim Rasool, premier of South Africa's Western Cape province, used the above line in 2005 when launching the Red Door initiative, an R18 million training programme aimed at enabling emerging entrepreneurs to break into the micro-enterprise sector (Keenen 2006). Delegates were escorted to the African Economic Summit in June 2005 held at the Red Door's signature office in Khayelitsha, a township thirty minutes away from Cape Town.

Lynn Brown, Western Cape Minister of Finance, Economic Affairs and Tourism, paints a picture of a one-stop shop for micro-businesses. Red Door staff are not supportive of these statements. They claim that that is the usual political exaggeration. Like many state and aid-driven projects to help the poor, the political need to claim success has led politicians to commit funding before determining if the project is working (Keenen 2006).

A Red Door manager, stated that references to training were exaggerated as the training is extremely rudimentary. The training programme then consisted of only three modules. Potential entrepreneurs who visited Red Door in its first year only received training lasting a few hours, on basic business knowledge, planning and advice on applying for state and provincial tenders. She regarded the training as incomplete as there was no follow-up with the entrepreneurs so as to monitor their progress.

Red Door managers, who prefer not to be quoted, have pressured the Western Cape government to radically slash the numbers, and bring in a genuine mentorship programme. In the first year they had 4484 visitors with a limited number of consultants and were unable to do justice to the service provided as it was about quantity and not quality.

Danny Meyer, who assists small business in Namibia, has failed to identify how the assistance provided by Red Door consultants would make a major difference in the lives of entrepreneurs. From a political level Red Door sounds good but practically

they were just another small business centre being ineffective. Meyer was not convinced that the people doing the actual consulting were able to speak with authority as they had never run their own business (Keenen 2006).

Gisele Yitamben, the founder of Asafe, a programme aimed at empowering women entrepreneurs in Cameroon, shares the concerns. She saw the whole exercise as too superficial. In her opinion it was about getting the numbers through the door, which a meaningless exercise, as interviewing people and perhaps even facilitating loans, was not job creation (Keenen 2006).

There are success stories. One is Sizisa Ukukhanya Services. Owner Bongani Ndinisa says that Red Door remodelled his business plan and used it to facilitate funding for a painting contract that his company had won, but did not have the working capital to complete. Based on the success he set up Koncoshe Capital, a micro-loans company that lends money to other start-up businesses that cannot obtain funds through the formal channels (Keenen 2006).

Koncoshe's success is great, but I question where the job creation aspect comes in? All I see is a middleman between the banks and entrepreneurs who is adding to the cost of obtaining money. (Meyer as cited in Keenen 2006).

Says a Red Door manager: *The common expectation is that once we listen to their stories we will facilitate loans. It's not our business. But in reality what can we possibly teach people that have been in a micro-business that cannot possibly employ more than one person? (Keenan 2006).*

All of the above criticisms are similar to criticisms expressed by various researchers on the topic of SMME support in South Africa (Mehlo 2005:62 & McGrath 2003:58).

2.6.5 Problems facing SMMEs

The medium-term phase for addressing challenges faced by SMMEs stretched up to the year 2000. It included developing a systematic funding framework for SMME

support, developing monitoring and evaluation systems for program assistance, regulatory monitoring and adjusting existing programs and shifting emphasis in SMME support from central or provincial to local economic development.

On a longer-term phase, based on the progress made up to the year 2000, there is further expansion of target programmes, beginning of the phasing out of some programmes (sunset clause to become effective) and ongoing streamlining of the institutional framework.

Nagoyi (1997:7) and the White Paper listed a number of problems that SMMEs are facing. The following problems were identified:

- (i) Unfavourable legal environment.
- (ii) Lack of access to markets and procurement.
- (iii) Lack of access to finance.
- (iv) Low skills level.
- (v) Lack of access to information.
- (vi) Lack of understanding.
- (vii) Apathy.
- (viii) Shortage of effective supportive institutions.

2.6.6 Carana Report

The Department of Trade and Industry commissioned the mid-term evaluation of the National Strategy for the development and promotion of small business in South Africa. This project was undertaken by an international consulting firm, the CARANA Corporation and two South African consulting firms (Upstart Business Strategies and MSS consulting group) that undertook specific parts of the analysis (Carana Report 1999:3).

The evaluation was intended to provide a frank and practical assessment in order for government to make the National Strategy more effective in meeting the critical national objectives of job creation, income generation, and economic growth (Carana Report 1999:3).

The strategy has encountered enormous difficulties and growth pains in achieving impacts in such a short period of time, that is, three years since its implementation. Many of the disappointing early results can be attributed to South Africa's lack of entrepreneurial tradition and culture among the previously disadvantaged populations, as well as the lack of basic education and management experience needed to run successful businesses. These factors alone will mean the progress will be slow, regardless of the resources committed to these efforts.

The evaluators were specifically asked to evaluate the key objectives, the institutional framework created by the strategy, the programmes created by these institutions and the utilization of resources.

The following is a brief highlight of some of the findings reflected in the Carana Report 1999:6 – 10):

2.6.6.1 National Integration Lacking

The National Strategy is not integrated and therefore the national plan does not link all programs at national and regional level and therefore cannot achieve defined goals. DTI may well have been authorized to spearhead the process, but does not have the autonomy nor the mandate to make crucial decisions which would integrate all government programmes.

2.6.6.2 Market Segmentation Problematic

The strategy does not differentiate between the ability of the different target groups (micro, small, and medium) to create jobs. Most job potential is in the small business category and in manufacturing, not in the micro survivalist category and retailing activities. Small businesses (between 10 – 50 employees) have not benefited greatly from the strategy's efforts to improve their access to finance.

2.6.6.3 Lack of Effective Co-ordination and Linkages

The National Strategy is seen as leaderless and not effectively coordinated. There is also very limited policy co-ordination and communication between the CSBP, Ntsika and Khula. Ntsika does not link training programmes in terms of mentoring of trainees.

2.6.6.4 Unsuccessful Marketing

Ntsika is largely unsuccessful in marketing services to target groups. It is basically a hit and miss marketing strategy. Many of the government-subsidised support centres, such as local business service centres, have been unable to deliver anything meaningful to entrepreneurs. The wholesale nature of both Ntsika and Khula Enterprise Finance has been the root of many problems in the implementation of their objectives (Sukazi 2004).

2.6.6.5 Conservative Approach

Despite an efficient and professional internal organization, Khula's programmes have fallen short of their objectives. Khula is too risk averse, too conservative for an organization with strong development objectives, the design is flawed, requiring that Retail Financial Intermediaries lend to the *unbankable* and yet be self-sustaining at the same time. RFIs are not commercial banks, yet Khula's charter requires them to function as such. Khula's success is dependent on whether the commercial banks wish to lend to small business, which, in general, they do not. The credit guarantee program has thus far fallen far short of its objectives, serving mainly an estimated 62% of medium-size White-owned businesses (Carana Report 1999:3).

The first assessments of the functioning LBSCs reveal a diverse range of experiences. Nevertheless, many functioning LBSCs do make a real contribution towards poverty eradication as well as the reduction of racial economic inequalities. Admittedly, in line with the overall focus on viable micro-enterprises, some LBSCs mainly deal with the more established SMMEs and often have a specific focus on manufacturers.

The training programmes of several of the LBSCs are perpetuating women's concentration in certain traditional activities such as sewing, dressmaking and knitting. In addition, the LBSCs are experiencing problems of financing and more acutely, of shortages of manpower to deal with the daily volume of clients.

Improving access to finance to support SMMEs is crucial to the success of the LBSC programme. Central responsibility for expanding access to finance is played by the linked work of Khula Enterprise Finance and Khula Credit Guarantee which were established in 1995 as a result of the DTI White Paper on Small Business.

Inherent in the present programme of Khula is a bias towards the funding of the more established SMMEs rather than survivalist enterprises. None the less, it must be acknowledged that Khula is acutely sensitive to poverty issues and places considerable significance in its evaluative performance and monitoring of gender and rural outreach issues.

Survivalist, micro and small enterprises have very little or no access to capital in South Africa. This is to the detriment of the attempts at economic upliftment in the country as most of the previously disadvantaged entrepreneurs operate in these types of enterprises. Owing to administrative costs of banking and limited entrepreneurial sophistication, formal institutions are unlikely to serve these enterprises successfully (DTI 1998:9). This is mainly due to the following constraints faced by formal institutions in making SMME investments.

There are two categories of constraints, namely:

- i. factors relating to debt and equity – these factors include high overhead and administrative costs, high risk of business failure, low returns on SMME investments and cost of making the investment; and
- ii. factors relating to debt – these factors include an inability to accurately assess the level of risk, lack of collateral especially previously disadvantaged entrepreneurs and the cost of registering and realising collateral (DTI 1998:12).

As a result of the lack of access to resources, these enterprises are dependent on NGOs, micro lenders and family for financing. Funding for survivalist and micro enterprises is provided by NGOs who provide two types of funding to these enterprises: (i) loan finance for up to R6 000 in a group-based lending scheme, and (ii) individual loan amounts for up to R50 000 (DTI 1998:7).

Key personnel involved in policy formulation and implementation concede that the national SMME programme does have multiple and conflicting goals and that there is a need for choices to be made clear in order to tighten the foci and directions of the set of national SMME support initiatives. As yet, however, it is "too early" to discern which of the varying objectives for the programme are taking precedent in the targeting of funds and support programming (Rogerson 1997: 24-26)

2.7 CONCLUSION

SMME development and promotion is such an important issue that it cannot be left in the hands of only one department, in this case Khula.

The World Bank (2002: 31) takes the view that *achieving dynamic growth in employment is not as critical as improving the contribution that these businesses make to household income and welfare*. By contrast, in the White Paper on Small Business 1995, the signal is given that *small business policies will for a considerable time also have to focus on the particular needs of black enterprises and ways to overcome the remaining consequences of that (apartheid) legacy* (South Africa 1995a:13).

Inappropriate regulation has the effect of stifling entrepreneurship and of dividing the economy into formal and informal sectors. Too much regulation can act as a *perverse incentive* for businesses to remain small and informal (Paton 2004).

It is important, however, not to lose sight of the potentially significant role of local intervention for SMME development. In particular, for groups of survivalist enterprises, engaged for example in hawking or the running of spazas, the activities of local government can exert a profound impact upon the economic health of these

kinds of enterprises. The establishment of formal markets, land use zoning and infrastructure provision, among others, are key areas of local government intervention which can impact either positively or negatively upon the workings of such survivalist enterprise (Harrison *et al.*, 1997:43-47).

For many survivalist micro-entrepreneurs it is about paying the rent or putting food on the table. However, they should not be excluded from the long term plan of economic development in South Africa. Entrepreneurship is first and foremost about people. Although individuals may start off as survivalist entrepreneurs, they have the potential to grow their business with the necessary assistance. The level and quality of education of entrepreneurs have a significant impact on their capacity to create employment (Von Broembson 2006).

As Ahwireng-Obeng (2005:14) observes, it remains unclear how government will resolve this dilemma as policy is in a state of confusion and data documentation and research are in scanty. Although Government displays a strong commitment to SMME entrepreneurship, the implementation is inconsistent, as the flawed policy which narrowly focuses on finance and skills, is poorly delivered (Mochiko 2004).

Chapter 3 will focus on the methodology used when doing the research and the design of the interview questionnaire so as to obtain the information needed for the study.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

Survivalist micro entrepreneurs have very little access to capital, training or mentorship. This is part of the challenge which has to be addressed in South Africa, as most previously disadvantaged entrepreneurs operate in this sector (Von Broembson 2006). Job creation is critical in South Africa where unemployment is increasing. The October Household Survey in 2004 saw unemployment as high as 27.8% as compared to 25.8% in 1999 (Statistics South Africa). Self employment is seen as the driving force of economic growth in developing countries (Jennings 1994: 298). The quantity of emerging entrepreneurs is not as important as the quality of start-ups.

Without a concerted co-ordinated effort by governmental departments, financial institutions, businesses and non governmental organisations, the survivalist micro entrepreneur will be unable to prosper and contribute to the economic growth in the country.

Access to finance, training and mentoring has to be seriously addressed by government if the challenge of turning survivalist micro-entrepreneurs into opportunist micro-entrepreneurs is part of the plan for poverty alleviation. This research is focused not only on the difficulties experienced by the survivalist micro-entrepreneurs when trying to access funding, training and information but also on the type and quality of funding, training and information available from business, non governmental and governmental organizations.

3.2 RESEARCH METHODOLOGY

For this study, the collection of primary research data made use of a qualitative research design and a quantitative research design. The difference between qualitative research and quantitative research lies in the quest for understanding and the depth of the investigation. In recent decades there has been a move by researchers to develop methods and approaches which provides some bridging

between the two extreme viewpoints. This bridging is referred to as triangulation and this research approach can work towards overcoming the potential bias and sterility of single method approaches (Mangan, Lalwani, & Gardner 2004: 569).

In qualitative research there is usually no control exercised over the participants, as the freedom and natural development of action and representation displayed, is what the researcher wants to encapsulate. Essentially qualitative research focuses more on the depth of the research than on the *quantity of understanding* (Henning, Van Rensburg & Smith 2004:3). One of the main concerns when doing research is the representativeness of the sample, and whether the feedback obtained from this sample is valid and could be ascribed to a larger group (Janes 2001: 419).

Quantitative research focuses on the control of the action and representation of the participants. The outcome or the desired results will therefore be guided by pre-determined questions which are carefully designed so as to establish a relationship between the answers obtained in the research. Essentially quantitative research does not allow participants to express data that cannot be captured by pre-determined instruments (Henning *et al.*, 2004:3).

Data was collected using qualitative (structured personal interviews) research and quantitative (questionnaires) research. A workshop co-ordinated by a CLOTEX facilitator and a Land Bank consultant was conducted so as to ascertain the various problems encountered by survivalist micro entrepreneurs when attempting to access resources in starting their business or assisting when the business is up and running.

An initial 25 (twenty five) entrepreneurs from the Cape Flats area were invited to the workshop. The workshop was eventually conducted with 17 (seventeen) entrepreneurs from the Cape Flats area.

As it was important to get the balance of the questions correct for the compilation of the questionnaire which would be used to gather information from the 17 (seventeen) micro-entrepreneurs, a workshop was conducted to establish what problems the

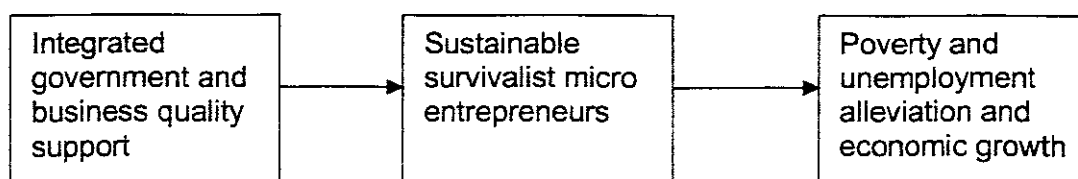
micro entrepreneurs experienced when trying to access resources (Janes 2001: 420). Information gathered from the group who attended the workshop, assisted in the compilation of the questionnaire (Annexure B).

As the focus of the research was an investigation into survivalist micro entrepreneurship, 13 (thirteen) micro-entrepreneurs were identified as survivalist micro entrepreneurs and the remaining four entrepreneurs were excluded as they did not fit the criteria of the research.

