Barriers to Entrepreneurship in the Western Cape

By

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Declaration

I, Christopher Cupido, hereby declare that the contents of this thesis represent my own 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 Technikon.

Abstract

Research has shown that in first world countries, governments that have supported their SMMEs and entrepreneurs have grown and the economies have prospered. The contrary applies in countries that have imposed barriers and restrictions on the development of the SMMEs and entrepreneurs.

There is a growing recognition of the importance of fostering SMMEs and entrepreneurial growth in South Africa. The small business sector has been identified as a very important sector and the government of the Western Cape has launched various strategies to improve the plight of the entrepreneur.

This paper presents the results of a survey aimed at The target audience consisted of SMMEs within the technical maintenance, chemical cleaners and specialised lubricant products suppliers to the petro-chemical, marine, industrial and power-generating industry in the Western Cape area.

The purpose of this research was to test the hypothesis. The acquisition of finances at the available financial institutions and the governmental ventures is a difficult and daunting task. The lack of management skills in small ventures is one of the key factors why these ventures fail, as well as the difficulty the businessperson has to contend with when it comes to handling of red tape with the starting up of the venture. These problems were seen to be the main contributing factors to failure of the SMMEs within the Western Cape.

Most of the sampled population supported the postulations that financial acquisition and management skills are barriers to entrepreneurship. The only factor that is contrary to the perception is the subject on red tape which was recommended for further study.

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i. Defining terms

AAM	Affirmative Action Measures
BCEA	Basic Conditions of Employment Act, 1997
BeeCom	Black Economic Empowerment Commission
BON	Black Organisation Network
CDE	The Centre for Development and Enterprise
COSAB	Chamber of South African Business
CRA	US Community Investment Act
DCM	Development Capital Market
DPE	Department of Public Enterprises
DTI	Department of Trade and Industry
EEA	Employment Equity Act of 1998
IDC	Industrial Development Corporation
JSE	Johannesburg Stock Exchange
Khula	Khula Enterprise Finance Limited
LRA	Labour Relations Act of 1995
NHFC	National Housing Finance Corporation
NGO	Non Governmental Organisation
PDCs	Provincial Development Corporations
PDI's	Previously Disadvantaged Individual's
R&D	Research and Development

RDP	Reconstruction and Development Programme
Red tape	Governmental bureaucratic process
Risk-averse	Reluctance to take the financial risk attached to the investment
SARS	South African Revenue Services
SBDC	Small Business Development Corporation
SMMDP	Small Medium Manufacturing Development Programme
SMME	Small Medium and Micro Enterprises
SOEs	State Owned Enterprises (Parastatals)
VCM	Venture Capital Market

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CHAPTER ONE: Introduction

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).**

The Affirmative Action Measures (AAM), brought about in the Employment Equity Act of 1998 (EEA), proclaimed that certain groups of the population had been favoured in the old dispensation. This was especially the case in the entrepreneurial field. This favouritism had led to previously disadvantaged individuals (PDIs) being exempted from certain areas in the business sector and because of that exclusion had lacked the development of management skills. In addition to the aforementioned deprivation, this target audience group also lacked exposure to financial institutions. The third perceived hurdle posed to the entrepreneur and the SMME was the factor of red tape.

The present government tried to rectify the gap that had been created. However, a new obstacle then reared its head in the form of the enforced and inflexible Labour Relations Act of 1995; the AAM, brought about in the EEA of 1998; and the Basic Conditions of Employment Act (BCEA) of 1997; all of which were strongly enforced on organisations. This led to more covert business and administration practices in organisations.

Evident from this action was a rise in unemployment, hence the government's strategy that allegedly promotes and nurtures the entrepreneurial spirit in the SMME sector and promotes it vigorously as a countermeasure to one of the twin evils of economics, that of unemployment. The difficulties the current government was experiencing in its efforts to combat that problem effectively were legio.

In his research paper, Gichuru (1997:1) found that the data available (in respect of the government's White Paper which proclaimed that the current government fosters and encourages entrepreneurial growth and development) was insufficient. In the process, its reluctance to implement the policy effectively was killing the creation of job opportunities, the very cure for one of their problems in pursuit of combating unemployment in its budding stage.

It may sound simple and easy to approach a financial institution with an application for financial assistance. However, this perception is based on the assumption that the required finance would be granted. Easier said than done, as so many legal pitfalls have to be overcome. These legal pitfalls were the downfall of countless budding ventures and individuals. These pitfalls were not only caused by the financial institution's inability or reluctance to assist with finance that caused the entrepreneur to fail.

The global economic market and environment continue to be volatile, influenced largely by the confidence of the major corporations and the manner in which they conduct business. All of this has further demonstrated the need for a revision of attitudes towards business and the re-examination of the role of SMMEs in driving economic growth. There is truth in the statement that today's SMMEs are tomorrow's big business. In most of the major economies of the world, it was this sector that made the greatest contributions to economic growth, particularly to job creation.

The Multiannual SME programme of the European Commission points out that SMEs are inherently weaker and more vulnerable to failure, especially in their early years. The main causes of this relatively weak position revolve around:

- An increasingly complex legal, fiscal and administration environment.
- Difficulty in effecting R&D programmes and exploiting research results.
- Structural weakness within their managerial capabilities.
- The lack of suitable training programmes to develop these capabilities.
- Difficulty in obtaining finances at a reasonable cost.
- Barriers to entry, when accessing the product and service markets are too high and inaccessible.

The issues of ineffective management and red tape were also major factors to contend with in the struggle to become a successful entrepreneur. It has recently become the norm to assume that most financial institutes are risk-averse. The local journals and the various business magazines, Haffajee, F (2002:40-41) frequently covered the problems of potential entrepreneurs, small businesses, and their struggle with red tape and the difficulty of obtaining finance from financial institutions. The author concluded that no financial institution was prepared to take the risk unless the expected rate of return was high enough to compensate the institute for the perceived risk of the investment.

In his latest public speeches, 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. This speech was followed by similar speeches by the Department of Trade and Industry (DTI) at national governmental level that they were investigating ways to nurture entrepreneurship. The purpose of the DTI's White Paper on National strategy for the Development and Promotion of Small Business in South Africa, Cape Town 20 March 1995 Parliament 2002 was to seek ways of nurturing the growth of entrepreneurs and level the playing fields for the potential budding entrepreneurs.

The proposed actions of Minister Rasool in his White Paper that was laid before the local ministry, were truly commendable and only time will tell whether he can put his proposal into action. Globally it has been proved that countries that foster entrepreneurial support have reaped the benefits in their economy, boosted investors' confidence, and increased new job creation. Have they not only excelled in the battle to curb unemployment? In addition they have also reduced crime, uplifted the living standards of the citizens and contributed to a stable community development.

Nations that support their entrepreneurs have grown and prospered. 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. The study focused mainly on the target audience in the industrial sector that supply specialised technical and maintenance products to the petro-chemical, marine, general industry and power generating industry. The purpose of this research was to assess whether the perceptions regarding the three postulations were true stumbling blocks or merely a mind set.

1.1. Problem statement

It was perceived that some entrepreneurs excel while others fail to make the grade. As a direct result of previously discriminatory laws, disparities were created. A pronounced gap evolved and certain factors, such as inadequate managerial skills, inaccessibility of financial aid and governmental bureaucracy (red tape) have made their mark in the economy for certain categories of people.

1.2 Sub-problems

Most of the literature consulted gave some indication that one of the major reasons for venture failure lies with inadequate management skills. Additional problems were the lack of proper financial management and the inability to manage the venture's cash flow effectively and efficiently. The final straw for the budding and existing entrepreneur was the insurmountable types of tax that the venture was required to pay.

To summarise, the sub-problems are:

- Lack of management skills
- Raising finances
- Governmental legislative factors.

1.3. Background to the research problem

The disparities prevalent in South Africa developed as a consequence of the perceived preferential treatment of certain categories of people and business ownership. The PDIs were not part of, or had very little impact on, the equation of the supply chain in the economy. Job reservation in the previous dispensation has had its impact with the result that the PDIs management skills were underdeveloped. According to Tyler (1997), access to capital from financial institutions was nearly impossible to get due to the lack of viable collateral. PDIs were allegedly discriminated against in governmental tendering and other forms of business.

The current government tried its utmost to rectify those inequities of wealth distribution and shortage of skilled labour that were caused by those discriminatory practises. Hence, the introduction of the Skills Levy, the Reconstruction and Development Programme (RDP), the Affirmative Action Programme, and the revised Equity and Labour Bill. All these efforts are an attempt to empower the PDIs and promote entrepreneurship and development of SMMEs. These perceived assumptions gave rise to the proposed research concerns. The above problems gave rise to the interest to research the following grey areas: Why do some entrepreneurs excel whilst others fail to make the grade? What are the factors that influence the success of the entrepreneur in South Africa? The following perceived obstacles to the success of the entrepreneur in the SMME sector in the Western Cape will be investigated in the study: raising finances, management skills, and governmental bureaucracy (red tape).

1.4 Research postulation

The biggest obstacles to success for the entrepreneur in the Western Cape are:

- Raising of finances (Hypothesis 1)
- Lack of management skills (Hypothesis 2)
- Governmental bureaucratic process (Hypothesis 3)

1.5 Objectives of the study

Numerous studies have been conducted to determine the barriers that the entrepreneur and SMME face in the light of starting up and then sustaining their ventures in this country. These focused on their plight in the areas of management, finance and red tape which were perceived to be the major obstacles to the prosperity of the local entrepreneur and SMME.

A survey was done among SMMEs to determine from them what their experiences were in respect of their current management proficiencies, obtaining of finance to run the company and the effects of red tape when dealing with the authorities at various levels and departments.

It also considered how the obtaining of finance affects the small entrepreneur in comparison with the medium and the micro enterprise. These comparisons will be depicted in due course and will be discussed in chapter four with graphical presentations. The graphical presentations will consist of pie charts, histograms and trend graphs as supplementary to the findings of the structured interviews.

1.6 Research design and methodology

A descriptive research method was conducted. The target audience consisted of SMMEs within the technical maintenance, chemical cleaners and specialised lubricant products suppliers to the petro-chemical, marine, industrial and power-generating industry in the Western Cape.

The study utilised secondary data analysis, consisting of the historical data of companies which applied for finance and are still in existence. Information sources and statistics institutions such as the Black Management Forum, Statistics South Africa, Reserve Bank Reports, Department of Trade and Industry, Sanlam, Old Mutual, Cape Chamber of Commerce, Black Organisation Network (BON), and the Centre for Development and Enterprise (CDE) were used to obtain relevant information.

- Sampling design:

Samples were drawn from the market sector of 15 suppliers that supply technical maintenance, chemical cleaners and specialised lubricant products to the petro-chemical, marine, industrial and power-generating industry. These ventures have been in existence for at least five years, in the case of the SMME, and at least three years in the case of the sole entrepreneur. The geographical location of the sample was from the Cape Metropole of the Western Cape. The research excluded the small pavement vendors.

- Interviews

Structured interviews comprising set questions (see Annexure 1) were used in the abovementioned group of 15 entrepreneurs and owners of SMMEs. The information of the sole traders, entrepreneurs and the owners of SMMEs had been sourced from the database of the company of Equipex (Pty) Ltd. The composition of the entrepreneurs and owners of these ventures were a compilation of suppliers, rivals, customers and sub-distributors of the product that Equipex manufactured, and other ranges of which they have the sole distributorship.

The interviews were uniform throughout and were conducted on a one-on-one basis. The information obtained by employing this method is considered to be of a more objective and unbiased nature. The interviewee was limited to the constraints of the questionnaire and stayed within the parameters of the set questionnaire. All interviewees were asked the same pattern of questions and this resulted in a generic and homogeneous outcome.

1.7 Delineation of the study

The research focused mainly on the market sector that supplies technical maintenance, chemical cleaners and specialised lubricant products to the petro-chemical, marine, industrial and power-generating industry in the Cape Metropolitan area of the Western Cape. Within this sector, attention was directed to two groups within the SMMEs and entrepreneurial sector, which consisted of:

Group #1: Successful ventures that have been in existence for a period of at least five years. Ventures operating with existing financial assistance or a bank overdraft.

Group #2: Strugglers on the Equipex data basis ventures operating without financial assistance and which are using own capital or funds raised from "soft" loans.

1.8 Significance of the study

The significance of the study is to bring the plight of entrepreneurs and SMMEs to the attention of the policymakers in government, thus emphasising the fact that they are an important factor within the economy. Therefore, if assisted in the correct manner, they too can contribute to the alleviation of unemployment. Ultimately this group can contribute to the strengthening of the region's economy as a whole.

The primary aim of this research is to bring to the attention of the policymakers the growing concern of this market sector of the economy so that they revise their policies and put measures in place to create an environment conducive to entrepreneurs and SMMEs. The objective is to stimulate small business growth, readdress the unemployment problem and improve the local economy.

1.9 Expected outcomes, results and contributions of the research

The expected outcomes and findings were intended for the policymakers within the present government, after studying the facts at hand, to take cognisance of the plight and struggle which the entrepreneurs and SMMEs contend with. After scrutinising the findings, the relevant authorities concerned could make a concerted effort to develop an environment conducive to entrepreneurs for the nurturing and growth of this market sector of the economy.

The expectation was that the research would confirm a null hypothesis that certain barriers exist which prevents entrepreneurs from excelling in their particular field of industry, thus hampering the growth and development of entrepreneurship.

The findings of the research were intended to highlight the alleged plight of the entrepreneur and explore ways in which the authorities can assist the entrepreneur at higher levels within the government's framework. The outcome of the research findings was to develop a concise managerial guide and procedure handbook for the existing and budding entrepreneur on how to deal with certain issues of managerial barriers, such as:

- Financial application guidelines and preparations.

- Highlighting the expected red tape that the entrepreneur will encounter and have to deal with.
- Developing procedural guidelines for red tape and what is expected of the entrepreneur.

1.10 Summary

In conclusion, it was sufficient to say that the aim of this research was to draw the attention of the policymakers of this government in the trade and industry and finance sectors, as well as the SARS, to the perceived problems of the current system, as well as the commissioning of suitable and practical measures that will foster entrepreneurial and economic growth in the Western Cape. Granting tax relief or more flexible tax schemes and appropriate financial packages can achieve these objectives to assist the small business sector of the Western Cape's economy.

CHAPTER TWO: Literature review

2.1 Introduction

The previous chapter focused on the perceived problems of the current system within the SMME sector. The intention of this research was to bring these problems to the attention of the policymakers of this government in the trade and industry and finance sectors, as well as the SARS. The findings of the research also call for the implementation of suitable and practical measures to foster entrepreneurial growth, and thereby promote economic well-being in the Western Cape

Research done by Lanström, Frank and Veciana (1997:380) for the SMME programme of the European Commission points out that SMMEs are inherently weaker and more vulnerable to failure, especially in the their early years. The main causes of this relatively weak position are:

- An increasingly complex legal, fiscal and administration environment.
- Difficulty in effecting R&D programmes and exploiting research results.
- Structural weakness within their managerial capabilities and the lack of suitable training programmes to develop these capabilities.
- Difficulty in obtaining finance at a reasonable cost.
- Barriers to entry, when accessing product and service markets.

