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An evaluation of the challenges faced by rural-based Small, Micro and Medium Enterprises in Pietermaritzburg, South Africa

by

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A research report submitted in partial fulfilment of the requirements for the degree of Master of Arts (Social Development)

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March 2014

DECLARATION

I certify that this research report is my own original work and that proper acknowledgement has been made wherever I have referred to the work of others.

_____

S B Nxaba
March 2014

DEDICATION

To my father for his persistent and tireless support and inspiration in providing for my basic education and for enlightening me about the values and the special importance of formal education.

Siphosenkosi Blessing Nxaba
March 2014

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TITLE An evaluation of the challenges faced by rural-based Small Micro and Medium Enterprises in Pietermaritzburg.

ABSTRACT

Small, Micro and Medium Enterprises (SMMEs) in the South African present context are integral instruments of economic and social development. In these times of high unemployment in South Africa, the need for SMMEs to alleviate the high rate of poverty due to unemployment is evident. The government is committed to ensure that small businesses progressively increase their contribution growth and performance of the South African economy in critical areas such as job creation, equity and access to markets. As from 1994, with the new advent of a new democratic era, government has taken measures to ensure that small business development becomes a key focus. Since then, government has put in place institutions and programmes within all three tiers of government with the aim of providing comprehensive support to small business. This is suggestive of the government being mindful of the challenges/gaps which still need to be addressed to support small business especially in rural areas where unemployment and poverty are rife. Whilst there are institutions which provide support to SMMEs, the overall impact of these initiatives is insignificant. This study explored the perceptions of the owners of rural-based SMMEs about factors responsible for the success and failure of rural-based SMMEs. The study adopted a qualitative approach and it was exploratory in nature. Semi-structured interviews were conducted with five owners of rural-based SMMEs and with three key informants from three local municipal districts/offices around Pietermaritzburg in KZN. The main findings of the study identified initiatives to address the challenges to rural-based SMMEs, such as, provision of good infrastructure, business management skills, business equipment and land/premises. The recommendations suggested a need of partnerships between banks and community business support organizations, subcontracting of SMMEs to big business, introducing entrepreneurship from school level and introducing monitoring and evaluation systems in all government levels as proposals to address challenges to rural-based SMMEs.

Key words: Entrepreneurship, Small, Micro and Medium Enterprises (SMMEs), poverty alleviation, rural development, economic development.

CHAPTER ONE
Introduction

1.1 Introduction

The SMME sector has a significant role in the realization of social and economic development and to promote the overall standard of living in South Africa. As a result, the SMME sector has the potential to generate wealth, and to supply the rural population with food, clothing, and housing as well as the essential and additional goods and services. Todaro and Smith (2009) concur with the above argument that an increase in the living standards of all the people is the main concern of any development. Life sustenance is the ability to provide basic necessities without which life would not be possible (Todaro & Smith, 2009). There is no development when the benefits of economic progress are enjoyed only by a small number of people while the majority are being excluded. Speaking at the Glass Recycling Company's annual general meeting, Clem Sunter mentioned that, rather that aiming to create 5-million jobs by 2020, the government should aim to create 1-million new small businesses by then (Business Day, 31/03/2011).

There have been initiatives to support small and medium enterprises in the 1970s and 1980s, although these initiatives were not properly coordinated and strategically informed. According to Kirby (1985), the establishment of the Small Business Development Corporation was one major step taken in the early 1980s that signified a formal vehicle for small enterprise development and promotion. Other institutions like the Development Bank of Southern Africa, Industrial Development Corporation and parastatal institutions had also SMME support element. The structures and the systems of these institutions though in existence were not properly placed and focused, pre-1994. Without dwelling much on South African political history, it is worth mentioning that the apartheid government's policies on small enterprise development and promotion did not carefully examine the need to involve Blacks into small enterprise mainstream economy:

> "During apartheid, Blacks were not allowed to become entrepreneurs outside their homelands. This made it exceedingly difficult to thrive as business owners, because the homeland markets were too small and poor. All other business alternatives outside

> of the homeland were essentially illegal, although from the late 1970s onwards they were increasingly tolerated, Mazwai, 1994 (cited in Frese, 2000, p79)".

As one would expect, a lot of changes within the SMME sector took place when the democratically elected government came into office. The first change was the birth of the Discussion Paper which was about the Strategies for the Development of an Integrated Policy and Support Programme for Small, Medium and Micro-Enterprises in South Africa. That discussion paper promoted an integrated SMME support system. After consultation with various stakeholders, a consensus was agreed upon to accept and officiate a refined strategy document which became a White Paper (DTI, 1995). The White Paper was about the vision of the strategy, the history of SMME development in South Africa, proposals to reform SMME institutions, principles and the goals thereof, as well as the short to long term action plan. The key objectives of the strategy were about the creation of a favourable environment for SMMEs, job creation, addressing the legacy of apartheid, economic growth, supporting the vulnerable groups of society and organizing South Africa to compete globally (DTI, 1995). It should be noted that all these objectives come from the broader vision, mission, objectives and priorities as put in the Reconstruction and Development Programme (ANC, 1994).

The White Paper was soon followed by the National Small Business Act No. 102 of (1996) which was to ensure the provision of an enabling environment for SMME development and promotion. The National Small Business Act arranged and organized the framework of SMME institutions by establishing new bodies (e.g. Ntsika Enterprise Promotion Agency (Ntsika) and the National Small Business Advisory Council) as well as these institutions' directives. The Department of Trade and Industry also established a new Unit, that is, The Centre for Small Business Promotion and a new entity, which is, Khula Enterprise Finance (Khula). Further to these SMME institutional structures, the National Business Act stipulated the definition and the classification of enterprises by size-classes (DTI, 1995).