Qualitative research is a process used to deepen the understanding of complex social and human factors in ways that cannot be understood with numbers (Kerlin 1999).

The use of the questionnaire as a research instrument assisted in providing the data required to analyse the findings of this study. The survey method was used as it was considered the most appropriate for this type of research as it entails asking a set of pre-formulated questions in a predetermined sequence in a structured questionnaire of a sample of individuals so as to be representative of a defined population (Trochim 2002); in this study the defined sample being the survivalist micro entrepreneurs.

Figure 3.1: Research Model for Sustainable Micro Entrepreneurship



Present author: 2006

In figure 3.1 above, a research model is displayed which depicts a quality integrated business and government support programme which will ensure sustainable survivalist micro entrepreneurship, thereby reducing the poverty and unemployment levels so as to contribute towards positive economic growth.

3.2.1 Sample Size

To establish what difficulties were experienced by the survivalist micro entrepreneur sector when trying to obtain financial and training assistance, the sample group of 13 (thirteen) micro entrepreneurs were interviewed and identified as survivalist micro entrepreneurs.

The data was obtained via personal interviews which were guided by questionnaires compiled from the workshop held to ascertain the difficulties experienced by micro-entrepreneurs. The geographical area was the Cape Flats area in the Cape Metropole of the Western Cape. A provincial study would have been economically unviable.

The entrepreneurs were involved in a range of services from selling chickens, making and selling tracksuits, making clothes, selling house-hold products, repairing audio equipment, producing woven goods, selling dried fruit, nuts and sweets, supplying sand and stone to building sites, making furniture, welding, selling clothes, providing transport, removing rubble as well as consulting for Land Bank. All the entrepreneurs interviewed showed potential and the ability to grow the business with the requisite assistance, that being financial assistance and skills training (Roodt 2005:18). The research focused on survivalist micro entrepreneurs and excluded opportunist micro entrepreneurs.

With the co-operation of a Land Bank consultant, a co-ordinator at CLOTEX and the business workshop conducted at CLOTEX, the researcher was able to determine the main problems experienced by the survivalist micro entrepreneurs. The initial 17 (seventeen) entrepreneurs all participated in the workshop but as the research only focused on survivalist micro entrepreneurs, the four entrepreneurs who were not identified as survivalist micro entrepreneurs only participated in the workshop and not in the personal interviews. The size and form of ownership excluded them from the face-to-face structured interviews.

In the final analysis, a total of 13 (thirteen) micro entrepreneurs from the SMME sector formed the sample population.

3.2.2 The Questionnaire and Interviews

The primary data collection was conducted through 13 (thirteen) 40 – 50 minute structured personal face-to face interviews using the questionnaire in Appendix B, so as to ensure uniformity and objectivity. Face-to-face interview methods often result in the best quality data as more questions can be asked, questions which are misunderstood can be re-phrased, the number of *don't know* type of responses are then also decreased and the completion rate is higher (Janes 2001: 420). According to Janes (2001: 419), questionnaires and interviews should be as concise as they can possibly be, as each one should be important for the research undertaken. Janes further expands on this point by stating that questions should not be asked merely because they can be asked, rather that the questions should have a meaningful purpose.

The questionnaire (Appendix B) used to capture the information provided by the survivalist micro entrepreneurs was a carefully constructed questionnaire used to obtain data which could be analysed at a later stage. Age, educational and literacy levels were taken into consideration when the questionnaire was compiled (Denscombe 2003:145). The same questions were posed each of the entrepreneurs in the same sequence so as to ensure uniformity. The areas of enquiry included questions about governmental assistance and the availability of resources for survivalist micro entrepreneurs. The interviews were kept to the parameters of the questionnaire.

The purpose for the face-to-face interviews was to determine the extent to which the respondent understood the questions and thereby to ensure that the views expressed were based on personal experiences. The personal interview conducted by the researcher allowed for clarification of any questions not understood (Trochim 2002). The findings of the personal interviews were documented and analysed.

Entrepreneurs Interviewed

1. Mr B Busaka
2. Ms D Christians
3. Mr A Daniels
4. Ms W Davis
5. Ms P Doolgen
6. Ms J Duminy
7. Ms A Fakier
8. Mr A Gardener
9. Mr C Lategan
10. Ms F Mohammed
11. Mr A Moloto
12. Ms S Peters
13. Ms B Warden

The above-mentioned survivalist micro entrepreneurs all had some type of contact either with CLOTEX or Land Bank, whether for financial assistance or skills training. The information pertaining to the micro entrepreneurs was sourced from the CLOTEX facilitator and the Land Bank consultant. All the respondents gave permission for all information gathered, to be used in the research. The interviews were conducted at CLOTEX between July and October 2004.

3.2.3 Purpose of the Research

True entrepreneurship means contributing to society. This entails creating values for owners, stakeholders, customers, employees and the economy as a whole. This is emphasized by Winston Churchill when he said: *We make a living from what we get, we get a life from what we give* (Staff Reporter 2002:23).

The purpose of this research was firstly to determine the difficulties experienced by the survivalist micro-entrepreneurs when trying to set up a business and secondly to determine whether the resources which are available will contribute towards the sustainability of survivalist micro-entrepreneurship. The ability to generate sufficient

income and create value separates firms that fail from those that succeed (Timmons 1994: 9-10).

3.3 CONCLUSION

The research focused on a sample of micro entrepreneurs who had either approached Land Bank or Clotex for assistance. Within this sector, 13 (thirteen) survivalist micro entrepreneurs were targeted and interviewed so as to record their experiences and establish whether the SMME initiatives could overcome the barriers with regards to access to resources.

There is an urgent need in South Africa for job creation. The self employed in South Africa cannot afford to fail as one of the tasks of the self employed is to assist in sustainable job creation. For the self employed to succeed, government and business intervention will be required (Roodt 2005:18).

In Chapter 4 the findings will be analysed and interpreted using Microsoft Excel as a means of graphically displaying the information in the form of pie charts, histograms and trend graphs.

CHAPTER 4: ANALYSIS OF RESULTS

4.1 INTRODUCTION

The qualities of a successful entrepreneur are hard to isolate and define. It would be impossible to provide a perfect outline.

Entrepreneurs come in many different shapes and sizes. The only question that remains is whether we really have what it takes (Sharma 1999:16).

To establish what difficulties were experienced the researcher obtained the information via personal interviews using questionnaires compiled from a workshop held with 17 (seventeen) micro-entrepreneurs on the Cape Flats in the Western Cape. The one-to-one interviews were conducted with a sample population of 13 (thirteen) survivalist micro entrepreneurs involved in a range of services who have the ability to grow their businesses with the requisite assistance.

4.2 ANALYSIS OF THE RESEARCH RESULTS

The results analysed in the various charts and graphs are based on responses received from the 13 (thirteen) micro entrepreneurs. The results indicate that access to the various resources, not only from the financial institutions but also from the governmental departments, were perceived as the major stumbling block for many of the entrepreneurs. In addition, the lack of experience, lack of understanding of business procedures and lack of management training in the particular field of business proved to contribute to the failure of SMMEs in the Western Cape.

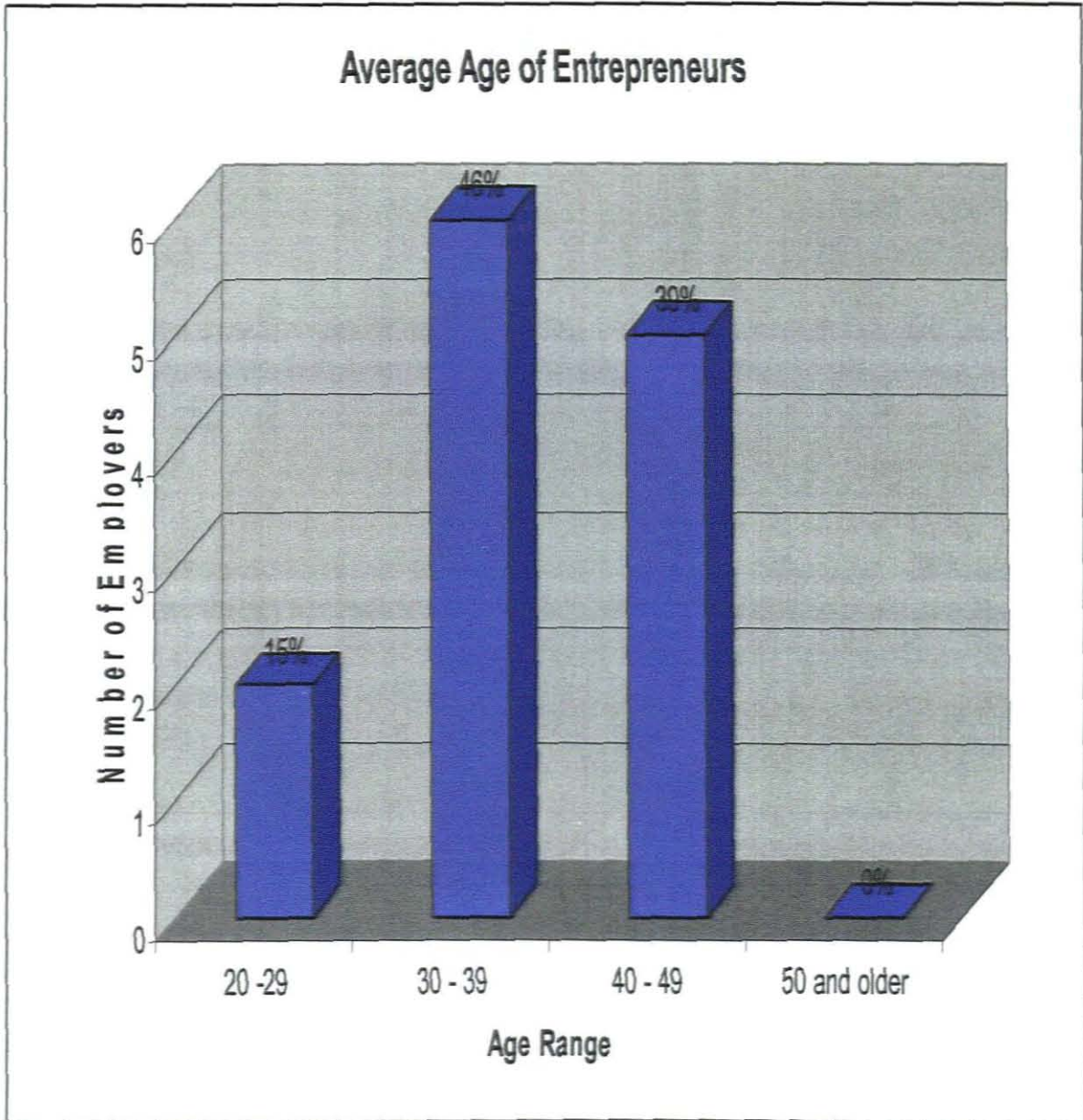
4.3 RESPONSES

In the final analysis 13 survivalist micro entrepreneurs formed the sample population. The graphical representation is a response to the questions asked in the personal interview.

4.3.1 Age of Entrepreneurs

The figure below gives an indication of the range of ages of the micro entrepreneurs.

Figure 4.1 Average age of the entrepreneurs

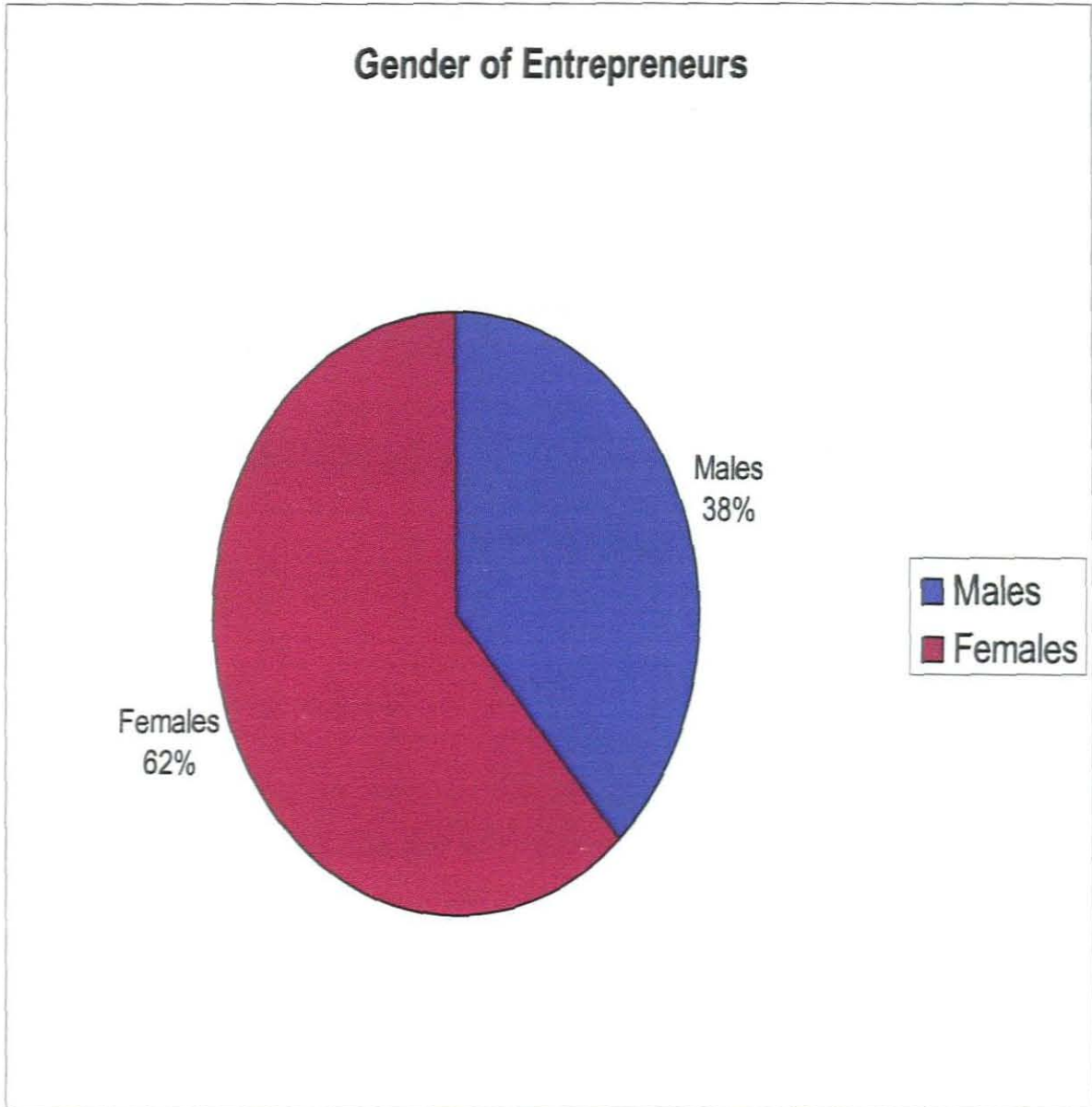


The result of the study showed that 46% of the respondents were between the ages of 30 – 39, 39% were between the ages of 40 – 49 and 15% were between the ages of 20 – 29.

4.3.2 Gender of the Entrepreneurs

The figure below illustrates the gender of the entrepreneurs.