Olivier (1998:9-15) argues that very few entrepreneurs' capital structure is of such a nature that these ventures are able to acquire existing businesses or start a new business. He also notes the reasons for the failure of most businesses as being:

- Insufficient capital

  Insufficient capital is a shortage of disposal capital available to maintain and sustain the venture. The entrepreneur has no recorded method that is used to finance the venture. Entrepreneurs often do not have the capital structure in place as is the case with larger businesses. A larger firm normally has a capital structure policy in place whereby the debt and owner's equity ratio is determined to finance the company. This is not the case with most SMMEs as these ventures are funded with "soft loans", funds that were obtained from life savings or loans from a family member.

- Cash flow shortages

Cash flows refer to the actual net cash, as opposed to accounting net income that a company generates during some specified period. A company's net income is important, but cash flow is even more important, because cash is necessary to purchase the assets required to continue operations. Cash flow shortages can lead to a serious inability to meet the company's obligations to pay the creditors and supply of goods and services to the customer.

- Incorrect sales forecast

Sales forecast is the company's unit and Rand sales for some future period. The forecast is normally based on recent sales trends plus forecast of the economic prospects for the nation, region, industry and local demand. If the sales forecast is incorrect, the consequences can be detrimental. Under-forecast can result in the company's losing out on opportunity cost. On the opposing side of the scale, an overcastting can result in over-stocking. This situation would mean low turnover ratios, high cost for depreciation and storage and possible write-offs. The whole situation will result in a decline on the rate of return on equity. The problem would multiply if the over-forecasting was funded with debt. An accurate forecasting is critical to profitability and in most cases impractical to the SMMEs due to a lack of historical data.

- Inadequate market research

  The same problems addressed in the forecasting will surface if the entrepreneur cannot conduct proper market research. Market research is the ability to analyse and interpret market research study results. In market research, the entrepreneur must be able to design and conduct market research. The ability to find and interpret industry and competitor information is very important to gain a competitive advantage. Marketing research is vital to the entrepreneur's survival and success. The market research will help the entrepreneur to identify the competitive threats and where the opportunities are and with market research the entrepreneur can identify his /her customer's needs.

- Poor business plan

  Developing the business plan is a means of defining the blueprint, strategy, resource, and people requirements for a new enterprise. It is very difficult to raise capital from the financial institutions without a business plan. The entrepreneurs often confuse the business plan with the building of the business. Financial institutions normally peruse the business plan for loopholes and flaws. A poorly constructed plan results in the application for financial assistance being declined.

- Incorrect pricing

  Product pricing is the ability to determine competitive pricing and margin structures and to position products in terms of price and the ability to develop pricing policies that maximise profit. The failure to do correct pricing will most definitely result in a situation of serious cashflow shortages.

- Failure to delegate authority

  By definition, delegation is the act of assigning formal authority and responsibility for completion of specific activities to a subordinate. The delegation of authority by superior to subordinate is obviously necessary for the efficient functioning of any organisation, since no manager or entrepreneur can personally accomplish or completely supervise all the organisation's tasks.

- Lack of objective advice

  Almost all companies need and use the service of consultants at one stage or another. As a company's size increases, so the need for advice in such areas as liability, mergers, licensing, contract agreements, litigation and taxation increases exponentially.

- Rushing the product into the market, before proper testing

  After management develops the product and marketing strategy, it must evaluate the business attractiveness. Management needs to prepare the sales, cost, and profit projections to determine whether these factors satisfy the company's objectives. Premature rushing of the product could be detrimental to the image and sales performance of the product and the company itself. The repercussions and damage control of such a blunder may cause the company's demise.

Siropolis argues that the SMMEs are just as vital in the economic supply chain link as the large corporate businesses and quote:

> **"Small business enjoys a tradition of infinite variety of solid achievements. It thrives globally, and so vital are SMMEs that few, if any parts of the global economy could go without their products or services. Small business is a civilising influence, rising**

above any currency to enrich the lives of men and women the world over" Siropolis, (1997:1).

In her speech ***(SABC 2002),*** Deputy Minister of Trade and Industry, Mrs Lindiwe Hendricks, revealed that the government is to unveil a new strategy aimed at helping the struggling small business sector reach its maximum potential. This is after the sector received a major boost when its tax threshold was increased to a R3 million turnover during the national budget of 2002. The strategy is more focused on mentorship, and assisting enterprises throughout the whole process of their venture.

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 and contributes 37% of the GDP. However, from information at hand, it appears that almost 80% of SMMEs fail annually due to a lack of management expertise.

From Mrs Lindiwe Hendricks' speech, it is evident that the government admits that appointed institutions, such as Khula and Ntsika, that were established to provide finance and training to the sector, have failed in their efforts to make the desired impact. The development of the new strategy based on mentorship was to rectify the department's failed attempts in fostering entrepreneurial growth.

In her speech, Mrs. Lindiwe Hendricks said:

"We have found that there is a lot of overlap ... We have found that while there is finance there is no support for the person as how to use the finance. A start-up needs to know how to start a

business ... They just have an idea; a person who is already producing needs to know where are the buyers, and people that are producing in large quantities want to know where the markets are. While that is a reality our strategy never meant to deal with that so we are doing that now to ensure that we support enterprises at every stage of their development" (SABC 2002).

In its White Paper, by the Department of Public Enterprises (DPE, 1998) for empowering of the entrepreneur and SMMEs the following concerns were raised. The policy framework addresses some of the factors highlighted that are of concern to the fostering of an effective growth of the entrepreneur and SMMEs.

This policy framework is concerned with addressing market distortions that prevailed in SOEs and in the economy as a whole during the apartheid period. One of the most obvious of these distortions was the prohibition of substantial property ownership by black people. In general, Government views transformation as a process aimed at raising the level of basic living conditions of the majority of citizens. Correcting past wrongs requires a systematic, genuine empowerment strategy to bring black people and SMMEs, which faced discrimination into the mainstream of the economy. This strategy should include bringing black people into ownership, procurement and training relationships with SOEs and into more harmonious, productive relations with each other.

Government's policy on restructuring should entail new, creative, diverse strategies for genuine empowerment so that SOEs more effectively spread the benefits of restructuring. These strategies of alternative service delivery may include broadened ownership, training, procurement and self-management opportunities for the PDI both directly through involvement in SOE management and indirectly through widespread ownership opportunities. There are many ways to achieve this objective, and it would be a mistake to seek a single, one-dimensional approach, particularly given the unsatisfactory record of SOE-related empowerment strategies.

Correcting past wrongs, and in the process, rectifying market failures, require different techniques for empowerment and different institutional configurations than existed, generally through artificial protection, during the apartheid era. Since the early 1990s, SMME and entrepreneurial empowerment have been built on existing pyramid-type ownership frameworks (with stakes in conglomerates purchased at high share prices via high debt levels), or on special deals crafted for those with privileged access. There have been severe disappointments and even some failures. Indeed, the overall operating environment for black enterprise has been badly impaired as a result. Systems of ownership, control and access that may have worked to empower earlier generations of entrepreneurs, such as strategic shareholdings for the sake of company control and artificial conglomeration, or blatant state patronage based purely on ethnicity, currently face enormous resistance and operational difficulties.

Partly because of factors beyond the control of practitioners, black economic empowerment, SMMEs and fostering of entrepreneurship (as well as some investment schemes aimed at women's and disabled people's interests) did not fare well in a turbulent period of dramatic currency volatility, interest rate increases, share price fluctuations, declining per capita GDP growth and the exogenous shocks of 1996–1998. Even into 1999 and 2000, when financial markets recovered, interest rates fell and growth improved, some important "black chip" holding companies and other special purpose investment vehicles suffered enormous losses. Besides the efficacy of the empowerment model utilised to date, there is also a growing concern that black economic empowerment has enriched a few fortunate players but left most constituents behind. Some of the problems considered below are structural (flowing from conditions not of the empowerment practitioners' own choosing), while some reflect naive strategies and questionable assumptions behind empowerment-orientated financial engineering.

The need for a more appropriate strategy is widely recognized. The Black Economic Empowerment Commission (BeeCom) suggests the following in a draft report:

> **"The state's privatisation and restructuring programme has failed in so far as empowerment objectives are concerned ... effective black participation has been hindered until now by a multitude of factors. Assets are privatised or restructured with the assumption that empowerment will flow from new black ownership; instead new owners have been confronted with debt burdened enterprises, a tough financing environment, and in some cases confused privatisation objectives and conflicting interests"(DTI, 1998:15).**

While the White Paper and its enactment into Act No. 102, the National Small Business Act, 1996, is brilliant in concept and in principle, implementation since the inception of the Act in 1996, has been slow. The policymakers are not aggressive enough with its enforcement and implementation, and the management of the programme has been beset by problems.

According to an article in the Cape Business News (2002) showing the latest statistical figures from Statistics South Africa and Credit Guarantee, in February 2002 the market experienced a huge upsurge in liquidations of companies. Figures showed that 20% more companies closed down in February 2002, compared with February 2001. This indicates a significant deterioration in trading conditions. Of relevance here is the severe pressure of import inflation and the high cost of financing.

As mentioned previously in the above, the aim of the strategy is to alleviate the plight of the SMMEs nationally. The City of Cape Town has opened a tender advice centre. Their rationale for the establishment of such a centre is that they realise that tendering for a contract from the City of Cape Town is a difficult and daunting task. This centre will focus in assisting the SMMEs in cutting through the red tape in tendering for the supply of goods and services and construction contracts to the City of Cape Town Municipality.

With reference to the City of Cape Town Municipality information pamphlets distributed and circulated [2002]: Cape Town Municipality has adopted a new Procurement Policy, which is in line with national initiatives and focuses on empowering small businesses, particularly those owned and managed by PDIs. The policy of the local authority in its quest to empower the local SMMEs was aimed at:

- Increasing work opportunities for enterprises owned managed by PDIs.
- Ensuring fairness and equity in awarding contracts.
- Stimulating and promoting local economic development.
- Improving the way we do business.

The services that are available from the advice centre were, amongst others:

- Information and advice on business opportunities and available tenders.
- Laws and regulations affecting SMMEs.

- Advice on completion of tender forms.
- Briefing on the outcome of tender awards.
- Information on tender procedures in general and the Procurement Policy.
- Assistance with specialised training programmes (Tender Advice Centre, 2002).

2.2 Background to the research problem

General management principles, according to Stoner and Freeman (1989), Lussier (1997), Peters and Heller (2000), teach potential entrepreneurs only the basics about corporatism. The teaching of these authors essentially comprised guidelines for corporatism red tape. The literature consulted for the purpose of this research was predominately from researched theses and published entrepreneurial textbooks. It was found that not one of the written pieces consulted covered the full spectrum of this proposed research, which leads to the conclusion that not much has been written about the plight of the entrepreneur.

Some authors view entrepreneurial business success from entirely different perspectives. Osborne (1993), in a study of entrepreneurial success, rejects the idea that success is equated with entrepreneurial competence. Osborne recommends a shift of focus from the personality or characteristics of the business founder, to the firm's underlying business concept and capacity to accumulate capital. In starting up a business, Osborne suggests that entrepreneurs should:

- Start or buy a business, which has a hospitable environment.
- Understand how customers assess product or services benefits.
- Avoid markets dominated by one or several companies with product or price leadership.
- Understand the underlying economics in which the firm operates and be cautious about starting a business where capital requirements suppress or eliminate discretionary cashflow.

The subject of SMMEs and entrepreneurship in the developing countries is still a new one. It is therefore important that journals and electronic media like the Internet are consulted to keep abreast with the latest and current developments in this field.

To run a successful venture the entrepreneurial manager learns to get along with many different constituencies. Often this leads to conflicting aims with the customer, supplier, financier, creditor, as well as with the partners, employees and trade unions. The other problem the entrepreneur has to contend with is that of the government and local authorities exerting their influence on the venture. Thus, an entrepreneurial manager must learn to operate in a world that is increasingly interdependent and volatile.

Tyler (1997) highlighted some of the hampering factors that constitute barriers to the entrepreneur. He found that red tape, access to capital, skills development and management capabilities are profound shortages. According to Scholtz (1986), failures of SMMEs are mainly due to the inability to acquire finance and consequent business resources. This is predominantly due to a lack of management skills.

2.2.1 Lack of management skills

Overcoming the chronic skills shortage, particularly in the junior and middle management tier, is one of key challenges currently facing South African organisations. Training and education have become a top priority as South Africa seeks to shed off the shackles of the past and take its place among the world's developed nations. The onus for ensuring ongoing training rests not only with the government, but also with companies of all sizes, that need to ensure they raise productivity levels and keep abreast of changing technology. Research done by Timmons (1999) dealt in depth with the subject of entrepreneurial ventures. He concluded that many founders can and do manage ventures successfully. The applicability of conventional wisdom regarding the "leadership crisis" in rapid-growth entrepreneurial firms may no longer be valid, if, in fact, it ever was. This and other data seem to defy the notion that entrepreneurs can start but cannot manage growing companies. However, the fact remains that growing a higher potential venture requires management skills.

Both Sawaya (1995) and Nobanda (1998) investigated the problems affecting small manufacturers. They found that a serious problem exists in management skills and development because of improper and inadequate education. According to the statistics of the DTI, as previously mentioned, the small business sector employs close to 50% of the country's workforce and contributes to the tune of 37% of GDP. However, information in the Cape Business News (2002) revealed that almost 80% of SMMEs fail annually due to a lack of management expertise.

2.2.2 Raising finances

The largest single factor that increases the complexity and difficulty of managing a young company is its rate of growth in orders and in revenue (Timmons, 1999:522). Small businesses have an important role to play in an economy, particularly in

providing employment opportunities. Hence, there are various incentives or schemes of assistance to encourage the development of small businesses (Scholtz, 1986).

Evident from Mrs Lindiwe Hendricks' speech, previously noted in the research, the government admits that appointed institutions, such as Khula and Ntsika, that were established to provide finance and training to the sector, have failed in their efforts to make the desired impact. The development of the new strategy based on mentorship was to rectify the department's failed attempts in fostering entrepreneurial growth.

The issue of access to finance for SMMEs is a problem facing most existing and new businesses in South Africa today. Most applicants do not know what is expected of them when making application to financial institutions for assistance. The DTI has a business referral and information network website (DTI, 2002), to assist entrepreneurs in this area. The institutions that have been outsourced to act on behalf of the DTI are:

- Khethani Business Finance (Khula RFI).
- Landelike Onwikkelings Maatskappy.
- Nations Trust (Khula RFI).
- New Business Finance.

The need for finance will always be a factor that the entrepreneur will have to face in commerce. The acquisition of start-up funds is very difficult and most times impossible to find, according to Sawaya (1995). The various options of financing a venture are so diverse and the choices are so wide, that in most cases, the deal can be tailor-made to suit anyone's need. Therefore, one has to be extremely cautious in one's choice of financing. Some of the financing options are Bonds, Debtor/Order Factoring, Overdrafts or Personal Loans, to mention only a few of the options available on the market today. It is imperative to ensure that the financial package of choice meets the needs of the business, thus ensuring that the capital acquired matches its maturity, according to Brigham (1995) and Business Day (1998).

2.2.3 Governmental bureaucracy (red tape)

The perception exists that red tape is a definite obstacle for the entrepreneur. According to Bernstein (2000:37), the government will have to cut the red tape that is restraining business in order to establish a vibrant entrepreneurial spirit to combat unemployment. The development of the SMME should be a symbiotic process from which both the government and the entrepreneur benefit. The expectation is not that the entrepreneur should get handouts and become dependent on the state, but that he/she should at least get assistance and encouragement to the point where the entrepreneur is established as an asset in the supply chain of the economy. Nobanda (1998) stated that all the governmental structures are in place to assist the SMME. However, these structures seem to be inaccessible to the SMME.