Rogerson (2004) concurs with the above statements saying that these SMME support entities were introduced by the national government as policy interventions to implement the national SMME strategy where the Ntsika Enterprise Agency dealt

with non-financial or business development services and the Khula Enterprise Finance with direct financing of SMME entrepreneurs. Rogerson (2004) further says that, these support programmes focus on access to training, markets, finance, information technology, development of infrastructure and the market environment as well as the reinforcement of networks among enterprises, as these are some of the aspects that pose challenges to SMMEs.

1.2 Statement of the problem and rationale for the study of SMMEs

The SMME sector can contribute to the socio-economic growth in South Africa. The SMME sector is the major source of employment, particularly in rural areas. Small and Medium enterprises contribute to economic development in many ways: by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole. In addition to that, a large number of people are dependent on the small and medium enterprise sector in one way or another (Fida, 2008 cited in Kongolo, 2010). Cook and Nixson, (2000) cited in Kongolo, (2010) maintain that the development of small and medium enterprises is seen as a way of accelerating the achievement of wider socio-economic goals, including poverty alleviation.

Whilst the South African government has put legislative frameworks for the development and promotion of SMMEs in rural areas, a lot of obstacles/challenges still hamper the establishment and consolidation of SMMEs. Berry, van Blottnitz, Cassim, Kesper, Rajratnam, and Seventer, (2002); Reinecke, (2002) have indicated that dysfunctional SMME policy issues, and small business skills as well as lack of infrastructure are some of the challenges to the development and promotion of SMMEs. According to Lundstrom and Stevenson (2001) the main aim of SMME policies is to strengthen the existing foundation of small enterprises by assuring that they can compete in the market and that they are not discriminated against because of their small size. However this does not seem to be the case in South Africa. Existing SMME policies do not support the development of rural SMMEs and thus fail to strengthen the poor's access to productive opportunities and income benefits brought about by SMMEs. Rural SMMEs are failing to thrive due to lack of infrastructure such as office space with telephone, computer and transportation. Consequently, SMMEs in rural areas often carry high transaction costs. The bad infrastructure also

makes it difficult for the rural people to access goods and services. Rural-based SMMEs therefore face numerous challenges that prevent them to grow and become sustainable. This study then seeks to explore the perceptions of owners of rural-based SMMEs about the challenges faced by SMMEs in rural areas.

This study adds to the body of knowledge, pertaining to the significance of SMMEs in promoting rural development and reducing rural poverty. This study is likely to be useful to the Department of Economic Development and Tourism and also to the Department of Rural Development at the provincial government level in their programmatic interventions and policy design and implementation. That said, the SMME policies need to be well understood by the abovementioned government officials so that appropriate SMME policies and programmes are implemented to address rural poverty and rural unemployment.

1.3 Aim and Objectives of the study

1.3.1 Aim: To explore the perceptions of the owners of rural-based SMMEs about factors responsible for the success and failure of rural-based SMMEs.

1.3.2 Objectives:

To establish the nature of government support extended to the owners of rural SMMEs,

To elicit the views of the owners of rural SMMEs on the factors that can contribute to the success of rural SMMEs,

To examine the constraints experienced by the owners of rural SMMEs,

To elicit the views of the owners of rural SMMEs on how their enterprises can be strengthened.

1.4 Research Questions:

What support does the government provide to the owners of rural SMMEs?

What are the views of the owners of rural SMMEs on the factors that are contributing to the viability and failure of rural SMMEs?

What constraints are experienced by the owners of rural SMMEs?

How can rural SMMEs be strengthened?

1.5 Layout of the research report

Chapter one is the introductory chapter which outlines the context of the study. Chapter one also provides a statement of the problem and rationale for the study and sets out the aim and objectives of the research. Chapter two presents a review of the literature on SMMEs. This chapter looks at the definitions and classifications of SMMEs. Furthermore, chapter two identifies challenges faced by SMMEs and lays out suggested strategies to deal with those challenges. Policies and legislative frameworks in SMMEs are also discussed in this chapter. Chapter three discusses the Research Methodology used in this chapter. This chapter will describe the methods and techniques used in the study. Limitations and ethical standards of the study are presented in this chapter. Chapter four focuses on the presentation and discussion of data from the study. Chapter five gives a summary of the main findings, conclusion and recommendations chapter.

CHAPTER TWO

Literature review

2.1 Introduction

This chapter reviews literature on the challenges faced by rural-based Small, Micro and Medium Enterprises in Pietermaritzburg, South Africa. The chapter begins by conceptualizing SMME before examining some of the challenges faced by SMMEs. The chapter also discusses strategies to address these challenges. The SMME legislative framework is also discussed in this chapter. Lastly, the chapter presents a brief outline of KZN support policies and programmes for SMMEs.

2.2 Definition and classifications of SMMEs

The Department of Trade and Industry (DTI, 1995) describes an SMME as a small business entity which is run by a single person for the sake of providing life sustenance to himself and his direct employees. However, there is also a definition that classifies small enterprises between micro and small enterprises (MSEs) on one hand and small and medium enterprises (SMEs) on the other, (Rogerson, 1997). Labie (1995) pointed out that SMEs are generally more labour than capital intensive. Labie also observes that they have high production costs (that is, raw material are purchased in small quantities), have no technical experience in production, accounting, administration and stock control (due to low levels of education), mainly unregistered (or partially registered) and are family-based. The United States Agency for International Development (USAID, 1995) classifies SMMEs into small and micro enterprises which are private, not well organized; and are run by a sole individual, usually the unemployed. Nonetheless, Ntsika State of Small Business Development in South Africa Annual Review of 2002 by the Department of Trade and Industry classifies SMMEs according to five size-categories:

Survivalist enterprises

These enterprises have no paid employees and have minimal asset value. These enterprises generate income below the minimum income standard or poverty line (DTI, 2002). Typical examples include vendors, hawkers and subsistence farmers. The main aim behind this type of enterprise is to provide for subsistence means for the (unemployed) owners. Of significance about this type of enterprises is that, most

of the survivalist enterprises, in spite of their potential to grow into micro-enterprises and formal SMMEs, are highly likely to fail to grow and may remain poor (Baumann, 2003). This is because; they are at the bottommost stages of economic activity. Baumann (2003) further argues that women are more severely hit by these circumstances than males and this implies that there should be different approaches in addressing challenges/limits of SMMEs which are owned by males as well as those owned by females. Baumann states that there seems to be ambiguity between whether SMMEs should be developed for the purpose of addressing poverty or for the purpose of creating employment. This ambiguity is often acknowledged as the reason for the lack of decisiveness on policy for SMME development in South Africa. Again, The Global Entrepreneurship Monitor (GEM), report (cited in Foxcroft, Wood, Kew, Herrington, & Segal, 2002) asserted that policy interventions need to distinguish between social upliftment and poverty alleviation versus small business support. Foxcroft *et al.* (2002) further maintain that social upliftment and poverty alleviation should be aimed at unregistered businesses and small business support at registered businesses.

Micro enterprises

Micro enterprises have a turnover of less than the VAT registration limit, which is, **R 300,000.00**. These enterprises have fewer than five paid employees. These enterprises again tend to lack formality in terms of registration for tax purposes, labour legislation, business premises and accounting procedures (DTI, 2002). Examples of micro enterprises are spaza shops, mini-bus taxi businesses and household industries.

Very small enterprises

The enterprises are often owner-run and have up to 20 employees. These enterprises operate in the formal market and have access to modern technology. These enterprises have a moderate to high asset value; have premises and basic infrastructure, meet basic legal compliance, and these enterprises will normally have a bank account (DTI, 2002).

Small enterprises

These enterprises have up to 50 employees and are better established with more complex business practises (i.e. they have a traceable trading history, meet legal

compliance and have succession planning mechanisms). Due to their positive trading history, these enterprises will have established bank accounts and will have access to finance.

Medium enterprises

Medium enterprises will have up to 100 employees. Although these enterprises are still controlled by an owner, the ownership and management structures are more complex (often the decentralization of power to an additional management layer and a greater division of labour are the main differences between small and medium-size enterprises) (DTI, 2002). A more definite distinction between ownership and a management is often the natural barrier between medium and large enterprises. These enterprises are far more established with traceable references and well established trading history. These enterprises have a very high asset value due to stock level and accumulated assets (DTI, 2002).

Other SMME definitions point to different dimensions. For example, Porteus (2002) gives the distinction between formal and informal SMMEs, based on legal status (registration), tax registration, and the running of records. Foxcroft *et al* (2002) as well made a distinction between formal and informal enterprises and these are characterised along economic contribution, education, resources and needs. Also, some SMME definitions classify them based on their marginalization. For example, the Small Business Strategy defined and classified SMMEs along the constraints they faced, and/or the way they were discriminated against in the past (DTI, 1995). This involves enterprises owned or controlled by Black South Africans, women and all other disadvantaged and marginalized groups, including those in remote rural areas, as well as the disabled, elderly and the youth (DTI, 1995).

Another characteristic to the definition and classification associated with small businesses is ownership and management, (DTI, 2004). Furthermore, according to the DTI (2004), another characteristic associated with small business is on the informal or semi-informal economy. The DTI (2004) asserted that the SMME sector is predominantly Black, more especially in rural or semi-urban areas. A large proportion of informal businesses can be categorized as micro-enterprises, while some may be larger. A number of informal entities may be sporadic, in the sense that they may be

started, discontinued and reactivated several times during a year, (DTI, 2004). The DTI (2004) is particular about the size of a small enterprise in that it is the unit that is internationally used for small business studies. However, the limitation of what comprises a "small" business differs from one economy to the other (TIPS, 2004). TIPS (2004) says that in the developed world, businesses employing 500 people are taken as small and medium enterprises (SMEs), but in the developing world the employee number is generally lower. TIPS (2004) further states that in South Africa, micro-enterprises are sometimes taken as businesses whose income is below the compulsory value added tax (VAT) registration limit (R300 000).

Nevertheless, all these categories do not fit exactly with the official definition of an SMME. The National Small Business Act (1996) provides a relatively comprehensive guide on defining and classifying very small, small micro, and medium enterprises in South Africa. The definition covers all sectors of the economy as well as all types of enterprises **(see APPENDIX A).**

2.3 SMMEs challenges and obstacles

According to Gill Marcus, the South African Reserve Bank governor, the small business sector is where jobs are created, and South Africans have a responsibility to recognize the sector as the for successful economic growth to breed and promote social upliftment (Business Report: 31/04/2011).

Although Gill Marcus mentions that small enterprises are an instrument for social upliftment, she has reservations about the environment which is not conducive to operate/conduct business. Speaking at the University of Johannesburg Centre for Small Business Development, Marcus emphasized that small business sector in South Africa faced overwhelming obstacles/challenges to the successful development of entrepreneurship (Business Report: 31/04/2011). Marcus further states that business skills and lack of finance are some of the challenges that inhibit potential entrepreneurs to grow (Business Report: 31/04/2011).