Figure 4.2 Gender of the entrepreneurs

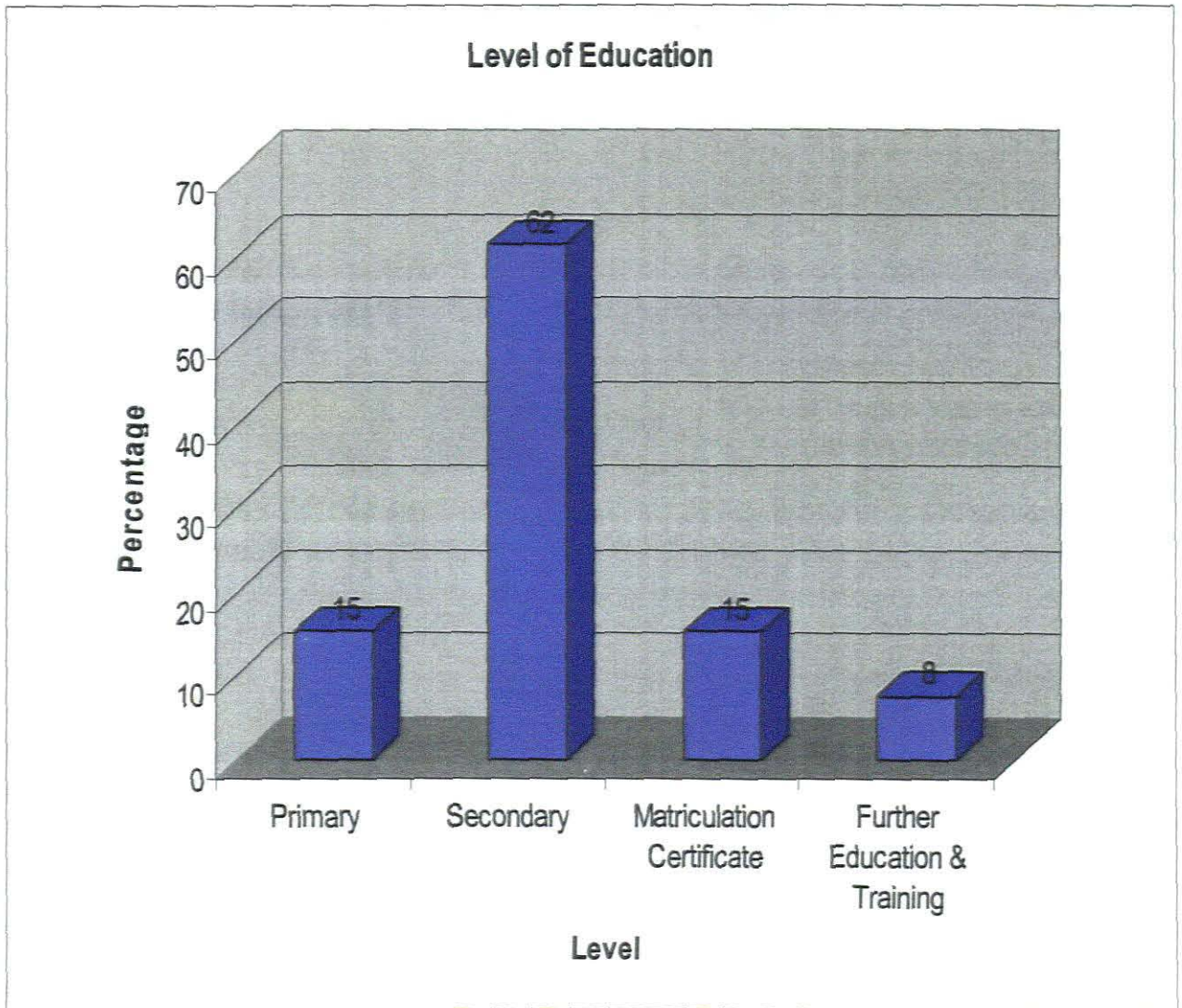


The results indicated that the females were the dominant sex in this sample. Of the micro entrepreneurs interviewed, 62% were females. The remaining 38% were males.

4.3.3 Level of Education

The figure below illustrates the range of educational level of the sample of micro entrepreneurs.

Figure 4.3 Educational level of micro entrepreneurs

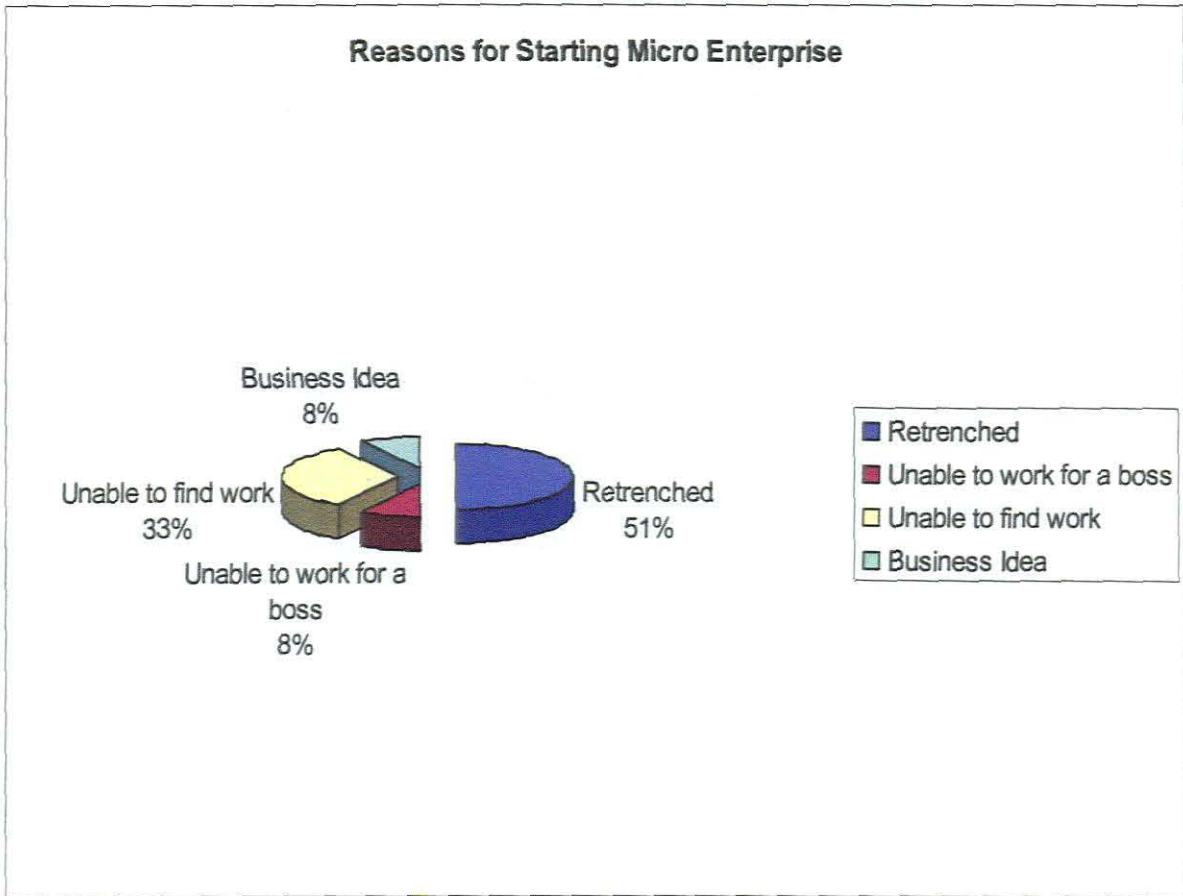


The majority of the respondents (62%), indicated that a secondary education had been received. Of the sample interviewed, 15% indicated that only a primary education had been received. A further 15% indicated that a matriculation certificate was obtained and the remaining 8% received a tertiary education, although incomplete.

4.3.4 Reasons for Establishing Own Business

The figure below illustrates the percentage and the reasons for people starting their own businesses.

Figure 4.4 Reasons for starting micro-enterprise

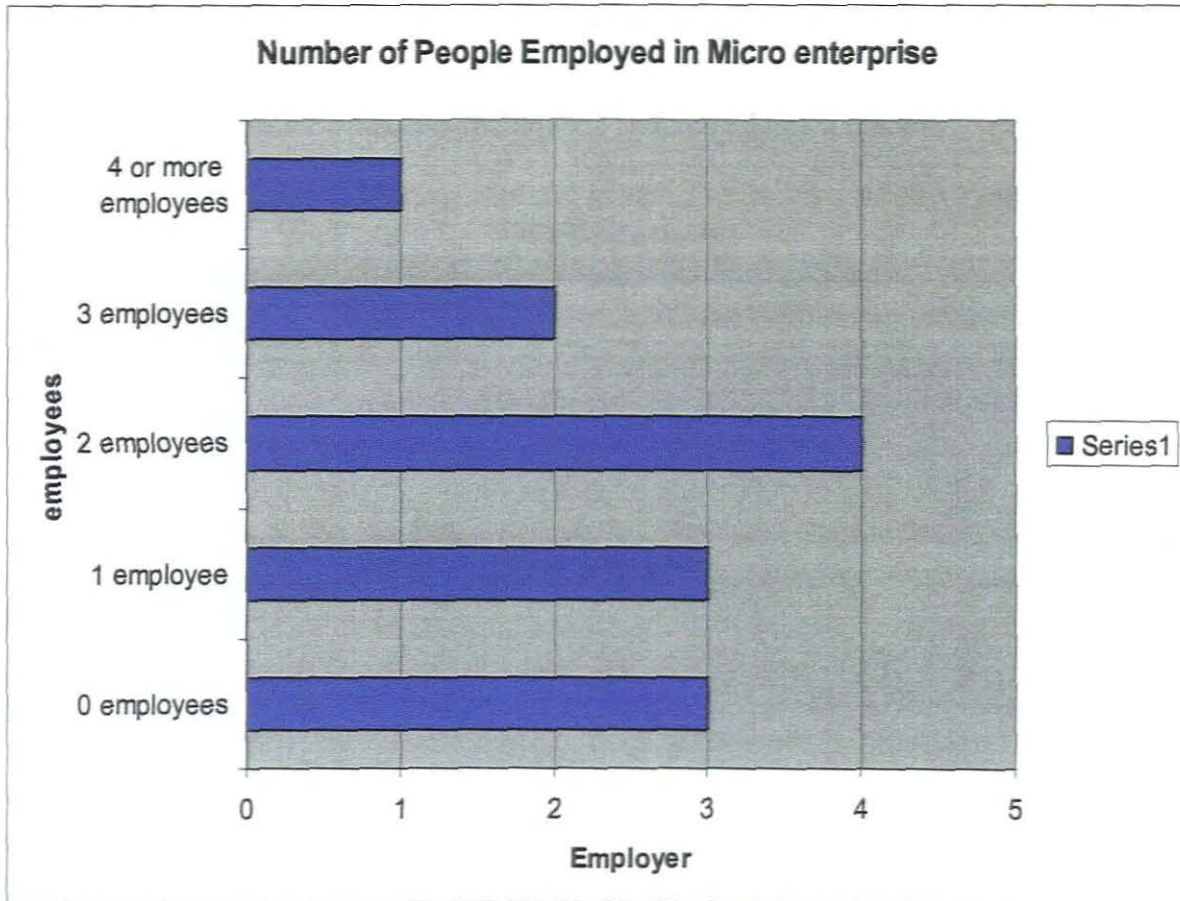


Of the sample population, 8% reported that the business was established as a result of a business idea. In addition, a further 8% reported that they were unable to work for a boss and therefore decided to start their own business. Of the sample group, 33% reported that they were unable to find work and had to resort to starting their own business so as to derive some type of income. The majority of the respondents indicated that they had been retrenched and had been forced into starting their own business, as searching for employment proved futile.

4.3.5 People Employed by the Micro Entrepreneurs

The figure below indicates how many people were employed by the micro enterprise.

Figure 4.5 Number of people employed in micro enterprise

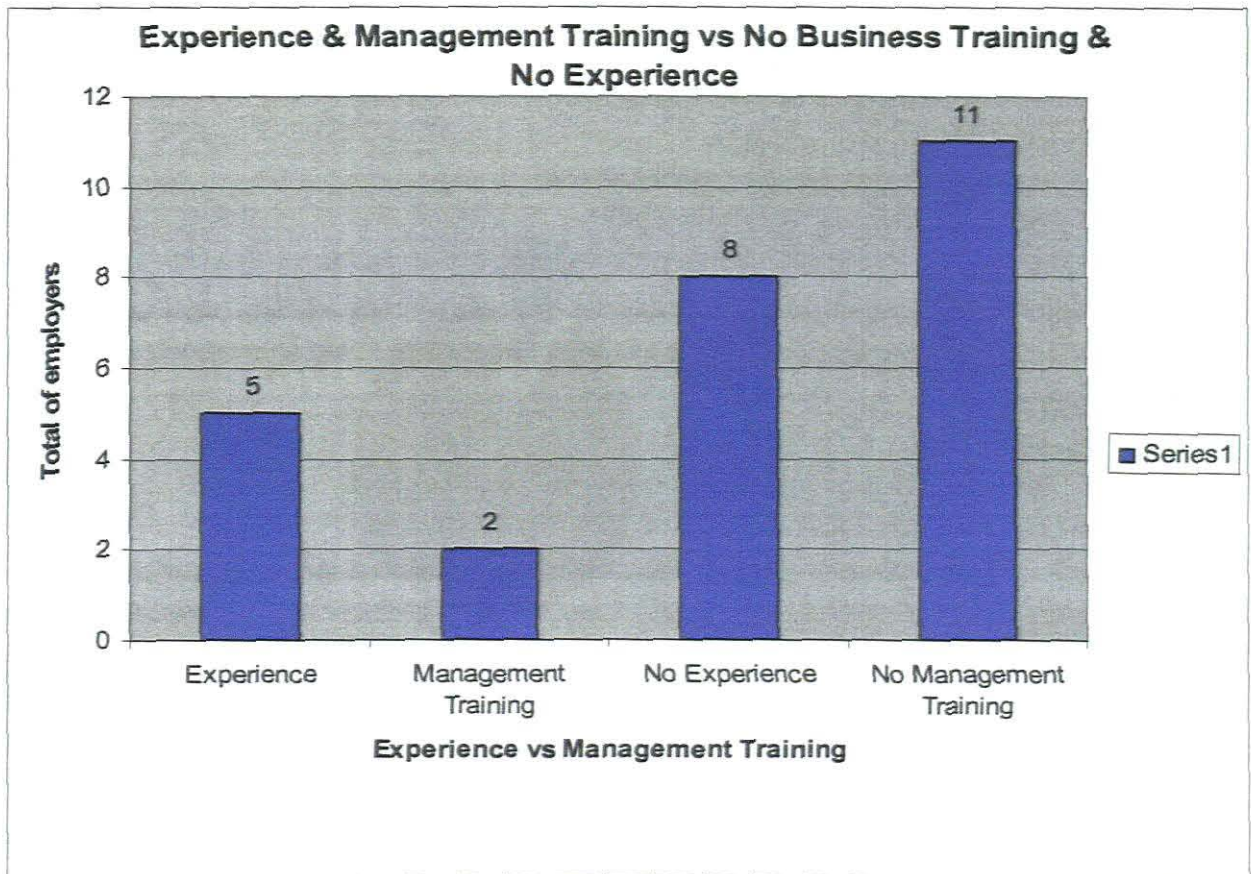


The responses from the entrepreneurs indicated various results with reference to the employment of staff to assist in the running of the business. Of the results represented in the graph, 23% of the respondents indicated that the business was managed and operated by the owner and that no employees were employed to assist. A further 23% indicated that one employee was needed for the running of the business. Of the sample population, 31% indicated that two employees were required for the running of the business. Three employees were required by 15% of the sample population and 8% required four or more employees for the running of the business.