Fleet Street Publications company (2002) has published a Practical Tax Handbook for SMMEs. They believe its use will ease the burden of governmental red tape and complicated taxation. It is said in this publication that complicated tax law is the cause of many difficulties. This is because most of these books are written in either legalese or tax jargon beyond the understanding of the average business person. However, in this publication, burning tax questions of small business and entrepreneurs have not been addressed. There is a shortage of practical information on how you can manage your taxes efficiently and what the obligations and rights of the taxpayers are.

2.3 Historical development of the entrepreneur

The New Oxford Dictionary of English (1999:616) defines an Entrepreneur as "a person who sets up a business or businesses, taking on greater than normal financial risk in order to do so".

Entrepreneurship is derived from the French term *entreprendre*, which means to undertake; to pursue; opportunities; to fulfil needs and wants through innovation and starting businesses according to Burch (1986:4).

Small business has played a role in history since the early years. The first written piece on the activity dates back more than 4000 years, according to Siropolis (1997:1). Small business flourished in almost all ancient cultures. The Arabs, Babylonians, Egyptians, Jews, Greeks, Phoenicians, and Romans excelled at it. Their products and service, however, were frequently shoddy and slipshod and consumers were often defrauded and cheated. The result was that small business became the object of scorn. Into this controversy stepped Hammurabi, King of Babylon. In 2100 BC, he drafted a code of 300 laws to protect the consumer and small business persons, especially against fraud. Carved on marble columns 8 feet high, the original code (much now erased by time) resides in the Louvre Museum in Paris.

In conclusion, entrepreneurship is the process of creating something new with value. Devoting the necessary time and effort into the entrepreneurial venture, assuming the accompanying financial, psychic, and social risk, and receiving the resulting rewards of monetary and personal satisfaction and independence, are the core driving forces found in an entrepreneur.

Table 2.1 illustrates the development of the entrepreneurial theory and how it has evolved to the current definition of what an entrepreneur is today. The table depicts the different forms, which the entrepreneur embodied over time, and is expounded below.

Table 2.1 Development of Entrepreneurship Theory and the Term Entrepreneur

Middle Ages	Actor (warlike action) and person in charge of a large-scale production projects.
17th century	Person bearing risk of profit (loss) in a fixed price contract with government.
1725 Richard Cantillon	Person bearing risks is different from one supplying capital.
1797 Beaudeau	Person bearing risk, planning, supervising, organising and owing
1803 Jean Baptiste Say	Separated profits of entrepreneur from profits of capital.
1876 Francis Walker	Distinguished between those who supplied funds and received interest and those who received profit from managerial capabilities.
1934 Joseph Schumpeter	Entrepreneur is an innovator and develops untried technology.
1961 David McClelland	Entrepreneur is an energetic, moderate risk taker.
1964 Peter Drucker	Entrepreneur maximizes opportunities
1975 Albert Shapero	Entrepreneur takes initiative, organises some social-economic mechanisms, and accepts risk of failure.
1980 Karl Vesper	Entrepreneur seen differently by economist, psychologist, businesspersons, and politicians.
1983 Gifford Pinchot	Intrapreneur is an entrepreneur within an already established organisation
1985 Robert Hisrich	Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological, and social risk, and receiving the resulting rewards of monetary and personal satisfaction

Source: Robert D. Hisrich. "Entrepreneurship: Starting, Developing, and Managing a New Enterprise" Boston: R.R. Donnelley, 1992), p.6

In their book *Entrepreneurship* Hisrich and Peters (1998:6-9) define the entrepreneur, documented his / her historical evolution and development in fair detail. Extracts from their documentation follow in the text of this study.

2.3.1 Earliest period of the entrepreneur

One early example of an entrepreneur was Marco Polo, a merchant who attempted to establish trade routes to the east. As an entrepreneur, Marco Polo would sign a contract with a "money person" (today's venture capitalist) to sell his goods. While the venture capitalist was a passive risk bearer, the merchant-adventurer took the active role in trading, bearing all the physical and emotional risk. The profits were often split 75 – 25% in the venture capitalist's favour.

2.3.2 The entrepreneur in the Middle Ages

In the middle ages, the term Entrepreneur was to describe both an actor and a person who managed large production projects. In such large production projects, the entrepreneur did not take any risk, but merely managed the project. The typical entrepreneur in this age was a cleric.

2.3.3 The entrepreneur in the 17th century

The connection of risk with entrepreneurship developed in the 17th century, with an entrepreneur being a person who entered into a contractual agreement with the government. The contract had a fixed price for the contractual period, and the entrepreneur had to bear the risk for the profits or losses. In this period the Frenchman, John Law, was one of the first entrepreneurs to excel in his venture as a banker. Thereafter Richard Cantillon, an economist of note in the 1700s, developed one of the early theories of the entrepreneur. He viewed the entrepreneur as a risk taker, and some of the philosophers in management regard him as the founder of the term.

2.3.4 The entrepreneur in the 18th century

In the 18th century, differentiation between the person providing the capital and the person who needed the capital was drawn. By definition, a clear distinction was made between an entrepreneur and a venture capitalist. The reason for this was the industrialisation of the global markets.

2.3.5 The entrepreneur in the 19th and 20th century

In the late 19th and early 20th century, the entrepreneur was frequently not distinguished from a manager, and was viewed mostly from an economic perspective. In the middle of the 20th century, the notion of an entrepreneur as an innovator was established. The concept of innovation and newness is an integral part of entrepreneurship. The most difficult task for the entrepreneur is not only the ability to create and conceptualise, but also the ability to understand all the forces at work in the particular environment of the industry he/she find themselves in.

2.4 Different types of entrepreneurs

Today the concept of an entrepreneur is further refined, when principles and terms from a business, managerial, and personal perspective are considered. In almost all the definitions of entrepreneurship, there is agreement that there are common characteristics found in all entrepreneurs. These are:

- Initiative taking.
- The organising and reorganising of social and economic mechanisms to turn resources and situations to practical account and profitability.
- These individuals take responsibility for their actions and the acceptance of risk or failure of their venture.

Entrepreneurship is a dynamic process, where wealth is created by individuals who assume the major risk in terms of equity, time, and career commitment in order to provide value to product or service. The start-up is a process filled with enthusiasm, frustration, anxiety and hard work. There is a high failure rate due to such factors as poor sales, intense competition, lack of capital, lack of managerial abilities or capabilities and the enormous complexity of red tape. The financial and emotional risk can be high on the individual, personally and socially, if not approached correctly.

> **"The functions of most of the people who participate in the process of producing goods and services are fairly self-evident. Inventors get their idea for new products or services. Capitalists provide the funds needed to produce them. Specialised workers provide whatever services are needed to turn an idea into a product or service, for sale to the public. Managers direct the workers from day to day. You might think that we have listed every role in the productive process. We have not. One role is left over: that of the entrepreneur. It is hardest to understand, as well as one of the most controversial." Stoner and Freeman (1989:697).**

In the above passage, Stoner and Freeman argue that studies have been conducted in most fields in the economic value chain, but the entrepreneurial sector has been overlooked and needs to be explored.

2.4.1 Intrapreneur

The intrapreneur is that individual who is afforded the opportunity of implementing new initiatives in an organisation where he or she is employed. Innovation guarantees the success of big business in the first place. Here we can see that 3M exploited this strategy and nurtured this type of entrepreneurship in its organisation.

and incorporated it into their incentives to motivate staff at all levels of the organisation.

2.4.2 Extrapreneur

A unique idea sometimes originates in an organisation, but because the intrepreneur is not given the opportunity of developing the idea, it is eventually initiated in a new business. The extrapreneur is an extension of the intrapreneur. Not only is that individual creative, but he / she perseveres in his / her efforts to execute the idea. An excellent example of an extrapreneur was Steven Jobs of Apple Computers, the inventor of the first personal computer.

2.4.3 Novopreneur

This individual does not necessarily have to be employed by the business to fulfil his creative ambitions. Even though he may be employed, he starts a new business to realise a unique idea. The novopreneur probably has the greatest creative ability in the group. This person may have permanent employment, sees a gap in the market and exploits that opportunity to capitalise from the newly formed venture without creating a conflict of interest with his / her current employment.

2.4.4 Interpreneur

The interpreneur succeeds in creating a new business by combining various resources and utilising them. He will, for example, convince a few smaller businesses to combine forces to establish a powerful business. The profit-orientation of the interpreneur is relatively strong. By combining aspects such as meaningful planning and imaginative power, he creates something new. Here we find a role model in our own backyard with the likes of Whitey Basson of Shoprite / Checkers and Anton Rupert of the Rembrandt group of companies.

2.4.5 Renovator

This individual strives to place a less successful business venture on the road to success once again. The extreme form of this renovator is probably the entrepreneurially orientated "crisis manager". He is often active for a short period, constantly has the desire to "get rid of the dead wood" and to implement new working methods. Quick results are important to this individual. This person is also typically called the surgeon. A good example of this person is Meyer Khan of SA Breweries. He was the commissioner, to make the company profitable at a stage, when the company's management were ineffective and the company were not operating profitably.

2.5 Characteristics and classification of the SMME sector

Small, medium and micro enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways South African Parliament (1995:3-4).

SMMEs comprise a business categorisation based on the size of an enterprise measured primarily in terms of employee numbers and, to a lesser extent, on annual revenues. The National Small Business Act, (Government of South Africa: 1996b) formalised the definition of small business in South Africa. In somewhat convoluted language, an SMME is described as a separate and distinct entity without subsidiaries or branches, which is managed by its owner(s) and does not include those forms of self-employment where there is no evidence of individual ownership involved in the actual practice of the business. This definition defines SMMEs as those businesses in which the operator has actual financial investment in the business, in contrast to many 'hawking' operations in which the operator appears to be the owner but in fact has no financial interest other than as an employee.

2.5.1 The Act classifies SMMEs in five categories:

2.5.1.1 Survivalist Enterprises

Those enterprises where the income generated is generally less that the minimum income standard or poverty line. There are no paid employees and the business asset value is minimal. The economic activity of the business is mainly directed at providing the minimal means to keep the business owner alive. This group might be identified as pre-entrepreneurial, and comprises hawkers, vendors, subsistence farmers, and others.

2.5.1.2 Micro-enterprises

Micro-enterprises are those entrepreneurial ventures that generate an annual turnover that is less than the VAT (Value Added Tax) registration limit of R150 000 per annum. Micro-enterprises usually lack formal tax registration, may not adhere to labour legislation and standard accounting procedures, and usually have less than five employees. Micro-enterprises include *spaza* shops, cafés, home-based businesses, mini-taxis, small-scale construction, and textile manufacturing. The defining line between the smallest micro-enterprises and survivalist enterprises is often blurred.

2.5.1.3 Very Small Enterprises

Very small enterprises constitute a category unique to South Africa, and refer to businesses employing fewer than ten persons, except for mining, electricity, manufacturing and construction sectors where the Very Small Enterprise limit is 20. These enterprises operate in the formal economy, are VAT-registered and have access to limited technology in business operations.

2.5.1.4 Small Enterprises

Small enterprises are distinguished from Very Small Enterprises by the upper limit on employee size of 50 and, in general, such enterprises use more established business practices and supervision, and management structures are increasingly complex. Small enterprises have usually passed the stage of direct supervision by the entrepreneur and have developed secondary management systems. Growth into a Small Enterprise usually requires an accumulation of resources over time and access to credit.

2.5.1.5 Medium Enterprises

Medium Enterprises are formal entities, more complex divisions of labour and management structures, employing up to 100 employees

In his research, Toomey (1998) professed that before commenting upon the quality and appropriateness of planned support for the SMME sector in South Africa, some general comments about the South African SMME are apt. Emergent entrepreneurs and SMMEs in South Africa share certain characteristics. Half of all SMMEs are less than three years old. Employment growth is inversely related to the age of the firm.

The majority of newly established SMMEs were begun as strategies to cope with unemployment. Women operate 62% of all micro enterprises and their businesses tend to be in sectors with the lowest levels of profitability and growth in employment. Net monthly income from such micro-enterprises is on average below the established subsistence level of R650 monthly. The average employment growth rate for SMMEs established within the last 12 months is 46%, while for those in existence 24-36 months, the employment growth rate averages at 26%. This may be attributable to increased productivity gained from accumulated learning (Macun, 1995). It may also indicate a gradual slow down in business development. Given the lack of data to support increased business efficiency and productivity, it can be assumed that employment growth slows dramatically as SMMEs age.

2.6 Management practice and the entrepreneur

The desirable and acquirable attitudes and behaviours of an entrepreneur revolve around the six themes which comprises the essence of an entrepreneur (Timmons, 1999:221).

Table 2.2 Six Themes – Desirable and Acquirable Attitudes and Behaviours

Theme	Attitude or Behaviour
Commitment and Determination	Tenacity and decisiveness, able to de-commit/commit quickly. Discipline. Persistence in solving problems. Willingness to undertake personal sacrifice. Total immersion.
Leadership	Self-starter, high standards but not perfectionist. Team builder and hero maker; inspires others. Treat others, as you want to be treated. Share the wealth with all the people who helped to create it. Integrity and reliability; builder of trust; practice fairness. Not a lone wolf. Superior learner and teacher.
Opportunity Obsession	Having intimate knowledge of customer needs. Market driven. Obsessed with value creation and enhancement.
Tolerance of Risk, Ambiguity	Calculated risk taker. Risk minimiser. Risk and uncertainty sharer. Manages paradoxes and contradictions. Tolerance of uncertainty and lack of structure. Tolerance of stress and conflict. The ability to solve problems and integrate solutions.
Creativity, Self-reliance, and Ability to Adapt	Non-conventional, open minded, lateral thinker. Restless with status quo. Ability to adapt and change; creative problem solver. Ability to learn quickly. Lack of fear of failure. Ability to conceptualise and "sweat details" (helicopter mind).
Motivation to Excel	Goal-and -results orientation; high but realistic goals. Drive to achieve and grow. Low need for status and power. Interpersonal supporting (vs. competitive). Aware of weakness and strengths. Having perspective and sense of humour.

Source: Timmons, 1999:221

A manager is the individual responsible for achieving organisational objectives through efficient and effective utilisation of resources. These resources consist of human, financial, physical and informational resources. Required management skills an entrepreneur should acquire are:

- Technical skills:

The ability to use methods and techniques to perform tasks within his or her trade.

- Human and communication skills:

The ability to deal and communicate with individuals and teams.

- Conceptual and decision-making skills:

The ability to understand abstract ideas and select alternatives to solve problems.

Management functions:

- Planning
- Leading
- Controlling.

Management roles that are essential for entrepreneurs to adapt to in the various situations they may themselves in are:

- Interpersonal Roles:

Figurehead, Leader, and Liaison officer.

- Informational Roles:

Monitor, Disseminator, Spokesperson.

- Decisional Roles:

Entrepreneur, Disturbance Handler, Resource allocator and Negotiator.

Management Competencies: (The skills considered to be traditional management skills)

- Administration
- Law and Taxes
- Marketing
- Operational/production
- Finance
- Microcomputers
- Technical skills.