The Global Entrepreneurship Monitor (GEM) report of the year 2011 partly concurs with the above observation by Marcus. The GEM singles out SA's dysfunctional education system as the biggest challenge to small business development. Apart from

the annual adult population survey, the GEM researchers question dozens of experts from each country for their analysis of what their country may be doing right or wrong when it comes to fostering entrepreneurship (Sunday Times, 29/05/2011). In SA's situation the 39 GEM experts clearly identified the country's basic primary and secondary school system as the greatest impediment to successful entrepreneurship, followed by the lack of research and development transfer, dysfunctional government programmes and red tape. Clearly then, to achieve successful business development beyond the reality of hand-to-mouth requires a comprehensive education system – a wide range of skills, knowledge and the ability to think abstractly.

Another point of interest identified by the GEM about the South African education system is that, workers are so badly educated that trying to train them on the job depletes the thinly spread resources of emerging businesses. The GEM researchers quote the latest Global Competitiveness Report of the year 2011 declares that workers who have received little formal education can carry out only simple manual work and find it more difficult to adapt to more advanced production processes and techniques. Lack of basic education can therefore become a constraint on business development (Sunday Times, 29/05/2011).

2.3.1 Lack of finance

The period of recession and the slow recovery of the South African economy has had a negative impact in the way South African businesses receive/offered credit to run their activities which ultimately hinders the development/growth of small businesses (Municipal Focus, 2012).

"The tighter lending criteria adopted by main stream lenders in the wake of the recession has had a negative impact on SMMEs. Lending has dropped to record lows. For example, growth in credit extension last year was the lowest in 50 years" (Patel 2012 cited in Municipal Focus, 2012, p30). Some scholars reveal that, finance is commonly a key problem amongst most SMMEs (Liedhom & McPherson, 1991; Riley, 1993; Parker, Riopelle & Steel, 1995; Beck, 2003).

Beck (2003) stresses that several studies suggest that SMMEs are financially more constrained than large firms and are less likely to have access to formal finance.

Parker, Riopelle and Steel (1995) observe credit constraints relative to working capital and raw materials. They point out that both in the developed and the developing world small enterprises have been found to have less access to finance and to be more constrained to operation and growth than big enterprises. Parker, *et al* (1995) further state that access to finance and its cost are the main limitations to new investments amongst SMMEs.

Liedhom and McPherson, (1991) maintain that working capital is the most sought after type of finance at start-up. Similarly, Riley (1993) found that working capital is the biggest problem to businessmen, especially to micro-enterprise manufacturers, as they normally do not receive supplier credits or buyer advances. However, Ahwireng-Obeng and Piarey (1999) in their study found that small business owners are not badly affected by a lack of finance, but institutional complications, policy insecurities corruption, crime, labour systems, and hostile tax structures are of more significance.

Levy (1996) accuse South African banks of either lending only to "older", "larger" and/or "white" companies, or requiring collateral that is unaffordable to small businessmen, particularly the "previously disadvantaged" businessmen. Moreover, Levy has through his study discovered the provocative manner in which South African banks discriminate against small businessmen. Levy found that, though the South African banking system is open to new small businesses and unusually flexible relative to other developing countries – there is still a gloomy picture amongst Black African businessmen who complain about biases of these banks against them. Murdoch, (1999) on the other hand declares that SMMEs survive on self-financing during their start-up phase. As the SMME grows, it then hunts to get finances for it to get established, and that is not easy for the sustainability of SMMEs, especially the newly established ones. Murdoch goes on to say that, SMMEs require funding for a number of needs, some of which are the following major ones: initial infrastructure development, uneven administrative/operational costs, expansions or growth, and unforeseen requirements provoking access to finance. Murdoch (1999) further states that access to external sources of funding (e.g. banks, small business development agencies) to SMMEs rely on the healthy status of financial markets, regulations governing financial houses and the conventions governing the loaning principles to SMMEs. Murdoch declares that the loaning principles operate within particular social

and economic frameworks which are determined by the conservative models of financial intermediation.

According to Murdoch (1999), a number of systematic standards have tried to explain the difficulties and feasibilities involved in financing SMMEs. Besides different opinions trying to explain the financing of SMMEs, there are main inconsistencies between the needs of SMMEs in unindustrialized and industrialized countries (Murdoch, 1999). Furthermore, the degree of competition between banks and the growth phase of the capital markets constitutes a contributing effort that clarifies differences between advanced and emerging economies within which respective SMMEs strive.

Therefore, lack of finance in rural-based small businesses is a priority constraint. This is because the apartheid government and its institutions and their policies did not cater for development of these SMMEs especially the Black African businesses, as identified by the above-mentioned arguments.

2.3.2 Lack of trading markets

The feeble character of rural local economies across South Africa results in the limited existence of expanding enterprises and the predominance of new enterprise start-ups in marginal activities that are founded out of dire circumstances for household survival. Not surprisingly, the need for improved access to markets requires targeted policy intervention (Bukula, 1997).

A study undertaken by Ntsika in the deep rural Northern Province of Limpopo found that, across all types of emerging SMMEs – the most important needs and constraints on their development were related to market concerns (Rogerson & Reid, 1997). Rogerson and Reid (1997) further state that, where respondents stated that problems existed in their businesses, 80% were associated with the absence of market opportunities. Of note, is that, market constraints occur because most rural SMMEs compete within small, location-specific and low-income niche markets. Also, with escalating levels of rural unemployment, new entrepreneurs are continuously flowing in the same markets in increasing numbers, and this “sets the SMME economy on the slippery pathway towards involutionary rather than evolutionary development, in

which the major dynamic is supply-push than demand-driven" (Rogerson & Reid, 1997, p. 14).