4.3.6 Experience and Management Training

The graph below indicates the number of entrepreneurs who had experience in the business they were in and received management training as opposed to the number of entrepreneurs who had no experience in the business they were in and who had also received no training to assist them in running this type of business.

Figure 4.6 Correlation between experience and management training

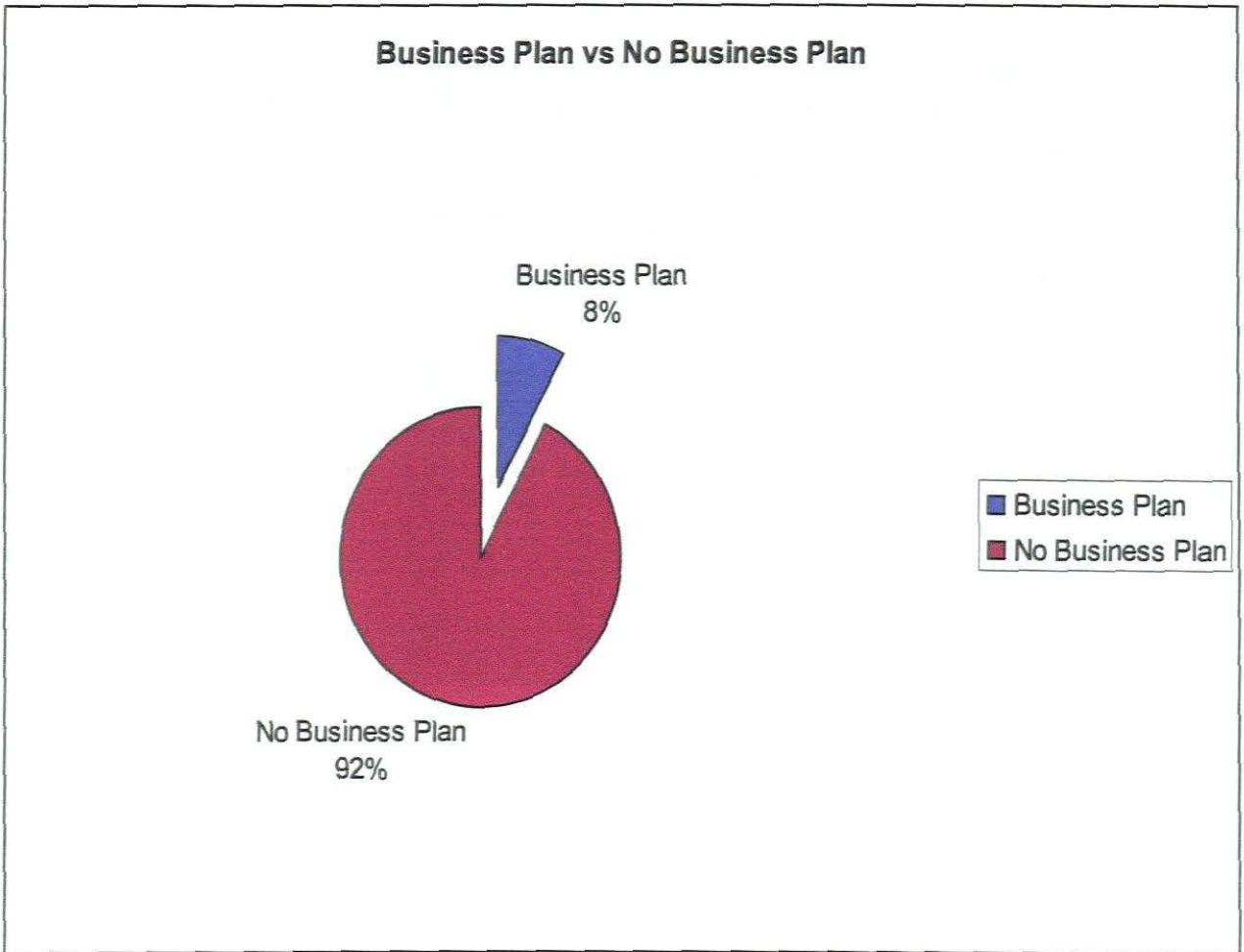


The analysis reveals that of the sample population, 38% started the micro enterprise with previous experience in the type of business established, whereas 62% had no previous experience in the type of business established. With regards to receiving management training to assist in the establishment of the enterprise, only 15% received some form of management training. The remaining 85% decided to start the business without any formal management training.

4.3.7 Preparation of a Business Plan

The figure below provides representation of the entrepreneurs who started the business with a business plan as well as without a business plan.

Figure 4.7 Business Plan

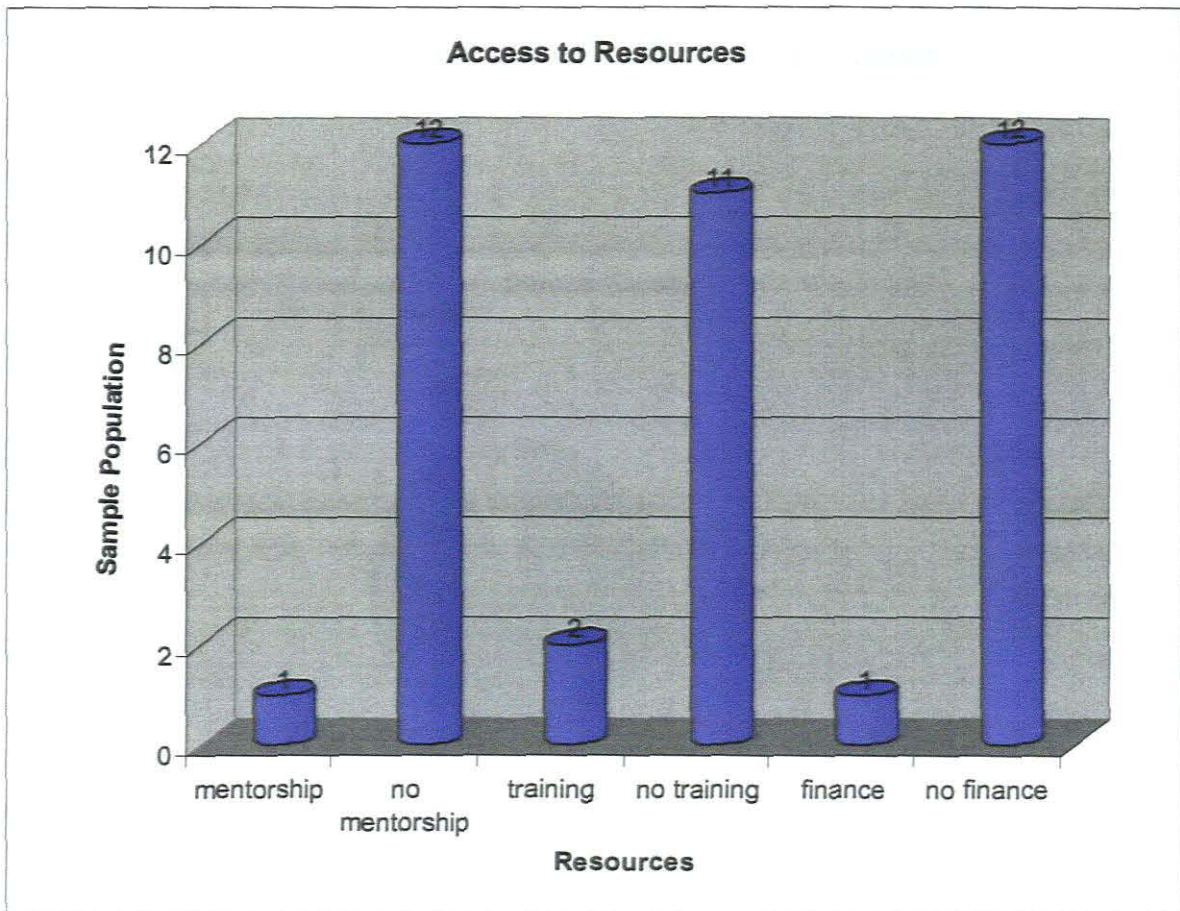


Of the sample population, only 8% had prepared a business plan when first establishing the business. The majority of the sample population, that being 92%, had not prepared a business plan as they did not know how to or understand the relevance of the business plan.

4.3.8 Access to Resources

The graph below depicts the resources available to the entrepreneurs.

Figure 4.8 Resources available

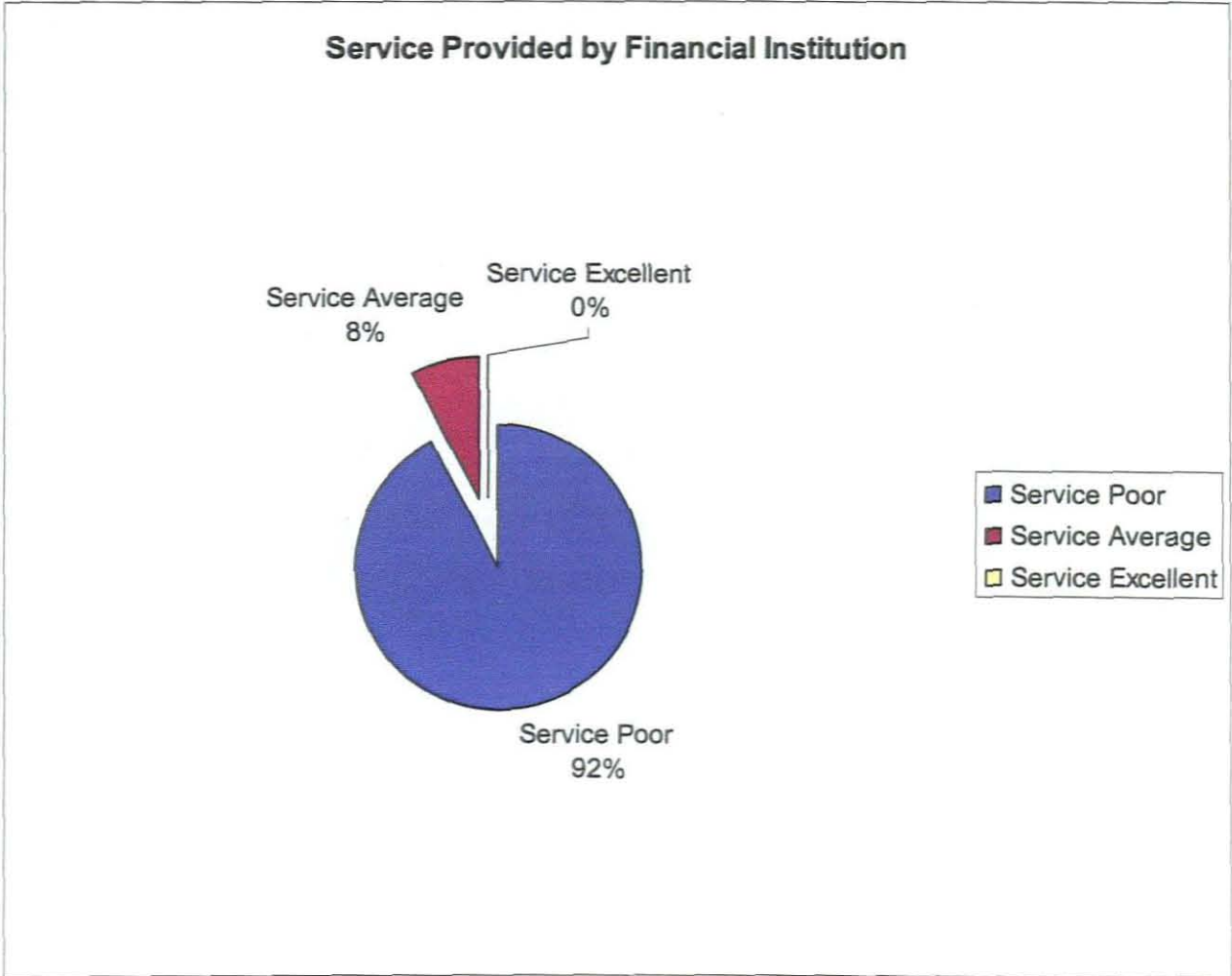


The response by the sample population indicated that only 8% had access to mentorship in some form, whereas 92% were unaware of any form of mentorship offered. Training was only accessed by 15% of the entrepreneurs and 85% were unaware as to any type of training available or how to access the training. Only 8% of the entrepreneurs were able to access any type of finance. The majority of the entrepreneurs, being 92%, attempted to access finance for the establishment of the micro enterprise but were unsuccessful.

4.3.9 Rating of Financial Service

The chart below illustrates the ratings received for the financial institutions.

Figure 4.9 Service provided by financial institution

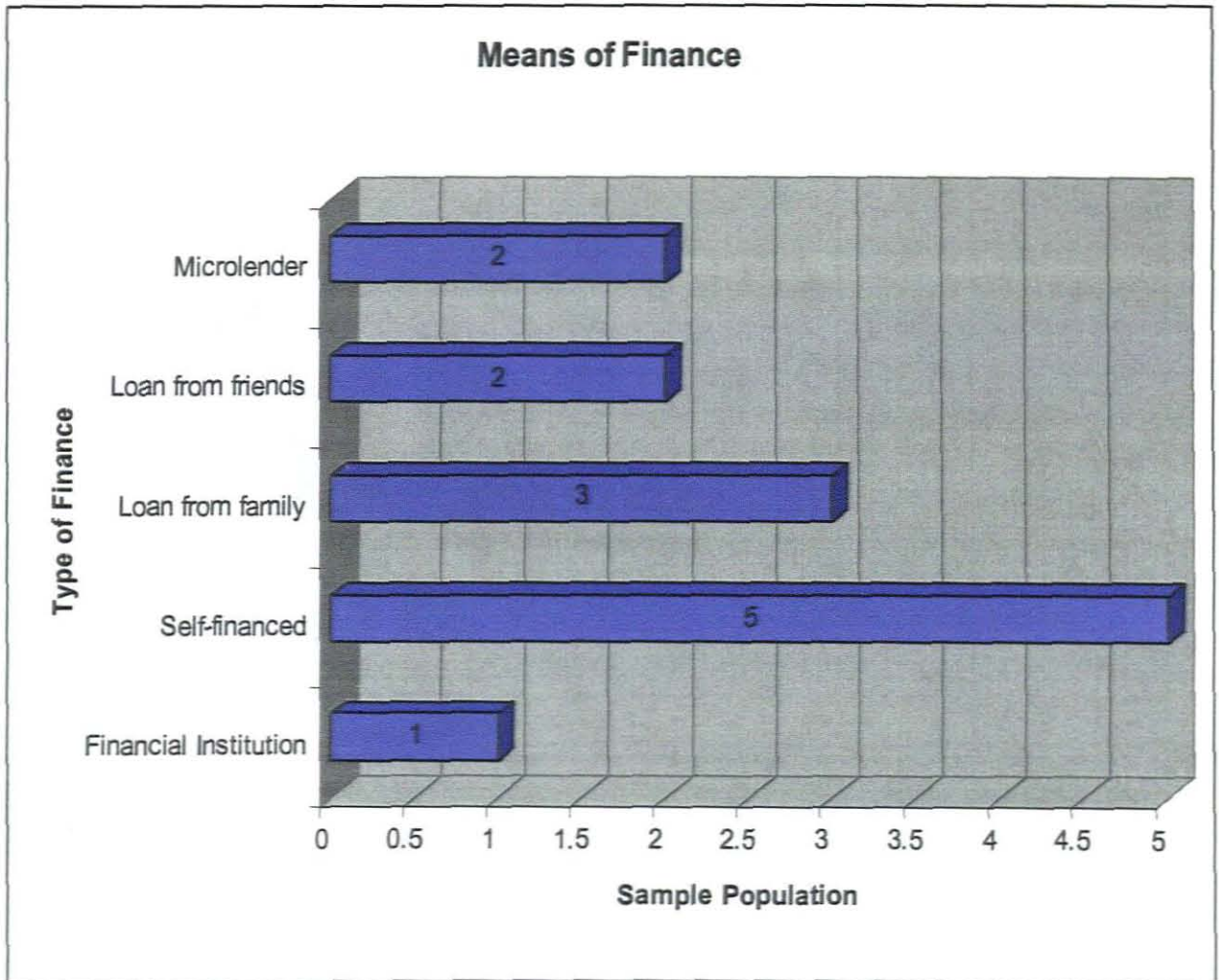


All of the entrepreneurs had approached financial institutions for finance to assist in the start-up of the business. The response with regards to the service received indicated that 92% had not received any positive assistance, nor was finance granted. The remaining 8% rated the service received as average, even though finance was granted.