2.7 Raising finance and the entrepreneur

One of the key factors constraining investment by formal financial institutions in the SMME sector is the perception that these investments are not profitable. The profitability of any investment hinges on the difference between the costs of making the investment (input costs, such as overhead and administrative expenses, the cost of capital, as well the cost of default) and the returns it yields. Formal financial institutions perceive SMME investment to be both costly and risky, which in itself should not be a constraint if pricing allows for cost-recovery and risk. It is widely recognized that SMME investments are more labour intensive for financial institutions given the investigations required. A tendency exists that SMMEs are more costly than corporate accounts. Banks estimate that training and support constitute a major portion (approximately 34%) of the total cost to banks of making loans to small businesses.

The cost of capital must be seen in the context of a commercial banking sector that is already considered inefficient. The ratio of overheads as a percentage of total income is 65% or more for most major local banks, against an international benchmark of 50%. Despite a significant spread on interest margins (far higher than international norms), South African banks still struggle to cover administrative expenses from interest income. Nevertheless, South African banks remain highly profitable by international comparison, largely due to fee income and retail banking fees.

Given the internal restructuring of most major banks, it is thus unlikely that banks will make significant inroads into the SMME market, especially for the smaller loan amounts (between R10 000 and R50 000) required by formal micro-enterprises and very small enterprises, unless there is a means of reducing, or, in the short run, of sharing the cost of extending smaller loans through cross-subsidising such loans from larger corporate accounts (a common practice for many public utilities such as telephones, electricity and water).

The risk of default is also often cited as a reason why formal financial institutions are not particularly interested in the SMME sector. Traditionally, banks insure themselves against the risk of non-payment by obtaining insurance against disability or death; by applying screening mechanisms, such as credit checks and business plans; and by imposing collateral requirements.

Application for loans from banks by SMMEs are usually rejected based on credit checks, the business plan, or because of insufficient collateral. These factors also most commonly apply to previously disadvantaged entrepreneurs. A large number of previously disadvantaged entrepreneurs have bad credit records registered with the Credit Bureau. This is largely a historic situation, resulting from collective political action such as rent boycotts and violence in townships, which made living in many areas unsafe (hence leading to arrears on mortgage bonds). At present, there is no effective mechanism for credit rehabilitation.

Moreover, since full client credit information is not often shared between banks and other credit institutions (e.g., retailers), bankers cannot assess the true level of debt of potential borrowers and thus the level of risk in extending further credit. Credit records are, as a result, not a very effective mechanism for verifying credit histories.

While credit checks are still performed by banks in evaluating loan applications, it is increasingly recognized by banks that a bad credit record in itself is not sufficient cause to reject an application.

Often, applications are also rejected because the style and presentation of the business plan is not clear and does not provide all the required information. However, as bankers have little experience and training in SMME lending, business plans are also rejected because of their own lack of understanding of the sector and their inability to accurately assess the level of risk.

The risk of business failure is high amongst SMMEs. International research reveals that the major causes of business decline and /or failure are internal factors. This is especially due to a lack of financial control, poor cash flow management, high gearing levels, inadequate management competence, poor production planning and control, and insufficient marketing. These internal inadequacies rather than external factors such as economic and competitive changes are the main causes of failure. Unless there is experience and understanding of the SMME sector, the warning signals associated with business decline will go undetected. Due to a general lack of understanding of SMMEs, bankers thus tend to rely on collateral rather than on the potential profitability of the businesses and its ability to repay the loan.

The substantial amounts and type of collateral required by banks prevent many previously disadvantaged entrepreneurs from gaining access to formal financial institutions. As the legal and regulatory framework governing financial contracts and collateralisation makes it costly to register collateral, banks have a strong preference for life insurance policies, financial assets, mortgages and personal guarantees. Types of collateral that are more easily accessible such as chattel mortgage, pawned movable personal assets and assignment of claims against third parties are less preferred because of the costs, limited marketability and appropriability.

The amount of collateral required by formal financial institutions is often exaggerated for SMMEs, due to flawed risk perceptions on the part of lenders. Owing to past experience in certain areas of lending, as well as a lack of understanding of the emerging markets, formal financial institutions overstate the likelihood of default of particular classes of borrowers and impose unrealistically high collateral requirements which have effectively resulted in credit rationing.

An argument can be made that banks apply strict collateral requirements; because the interest rate ceiling imposed on loans up to, R500 000 through the Usury Act makes it impossible for banks to charge an extra risk premium to uncollateralised clients. However, this argument presupposes that, firstly, banks have the correct risk perception of SMMEs, and, secondly, that banks would charge the risk premium if the Usury Act permitted them to do so. Bank representatives have stated that, politically, it would be difficult for them to charge higher interest rates than are currently imposed, especially as real interest rates in South Africa are very high by international standards.

Alternative financial institutions

The exemption of money lending transactions under R6 000 from the requirements of the Usury Act has resulted in the proliferation of institutions providing small amounts of short-term credit, largely to previously disadvantaged borrowers. But most of this lending has been for consumption purposes, as well as for small housing loans, and has been targeted at employed individuals. If there is so clearly a market for short-term credit, why has a similar proliferation of institutions targeting the self-employed not been recorded?

One reason is that South Africa has not, unfortunately, generated large-scale success stories to inspire confidence in micro-enterprise lending.

Micro-enterprise lending, on the other hand, has had few South African champions. This is largely due to the fact that, with the exception of one or two institutions, no NGOs have reached sustainability or been able to expand significantly without experiencing bad debt problems. While the past two years have seen an increasing number of new institutions starting up, these institutions tend to be small and localised, with limited outreach. Several factors contribute to the lack of sustainable institutions in the South African context, including lack of capacity, and overhead and administrative expense. NGO practitioners regularly complain about the lack of staff training, information, and access to technology that would make their programmes more effective.

Larger micro-enterprises and very small enterprises, on the other hand, are most appropriately served through individual loans and more differentiated loan products. In South Africa, NGOs providing individual loans have suffered repayment rates below those of group lending programmes. No single individual loan methodology has emerged as highly successful in South Africa. As a result, some NGOs have tended to shift towards traditional, collateral-based lending.

While the average loan size of individual loans is larger than for group loans and thus the cost per loan may be lower, the risk of loan default is often higher. Furthermore, as individual loans are larger, more security is generally required.

Innovative partnerships between banks and alternative finance institutions to share infrastructure, both physical and technological, should thus be encouraged, especially in provinces where alternative finance institutions are underrepresented, notably in the Western Cape.

Equity financiers

Because SMMEs are often undercapitalised, the enterprises are particularly vulnerable to economic fluctuations and interest rate changes. Adequate and appropriate equity investment in smaller enterprises in particular is therefore critical to the health of the sector and to its ability to sustain itself during periods of economic fluctuation. However, most equity investments are made in medium-sized and large enterprises, and for management buy-outs of existing large enterprises.

In part, the bias towards larger equity investment is due to the costs associated with gaining the required rate of return from SMMEs. Equity investments require a significant amount of preparatory work and due diligence prior to investment. More mentorship is also required to protect the investment. These sunk costs can only be recovered if the investment size is sufficiently large or if the returns are sufficiently high.

The rate of return is also related to the relative security of investment required by institutional investors. Investments in SMMEs are seen as particularly risky, and start-up enterprises even more so, and thus concurrently high returns are required. As a result, institutional investors, particularly the large pension funds and insurance companies, have not been particularly enthusiastic about the SMME market. It may be necessary to establish alternative sources of investment capital that require lower returns than institutional investors. In Britain and the United States, government played a large role initially in providing investment capital to stimulate investment in smaller enterprises and in start- up and early stage investments. Internationally, tax incentives have also been effective in stimulating SMME investments by institutional investors.

The Johannesburg Stock Exchange

Another potential source of equity finance, mainly for small and medium-sized growth companies, is the Johannesburg Stock Exchange (JSE). However, the level of activity in the Development Capital Market (DCM) and the Venture Capital Market (VCM) of the JSE has been low. The JSE has attributed this to the fact that the large institutions generally only invest in corporations, and smaller investors equate the DCM/VCM market with unmanageable risk. Both turnover and price-earnings ratios are generally low. Moreover, credible directors are not prepared to risk their reputations by serving on the boards of DCM/VCM listed companies, and likewise corporate advisors are reluctant to become involved in DCM/VCM listings. The JSE fears that failures on the DCM and VCM will taint the Main Board, while entrepreneurs are generally unaware of the DCM and VCM and of the benefits of listing.

International experience has shown that two-tier stock exchange systems with differentiated listing requirements are sometimes successful in increasing access to equity for small firms. However, differentiated listing requirements in themselves are not sufficient to attract investors. On both the NASDAQ and the Alternative Investment Market of the London Stock Exchange, the marketing of small businesses has been a vital element in attracting attention from both investors and companies. Furthermore, a set of incentives and social responsibility guidelines may need to be introduced to encourage both brokers and investors to become involved in the alternative market.

An evaluation of existing programmes

The key constraints faced by formal financial institutions (both debt and equity financiers) in making SMME investments can be summarised in two categories.

Factors relating to debt and equity: these factors include high overhead costs in general; the administrative cost of extending small loans to SMMEs; the high risk of business failure; an exaggerated risk perception of SMMEs on the part of bankers and institutional investors; and returns on SMME investments that are considered low relative to the risk and cost of making the investment.

Factors relating to debt: these factors include an inability to assess accurately the level of risk inherent in an SMME transaction; the lack of collateral of SMMEs, especially previously disadvantaged entrepreneurs; and the cost of registering and realising collateral.

For alternative financial institutions, there are similar constraints. Factors common to group and individual lending: these factors include the cost of extending loans to SMMEs; returns on SMME investments that are considered low relative to the risk and cost of making the investment; and the cost of establishing a new infrastructure. Factors relating to individual lending: these factors include the cost of registering and realising collateral; and the risk of business failure.

In recognition of these constraints, Khula Enterprise Finance Limited and Ntsika Enterprise Promotion Agency were established in 1996. The institutions' mandates were to establish programmes that would absorb a portion of the risk and cost of making SMME investments, as well as increase the delivery capacity of alternative financial institutions. The overall aim was to provide private and non-governmental institutions with an opportunity to learn how to make these investments profitably. While significant strides have been made by the implementing agencies in meeting their mandates, more rapid progress is required, especially with respect to appropriate non-financial service provision.

The Khula Credit Guarantee Scheme

In recognising that collateral constitutes a serious constraint for SMMEs, particularly for previously disadvantaged entrepreneurs, Khula established Credit Guarantee Schemes. The original scheme was transferred to Khula from the Small Business Development Corporation (SBDC). Khula substantially revised the scheme, with the result that the percentage of guarantees issued to previously disadvantaged entrepreneurs has risen from 25% to 50%; 633 guarantees were issued within the first year of operation (as opposed to about 1470 under the SBDC over a four-year period). Nevertheless, the level of utilisation remains far below expectation.

Three reasons have been given for the low level of utilisation. Firstly, the guarantee schemes were operating through the small business units at the banks rather than through the branch structures. Secondly, high bank transactions costs were not significantly reduced by Ntsika's non-financial support services. Thirdly, Ntsika's programmes did not adequately address the risk of business failure

In response, Khula has decided to significantly revise the Credit Guarantee Scheme. From 1 March 1998, Khula increased the maximum loan amount to R1 million and the maximum guarantee to 80%. Collateral requirements for the unguaranteed portion were revised to include a personal guarantee based on a certified statement of net worth, which has reduced the cost of registering collateral.

A more fundamental restructuring of the Guarantee Scheme is envisaged. Business development officers will be employed at a local level to receive, review and appraise business plans from entrepreneurs. Once the officer is satisfied with the viability of the proposal, these proposals will be forwarded to Khula. Should Khula be satisfied with the proposals, a guarantee will be awarded. The business development officer will then offer the proposal to local bank branches for approval. Every successful applicant will be assigned to a mentor, who can be called upon either by the bank directly in the case of arrears or by the client for business support.

Two categories of mentors will be established, those with general business skills, and those with specialist knowledge.

Khula envisages that this scheme may be financially more viable than the existing scheme, as some banks have expressed a willingness to pay an administration fee for the acceptance of pre-guaranteed proposals. Two issues are critical to the success of the scheme: firstly, banks have to support the revised scheme; and secondly, while the scheme may be self-sustaining in the long run, it will require significant initial capitalisation.

The revised Credit Guarantee Scheme should go a long way to increasing access to finance from banks for SMMEs. However, there remain questions over whether the government should be responsible for subsidising private sector investment, on the "supply side", for an extended period of time.

Furthermore, it is impossible for all banks lending to SMMEs to go through the guarantee scheme. It order to evaluate the success of the scheme and to monitor changes in the banking culture, it is critical that banks lending to SMMEs are disclosed. New legislation that would encourage disclosure of all community lending by banks is now being considered.

While Khula envisages that it will provide training to bankers on alternative lending methods, it is important that such training be internalised in banks or through COSAB. However, it may be necessary for government to make the initial investments.

Support for alternative financial institutions

A critical issue for Khula has been inadequate infrastructure on the part of alternative financial institutions extending micro-enterprise loans. The programmes put in place have seen success in stimulating the establishment of new institutions in areas that were not previously served. To date, Khula has extended support to 21 retail financial intermediaries, of which eight are new institutions. It must be noted that any strategy entailing new infrastructure is by necessity a long term process, and it is too early to judge the success of the programme.

However, questions can be raised over the wisdom of supporting a large number of individual institutions, as loan methodologies differ, and a range of different weaknesses may emerge which are difficult to address systematically. Instead, a model for successful large scale delivery must be developed.

In addition, the future of Provincial Development Corporations (PDCs) and their existing infrastructure urgently needs to be reviewed in the context of provincial economic development plans. While there has been variation in the performance and financial strength of PDCs, the institutions have tended to be inefficient, with weak SMME loan portfolios. Several PDCs have undergone severe financial crises since 1994 and some have attempted restructuring. In some cases, the financial crises were exacerbated by provincial authorities' attempts to channel subsidised credit through these institutions. Given the lack of existing infrastructure, it is thus critical that relevant authorities, both at a national and provincial level, revisit once more the mandates of PDCs and consider the role that they could play in providing appropriate and sustainable support to SMMEs.

Furthermore, savings and lending vehicles for low income communities, such as municipal banks (as exist, successfully, in Peru), could also be investigated, and if they apply in the South African context, be encouraged. Finally, the ability of alternative financial institutions to grow and prosper requires an added degree of regulatory credibility, which could emerge in the initial stages through the establishment of an ombuds function to handle complaints and help arbitrate disputes.

Equity finance programmes

An integrated programme to stimulate equity investment in SMMEs has not yet emerged. Khula has developed an equity programme that seeks to leverage private sector investment through provincial programmes. While the concept of provincial equity funds has merit, the emphasis has been on larger scale investments from R2 to 5 million upwards. Thus the programme in its current conception does not address the market gap for small-scale and start-up investment capital.

Ntsika has not yet established non-financial support programmes to reduce the cost of making equity investments in SMMEs. Donor-funded programmes, such as the EASY initiative funded by US AID, have instead sought to fill the gap. These programmes assist entrepreneurs with structuring proposals, the performance of initial due diligence, and the identification of potential funders. However, these programmes do not have the funding required to reach significant scale.