Finnegan (1999) reiterates that lack of markets is another challenge for SMME owners. Most SMME owners are often not informed about how to penetrate the markets. Quite often, owners of these SMMEs do their business in local markets – which suggests lack of skills to conduct market research for bigger markets, for example, the regional, national and international markets (Finnegan 1999). Finnegan further asserts that SMME owners do not make effort to investigate new market opportunities, even at lower levels of simple markets where there is no demand of specialised skills of market research – hence they will lose the drive to explore new markets since they would be inclined to predetermined failure.

Schreyer (1996) refers to poor competitiveness on national and international markets as one major problem to SMMEs. Consequently, improving competitiveness of SMMEs will facilitate their participation in the market, and that will promote their growth. This applies to global competitiveness of SMME as well, so that SMMEs can develop international standards to identify constraints which hinder their growth and development. In so doing, appropriate response interventions can be developed against identified constraints. Schreyer (1996) states that the market potential of SMMEs has to be ascertained by market research to assess market responses to goods and services of SMMEs and to develop monitoring and evaluation systems to guarantee that market demands materialise and SMME competencies are enhanced.

2.3.3 Shortage of business skills

Training on business skills seems as a key factor in the success or failure of rural SMMEs, particularly against the background of apartheid education and social exclusion of communities in rural areas. Still, the mass of rural entrepreneurs received little or have no formal professional training in the areas of their businesses – with exceptions from groups of manufacturing or service enterprises which have been found on the basis of technical skills gained from previous work experience (Segal Quince Wicksteed, 1997). Clearly then, that access to both markets and finance is alleviated through securing professional training by individual businessmen (Rogerson, 1997).

The Task Team of the Department of Agriculture, The Rural Strategy Unit and the World Bank (1997, p. 79) found that, "the prevalence of poverty combined with the legacy of apartheid mean that both existing and would be entrepreneurs lack the basic information and experience necessary to successfully plan and manage a business, as well as to obtain inputs and market their products". Evidence from another study conducted in Mt Ayliff, it was found that business skills and management training were extremely meagre and none of the rural entrepreneurs had received any form of business management training (Mahabir, 1997).

Lowe and Marriot, (2006) assert that, highly skilled workforce and the development of the abilities and skills of small businesses are vital to increased competitiveness and sustainable business growth. Equally, to address business failures and promote SMME growth, the lack of appropriate skills must be addressed (Kangasharju, 2000). Nasser et al. (2003) further assert that lack of entrepreneurial skill has even more negative impact on the development/growth of small businesses than the lack of financial resources and consulting support. Some studies suggest that entrepreneurial and management skills can be advanced through a combination of apprenticeship, education and training, experience, learning and skills transfer (Nieman, 2006).

Education refers to the extent which all levels of the education system are effective in providing instruction and experience in the creation and the management of small enterprises, and is significant to the success of small business development and administration (GEM, 2005). In order to achieve this, the South African government has initiated policies to address shortages and instil entrepreneurship skills through education and training, particular emphasis in dealing with youth unemployment (McGarth, 2005). However, there are uncertainties as to whether education and training actually influence the performance of small enterprises and whether education and training contributes considerably to the realization of small business success. Even though education and training alone will not address the survival of many small businesses, they can however enable the start and the expansion of entrepreneurial undertakings (Mayhofer & Hendriks, 2003).

Lack of education and training leads to skills shortages and thus impedes entrepreneurship (Pretorius & Shaw, 2004). Therefore, the creation of the

entrepreneurship is dependent on the provision of education and training programmes (Gurol & Astan, 2006). Accordingly, many governments are advisably encouraged to provide education and training systems to train potential entrepreneurs and upgrade the capacity of small businesses to increase their success and decrease their failure as well as to offer advisory capacity (Clover & Darroch, 2005).

2.3.4 Dysfunctional government programmes

As highlighted in the previous section, at the core of the South African government SMME support programmes were the policy interventions introduced so as to implement the national SMME strategy. the main institutional pillars being the Ntsika Enterprise Promotion Agency (Ntsika), which was responsible for non-financial or business development services, and Khula Enterprise Finance (Khula), which functions as a wholesale finance institution supporting a range of retail finance intermediaries that would deal directly with the SMME entrepreneurs themselves (ICC, 1999). In line with international standards, support was to be focused on improved and decentralized access to information, training, markets, finance, and technology (Rogerson, 2004).

Rogerson (2004) states that the main support mechanisms that were created to improve the sustainability of South Africa's SMME economy were organized primarily around Ntsika and Khula. Of crucial note was the establishment of local support service centres (LSCs) which later became local business centres (LBSCs). LBSCs were designed to provide a variety of real and appropriate services to SMMEs, and they represented the flagship support programme for Ntsika (Bloch & Daze, 2000). Other government SMME support programmes that were established were tender advice centres that were set up to provide tender advice on tendering and tender procedures, particularly in relation to new guidelines and procedures for government procurement contracts (Dorfling, 2001). Lastly, was the establishment of manufacturing advice centres (MACs) which were designed to assist SMME manufacturers to improve their competitiveness in local, national and international markets (Boyd, 2002). Rogerson (2004) evaluates the performance of the government's SMME support programmes on three macro-economic criteria: employment creation, poverty alleviation and economic empowerment. This section

of the report will thus look at the abovementioned criteria used by Rogerson (2004) to examine the government SMME support programmes.

According to Rogerson (2004), even though certain accurate, national and geographical data declare positive statements concerning the impact of SMME support programmes, such information cannot be taken to mean that SMME support programmes have been fully effective, or that the newly established business support centres have functioned as desired (Qualmann, 2000).

Regarding **employment creation**, the contribution of SMMEs is low. SMMEs often do not expand beyond one person operations with no signs of growth (Berry et al., 2002), and this hampers their contribution to creating employment (Rogerson, 2004; Qualmann, 2000).