4.3.10 Type of Finance

The graph below depicts the type of finance utilized by the micro entrepreneurs for the start-up of the enterprise.

Figure 4.10 Means of finance

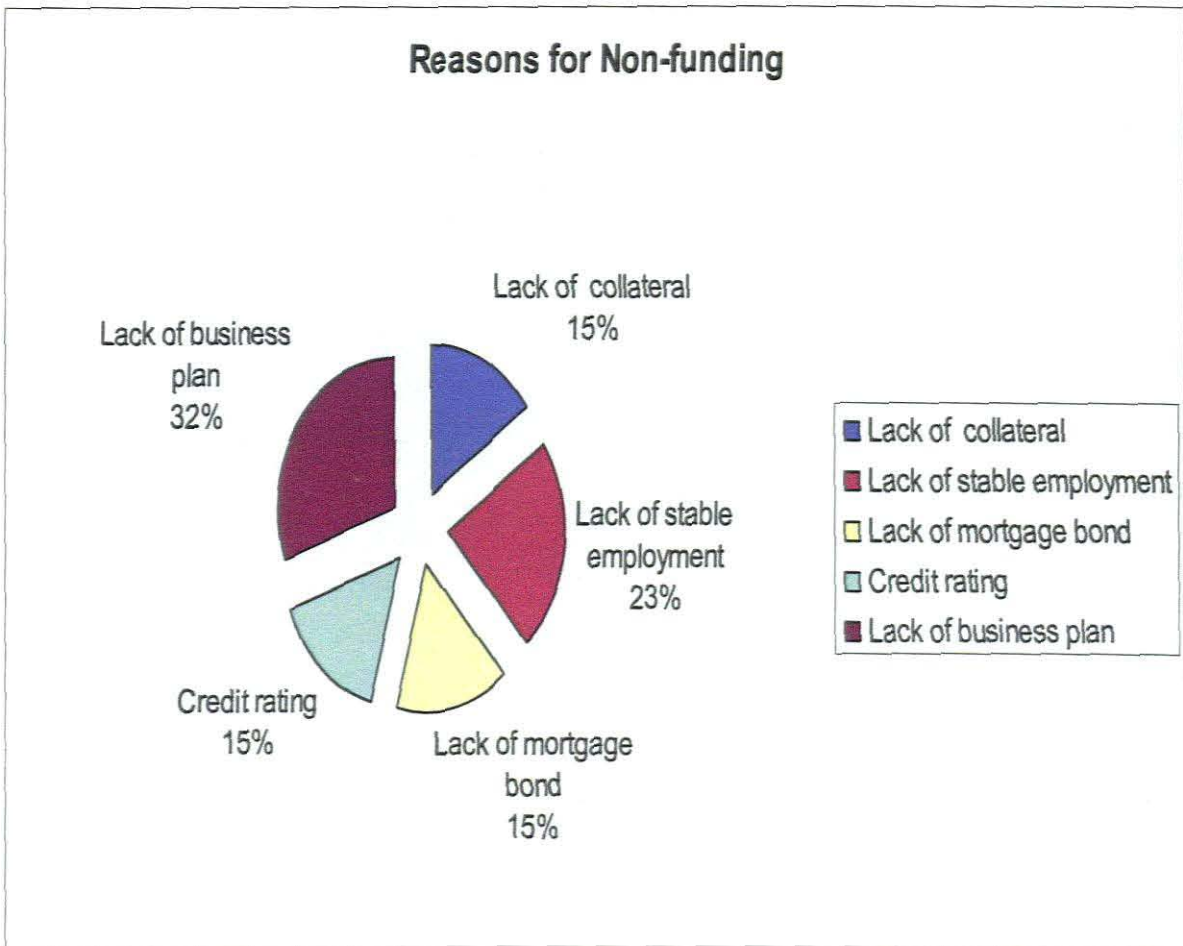


Of the sample population, 38% of the entrepreneurs indicated that the business was self-financed. Of the remaining entrepreneurs 23% indicated that loans had been received from family members, 15% indicated that loans were obtained from friends, 15% had obtained loans from micro-lenders and the remaining 8%, being the minority, had received assistance from a financial institution.

4.3.11 Financial Difficulties Experienced by Entrepreneurs

The chart below indicates the reasons for non-funding given to entrepreneurs when trying to access funding from various financial institutions.

Figure 4.11 Reasons for non-funding by financial institutions

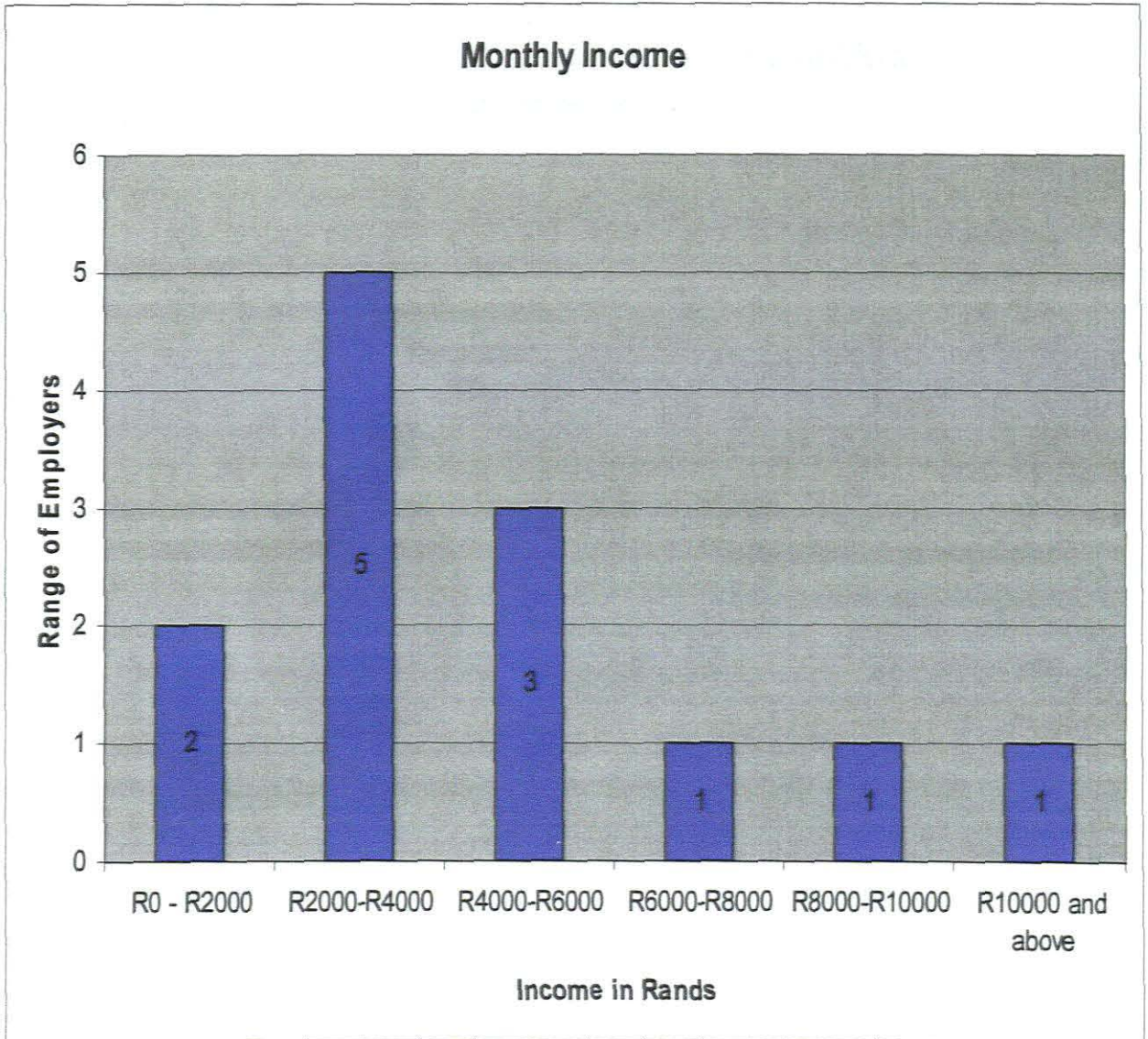


The applications by the sample population were met with various responses from the financial institutions. The financial institutions refused 32% of the applicants as a result of a lack of a business plan, 23% were refused as they had no stable employment, therefore having no means of repaying the loan, 15% were refused as they owned no property, 15% were refused on the basis that they had no surety and the remaining 15% were considered high risks as they were blacklisted as a result of bad debt.

4.3.12 Income Received by Entrepreneurs

The graph illustrates the income received by the entrepreneurs.

Figure 4.12 Monthly income received

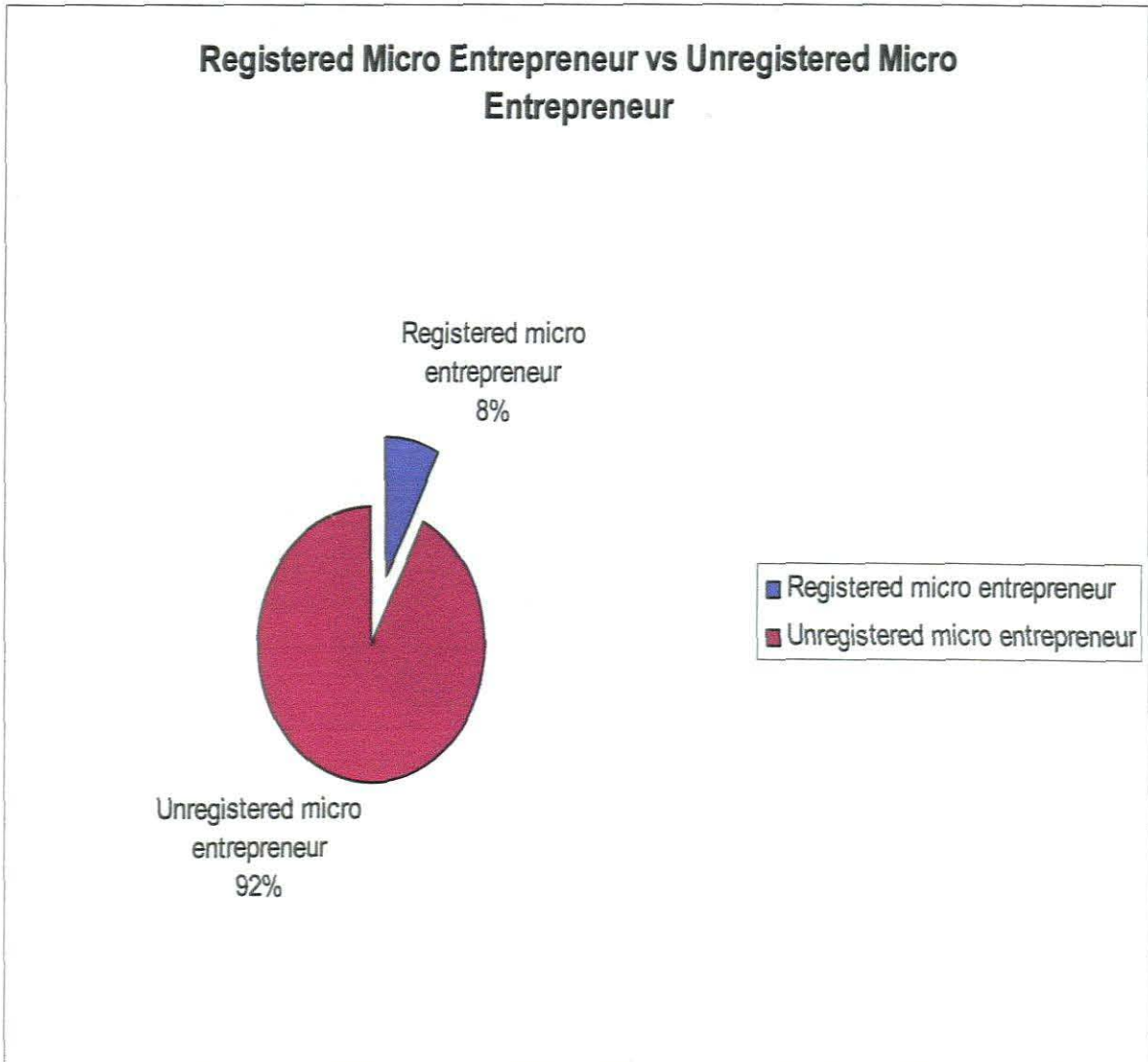


The personal interviews yielded the information that 15% of the sample population received a monthly income of no more than R2000, 38% received an income no higher than R4000, 23% received an income no higher than R6000, 8% received an income no higher than R8000, 8% received an income no higher than R10 000 and the remaining 8% received an income higher than R10 000.

4.3.13 Business Registered

The chart below illustrates the percentage of entrepreneurs who had registered the business and the percentage who had not registered the business.