Furthermore, the risk of business failure and the scarcity of potentially profitable business opportunities present real constraints to equity financiers. Targeted support and training for SMMEs must be developed, to both increase the profitability of existing companies and to reduce the risk of business failure for new enterprises.

Finally, the risk perception of institutional investors must be addressed. While successes in the SMME sector would probably have the most significant effect in the long run, in order to stimulate private sector funds in the short run, a set of clearly defined tax incentives could be investigated. Social responsibility guidelines could also be considered.

The SBDC is another institution that holds significant government funds. The SBDC's mandate has been revised and its core business is now equity financing. Its target market is small and medium-sized enterprises that require capital between R50 000 and R3 million. It has thus positioned itself to provide support in an area where a market gap exists. Should the SBDC be successful in providing equity investments in these ranges, it could stimulate the market for small-scale equity investments. However, currently, most SBDC transactions are loans that use an equity stake to increase returns and to substitute for collateral. While the approach is innovative, it is not fulfilling the mandate of the institution. Furthermore, the borrower profile of the SBDC is changing only marginally. However, targets have been put in place to achieve a transformation of the SBDC over a five-year period. These figures should be made public, so that the SBDC is held publicly accountable.

Other programmes

The Industrial Development Corporation (IDC) is currently reorienting its loan programmes to include an increased emphasis on small- and medium-sized enterprises (SMEs) in the manufacturing sector and has recently announced a cut in interest rates for small and medium-sized manufacturing enterprises. With its experience in industrial financing and the provision of subsidised credit, as well as its significant capital base, the IDC is in many respects an ideal institution for channelling subsidies to SMEs. However, the IDC defines SMEs as enterprises with assets below R60 million. In terms of the National Small Business Act, the enterprises with assets up to R18 million are defined as medium-sized. Thus, effectively, the IDC is still targeting large enterprises. The IDC should thus be encouraged to consider smaller enterprises than are currently served.

The Department of Trade and Industry also offers a host of other programmes and incentive schemes. One programme specifically tailored to small- and medium-sized manufacturing concerns is the Small Medium Manufacturing Development Programme (SMMDP), designed to encourage investment by SMEs. The programme essentially offers a rebate on a portion of the investment incurred over a period. While there has been great interest in the programme, previously disadvantaged entrepreneurs in particular have had difficulty in accessing it, as they have largely been unable to obtain the finance for the initial investment. There is thus a need for greater cooperation between Ntsika, Khula, the IDC and commercial banks with the SMMDP programme, so that an integrated support package can be developed.

Structural impediments to SMME investment

While incentives have been put in place to stimulate SMME investment, their success will be limited by the structure of the financial system. Owing to limited competition at all but the highest end of the market, there is little incentive for banks to explore new markets and products. Owing to increased competition between institutions for high-income consumers and corporate accounts, banks do not have in place the kinds of cross-subsidisation systems that might solve the problem of limited SMME access to financial services' infrastructure.

The financial sector is composed of a highly concentrated formal banking sector targeting corporate accounts and competing with smaller niche banks and investment banks. South African banks are considered profitable by international standards, despite inefficiencies resulting from the lack of domestic and foreign competition. Approximately 85% of all bank assets are held by four banks.

There are few second-tier banking institutions that can absorb savings and extend credit. While credit unions have the potential to grow into a secondary banking tier, the sector is undergoing a transition. Furthermore, as credit unions target the employed rather than the self-employed, they have little applicability to SMMEs. Another savings vehicle, the Post Office Savings Bank, offers (relatively unsophisticated) savings services but little in the way of credit. Finally, there is a dearth of strong alternative financial institutions providing credit to the self-employed for productive purposes.

Government needs to help stimulate a greater diversity of financial institutions, especially alternative financial institutions that serve as vehicles for savings and loans to low- and middle-income individuals, as well as the self-employed.

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa makes reference to the need for a legislative review or a Small Business Finance Act with the following purpose:

A new act, or the addition of relevant clauses to existing legislation, could address a number of fundamental issues regarding the access to finance by SMMEs. This could include steps to encourage existing financial institutions to become more active in the SMME-market segments, the facilitation of deposit-taking by lender-NGOs, the recognition of certain non-conventional collateral types and the widening of scope for more specialised lending and investment institutions focusing primarily on SMME needs.

In light of the aforementioned context, legislative review was proposed. The current legislative framework makes provision for a two-tier banking system. Two pieces of key legislation govern the system: the Banks Act, and the Mutual Banks Act.

The need for firm financial regulation is rarely contested, especially in light of the recent spate of domestic financial system crises from Mexico to South Korea, and many places in between. In successful financial markets, regulations serve four purposes: maintaining safety and soundness (prudential regulation), promoting competition, protecting consumers, and ensuring that undeserved groups have a degree of access to capital.

The main object of the Banks Act (1990) is to create a framework for the regulation and supervision of institutions accepting deposits from the general public, in order to safeguard the investments of depositors and to protect the integrity of the banking system. The Act was passed at a time when many institutions were failing, and large mergers and acquisitions reduced competition in the banking sector dramatically.

The banking environment, which is characterised by deregulation and greater risk for those institutions already well established, creates high barriers to entry. Along with conditions in the market, the regulatory environment has generated a few powerful

banking groups which dominate the industry. Criticism of the Banks Act and the prospects of a new Community Bank led to the promulgation of the Mutual Banks Act (1993).

In order to register as a bank or a mutual bank under the Acts, an entity needs to comply with certain statutory requirements, both in relation to the application for registration, its ongoing operations and prudential requirements. Generally, it would be obliged to:

1) Meet certain capital adequacy requirements, which entail maintaining issued primary and secondary share capital as well as primary and secondary unimpaired reserve funds in an amount of at least R10 million in the case of a Mutual Bank and R50 million or up to 8% of its risk exposure in the case of a Commercial Bank.

2) Maintain a minimum reserve balance in an account with the Reserve Bank to an amount equal to 1% and 3% of its liabilities to the public.

3) Hold liquid assets of not less than 5% of its total liabilities.

4) Carry on its operations subject to certain restrictions, e.g., it may not be exposed to any individual person in excess of certain percentages without making specific reports to the Registrar.

5) Give monthly and quarterly returns showing its various risk exposures and the manner in which it is complying with the above-mentioned capital adequacy and liquid asset requirements.

The Banks Act introduced a general prohibition on the taking of deposits from the general public unless the institution was registered as a bank. Taking deposits as security for the completion of a contract is exempted under the Act. Similarly, taking deposits against the issue of commercial paper is exempted (however, such funds may not be used for lending). Only stokvels and credit unions with capital of less that R10 million have been exempted from the requirements of the Act.

The Mutual Banks Act sets out to create a regulatory framework for mutual membership in a banking organisation with above R10 million in capital. The primary feature distinguishing mutual banks from existing equity banks lies in the corporate constitution, in that its members invest in shares permissible for mutual banks. The Act was intended to promote the creation of a second tier of banking. However, its capital and reporting requirements are generally regarded as being so stringent and inflexible in part because of the special purpose institution for which the Act was intended that an innovative second tier has not emerged.

According to a regulatory panel established jointly by Khula Enterprise Finance Limited (Khula) and the National Housing Finance Corporation (NHFC), both the Banks Act and the Mutual Banks Act are too restrictive to encourage the registration and regulation of alternative lending institutions. Under both Acts, institutions are regulated by the Registrar of Banks, an inhibiting factor given the type of lending approaches and the collateral accepted, as well as the cost of complying with the reporting requirements.

Furthermore, as the Registrar must be satisfied with the directors and senior management, it may imply hiring more highly paid staff which in turn may affect the viability of the institutions. The Mutual Banks Act's minimum capital of R10 million is perceived by many NGO practitioners as being excessive, and the Act's liquidity requirements would sterilise too great a proportion of loanable funds. Finally, the form of ownership imposed by the Mutual Banks Act is restrictive and does not allow for stock ownership.

In order to create an enabling environment for a second tier of banking, it is necessary to review the Mutual Banks Act. Furthermore, it may prove necessary to consider a form of deposit insurance for special purpose institutions to reassure public confidence at a time when many informal (and new, formal) financial

institutions have struggled to survive. Introducing a system of deposit insurance would protect depositors, especially in smaller banks and savings and loan institutions. Currently, the banking sector is so highly concentrated that banks can insure themselves, and their cross-ownership with major conglomerates and insurance companies provides an additional measure of security. The Reserve Bank's doctrine that some banks are "too big to fail" also provides a corresponding deposit insurance to many depositors in the large institutions, which is not yet matched by support to smaller financiers.

Interest rates

One of the main factors inhibiting greater SMME activity in the financial sector is the level of interest rate required to make lending profitable. There are two ways to consider the problem. Firstly, most of the subsidies directed to SMMEs for financing have gone to suppliers in one form or another (either through operating subsidies to NGOs or in the form of guarantees on lenders' funds). Very few subsidies find their way, directly and transparently, to borrowers. Yet if increased SMME activity is desired in targeted sectors and if interest rates hamper SMME development in these sectors, there should be greater scope for government and agencies at all tiers (local, provincial and national) to shift subsidies towards select borrowers if this is transparent, economically and socially justifiable and does not lead to open-ended obligations. Secondly, the Usury Act has been raised as an inhibiting factor, and should be revisited, in the context of an appropriate mix of regulation and deregulation of the financial system.

In general, interest rates are, at present, at their highest real (after-inflation) levels in South Africa's history. Complaints about the unaffordability of credit are thus not limited to SMMEs. So far, most of government's various programmes have been aimed at changing the behaviour of suppliers of credit, with financial subsidies rarely reaching credit beneficiaries directly. However, subsidies in the form of non-financial support have been an integral component of the National Small Business Strategy and

large numbers of SMMEs have benefited from these programmes. Targeted subsidies as part of an integrated support package for SMMEs could therefore be considered in the context of regional (provincial or local) economic development through appropriate government agencies such as the Industrial Development Corporation (IDC).

Below-market lending for selected beneficiaries may be justified if targeted enterprises (and their local economies) benefit from having a larger source of funds available to reinvest as a result. This raises the issue of the maximum rate permissible for SMMEs. There is a rationale for government intervention to prevent debt burdens from becoming extremely onerous. That was historically the purpose of the Usury Act.

While interest rate deregulation -- in the form of a larger Usury Act exemption than the present R6 000 and changes to banking legislation could together increase the numbers of creditors willing to become active in SMME markets international experience cautions against summarily lifting interest rate ceilings. In order to prudently liberalise interest rates, the following four conditions should prevail:

1) High levels of macroeconomic stability.
2) High levels of bank solvency.
3) High levels of competition and low barriers to entry in the financial sector.
4) Strong and capable supervisory institutions, and ability to intervene in the case of bank failure.

With the development of the financial sector and increased competition both for credit extension and for deposits, a substantial deterioration in loan assessment and therefore portfolio quality could result. It is therefore critical that a strong regulatory and supervisory structure for deposit-taking institutions is in place.

Furthermore, a system of deposit insurance would have to be considered, should the financial sector begin to open up to more institutions of varying sizes. If the market is not contestable, it will not change the behaviour of major banks and the current lack of price competition would prevail.

Financial sector liberalisation could have significant benefits, if properly phased. However, it should be a gradual and closely monitored and controlled process, and usually best occurs towards the end, not the beginning, of economic restructuring and reform. What is suggested in the short-term is not deregulation, but rather a process of reviewing the regulatory framework gradually to allow for increased competition. Ultimately this may permit a gradual raising of the Usury Act exemption, in the context of a general rewrite of the Act.

Disclosure and penalties

In order to ensure that there are penalties in place should banks and institutional investors not significantly increase the volume of investment in SMMEs, a variety of measures, including new legislation modelled on the US Community Investment Act (CRA), could be introduced. The main objectives of such measures would be increasing the disclosure of who lends and to whom (in general terms while assuring client confidentiality), improving the monitoring of SMME financing, assessing penalties for non-performance and discriminatory behaviour and outcomes, and establishing a customer-driven complaints process.

In the United States, the CRA is applied to deposit-taking institutions that are formally chartered to do banking business (and hence that have access to the national deposit insurance system). Federal and state regulators investigate the CRA records of banks and accord performance ratings during banking examinations. The penalty for a bad CRA rating is that regulators decline permission for mergers and acquisitions, the opening of new branches, and other regulated business activities. As a result, communities have used the process to more coherently voice their objections to bank business practices, and to negotiate reinvestment commitments from banks. Similarly, by being chartered and falling under the protective arm of the Reserve Bank and the financial registrars, South Africa's financial institutions have an obligation to increase their efforts to meet the banking (lending and deposit) needs of their entire communities. Failure to do so in a systematic way should be the basis for penalties.

However, in applying CRA-type legislation in South Africa, it will be necessary to take a broader view than is currently the case in the US. The insurance industry and pension funds, for example, should also be included among those having responsibility for expanding their financial services, as they draw on domestic savings. Limited-purpose financial institutions attempting to serve only high-income market niches should not be exempt from the social responsibility of channelling investment funds more productively, and without discrimination based on the size of potential borrower.

In addition to new CRA legislation, the outcome of consultations around the new Monopolies Act should be closely monitored, and the small business sector could consider proposing the inclusion of a clause that sets out developmental criteria to be taken into account when considering mergers or acquisitions.

Furthermore, disclosure is critical. The SA Reserve Bank and the Financial Services Board could be tasked with publishing data on financial sector investment in small business, housing and education. These data could serve to inform decision making in a range of areas associated with approval of mergers and acquisitions, and with the investment of public funds. Finally, the banks could also be required to periodically publish information about the availability of bank infrastructure, to address the community access consequences of branches that have closed, are to be closed or that will provide limited service, and to provide plans about increasing their infrastructure and marketing to reach areas not presently served by the banking system.

2.8 Governmental bureaucratic process and the entrepreneur

Governmental bureaucratic process is a method of control that employs strict and often rigid regulations to ensure that certain guidelines and standards are followed when a company wants to conduct business in its constituency. These bureaucratic process applies to the registration of the business and all various of types taxes that governs the enterprise. In conjunction with the aforementioned the enterprise has to comply with the regulations of the local- and national authorities' by-laws governing businesses and environmental control.

2.9 Summary

While programmes currently in place address some of the obstacles to fostering growth in SMMEs, there are certain areas in which dramatic improvement is required, notably around the provision of non-financial support tailored to the needs of formal financial intermediaries and equity financing. A model for large-scale service delivery to micro-enterprises should be developed from the various small-scale programmes presently underway. A need to increase the scale of the programmes has also emerged, notably around the Credit Guarantee Scheme. A means of addressing the responsibilities of banks to meet the needs of entire communities, such as legislation, should also be pursued.

The revised and expanded programmes, however, only begin to provide the incentives for greater private sector involvement, and the penalties associated with failing to meet a more comprehensive cross-section of community needs. A broader policy framework that begins to address the structural impediments to increased SMME investments must be developed to supplement and support the revised incentives and subsidies that flow to the private sector through Khula and Ntsika. The policy framework should allow for an opening up of the financial sector to enable the development of a greater diversity of institutions. In addition to reducing barriers to entry, however, a more explicit set of regulatory "incentives" should be developed to overcome the resistance of institutional investors and formal financial institutions to recognize the potential profitability of SMMEs.

CHAPTER THREE: Research methodology

Introduction:

Judging from the literature review, it was evident that the infrastructure to foster entrepreneurial growth in the problem areas of access to finance, managerial mentorship and training and red tape exists. However, the implementation and management from a parastatal perspective is largely ineffective.