Alternatively, Kesper (2002) states that SMMEs that are growing in terms of the profit performance index are also faced with the phenomenon of jobless growth, just like large enterprises. SMME development will not essentially translate into employment creation, especially for the unskilled labour force, as SMMEs have a low propensity to create jobs. Therefore, SMMEs may not necessarily be vehicles through which the government can create employment in the economy. Clearly then, SMME support programmes do not always lead to SMME development.

Another criterion for evaluating the government SMME support programmes is their impact on **poverty alleviation**. Although a number of critical studies question the potential of SMMEs to attain the goals of extensive employment creation, most observers concur that the SMME economy can be a positive factor in contributing to poverty alleviation (Rogerson, 1999 & Kesper, 2002). For example, Dorfling (2001, p 93) argues that because of the sheer size of the micro-enterprise and informal economy, and the fact that most participants in this economy are women heads of households, disabled people and rural families who are struggling to survive, "the sector plays a particularly important role in terms of income generation and poverty alleviation".

This important role assumed by the SMME economy is not necessarily a reflection of the success or positive impact of government programmes – it can actually be viewed as a default option for household survival taken up in the wake of the poor performance of other initiatives to address poverty (Driver, Wood, Segal, & Herrington, 2001).

A critical factor in determining the positive contribution that the SMME sector makes to poverty reduction, especially by the micro and informal enterprises, is the effectiveness of policy and support programmes offered by local government. Policy support and a friendly local government can allow greater income flow and livelihood opportunities and thus make the lives of the poor less poor (Mead, 1999). Rogerson (1999) confirms that current national support programmes offer little in the way of support for survivalist enterprises, women entrepreneurs and rural SMMEs. In reality, as stated by Rogerson (1999), the most effective level of policy intervention and support is at the local level rather than the national level of government. Lund (1998) further confirms this when she says that, essentially the local economic development programmes of local governments can provide positive impact on the economic well-being of SMMEs and on the wider coping strategies of poor households.

One more criterion for evaluating the government SMME support programmes as put by Rogerson (2004) is their contribution to **economic empowerment**. The DTI (1995) states that appropriate SMME policies and programmes can indeed contribute to redressing severe inequalities inherited from the apartheid era, in terms of forms/systems of economic ownership. A study undertaken by Rogerson (2004) in the tourism sector suggested that, promoting SMME development, especially Black African-owned SMMEs, is strongly tied to the objectives of transformation and black economic empowerment. However, it is argued that whilst SMMEs, "represent just one means to address racial income inequalities; it would be unjustifiable for policy makers to rely on SMMEs as the main agent for economic redistribution in South Africa" (Manning, 1996, p. 65). Furthermore, even if SMMEs are an effective means to channel wealth to black entrepreneurs, this does not necessarily transform into reduced income inequality because of the unequal distribution of the benefits of enterprise expansion (Qualmann, 2000; Berry et al., 2002).

Rogerson (2004) states that, from the evidence of government support to SMMEs in the tourism sector, it is difficult to determine if the impact of national government's SMME support programmes have materialized to economic redistribution. Rogerson (2004) substantiates this, saying that, the tourism support component of the Small and Medium Enterprise Development Programme (SMEDP), a DTI SMME support programme, revealed that only 4.6% of funding has been allocated to SMMEs owned by previously disadvantaged individuals but 95% of funding went to support the further development of white-owned enterprises. This is a clear cut evidence of a betrayal of a mandate to redress economic redistribution.

Berry et al., (2002) and Kesper, (2002) indicate that criticism surrounding the impact of government SMME support programmes in addressing national reconstruction and development have been coordinated by negative evaluations concerning the impacts of "sub-optimal implementation". An evaluative study of financial access to SMMEs indicated that whilst Khula and Ntsika had made some progress in their respective mandates, "more rapid progress is required, particularly with respect to appropriate non-financial service provision"; a greater scaling up of programmes was required for to improve delivery; also, a gap was identified in terms of large-scale delivery of finance to SMMEs (Dorfling, 2001, p.108). Generally, the outcome amongst SMMEs about progress is relatively negative, as put by Qualmann (2000).

The general conclusion among critics is that "very few black-owned SMMEs are reached, too little funding is available, too many centralized top-down programmes are considered by Ntsika, Khula and DTI, hence delivery falls short of promises and expectations" (Qualmann, 2000, p. 43). Of significant note has been that, government programmes haven't been working because they haven't been reaching their target recipients (Berry et al., 2002). For example, the DTI broad-based strategy for black economic empowerment (BEE) was not working well due to its unacceptable low number of potential beneficiaries who could not access its incentives (DTI, 2003).

2.4 Strategies to Address Challenges to SMMEs

2.4.1 Providing access to finance

Wholly owned by the Industrial Development Corporation (IDC), Small Enterprise Finance Agency (SEFA) has been launched by the South African government to address funding constraints to SMMEs (Municipal Focus, 2012). This initiative is as a result of the acknowledgement by government that lack of finance is one of the biggest challenges stifling growth of small businesses.

Similarly, as part of initiatives in the New Growth Path to create employment opportunities, government is looking at developing and growing the SMME sector, but challenges to SMME funding have constrained this ambition (Municipal Focus, 2012). SEFA, according to Municipal Focus (2012) will service small businesses in need of funding up to R3 million – with its lending instruments include direct lending to small businesses, wholesale loans to financial intermediaries and credit guarantees for businesses requiring bank finance.

Beck and Demirguc-Kunt (2006) state that SMMEs the world over identify access to finance as the biggest challenge to their development. Some studies, according to Beck and Demirguc-Kunt (2006) have identified that SMMEs are more constrained than large firms and are less likely to access finance for their development and sustainability. According to Hussain (2006), a study was conducted in Pakistan to determine whether or not banks were creating constraints in their lending practices to SMMEs. It was found that banks applied the same principles to SMMEs which were applicable to big businesses though the necessities were diverse for each sector. It was as a result of those stringent requirements which were applicable to SMMEs that the government of Pakistan took a strong stand to review and to relax those lending requirements.