Figure 4.13 Business registered or unregistered

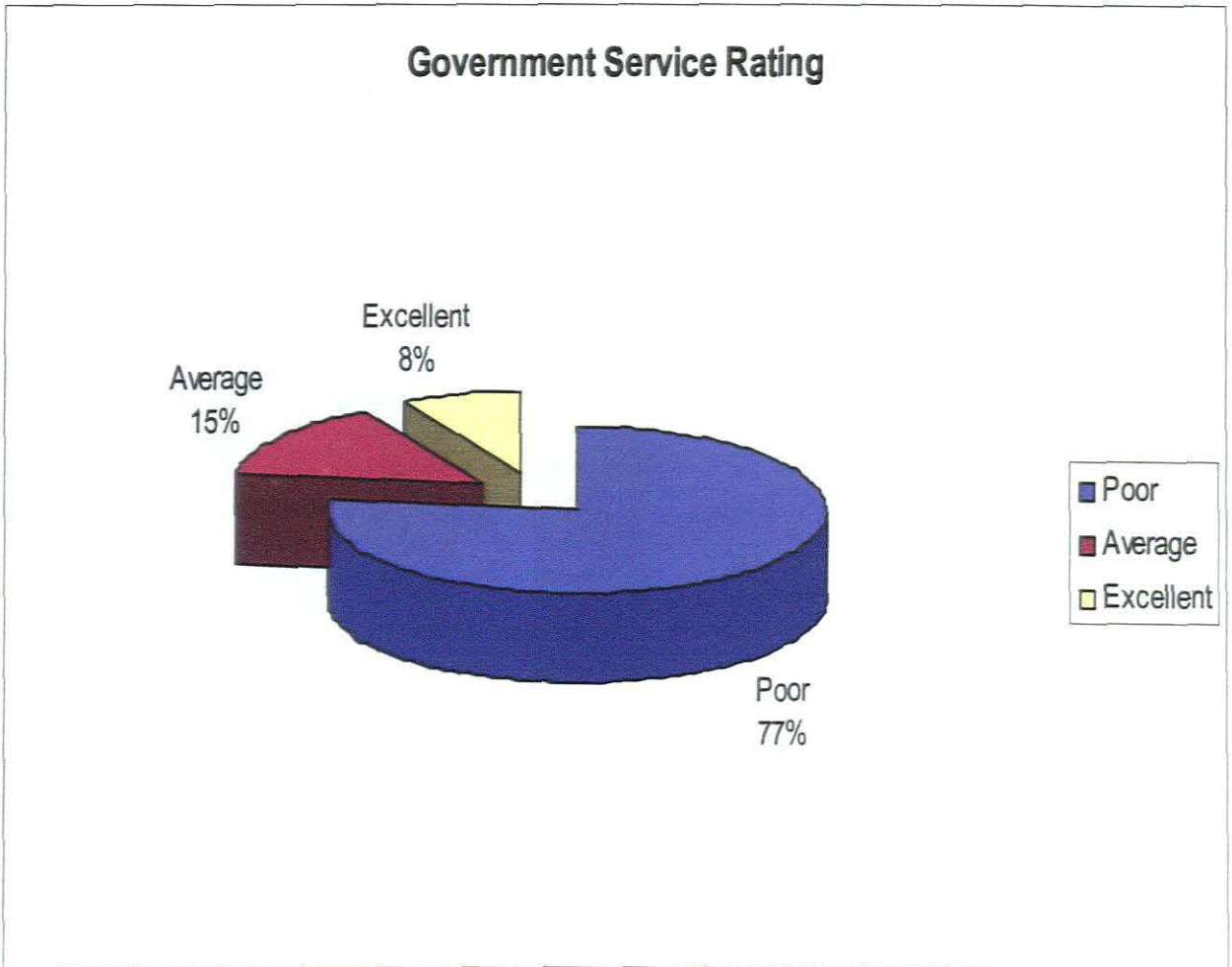


Of the sample population, 92% of the entrepreneurs indicated that the business was unregistered with the South African Revenue Service and therefore the employees were also unregistered with the Unemployment Insurance Fund. The remaining 8% were registered with the South African Revenue Service as sole traders and the employees were also registered with the Unemployment Insurance Fund.

4.3.14 Government Assistance

The chart below indicates the response recorded in the interviews about the quality of service received from government departments.

Figure 4.14 Rating of government service

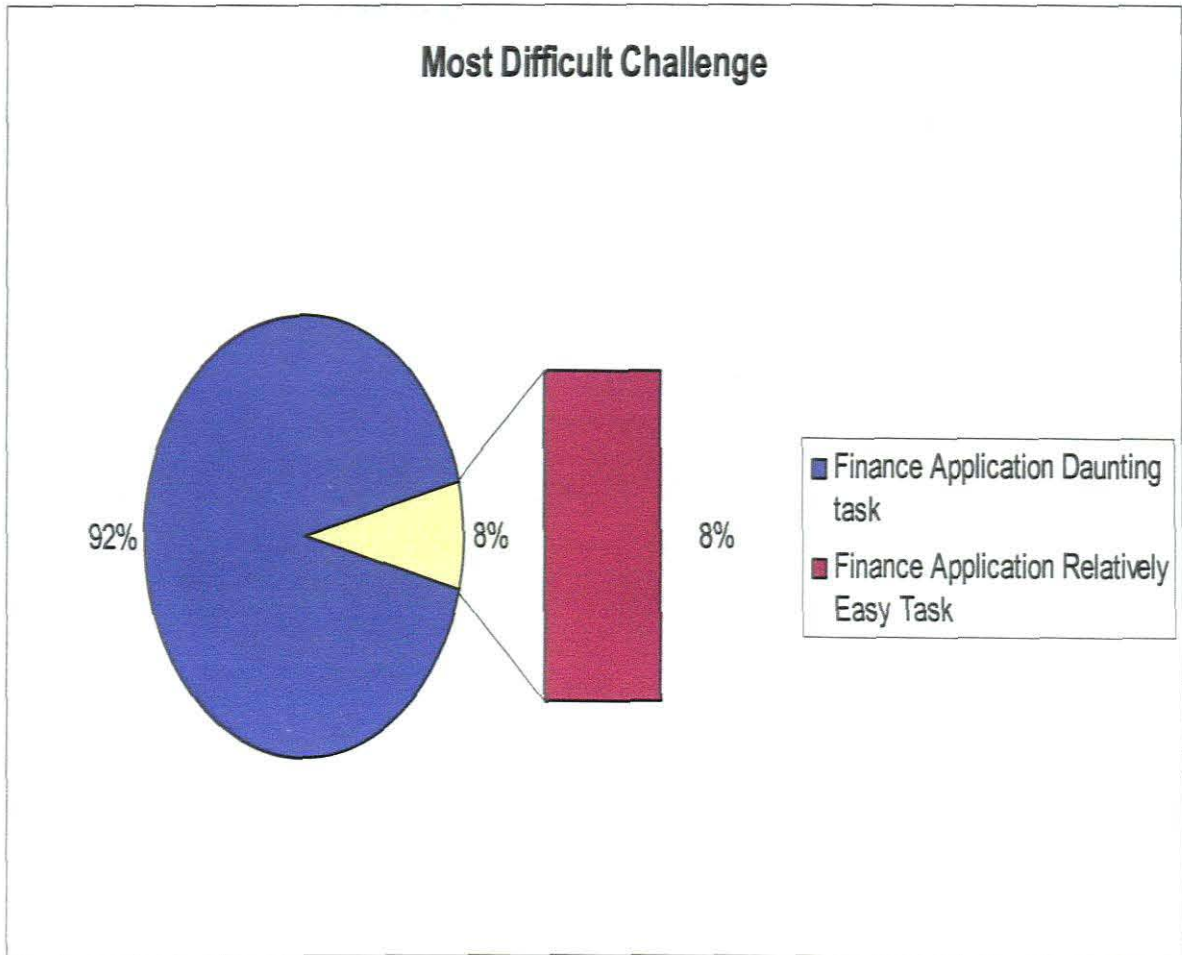


The response from the sample population indicated that service received varied greatly and that it depended on the consultant with whom the entrepreneur liaised. Excellent service was received by 8% of the entrepreneurs, whereas 15% stated that the service received was average. The remaining 77% were very unhappy with the service received and rated the service as poor.

4.3.15 Most Difficult Aspect when Starting a Business

The chart below illustrates the response from the sample population with regards to the most difficult aspect of establishing a business.

Figure 4.15 Complexity of finance acquisition

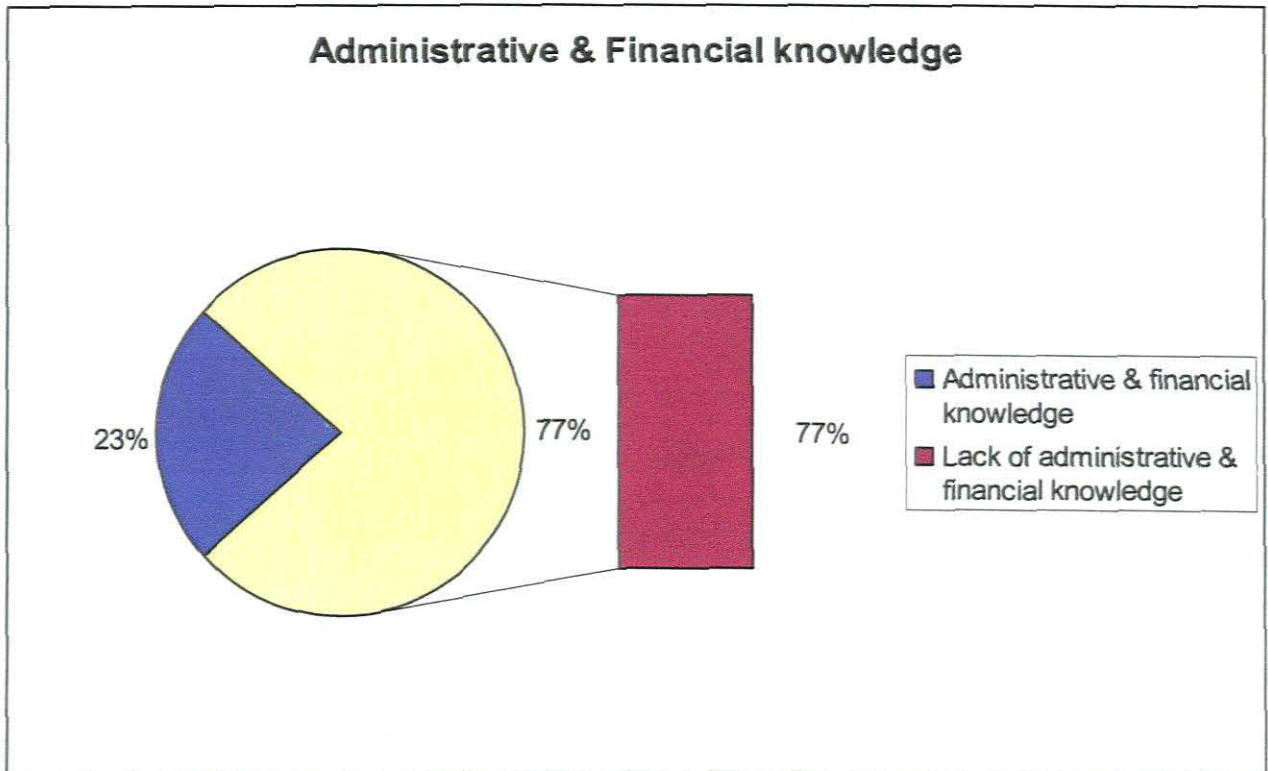


The responses received from the sample population of micro entrepreneurs reinforced the perception that application and acquisition of financial assistance is the most daunting task and a real issue which many of the entrepreneurs had to face when starting a business. The responses revealed that only 8% of the sample population claimed that the application for finance was not as daunting and complex as perceived. The remaining 92% stated that the acquisition of financial assistance was the most challenging aspect when starting a business.

4.3.16 Second Most Difficult Challenge when Starting a Business

The chart below indicates the response from the sample population with regards to the second most difficult aspect when starting a business.

Figure 4.16 Administrative and financial knowledge versus lack of administrative and financial knowledge

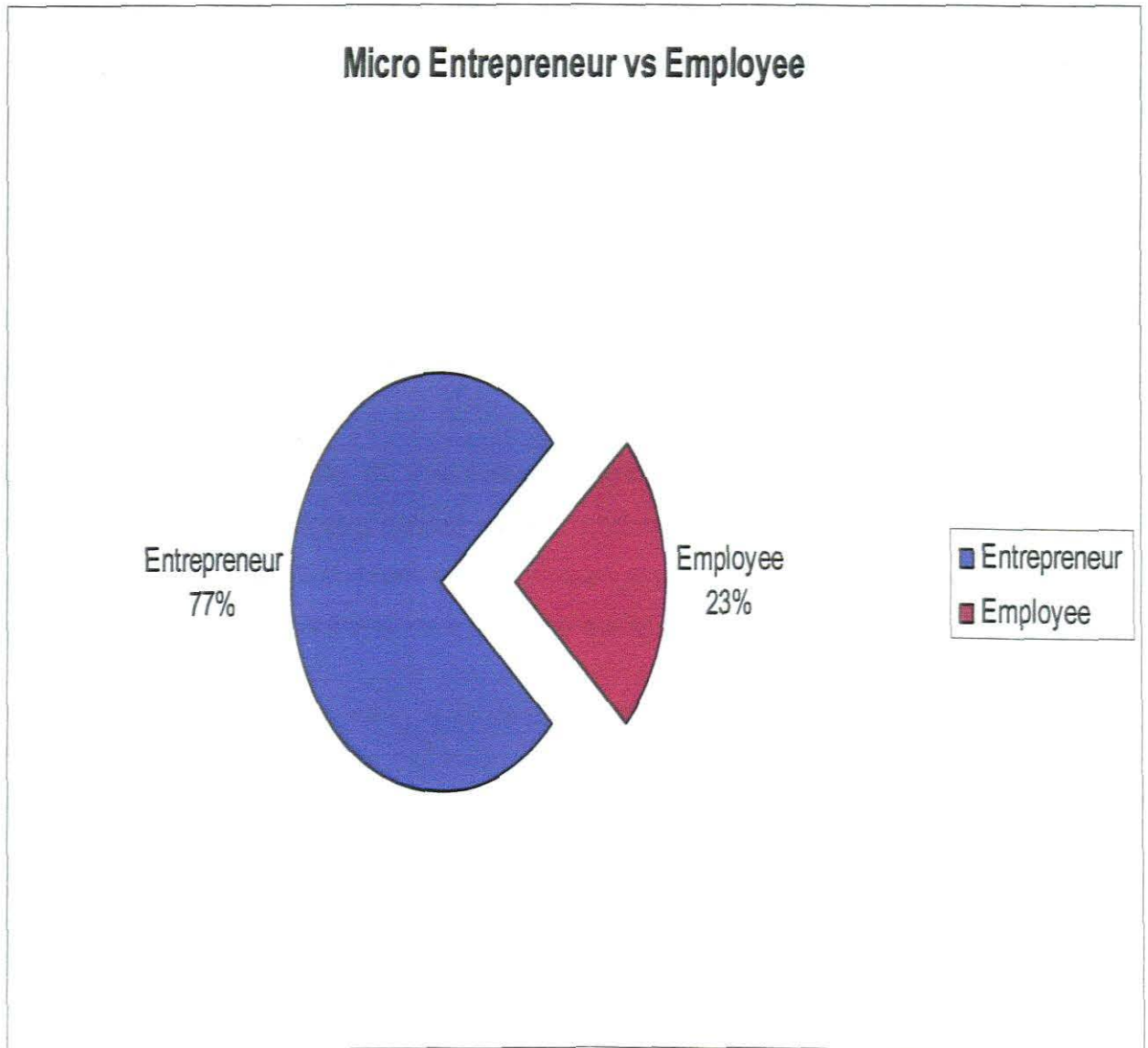


The second most difficult challenge experienced by the entrepreneurs was the lack of understanding with regards to the administration and financial procedures required to run a business. Only 23% of the sampled population had knowledge and an understanding of administrative and financial aspects which pertains to running a business. The remaining 77% had never received any training and were unaware of the complexities involved with regards to administrative and financial procedures when running a business.