3. Research methodology

A quantitative descriptive research method of research was conducted. Descriptive research involves observation and description of variables as they are distributed throughout a population, according to Crowl (1993). Quality observation (measurement) is the nucleus of descriptive research. Descriptive research may be classified as either qualitative or quantitative research. Quantitative descriptive designs yield numeric or statistical descriptive data about how variables are distributed among members of a population. Quantitative descriptive designs include the use of surveys, classification research, passive designs, and ex-post facto designs. This method of research was chosen because it would yield the data needed to answer the research questions of this study. In addition, this research method is relatively inexpensive and yields the data in a short space of time.

3.1 Exploratory research:

> **"Exploratory research does not start with a specific problem – the approach of such a study is to find a problem or a hypothesis to be tested (typical of qualitative research)" Welman and Kruger (2002:12).**

The target audience consisted of SMMEs within the technical maintenance, chemical cleaners and specialised lubricant products suppliers to the petro-chemical, marine, industrial and power-generating industry in the Western Cape area. This audience was chosen, because of the author's familiarity and experience within this sector of the industry. The hypotheses originated from experience and contact within this specific sector of the industry. The Western Cape Metropolitan area was geographically the most suitable and convenient area to conduct the survey, while also staying within the constraints of the research.

3.2 Sampling design:

The nature of the sampling was drawn from the market sector of 15 SMMEs that supply technical maintenance, chemical cleaners and specialised lubricant products to the petro-chemical, marine, industrial and power-generating industry. These ventures have been in existence for at least five years, in the case of the SMME, and at least three years in the case of the sole entrepreneur. The geographical location of the sample was the Cape Metropole of the Western Cape, since this was the most economically viable option. The magnitude of a provincial or national survey was too lengthy and tedious for the parameters of this research. The research excluded the small pavement vendors, because the research focused on a specific sector of the industry. In the final analysis, a total of 12 SMMEs formed the sample population.

3.3 The questionnaire and interviews:

Structured interviews were used as the primary data collection tool selected for this study. The same questions were asked, in the same sequence, of all interviewees to ensure uniformity throughout. The interviews were conducted on a one-on-one basis. By employing this method, it was felt that the information would be more objective and unbiased. The interview was defined by the constraints of the questionnaire and stayed within the parameters of the set questionnaire. The questionnaire comprising questions as listed below was used in the interviews with the group of 12 entrepreneurs and owners of SMMEs.

General questions for gathering information

1. Person being interviewed: Position

   Owner []　　　Manager []　　　Other (specify) []

2. Gender:　Male []　　　Female []

3. Current age group;

   20 – 29　[]

   30 – 39　[]

   40 – 49　[]

   50 – over　[]

4. At which age did you commence your business?

Managerial related questions

5. Describe why you decided to start your own business as opposed to being employed.

   ----

6. Do you have any managerial training or education?

   ----

7. Did you have a start-up business plan of any kind?

----

8. What kind of planning do you do? (Technical, HR, Sales, Production, Conceptual.)

----

9. What were the most difficult gaps to fill and the problems to solve in your start-up phase?

----

10. How did you evaluate the opportunity in terms of the critical elements of success? The competition? The market? Did you have any specific criteria you wanted to meet?

Finance

11. Did you receive any financial assistance in setting up your business? [Y] /[N]

12. What were the conditions for receiving financial assistance (collateral, terms of payment, surety)?

----

13. When applying for finance, did you encounter any discrimination?

----

14. Was applying for finance an easy task? If not, describe the problems you did encounter?

----

15. Describe a time when you ran out of cash. What pressure did this create for you and the business, and what did you do about it? What lessons were learned?

Red tape

16. How did red tape affect your start-up and the current running of your company? (Tender process, Local authority and Taxation.)

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17. How do you manage red tape?

----

18. Is red tape a hindrance in your venture?

Concluding questions: Once you got going

19. What have you learned from success / failure?

20. What were/are the most demanding conflicts or trade-offs you face?

21. Can you describe a venture that did not work out for you and how it prepared you for your next venture?

List of enterprises interviewed:

1. All Trade

2. Atlantic Coatings

3. Cape Epoxies

4. Equipex

5. F & A Distributors

6. Hudson Chemicals

7. Mega Distributors

8. P & A Industrial Supplies

9. Prolong Cape

10. Simsa

11. Triple Two Engineering Supplies.

12. Wavecrest Trading

The information of the sole traders, entrepreneurs and the owners of SMME had been sourced from the database of the company Equipex (Pty) Ltd. The composition of the entrepreneurs and owners of these ventures was a compilation of suppliers, rivals, customers and sub-distributors of the product which Equipex manufactures, and other ranges of which they have the sole distributorship.

3.4 Purpose of the research

The purpose of this research was to test the hypothesis. The acquisition of finances at the available financial institutions and the governmental ventures is a difficult and daunting task. The lack of management skills in small ventures is one of the key factors why these ventures fail, as well as the difficulty the businessperson has to contend with when it comes to handling of red tape with the starting up of the venture. These problems were seen to be the main contributing factors to failure of the SMMEs within the Western Cape.

The survey was done among SMMEs to determine from them what their experiences (in respect of their current management proficiencies) were. It also focused on the obtaining of finance to run the company, and the effects of red tape when dealing with the authorities at various levels and departments.

The research also investigated how the obtaining of finance affects the small entrepreneur in comparison with the medium and the micro-enterprise. These comparisons will be depicted in due course in graphical presentations of pie charts, histograms and trend graphs as supplementary to the findings. This data was analysed using Microsoft Excel software.

3.5 Summary

The research mainly focused on the market sector that supplies technical maintenance, chemical cleaners and specialised lubricant products to the petro-chemical, marine, industrial and power generating industry in the Cape Metropolitan area of the Western Cape. Within this sector, attention was directed at two groups within the SMMEs and entrepreneurial sector, which consisted of:

Group #1: The successful ventures that have been in existence for a period of at least five years. These are ventures operating with existing financial assistance or a bank overdraft.

Group #2: The strugglers on the Equipex data basis-ventures operating without financial assistance and which are using own capital or funds raised from "soft" loans.

CHAPTER FOUR: Analysis of research results

Introduction

The target audience that was selected, consisted of SMMEs within the technical maintenance, chemical cleaners and specialised lubricant products suppliers to the petro-chemical, marine, industrial and power-generating industry within the Western Cape. These ventures have been in existence for at least five years, in the case of the SMME, and for at least three years in the case of the sole entrepreneur. The geographical location of the sample was from the Cape Metropole of the Western Cape. The research excluded small pavement vendors. In the final analysis, 12 SMMEs formed the sample population.

4 Analysis of the research results

The information of the sole traders, entrepreneurs and owners of SMMEs was firstly sourced from the database of the company Equipex (Pty) Ltd. First, the acquisition of finances from the available financial institutions and governmental ventures is a difficult and daunting task. Secondly, the lack of management skills in small ventures is one of the key factors why these ventures fail. Lastly, there is the difficulty the businessperson has to contend with when it comes to the handling of red tape with the starting up of the venture. These problems were perceived to be the main contributing factors to the failure of the SMMEs within the Western Cape. The survey was done among SMMEs to determine from them what their experiences were in respect of these perceived problems.

The research also investigated how obtaining finance affects the small entrepreneur in comparison with the medium and the micro enterprise.

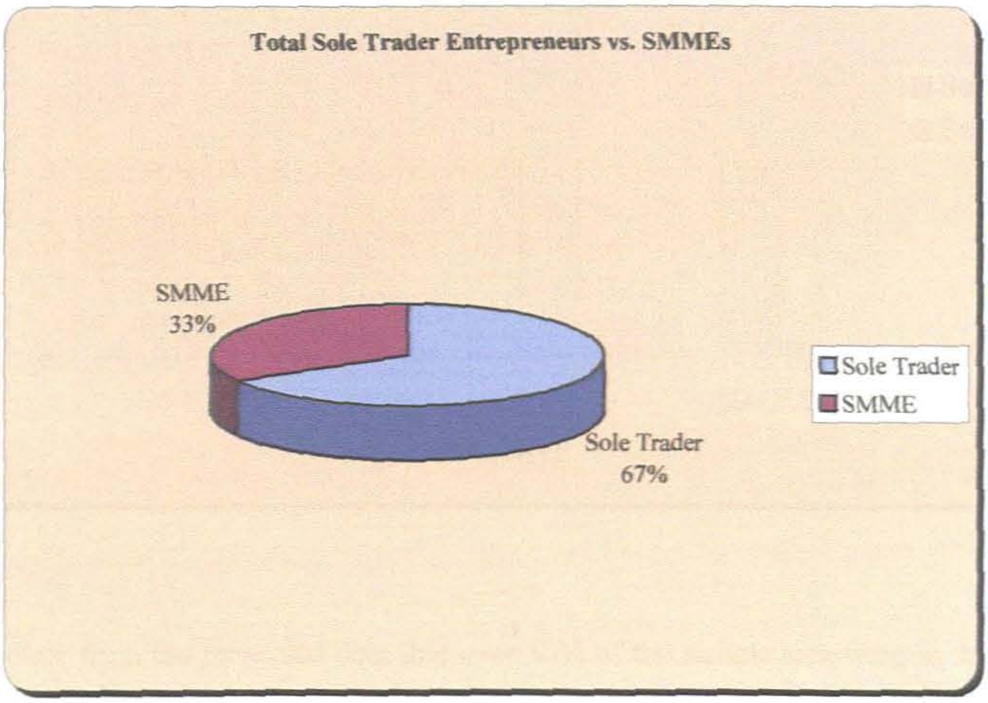
4.1 Results of the research

In the final analysis, 12 SMMEs formed the sample population.

4.1.1. Market segmentation

In the category of general questions for gathering information, as illustrated in Figure 4.1 below, the sole trader entrepreneurs constitute double the size of SMMEs in this market segment.

Figure 4.1. Total sole trader entrepreneur vs SMMEs

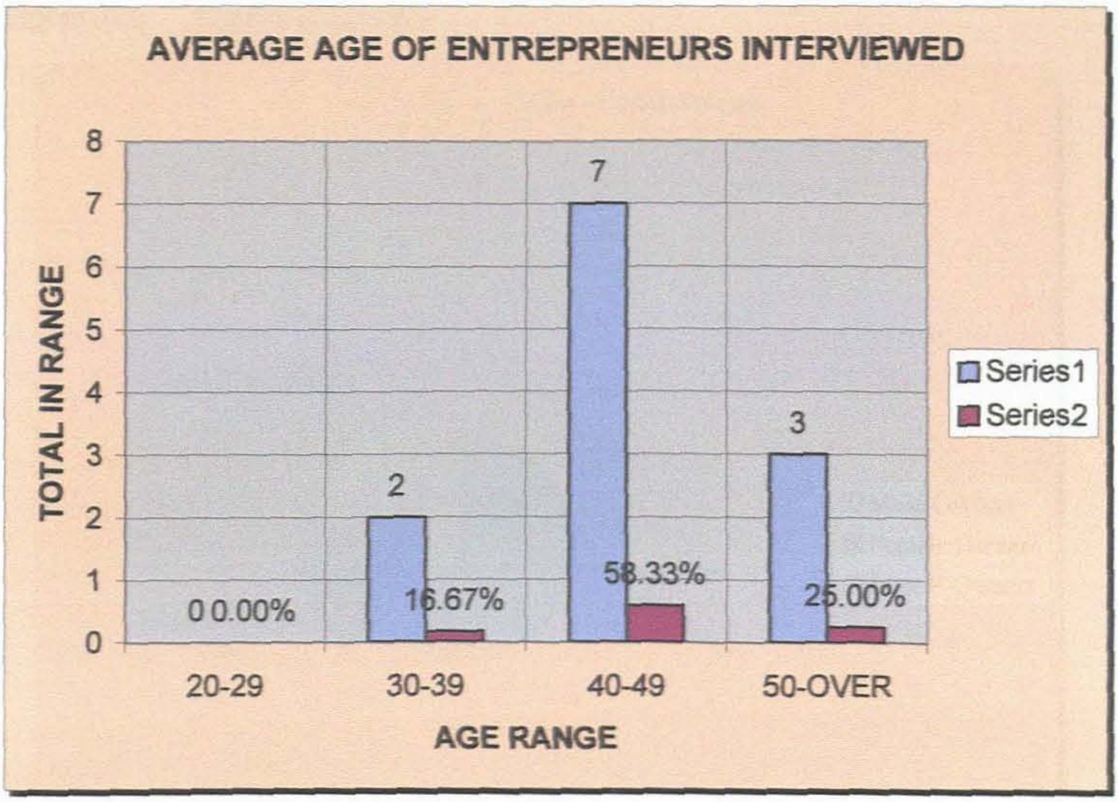


The result of the study shows that 33% of the sample population comprises enterprises that qualify as being of SMME status. The majority of the targeted audience, comprising 67% of the total sample population, were sole trader entrepreneurs.

4.1.2. Ownership of the SMMEs and entrepreneurs

The most significant factor regarding ownership and the age of the entrepreneurs was indicative that they had worked as employees before starting their own business.

Figure 4.2. Average age of the entrepreneur

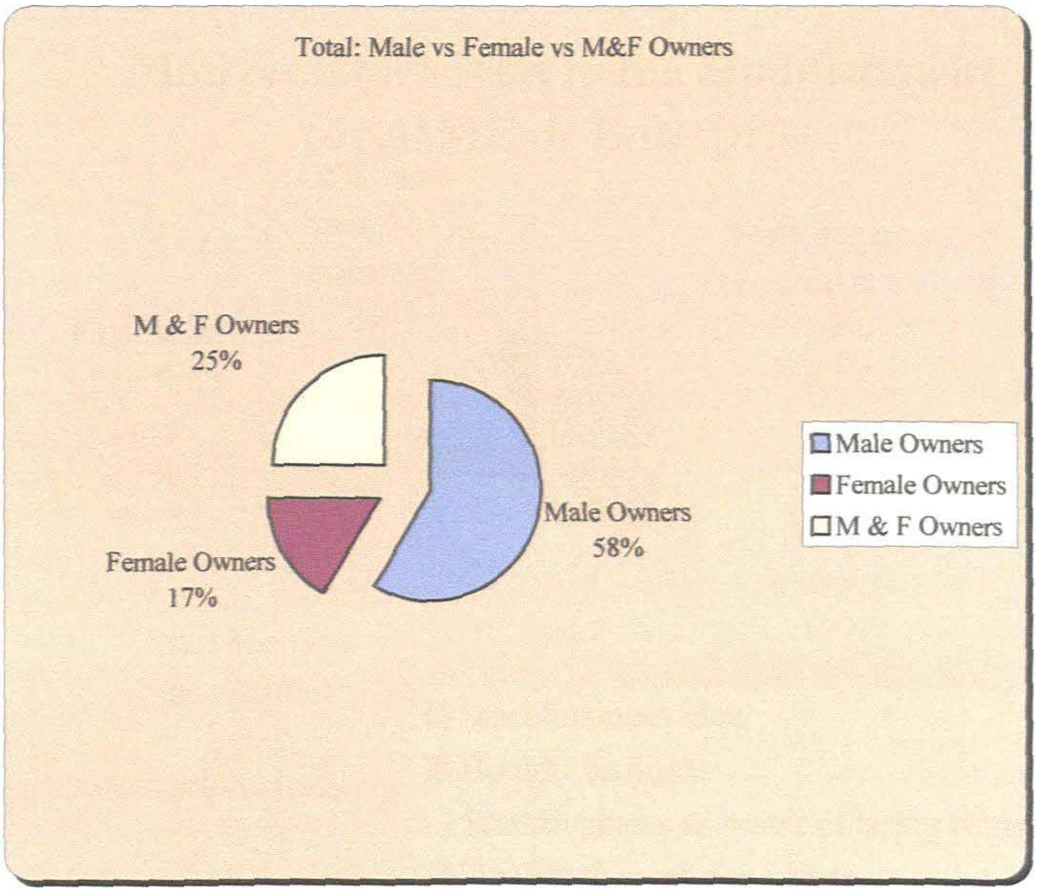


It is clear from the presented data that over 50% of the sample size were in the age bracket of 40-49. However, it was evident from the survey that the entrepreneurs in that age range were predominantly candidates who had been retrenched, and had no form of income, and their chances of finding positions in the job market were very slim. Therefore, they opted for the entrepreneurial route. Almost 17% of the sampled entrepreneurs were those that are still novice in the market segment, but unable to work for an employer. The remained 25% were those owners who had started their business between the ages of 40-49, and had already established themselves.