Hussain (2006) goes on to say that, assistance that was applied to alleviate the challenges to financing SMMEs involved the establishment of special SMME departments which were to respond mainly to SMME financing. These departments according to Hussain (2006) were mandated to create an environment that is conducive for banks to increase the flow of credit to SMMEs, to promote tactical emphasis on SMMEs on the part of banks and to help banks adopt best practices in

the development of SMMEs. A study on the challenges faced by SMMEs found that banks are not the sole providers of debt finance to small businesses, and the study further declared that their capability to influence the quantity and quality of small business finance could be done through their refinancing capacities and by providing a back-up system to non-bank financial intermediaries, (Falkena et al., 2001).

Motsa (2004) emphasized that necessary regulatory changes are required to break the separation between bank and non-bank lenders, particularly the emerging "middle class" of formal, registered and well managed small lenders. Motsa (2004) continues to say that there is a need for improved research and disclosure on the precise extent of banks on their lending practices following the assumption that banks are getting more involved in their finance lending to small businesses but are not reporting that appropriately. Motsa (2004) still indicated that the administration costs of loans and the costs involved in the processes of providing support to small businesses also poses a huge challenge, and therefore recommends a lot professional and advanced mentorship structures/systems to address these challenges.

According to Berry et al., (2002), business angel finance is another alternative to business finance lending other than by banks. This type of financing is about granting finance by big businesses to small businesses even though they're not their subsidiaries. Recent studies have shown that, though the determination is not at all impressive, about 1.1% of South African big businesses have invested into small businesses that were not their affiliates – suggesting an emerging will-power about business angel sponsorship (GEM, 2001).

2.4.2 Providing an enabling environment

A conducive environment which is required by the SMMEs is undoubtedly crucial for their successful operations. As a result, the National Small Business Act, 1996 makes provision for the South African government. Nieman (2006) further states that an enabling environment is essential to SMMEs as it provides levels of support which play a role to their proficient operations.

According to Rogerson (2006), SMMEs are often subjected to legislative requirements (e.g. tax laws, labour laws and laws related to small business

registration). These laws are said to be tedious to SMME owners, especially owners who are still at an early stage of their businesses establishment. This burden often forces SMME owners not to comply with the relevant laws, thus preventing the graduation of these SMMEs to the next advanced stage of business development.

However, as Rogerson (2006) asserts, SMMEs tend to ignore regulatory compliance, and as a result they have a tendency not to worry about graduating to the next business level. As a result, the only time when the SMME owners are prepared to move to the next level of business cycle will be when they are ready to comply with business regulation and to carry the burden associated thereof (Rogerson, 2006). Rogerson (2006) therefore confirms that creating an enabling environment can in some way be achieved through improving the regulatory business environment.

That said, a constant monitoring and evaluation of the impact of business legislative requirements as well as the identification of the challenges faced by SMMEs is essential. That suggests a need amongst SMME to promote awareness around regulatory compliance and also the benefits attached to such compliance (Finnegan 1999). Finnegan argues that once SMMEs are mindful about their legislative operations, they are enabled and become poised to develop effort for their graduation to next level of business development.

According to the SMME strategy of the Durban Municipality (eThekwini Municipality, 2007), there is a significant need of research about various business trends which should provide a system to direct intervention methodology in organisations that offer small business development services. According to this strategy, there is often a gap between the SMMEs needs and the programmes that are developed by these organizations as a result of the substandard research conducted, hence an assessment and the exploitation of the economic and the market environment by small enterprises is flouted. The eThekwini Municipality (2007) suggests that once research has been conducted it then becomes necessary to facilitate the accessibility of the research findings and recommendations to SMMEs.

Finnegan (1999) confirmed the above stating that, the objective of distributing research information is to educate SMME owners about relevant and crucial

information on how the production of their goods and services can be improved. It is therefore obvious that conducting appropriate and significant business research as well as ensuring the dissemination of such information can influence an improvement on the environment in which SMMEs operate.

The eThekwini Municipality (2007) further states that SMMEs rely heavily on the availability and the quality of infrastructure for their success. Lack of infrastructure (e.g. decent office environment, telephone, computers, and transportation) can lead to the demise of SMMEs whilst still in their start-up stage. This means, the evaluation of infrastructure needs as well as the identification and the development of facilities (such as, incubators) to meet such needs is vital.

Finnegan (1999) identifies incubators as well as business hives and industrial parks as some of the means to address the abovementioned infrastructure needs. These facilities provide affordable workspace, training, counselling, information and access to external networks for entrepreneurial groups, thus promoting a favourable environment for business formation and economic development.

A strong technological research and development base within government organisations needs to be encouraged and promoted for SMME development. Such environment can help rural SMMEs in particular, in their personnel training to adapt to new technologies of enterprises, as rural-based businesses often struggle with business technology that provides business transactions conveniently and quickly (DTI, 2008). The principal aim here is to provide the technical know-how to rural entrepreneurs for them to be able to handle/manage the technological information designed to enhance the growth of their enterprises as well as the production output of their enterprises. E-learning and e-commerce could then be other strategies that can be utilized by rural entrepreneurs to access relevant business education and the technology to facilitate business transactions (DTI, 2008).