4.3.17 Entrepreneur versus Employee

The chart below illustrates the response of the sample population who prefer to be entrepreneurs rather than employees of an entrepreneur.

Figure 4.17 Micro entrepreneur versus employee



Although the respondents reported many more challenges than benefits with regards to starting a business, only a minority of 23% indicated that they would prefer to be employees rather than entrepreneurs. The majority (77%) stated that they would not want to work for someone else and preferred being an entrepreneur.

4.4 CONCLUSION

All of the micro entrepreneurs were willing to undergo business training so as to contribute to the success and growth of their business so that it not only became sustainable but also served as empowering other entrepreneurs. The responses indicated that the quality of information, training and support received was sub-standard as very often the consultants were unsure about the information given, or displayed little or no interest. In addition, turnover of consultants at these organizations contributed to the lack of continuity.

Responses by the majority of the sample population indicated a feeling of helplessness and reported that government policies, departments and organizations formulated to promote micro entrepreneurship and assist in the establishing and mentoring of SMME entrepreneurs, were ineffective.

In Chapter 5 the results of the research and recommendations for the various stakeholders, such as government, NGOs and business will be discussed so as to ensure that the survivalist micro entrepreneurs are provided with the necessary skills and infra-structure so that they can become sustainable.

CHAPTER 5: DISCUSSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The literature review and the findings of the personal interviews conducted by the author supports the notion that micro entrepreneurship is vitally important not only to eradicate poverty but also to provide sustainable employment and contribute towards the economic growth in the country. The findings also emphasized the need for a working relationship and improved communication between business, governmental departments and non- governmental departments so as to ensure that the micro entrepreneurs are not hindered by unnecessary red tape as a result of policy and procedures not being correctly implemented.

5.2 DISCUSSION AND RECOMMENDATIONS

The research results are based on the responses received from the 13 (thirteen) micro-entrepreneurs in the personal interviews.

5.2.1 Age of Entrepreneurs

The results indicated that 46% of the entrepreneurs were between the ages of 30 to 39. The majority of the entrepreneurs in this age bracket were unable to find employment as a result of lack of education, experience or skills. Prolonged search for employment yielded no positive results and resulted in the entrepreneurial route. Of the 39% of the entrepreneurs in the 40 – 49 age bracket, many started a business as a result of being retrenched. Although many of the entrepreneurs in this group had working experience it was not necessary in the field of the business which they started. Entrepreneurs in this group also lacked management skills. The remaining 15% ventured into the entrepreneurial route as a result of wanting to promote a business idea as well as being retrenched.

The various age groups were an indication that many of the entrepreneurs ventured into the chosen business field as a result of necessity, and that intervention in the

form of holistic education was required at a secondary as well as at primary level of education so as to provide an entrepreneurship spirit amongst South Africans.

5.2.2 Gender of the Entrepreneurs

The findings of the interviews indicated that 62% of the entrepreneurs were females and 38% were males. More females than males had no previous experience and the venture into entrepreneurial routes was as a result of necessity. Many of the women were single parents or were married with unemployed spouses and had to be proactive so as to provide for the family.

These findings seem to correlate with research done by WESGRO which reports that 74% of the entrepreneurs working in the sustainable micro-enterprises, are women. Alternatively the higher representation of females could be due to the fact that males were under-represented in the sample (Kruger, Millard & Pretorius 2005: 63). To assist both male and female entrepreneurs, learnerships in particular industries would assist the entrepreneurs so as provide the necessary skills required for the business into which they would venture.

5.2.3 Level of Education

The results of the findings indicated that 62% of the sample population had received a secondary education and that 15 % had received a primary education. The majority of the entrepreneurs in these two categories were male. In the secondary school category, the majority of males had dropped out of school before Grade 10 as a result of academic problems and peer pressure. In the primary school category the reason provided was as a result of lack of finance and disinterest by parents and teachers. The remaining 23% were females and had achieved a matriculation certificate. The motivation for this category of entrepreneurs to complete a secondary education was to achieve goals established and work towards being materially comfortable by increasing earning capacity.

Education content at primary and secondary level has to include entrepreneurial aspects which is integrated into various subjects so that students exiting at

secondary level for whatever reason, and although not an ideal solution, have knowledge and information with regards to self employment. For South Africa, improving the poor quality of our primary and secondary education is critical to increasing sustainable, opportunity-motivated entrepreneurial activity.

In addition to the new learnership system as specified by the Skills Development Strategy which is an effort to broaden the present apprenticeship system, Further Education and Training colleges (previously called technical colleges), funded by government and industry also have an important role to play in providing skills training for these marginalized youth.

5.2.4 Reasons for Establishing Own Business

The response of the sample population with regards to reasons for starting their own business varied. Of the responses, 8% reported that the business was established as a result of a business idea, a further 8% reported that they were unable to work for a boss and therefore decided to start their own business. In addition, 33% reported that they were unable to find work and had to resort to starting their own business so as to derive some type of income. The majority being 51%, indicated that they had been retrenched and had been forced into starting their own business, as searching for employment proved futile.

The skills and expertise inherent in academic institutions, colleges and technical training centres should be geared at meeting national objectives of providing a resource base that stimulates local economic and business development. This resource base could be established through close partnership agreements between these institutions, central government departments (e.g. education, DTI, finance), and the private sector.

5.2.5 Number of People Employed in Micro Enterprise

The findings from the responses with reference to the employment of staff to assist in the running of the business indicated that 23% of the businesses were managed and operated by the entrepreneurs and that no employees were employed to assist in

any capacity. A further 23% indicated that one employee was needed for the running of the business. Of the sample population, 31% indicated that two employees were required for the running of the business. Three employees were required by 15% of the sample population and 8% required four or more employees for the running of the business. The latter two categories were more successful in the running of the business and yielded a higher income than the other categories where two and less than two people were employed in the business.

For entrepreneurs to be sustainable and expand the business, training has to be provided to assist in the administration of the business as well as marketing of the business. Expansion would then lead to more staff being employed, and hopefully result in more productive and profitable enterprises. As mentioned previously, this training could be provided by central government departments, the education sector, DTI, and the private sector.

5.2.6 Experience and Management Training

The empirical results revealed that 38% of the respondents started the micro enterprise with previous experience in the type of business established, whereas 62% had no previous experience in the type of business established. With regards to receiving management training to assist in the establishment of the enterprise, only 15% received some form of management training. The remaining 85% decided to start the business without any formal management training.

Management training is vitally important for any entrepreneur as it will assist in the success and growth of the business. Besides training provided by the various organizations, it is also important that the micro entrepreneurs are monitored and mentored. This function could be co-ordinated by local economic departments with the assistance of retired business people, who would be most beneficial to the entrepreneurs as they are aware of the pitfalls of business.

5.2.7 Business Plan

The results indicated that 8% had prepared a business plan when first establishing the business. The majority of the sample population (92%), had not prepared a business plan as they did not know how to or understand the relevance of the business plan.

A business plan does not only examine the finances required for the operation of the business but is also essentially an action plan outlining all aspects of the proposed business. It has the function of a road map, i.e. to give directions to arrive at a certain destination or goal.

The research done for the business plan will force the entrepreneur to view the business idea objectively and critically and problems will be anticipated. It will also quantify business goals and objectives. The business plan is an essential tool when applying for financial assistance.

The financial institution would be able to assess the entrepreneur's planning and managerial ability, since it has no prior knowledge of the entrepreneur. The business plan is a clear and concise document that contains essential information for a thorough business and financial evaluation. It identifies risks and supplies contingency plans for the proposed venture's success. The plan indicates the ability of the entrepreneur to provide adequate profits and repay the loan. A poorly presented or no business plan contributes to financial applications being denied (Baumann 2001:20).

Academic and training institutions could play an active role in stimulating and developing micro and small businesses through teaching them the relevance and necessity of a business plan.

As most training institutions include community involvement in their vision and mission statements, they could either go into partnerships with organizations involved in the SMME sector or offer workshops in entrepreneurial development. The workshops would include information such as administration and financial procedures

required to run a business, the importance of documentation, as well as the application of the skills required to create and complete the various documentation, such as invoices, quotations, petty cash and wages (Van Eden, Venter & Viviers Undated). These workshops would also include practical bookkeeping as it is found that inadequate bookkeeping leads to deficiencies in several other areas of financial management.

5.2.8 Access to Resources

The response by the sample population indicated that only 8% had access to mentorship in some form, whereas 92% were unaware of any form of mentorship offered. This finding that emerging and established SMMEs are unaware of support initiatives is affirmed by Berry, Cassim, Kesper, Rajaratnam, Van Seventer and Von Blottnitz (2002:39). Training was only accessed by 15% of the entrepreneurs and 85% were unaware as to any type of training available or how to access the training. Only 8% of the entrepreneurs were able to access any type of finance. The majority of the entrepreneurs, being 92%, attempted to access finance for the establishment of the micro enterprise but were unsuccessful.

The majority of survivalist and micro businesses have rudimentary technical and business skills. They have little access to capital to invest in the businesses, have limited opportunity for growth and only some are able to graduate into viable small enterprises. Most emerging businesses require some form of support and assistance.

A vigorous national and local communication and marketing programme should be launched encouraging entrepreneurship. A requisite condition is, however, the need for the business support services to be in place.

5.2.9 Service Provided by Financial Institution

All of the entrepreneurs had approached financial institutions for finance to assist in the start-up of the business. The response with regards to the service received indicated that 92% had not received any positive assistance, nor was finance

granted. The remaining 8% rated the service received as average, even though finance was granted.

Access to start-up finance remains a stumbling block for many micro entrepreneurs as most do not qualify for bank loans, due to the lack of collateral and a host of other factors mentioned earlier. Limited public funding is available to SMMEs. DTI and local support agencies intervene by lobbying financial institutions (e.g. commercial banks, donor agencies and micro-enterprise funding agencies) to assist emerging SMMEs and where appropriate, to provide credit and loan guarantees. In reality however, limited funding is available to SMMEs and very few survivalist and micro enterprises have the capacity to access it.

Of particular concern are the townships, which are characterised by high rates of unemployment, low-income levels, low skill levels, and perceived as poverty traps. The local business entrepreneurs are categorised as predominately informal and survivalist. A major obstacle to business development in these areas is the lack of infrastructure, such as utility services and business premises that are affordable and appropriately located for new start-ups.

Property developers are hesitant to construct buildings and office premises in townships as they feel that they will not get a return on their investment, due to the high level of crime in these areas (Harrison, Todes & Watson 1997:44). Government should partner with these developers and stakeholders in the community. Together they should plan the needs of community and encourage local entrepreneurs to develop their businesses in the townships and not relocate their skills and talents. This would amongst others also require input from the various government departments such as building, town and regional planning, electricity, water and most importantly, safety and security.

Opportunities in townships are numerous and varied. Entrepreneurs wanting to start businesses in these areas should be assisted financially as well as with various other resources so that the business stands a chance of being a success (Harrison *et al.*, 1997:58). Subsidisation and surety by government to financial institutions should no longer only be lip-service but should be implemented.

5.2.10 Type of Finance

Of the sample population, 38% of the entrepreneurs indicated that the business was self-financed. Of the remaining entrepreneurs 23% indicated that loans had been received from family members, 15% indicated that loans were obtained from friends, 15% had obtained loans from micro-lenders and the remaining 8%, being the minority, had received assistance from a financial institution.

Access to finance will continue to be an issue for all emerging businesses, whether micro, small or medium for reasons mentioned above. A well researched business plan could increase the chance of the entrepreneur obtaining finance from a financial institution.

5.2.11 Financial Difficulties Experienced by Entrepreneurs

The applications by the sample population were met with various responses from the financial institutions. The financial institutions refused 32% of the applicants as a result of a lack of a business plan, 23% were refused as they had no stable employment, therefore having no means of repaying the loan, 15% were refused as they owned no property, 15% were refused on the basis that they had no surety and the remaining 15% were considered high risks as they were blacklisted as a result of bad debt.

The South African Government has since 1990 initiated a wide range of policies, strategies and programmes to address the social and economic development challenges facing the country. The Department of Local and Provincial Government (DPLG) and business development championed by the Department of Trade and Industry (DTI) has focused on realising the notion of initiating new growth that is equitable and sustainable and results in wealth generation and job creation in poorer parts of urban areas. The New Partnership for Africa's Development (NEPAD) also identifies both micro-enterprises in the informal sector and the small and medium enterprises in the manufacturing sector, as principal engines of growth and development. Although both of these policy areas have a common goal to improve

the well-being of the majority of the population, a coherent strategy to ensure co-ordination and reinforcement is lacking and in some cases appear contradictory.

Intervention is required to ensure that these policies are implemented and monitored so as to ensure economic development.

5.2.12 Income Received by Entrepreneurs

The personal interviews yielded the information that 15% of the sample population received a monthly income of no more than R2000, 38% received an income no higher than R4000, 23% received an income no higher than R6000, 8% received an income no higher than R8000, 8% received an income no higher than R10 000 and the remaining 8% received an income higher than R10 000.

Income generated within this category is generally below minimal income standards. They have little access to capital to invest in the businesses, have limited opportunity for growth and only some are able to graduate into viable small enterprises.

Access to financial and training resources, as well as mentoring programmes could contribute to the increase of income levels .

5.2.13 Business Registered

Of the sample population, 92% of the entrepreneurs indicated that the business was unregistered with the South African Revenue Service and therefore the employees were also unregistered with the Unemployment Insurance Fund. The remaining 8% were registered with the South African Revenue Service as sole traders and the employees were also registered with the Unemployment Insurance Fund.

The GEM 2001 study notes that the administrative burden on small firms discourages entrepreneurs from formalising their business. This in turn affects the ability of entrepreneurs to access loans to finance their businesses. However, although a number of legal and regulatory constraints to business development (such as requirements for registration, taxation and land use development controls) are still in

place, most survival and micro enterprises either ignore these or operate in informal areas where the authorities choose not to enforce regulations.

To encourage informal entrepreneurs to register the business, more has to be done by government in terms of simplifying the regulatory burden, minimizing taxation and lowering non-wage labour costs.

5.2.14 Government Assistance

The response from the sample population indicated that service received varied greatly and that it depended on the consultant with whom the entrepreneur liaised. Excellent service was received by 8% of the entrepreneurs, whereas 15% stated that the service received was average. The remaining 77% were very unhappy with the service received and rated the service as poor.

The focus of public policy has been on quantity, that is, to assist as many entrepreneurs as possible through business advice and funding. In reality, however, due to limited public funding and resources, only a limited number of businesses have been assisted and this has not resulted in a substantial increase in the number of new enterprises.

Skilled staff who have received training in all aspects of entrepreneurship, as well as government policy relating to micro enterprises, need to be employed in the government departments where information is disseminated (Mehlo 2005).