4.1.3. Gender of the sampled population

The figure below gives an indication of the spread of ownership along the gender line. The purpose of this question was to established to what extent the entrepreneurs qualify for preferential treatment as a PDI.

Figure 4.3. Gender of owners

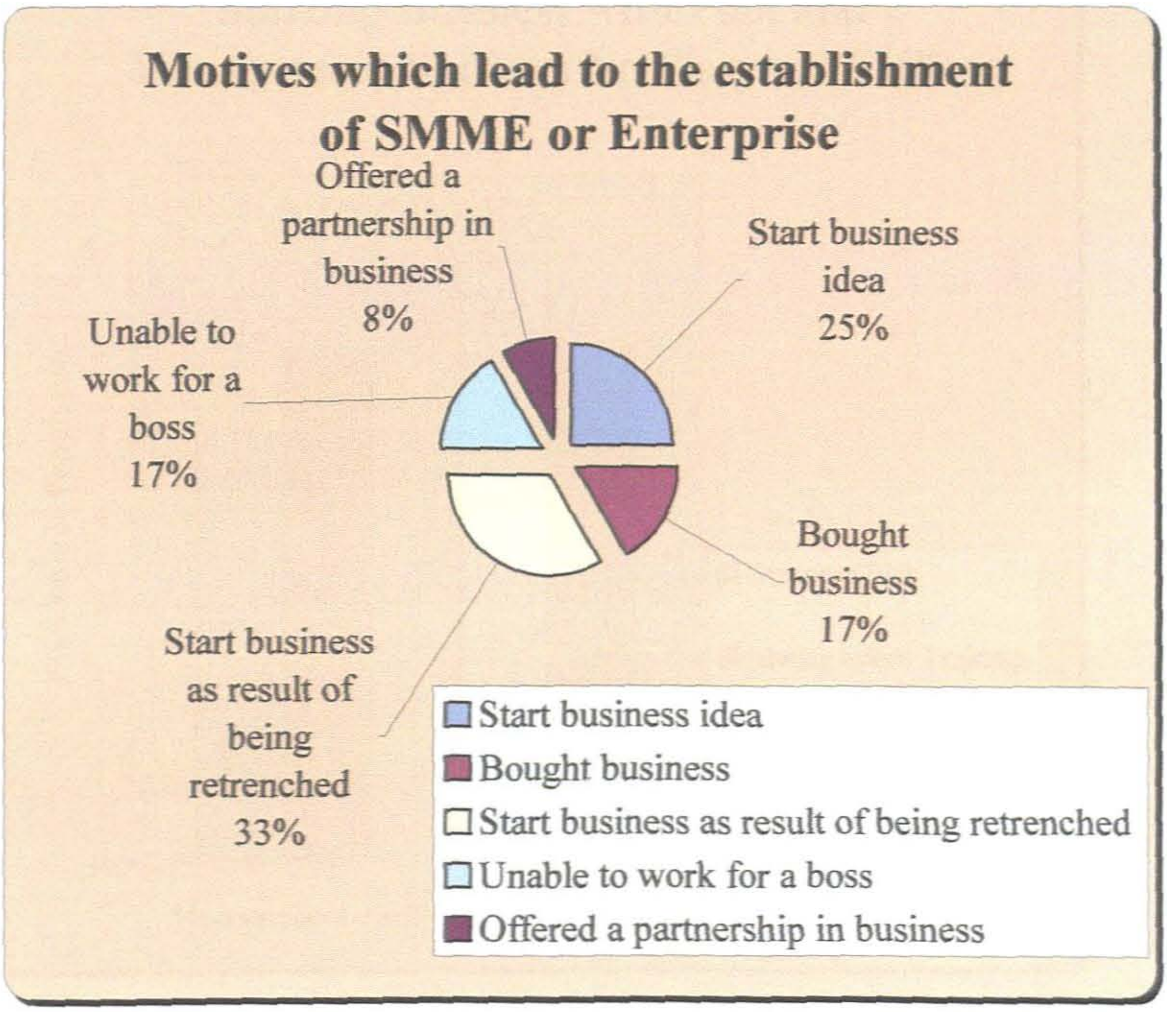


The survey revealed that 17% of the sample comprised of female owners and were eligible PDIs. The result indicated that of the 58% male owners in the survey only 29% were eligible PDIs.

4.1.4. Motives for starting the business

A question was included to determine how the business was started. The sampled entrepreneurs were asked to describe why they decided to start their own business as opposed to be being employed.

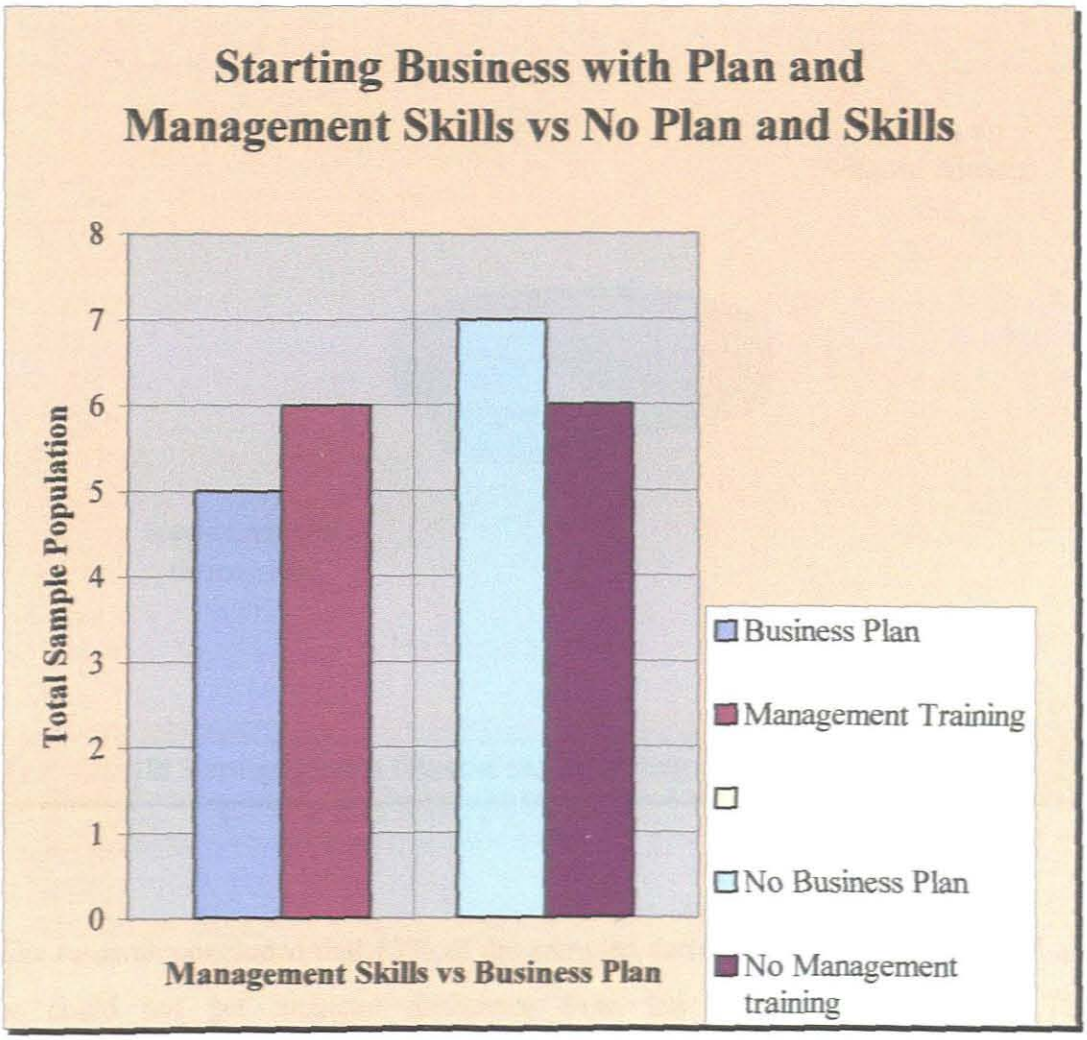
Figure 4.4. Motives leading to the establishment of the business



Among the entrepreneurs sampled, 25% claimed to have started their business because of a business idea, the second most popular motive to open a business in the survey. The most important reason for starting up a business was that the entrepreneur had been retrenched and opted to start a business as a means of income. The remaining portion of the sampled survey, 17%, claimed that they could not work for a boss, a further 17% bought their venture and the last 8% were offered a partnership in the business in which they operated.

4.1.5 Business plan and management skills

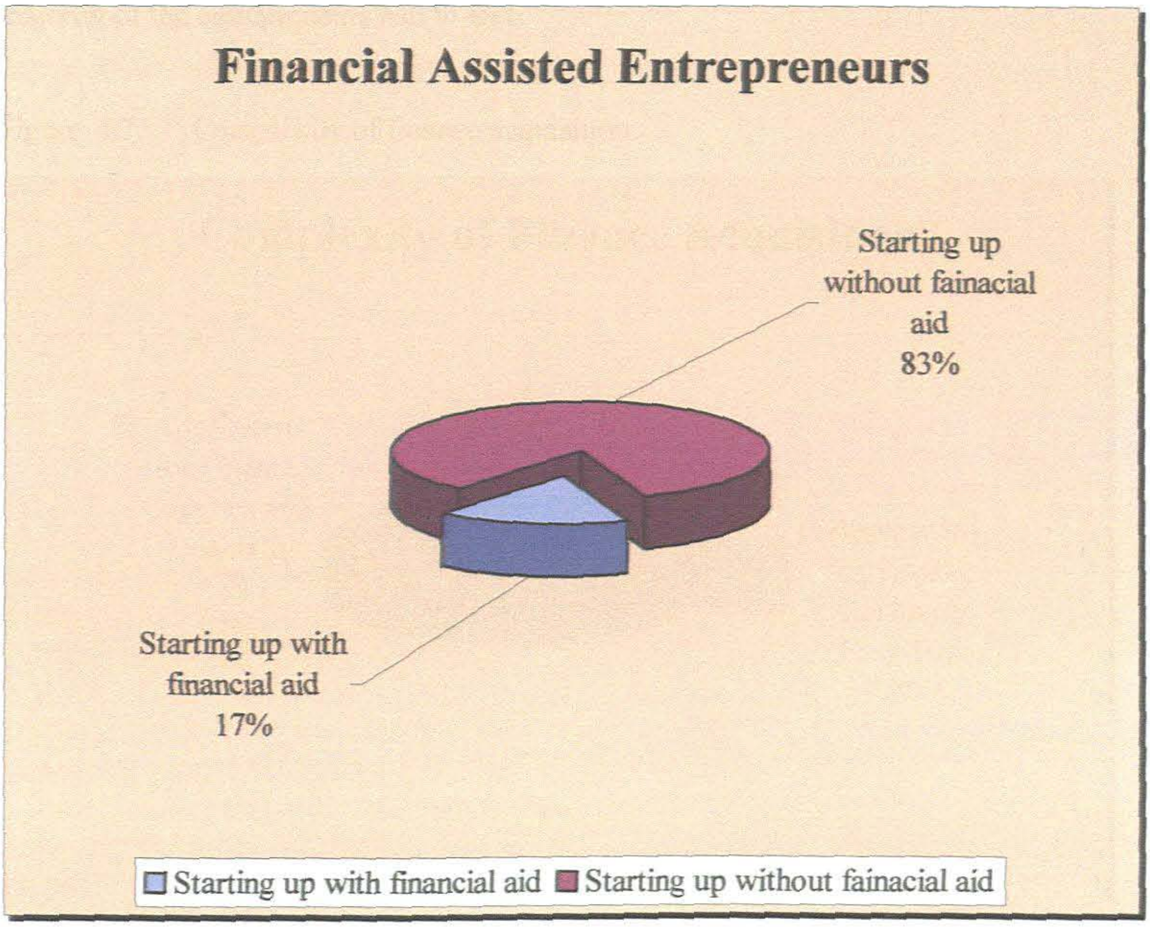
Figure 4.5. Correlation between business plan and management skills



The survey reveals that of the sampled entrepreneurs, about 42% started their venture with a comprehensive business plan as opposed to 58% that attempted it without a business plan. Analysis of the survey indicated that 50% of the sampled population had some degree of management training and the remaining 50% started their business without any formal training in management.

4.1.6. The starting up of business with finance

Figure 4.6. Financially assisted entrepreneurs

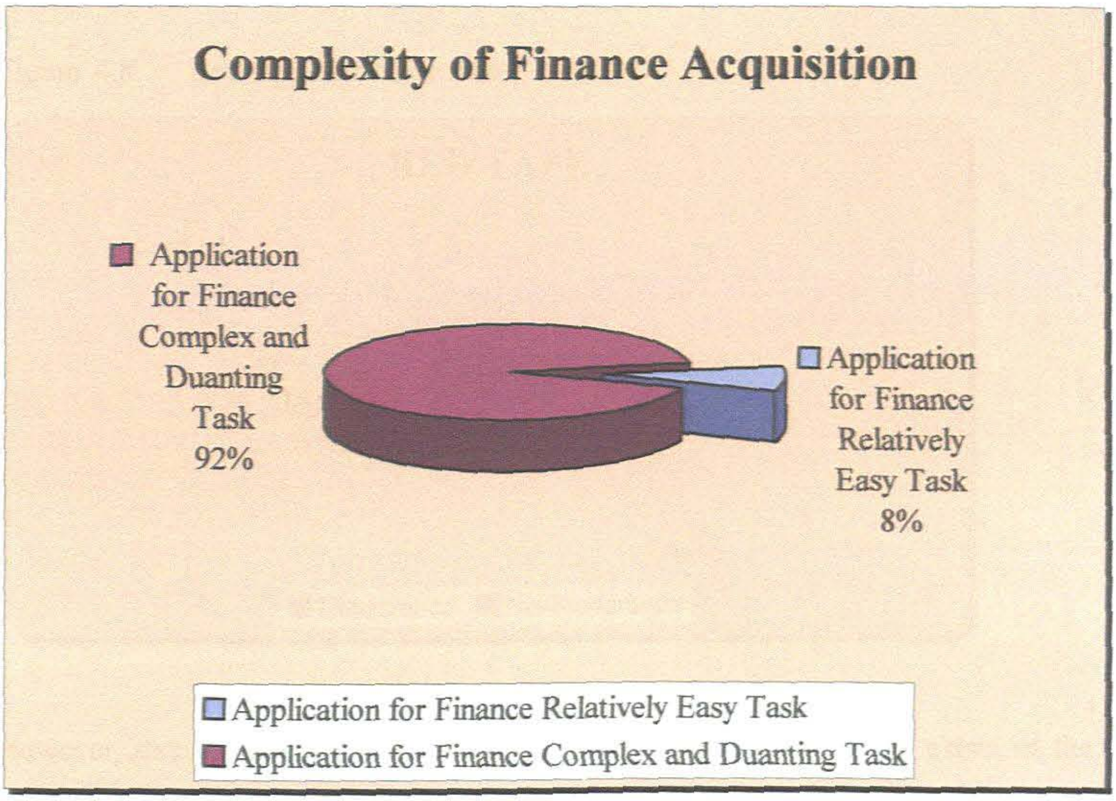


The research concluded that 83% of the sampled entrepreneurs had no financial aid or could not get financial assistance from the financial institutions. The entrepreneurs in this category had to fund their operations from "soft loans". These loans were either obtained from family and friends or they used their retrenchedment money to fund the venture. The research results show that a mere 17% obtained financial assistance from institutions.

4.1.7. Finance acquisition

The perception exists in the research postulation that the application for and acquisition of financial assistance is a daunting and complex process that the majority of the entrepreneurs had to face.

Figure 4.7. Complexity of finance acquisition

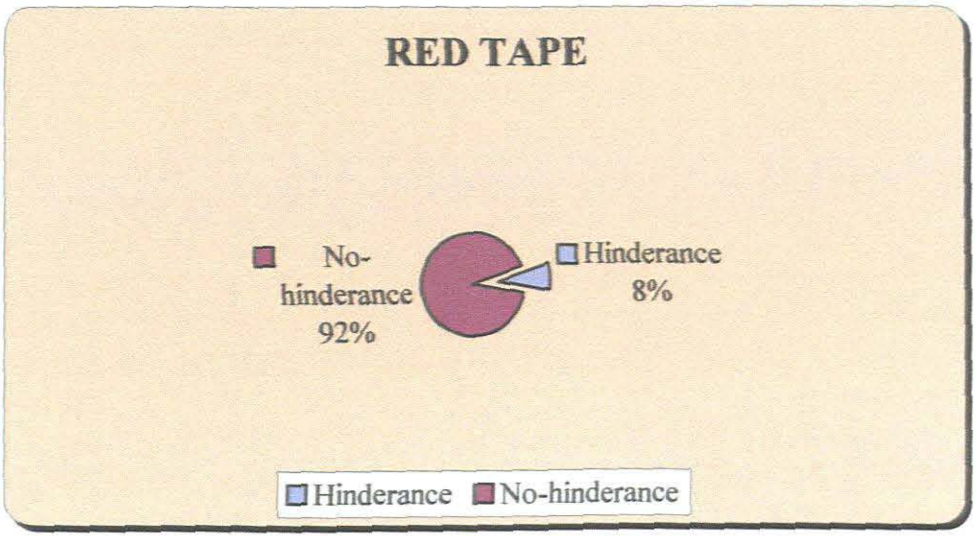


It is evident from the survey that the process to obtain finance through an SMME is indeed a daunting and complex task. The survey in Figure 4.7 depicts a graphical representation that supports this perception. The figure reveals that only 8% of the sampled population claimed that the application for finance was not as daunting and complex as perceived. Those SMMEs and entrepreneurs were however, in the minority and had been trading successfully for a period of more than five years. However, figures of 98% revealed that the majority of the sampled entrepreneurs found the process to be extremely complex and daunting and had to rely on "soft loans".

4.1.8 Red tape

From the literature review the perception exists that red tape is a major obstacle to the budding entrepreneur and the fostering of the growth of the entrepreneurial market sector.

Figure 4.8. Red tape hindrance factor



However, data collected from the survey revealed that the contrary exists in the sampled population of this market segment. An overall majority found that they did not regard red tape as an obstacle in the process of their entrepreneurial venture. Only 8% of the sampled population stated that they did find bureaucracy.

4.2. Summary

In conclusion, it is noted that most of the perceived concerns and the plight of the entrepreneurs and SMMEs surfaced in the survey in the sampled population. The acclaimed institutions that were formed to assist in the fostering of entrepreneurs and SMMEs lacked the effectiveness and failed in their task.

CHAPTER FIVE: Discussion and recommendations

Introduction

The research has examined the plight of the SMMEs and entrepreneurs that supply technical maintenance, chemical cleaners and specialised lubricant products to the petro-chemical, marine, industrial and power-generating industry. The geographical location of the sample was the Cape Metropole of the Western Cape. The interest for the research stem from personal experience and the perceived plight of the entrepreneurs as stated in the research postulation, that the lack of management skills-, complexity to obtain capital or acquire finance-, and the governmental bureaucracy are the main barriers for the fostering of entrepreneurial growth.

5 Discussion and recommendations

5.1. Market segmentation

The research findings revealed that the sole trader entrepreneurs constitute double the size of SMMEs in this market segment. The result of the study shows that 33% of the sample population comprises enterprises that qualify as being of SMME status. The majority of the targeted audience, comprising 67% of the total sample population, were sole trader entrepreneurs.

From the survey, it was evident that the main reason for this imbalance is the lack of business management and ignorance of the market sector. This is a major hurdle to cross because it is a free market system, and the recommendation would be to nurture and cultivate entrepreneurship from school and conduct workshops aggressively among entrepreneurs. These workshops can be conducted by a joint venture of the government and the larger corporation to develop a form of mentorship. If approached correct and strategically this form of mentorship can develop into a three tier symbiotic relationship.

5.2. Average age of the entrepreneur

It is clear from the presented data that over 50% of the sample size were in the age bracket of 40-49. However, it was evident from the survey that the entrepreneurs in that age range were predominantly candidates who had been retrenched, and had no form of income, and their chances of finding positions in the job market were very slim. Therefore, they opted for the entrepreneurial route. Almost 17% of the sampled entrepreneurs were those that are still novice in the market segment, but do not want to work for an employer. The remained 25% were those owners who had started their business between the ages of 40-49, and had already established themselves. It also revealed that the majority have had working experience in other business not necessary related to they current business before starting their own business.

The age range in this market sector and the entry age is not desirable for continued business, hence the financial institutions stance regarding risk aversion. There is also no guarantee against foreclosure in the mid to medium term or successful passing on of ownership in the case of the owner being deceased. To correctly cultivate the new breed of entrepreneurs a more focused approached towards entrepreneurship should be adopted at grass root level. Entrepreneurial subjects and life skills should be introduced at school level, as there is no short-term solution to this problem.

5.3. Gender of the entrepreneurs

The results of our findings show that that 17% of the sampled population being interviewed were females entrepreneurs, who ventured into a relatively unknown field from their past working experience. At the time of going to press those female ventures had to foreclose because of financial difficulties. The male and female combination of ownership predominantly consists of family businesses. The remained 58% conclude the male ownership of the sampled population. Overwhelming evidence emanates from the research that the majority of the entrepreneurs are unaware of the governmental appointed institutions established to assist the SMMEs and entrepreneurs financially.

As in the case of the undesirable age to commence your entrepreneurial career the same principle, apply to gender equality. The correct cultivation of a new breed of entrepreneurs should commence at grass root level. A more focused approached towards entrepreneurship should be adopted and aimed at both sexes. Entrepreneurial subjects and life skills should be introduced at school level, as previously stated an in the previous case there is no short-term solution to this phenomenon.

5.4. Motives for starting the business

The sampled entrepreneurs were asked to describe why they decided to start their own business as opposed to be being employed. The research findings concluded of the sampled entrepreneurs, 25% claimed to have started their business because of a business idea, the second most popular motive to open a business cited in the survey. The most important reason for starting up a business was that the entrepreneur had been retrenched and opted to start a business as a means of income. The remaining portion of the sampled survey, 17%, claimed that they could not work for a boss, a further 17% bought their venture and the last 8% were offered a partnership in the business in which they operated. The misperception exist with many a entrepreneur claiming that certain market sectors are more lucrative than others and venture into it without prior consultation. They do not conduct a proper market research and then later have to foreclose due to difficulties to sustain the business because of ignorance of that specific market sector.

The recommendation here would be that financial institutions and the affiliated governmental institution with the likes of Khula and Ntsika to form a task team apt with certain market sectors to consult with the entrepreneurs and make them self more accessible. These institutions must also develop a network linking themselves to all business tender offices and avail themselves for advice and consultation.

5.5. Management skills and business plan

The survey reveals that of the sampled entrepreneurs, about 42% started their venture with a comprehensive business plan as opposed to 58% that attempted it without a business plan. Analysis of the survey indicated that 50% of the sampled population had some degree of management training and the remaining 50% started their business without any formal training in management. Extrapolation from the literature review was cited that both Sawaya (1995) and Nobanda (1998) investigated the problems affecting small manufacturers. They found that a serious problem exists in management skills and development because of improper and inadequate education. According to the statistics of the DTI, as previously mentioned, the small business sector employs close to 50% of the country's workforce and contributes to the tune of 37% of GDP. However, information in the Cape Business News (2002) revealed that almost 80% of SMMEs fail annually due to a lack of management expertise.

Developing the business plan is a means of defining the blueprint, strategy, resource, and people requirements for a new enterprise and requires substantial conceptual management skills. It is very difficult to raise capital from the financial institutions without a business plan. Financial institutions normally peruse the business plan for poor construction and sustainability of the business. A poorly constructed plan results in the application for financial assistance being declined.

Overcoming the chronic skills shortage, particularly in the junior and middle management tier, is one of key challenges currently facing South African organisations. Training and education have become a top priority as South Africa seeks to shed off the shackles of the past and take its place among the world's developed nations. The onus for ensuring ongoing training rests not only with the government, but also with companies of all sizes, that need to ensure they raise productivity levels and keep abreast of changing technology.

5.6. Complexity of finance acquisition

The perception exists in the research postulation that the application for and acquisition of financial assistance is a daunting and complex process that the majority of the entrepreneurs had to face. The research concluded that 83% of the sampled entrepreneurs had no financial aid or could not get financial assistance from the financial institutions. The entrepreneurs in this category had to fund their operations from "soft loans". These loans were either obtained from family and friends or they used their retrenchedment money to fund the venture. The research results show that a mere 17% obtained financial assistance from institutions.

It is evident from the survey that the process to obtain finance through an SMME is indeed a daunting and complex task. The survey in Figure 4.7 depicts a graphical representation that supports this perception. The figure reveals that only 8% of the sampled population claimed that the application for finance was not as daunting and complex as perceived. Those SMMEs and entrepreneurs were however, in the minority and had been trading successfully for a period of more than five years. However, figures of 98% revealed that the majority of the sampled entrepreneurs found the process to be extremely complex and daunting and had to rely on "soft loans".

The promotion of SMMEs is a key element in the Government's strategy for employment creation and income generation. Due to obstacles, the SMME sector is severely under-developed. The recommendation would be to have a simplified regional industrial development programme tailored to the needs of small and medium-sized firms. The need for SMMEs to play a stronger role in job and asset creation are amplified by the slow growth in employment and the restructuring of the South African economy currently underway. The levels of commercial and NGO lending to SMMEs should be significantly increased and interest rates not inflated by unreasonable risk perceptions; to improve the outreach and efficiency of both conventional and alternative financial institutions, to stimulate the provision of start-up and small-scale equity products for SMMEs.

5.7. Red tape

From the literature review the perception exists that red tape is a major obstacle to the budding entrepreneur and the fostering of the growth of the entrepreneurial market sector.

However, data collected from the survey revealed that the contrary exists in the sampled population of this market segment. An overall majority found that they did not regard red tape as an obstacle in the process of their entrepreneurial venture. Only 8% of the sampled population stated that they did find bureaucracy.

5.8 Summary

Despite the governments active drive to rectify the economic situation where it concerns the SMMEs and entrepreneurial sector very little improvements are noticeable. They devise well-constructed policies and frameworks on White Paper and appoint institutions to assist in the drive, but their implementation and follow through strategies are ineffective.

CHAPTER SIX: Conclusions

6 Conclusions

The research has examined the plight of the SMMEs and entrepreneurs that supply technical maintenance, chemical cleaners and specialised lubricant products to the petro-chemical, marine, industrial and power-generating industry. The geographical location of the sample was the Cape Metropole of the Western Cape. The review took place against the background of the perceived plight of the entrepreneurs as stated in the research postulation, that the lack of management skills-, complexity to obtain capital or acquire finance-, and the governmental bureaucracy are the main barriers for the fostering of entrepreneurial growth.

6.1 Recommendation for further study

Data collected from the survey revealed that red tape was not a barrier in the sampled population of this market segment. An overall majority found that they did not regard red tape as an obstacle in the process of their entrepreneurial venture. Only 8% of the sampled population stated that they did find bureaucracy. Further investigation into tax relief and incentives to promote the growth of the SMMEs and entrepreneurship should be investigated with more indepth.

Annexure #1

General questions for gathering information

1. Person being interviewed: Position

   Owner []   Manager []   Other (specify) []

2. Gender: Male [] Female []

3. Current age group;

   20 – 29 []

   30 – 39 []

   40 – 49 []

   50 – over []

4. At which age did you commence your business?

Managerial related questions

5. Describe why you decided to start your own business as opposed to being employed.

   ----

6. Do you have any managerial training or education?

   ----

7. Did you have a start-up business plan of any kind?

   ----

8. What kind of planning do you do? (Technical, HR, Sales, Production, Conceptual.)

----

9. What were the most difficult gaps to fill and the problems to solve in your start-up phase?

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10. How did you evaluate the opportunity in terms of the critical elements of success? The competition? The market? Did you have any specific criteria you wanted to meet?

Finance

11. Did you receive any financial assistance in setting up your business? [Y] /[N]

12. What were the conditions for receiving financial assistance (collateral, terms of payment, surety)?

----

13. When applying for finance, did you encounter any discrimination?

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14. Was applying for finance an easy task? If not, describe the problems you did encounter?

----

15. Describe a time when you ran out of cash. What pressure did this create for you and the business, and what did you do about it? What lessons were learned?

Red tape

16. How did red tape affect your start-up and the current running of your company? (Tender process, Local authority and Taxation.)

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17. How do you manage red tape?

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18. Is red tape a hindrance in your venture?

Concluding questions: Once you got going

19. What have you learned from success / failure?

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20. What were/are the most demanding conflicts or trade-offs you face?

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21. Can you describe a venture that did not work out for you and how it prepared you for your next venture?

List of enterprises interviewed:

1. All Trade
2. Atlantic Coatings
3. Cape Epoxies
4. Deezee Precision Engineering
5. Engineering Supplies
6. Equipex
7. F & A Distributors
8. Hudson Chemicals
9. IMT
10. Mega Distributors
11. P & A Industrial Supplies
12. Prolong Cape
13. Simsa
14. Triple Two Engineering Supplies.
15. Wavecrest Trading

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