5.2.15 Most Difficult Aspect when Starting a Business

The responses received from the sample population of micro entrepreneurs reinforced the perception that application and acquisition of financial assistance is the most daunting task and a real issue which many of the entrepreneurs had to face when starting a business. The responses revealed that only 8% of the sample population claimed that the application for finance was not as daunting and complex as perceived. The remaining 92% stated that the acquisition of financial assistance was the most challenging aspect when starting a business.

As previously discussed, accessing finance will always be a problem. Training should be provided with regards to researching a business idea and creation of a business plan.

5.2.16 Second Most Difficult Aspect when Starting a Business

The second most difficult challenge experienced by the entrepreneurs was the lack of understanding with regards to the administration and financial procedures required to run a business. Only 23% of the sampled population had knowledge and an understanding of administrative and financial aspects which pertains to running a business. The remaining 77% had never received any training and were unaware of the complexities involved with regards to administrative and financial procedures when running a business.

The failure rate of SMMEs is estimated to be between 70% and 80%. These figures can be decreased as many of the reasons for the failure are avoidable. Often the ideas are good and the people behind them are competent, but they have no understanding of basic business principles (Barron 2000:1).

The GEM 2001 report notes that a high percentage of entrepreneurs (31%) are motivated by necessity. Although a relatively high proportion of persons (1 in 25) have invested in a start up business, South Africa has a high start up failure rate. Major hindrances to entrepreneurship identified by the study include a lack of education and training, a lack of cultural and social norms and stigma attached to failure.

The active involvement of business bodies (such as chambers of commerce and industry) and professional organisations (for example planners, engineers, accountants) in providing advice and support to business start-ups could assist with assessing new business proposals and providing business support and advice to emerging businesses in South Africa.

Their main role would be to co-ordinate, network and provide some direct support to small enterprises. They would then also be responsible for monitoring training to ensure better quality business start-ups.

5.2.17 Entrepreneur versus Employee

Although the respondents reported many more challenges than benefits with regards to starting a business, only a minority (23%) indicated that they would prefer to be employees rather than entrepreneurs. The majority (77%) stated that they would not want to work for someone else and preferred being an entrepreneur.

The GEM 2001 study reported that the majority of micro entrepreneurs interviewed did not see themselves as entrepreneurs, rather as people who were putting food on the table. To assist these entrepreneurs to be successful and in turn promote economic growth, it is imperative that the challenges faced are addressed by all stakeholders involved.

5.3 CONCLUSION

Various attempts by government to address the economic situation in the country are still largely characterised by high levels of unemployment and slow economic and new business growth. South Africa's apartheid history, has contributed to social patterns of well-resourced neighbourhoods who are educated and skilled juxtaposed with impoverished communities who lack basic education and skills.

Whilst Government's strategy of wanting to improve the well-being of the majority of the population is evident, a coherent strategy to ensure co-ordination and reinforcement is lacking and in some cases appear contradictory.

As micro entrepreneurship is one response by government to alleviate poverty and contribute towards job creation, it can only be achieved if government, industry and academics commit to a partnership which not only provides financial resources but also continues providing support through a training and mentorship programme.

CHAPTER 6: CONCLUSION

The literature review of this study clearly indicates that the implementation of effective assistance for micro entrepreneurs has thus far been largely ineffective. It has been clearly demonstrated that access to finance, business related training and skilled mentors are essential resources required to ensure that the enterprise enjoys sustainable development.

The key factors which contribute to the failure of SMME ventures are the difficulties experienced by the entrepreneur to access resources, the bureaucratic red tape which hinders the progression of the business venture, the entrepreneur's lack of business and management training and the inability of government to differentiate between implementation of policies and regulation for micro and small enterprises, and medium enterprises.

The current emphasis of South African public policy is to directly link local economic development (LED) and poverty alleviation programmes. Although this approach highlights the important role LED can play in alleviating poverty, it introduces negative perceptions with regard to small business development.

Institutionally the approach in South Africa has resulted in a perception that business support services are mainly the domain of government and NGOs focusing on social welfare. This approach reduces the possibility of creating an entrepreneurial and more market related approach to business development with a more pro-active role by the private sector.

Chambers of commerce and industry have traditionally represented the interest of big business, while some have developed an active portfolio of assisting small businesses through training courses and seminars, information dissemination, counselling and consultation. The need exists to co-ordinate the activities of these organisations with economic and business development agencies.

Local economic and business support services have to be decentralised to a local level. The local authorities should then be empowered to deliver business development services at a local community level. For this development to be successful, measures should be identified to increase the participation of established local businesses in the provision of advice and support to emerging enterprises.

Other role players, such as the non-governmental organizations (NGO) sector, should also be encouraged to establish and manage business support centres. These business support centres should respond to the specific local economic circumstances and address the local business development challenges.

The extent of business development challenges in South Africa requires a continued focus on quantity, i.e. assisting as many survivalist and micro-entrepreneurs as possible as well as on quality, i.e. providing more detailed and higher quality advice to these businesses. This will enable the development of a range of business support programmes that would facilitate the transformation of businesses from the idea stage to the implementation, growth and maturity stages.

Business bodies and professional organizations should be actively involved in providing advice and support to business start-ups. These organizations could assist with assessing new business proposals and providing business support and advice to emerging businesses in South Africa. Government should make membership of such organizations compulsory. This could be linked to minimum mandatory involvement in development projects and business advice and mentoring programmes. These private sector and professional organizations could play a central role in providing these selective quality support services.

Academic institutions, colleges and technical training centres should be geared to meet national objectives of providing a resource base that stimulates local economic and business development, in particular in developing areas. This could be established through close partnership agreements between these institutions, central government departments and the private sector. The private sector could contribute through the establishment of countrywide entrepreneurial clubs and business support centres, led by professional organisations and academic institutions.

The GEM 2001 study highlighted the necessity to make a distinction between developing strategies and policies for entrepreneurs within the informal (survival and micro) and the formal (small and medium) business sectors. Entrepreneurs in the informal sector are largely driven by necessity, while those entrepreneurs within the formal sector are driven most times by opportunity. This study also identified government regulatory burdens as a major deterrent to higher levels of entrepreneurial activity. The GEM 2001 report recommended reducing and simplifying the regulatory burden, minimizing taxation and lowering non-wage labour costs. Arzeni (1998:18) notes that *the first step of government is not to do but to undo*.

The economic development challenges facing impoverished communities and emerging business in South Africa are daunting. A three-pronged strategy is required in order to create a more conducive environment to start-up and grow businesses: (i) dramatically improving the levels of business support services; (ii) promoting entrepreneurship and (iii) significantly increasing the levels of economic activity, particularly in poor areas.

A vigorous national communication and marketing programme should be launched encouraging entrepreneurship. A necessary pre-requisite is, however, the need for business support services to be in place. Central government should also move away from an approach that views local economic development and small business development as social welfare programmes and develop a policy that is more in sync with the needs and requirements of the market and the private sector. Legal and regulatory hindrances to the operation of the SMME sector need to be identified and removed as part of an ongoing programme.

There may be some overlap between business growth activities and poverty alleviation activities. Often it may be difficult to identify what focus is pursued in order to achieve transformation and employment creation.

The criteria to be employed in order to classify programme or project objectives into i) business growth, or ii) poverty alleviation, are simple. Is the objective to develop the person that engages in business activities, or is growth the primary concern?

Both criteria can be satisfied where an individual is supported in business activities, the enterprise then becomes sustainable which is then grown via business growth support.

The challenge exists to reform South Africa's business support policies and strategies in order to meet the national objectives of increasing economic growth and reducing unemployment and inequalities in society, thereby transforming the survivalist entrepreneur to an opportunist entrepreneur.

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APPENDICES

APPENDIX A: INSTITUTION ABBREVIATIONS AND DEFINITIONS

ABBR	INSTITUTION	DEFINITION/DESCRIPTION
BRAIN	Business Referral and Information Network	National electronic information resource for small businesses.
BUDS	Business Development Services	Access to high quality business support.
CAPEMAC	Cape Manufacturing Advisory Centre	Cape chapter of MAC.
CBO	Community Based Organisation	Organisations operating in communities.
CGS	Credit Guarantee Scheme	Finance made available indirectly by Khula through lending programmes.
CLOTEX	Clothing and Textile Service.	Clotex offers training courses in a wide range of subjects and skills relevant to the clothing and textile industries, as well as access to information, legal aspects, financial skills, computer skills and technology.
CSBP	Centre for Small Business Promotion	Established by Department of Trade and Industry.
CSIR	Council for Scientific and Industrial Research	Indirect assistance for SMMEs by providing infrastructure to institutions assisting SMMEs.
CSS	Central Statistical Services	National statistical services.
DANIDA	Danish Institute	Provides financial assistance to Third World countries.
DBSA	Development Bank of South Africa	Addresses socio-economic imbalances and helps improve the quality of life of the people of southern Africa.
DPLG	Department of Local and Provincial Government	Promoted by DTI and focusing on realising the notion of initiating new growth that is equitable and sustainable.
DTI	Department of Trade and Industry	National government - facilitates access to sustainable economic activity and employment for all South Africans.
GEAR	Growth Employment and Redistribution Strategy	Macro-economic framework through which targets for growth and development can be established.
GEM	Global Entrepreneurship Monitor	An annual international entrepreneurship project conducted by the University of Cape Town's Graduate School of Business. South Africa has been involved since 2001.
IDC	Industrial Development Corporation	State-owned development finance institution supporting SMMEs.
IDP	Integrated Development Plan	Local authority requirement in order to obtain government funding for projects.
IDRC	International Development Research Centre	A public corporation created by the Canadian government to help communities in the developing world.
Khula	Khula Enterprise Finance	Financial assistance for SMMEs via RFIs.
LBC	Library Business Corners	Assistance at libraries for SMMEs.
LBSC	Local Business Service Centre	Responds to training and counselling needs of local SMMEs.
LED	Local Economic Development	Identifies, harnesses and utilises resources to stimulate the economy and create new jobs.

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MAC	Manufacturing Advisory Centre	Network to service needs of small manufacturing enterprises.
MTEF	Medium Term Expenditure Framework	A co-operative process to review and analyse national and provincial budgets.
NAFCOC	National African Federated Chamber of Commerce	NAFCOCs vision is to promote and facilitate the development of business
NAMAC	National Manufacturing Advisory Centre	National co-ordinating office of MAC programmes.
NEPAD	The New Partnership for Africa's Development	An African comprehensive integrated development plan that addresses key social, economic and political priorities for the continent.
NEPA	Ntsika Enterprise Promotion Agency	Non-financial assistance to SMMEs.
NGO	Non-governmental Organisation	Non-profit organisation assisting SMMEs.
NPI	National Productivity Institute	Measures national productivity.
NSBC	National Small Business Council	Sanctions the national support framework and becomes a sounding board for small business interests and concerns.
NTSIKA	See NEPA	
ODA	Overseas Development Assistance	Promotes networking amongst NGOs working with SMMEs.
PAWC	Provincial Administration Western Cape	Provincial government.
PDC	Provincial Development Council	Provincial co-ordinating body for development in the province.
RDP	Reconstruction and Development Programme	Government reconstruction programme initiated after 1994.
RFI	Retail Financial Intermediaries	Provides loans and guarantees to SMMEs. Link between Khula and SMMEs.
SABS	South African Bureau of Standards	Established SMME development department. Geared towards making wealth of expertise, experience and facilities available to SMMEs.
SACOB	South African Chamber of Business	Pursues specific strategic objectives and thereby assists SMMEs indirectly.
SALGA	South African Local Government Association	Legislative guidance to local authorities.
SBDC	Small Business Development Corporation	Replaced by Business Partners, a specialist investment group.
SDF	Stutterheim Development Foundation	A foundation established in Stutterheim to assist the transformation of the town.
SEBRAE	Institutional Framework for Small Business Support in Brazil	Main institution in Brazil in charge of SME promotion.
SEDA	Small Enterprise Development Agency	Seda was formed as a result of the merger between Ntsika and Namac
SETA	Services Sector Education and Training Authority	Established in terms of Section 9(1) of the Skills Development Act, 1998 to identify and provide skills requirements for all sectors of the economy.
SME	Small and Micro Enterprise	Exclude medium enterprises.
SMEDP	Small and Medium Enterprise Development Programme	Cash incentive for new programmes. Funding from foreign donors.

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SMEITT	Small, Medium and Micro Enterprise Innovation and Technology	Strives to empower SMMEs through research and improved technology.
SMMEs	Small, Medium and Micro Enterprises	Definitions on previous page.
TAC	Tender Advice Centre	Centre set up by government to network with NGOs, CBOs and educational institutions so as to assist SMMEs.
TIDP	Trade and Investment Development Programme	Funded by the European Union and aimed at developing the competitiveness of SMMEs.
TTO	Triple Trust Organisation	NGO providing skills and business training and access to SMMEs.
UNDP	United Nations Development Programme	Supports the sustainable use of natural resources and responsible tourism in the country.
USAID	United States Agency for International Development	Provides support strategies for SMME development.
WESGRO	Western Cape Investment and Trade Promotion Agency	Investment and trade promotion on behalf of provincial government.

APPENDICES

APPENDIX B: QUESTIONNAIRE

A. Background Related Questions

1. Name of owner: _____

2. Gender

Female

Male

3. Age Group

20 – 29

30 – 39

40 – 49

50 and older

4. Level of education

primary education

matriculation certificate

secondary education

further education and training

5. What products or service do you sell?

B. Management Related Questions

6. Is your business registered?

yes

no

7. Have you had experience working in this type of business?

yes

no

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8. What was the reason for starting your own business?

9. How many people do you employ?

0

1

2

3

4 or more

10. Have you had any management training to assist you with your becoming an entrepreneur?

yes

no

11. If you answered yes in question 16, which course/s?

12. Did you prepare a business plan when you decided to start your business?

yes

no

13. Did you have access to any resources when starting up?

Resource	Yes	No
mentorship		
training		
finance		

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14. What was the most challenging (difficult) aspect of getting started?

15. How did you solve this challenge?

C. Finance Related Questions

16. Name one financial organization whom you approached for financial assistance when starting your business?

17. Rate the service of the financial organization on a scale of 1 – 5 (1 being very poor and 5 being excellent)

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. Did you receive any financial assistance from the financial organization when starting your business?

yes no

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19. If you answered no in question 16, how did you finance your business?

20. What were the difficulties you experienced when trying to access financial resources?

21. What is your monthly income?

R 0 – R2 000

R6 000 - R8 000

R2000 – R4 000

R8 000 – R10 000

R4000 - R6 000

R10 000 and above

22. Do you have any problems with cash?

yes no

23. If you have answered yes in question 20, how do you deal with cash problems?

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D. Government Related Questions

24. Did you approach any government departments for assistance?

yes no

25. If you have answered yes in question 22, which department?

26. Were they able to assist you?

yes no

27. Rate the service of the government department on a scale of 1 – 5 (1 being very poor and 5 being excellent)

1 2 3 4 5

28. Have you ever tendered for any government contracts?

yes no

29. Were you awarded the tender?

yes no

30. If you could give government advice with regards to SMME development, what would it be?

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E. Concluding Questions

31. Do you have any plans to expand your business?

yes no

32. If you were offered a position with a generous salary package, would you accept it?

yes no

33. What is the most rewarding aspect of being an entrepreneur?

34. What has been the most difficult aspect of being an entrepreneur?

35. How has failure or success contributed to your entrepreneurial skill?

36. What advice would you give to entrepreneurs starting out?