Linkages between small and large enterprises (subcontracting) again can be one environmental strategy to counter some of the challenges to SMMEs in rural settings. This environmental situation helps small enterprises to enter the extremely competitive markets that are dominated by large enterprises which have large

capacity. This strategy again may help small enterprises to enhance their frequency and profits given the high speed at which their commodities would be transported, distributed and sold. In a word, this strategy may help SMMEs to grow (DTI, 2008).

However, in light of the limited linkages to large businesses meant to improve their markets, many small businesses now look enthusiastically to government tenders and changing procurement systems to support their fledging enterprises, yet few SMMEs have been successful and many problems occur in terms of present tender procedures (Rogerson & Reid, 1997).

Also, forming associations' membership and contacts could be another strategy that could be utilized by rural SMMEs to extend networks and access certain services which are enjoyed by large enterprises that have strong links with various associations. Through this strategy again, small rural enterprises may get a chance to access business and personal finance and also training on business issues (DTI, 2008). Timmins (2005) restates that, when operating separately, small enterprises are often unable to take advantage of economies of scale and to capture market opportunities that require large production runs, standard inputs and consistent quality standards – all of which is exacerbates by lack of training, market intelligence and technological capacity.

2.4.3 Providing business skills and capacity for SMMEs

One of the serious challenges facing SMMEs is the lack of business skills, (McGarth, 2005). McGarth (2005) states that most of the SMME owners enter into business out of pressing situations, hence do not have the opportunity to develop themselves with appropriate skills which are necessary for successful business undertakings. Their lack of business skills results in the quick death of their businesses. McGarth declares that these skills development challenges are as a result of the incongruity of the education and training needs and the actual needs of the economy. Therefore, even if there is training provided around business development, it is often inappropriate (McGarth, 2005). If skills development for SMMEs is provided like classroom training, it could prove fruitless for small business (McGarth, 2005).

Improving technology for small enterprises can, according to Finnegan (1999), help SMMEs to attain new technical skills and business skills or to improve their existing skills. Finnegan (1999) further states that skills development helps SMME owners to develop the capacity to recognize business problems and to find solutions thereof, as well as to identify where expert business knowledge may be found.

According to Henry, Hill and Leitch (2004), there is an increasing growth of interest in the small business enterprises that has been accompanied by an increased level and variety of public-private sector initiatives at various levels to stimulate and support the development of the entrepreneurship sector. However, Henry *et al.*, (2004) argue that even though much research information has been accumulated about how the small business sector operates, there are still major areas of concern that have not been subjected to analysis, and these areas are around the training programmes for small businesses.

Also, other areas of concern are around the argument of whether or not small enterprise owners can be trained for the purposes of entrepreneurship and/or about the assessments in the usefulness as well as the success of those training programmes (Henry et al., 2004). Despite these concerns, a joint initiative by the public and the private sector has seen a lot of business training programmes developed which Finnegan (1999) criticize as too broad and not addressing specific gaps of business trainees and also being delivered by incompetent or under-qualified trainers.

Finnegan (1999) posited that business training programmes should at all times be business-focused and should address specific needs of business trainees, and should not just be an extension of an education system. Such training programmes should assist SMME owners and their employees in acquiring business skills that should be employed in running businesses successfully, says Finnegan (1999). Also, there is general agreement that the training methodology which should be adopted in SMME development must be participatory and practical (Bob, Moodley, Perry, & Gumede, 2005). Such methodology may include team-based training, hands-on-experience, fieldwork programmes, e-learning, professional certification, peer training.

Sakai (2002) further asserts that international literature suggested the encouragement of group training by business organizations. This "group-training" approach has an advantage in that it adapts the trainees' needs at a lower/reasonable cost. Sakai posited that organizing group training from the same sector, for example; (20 – 50 trainees) will lower the training costs of trainee significantly, pointing to the fact that this approach promotes the negotiation of the type of training required by the group.

As highlighted in the previous section, improving accessibility to technology could be another significant means of building SMME capacity. In their study, Gibbs and Tanner (1997) found that for SMMEs to develop and thrive quickly, they need to embrace business computer technology. Further, Gibbs and Tanner (1997) posited that adopting and emphasizing technical skills has seen computer technology contributing to the development and competitive edge of SMMEs. Furthermore, Thomas, Sparkes, Brookshank, & Williams, (2002) assert that the cost of equipment and lack of skills to use it was part of the challenges faced with SMMEs' continuity/stability. Consequently, Thomas *et al*., (2002) confirm that technological advancements have raised remarkable productivity in technology manufacturing which facilitate rapid circulation of computer technology as pervasive.

2.5 Supportive strategies and legislation to SMMEs

The DTI (2005) lays down the following policies applying country-wide, which are supportive to the development and promotion of entrepreneurship/small business:

The micro-economic reform strategy

The micro-economic reform strategy places small business development, the need to ensure equity (through broad-based black economic empowerment (B-BBEE) and gender initiatives), prioritising the growth sectors, special geographical focus (particularly rural areas where poverty and unemployment is high), and the need for strong co—ordination of support measures, at the heart of micro-economic reform.

Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

The core objective of AsgiSA is to halve poverty and unemployment by 2014. AsgiSA stipulates a number of focus areas that need to be closely monitored and

supported through relevant policies, strategies and programmes. These are areas of importance in the acceleration of small business promotion and enterprise growth, and include: access to procurement opportunities to small enterprises, easing the regulatory burden on small enterprises, access to finance (particularly venture capital) and easing the cash-flow problems experienced by small enterprises doing business with government.

Draft Regional Industrial Development Strategy (RIDS)

The Draft Regional Industrial Development Strategy proposes the establishment of special economic zones (SEZ), sometimes called Industrial Development Zones (IDZs). These entities include: industrial parks, industrial estates and innovation hubs, logistics parks and other processes which promote regional growth coalitions and support for industrial clustering among firms with a view to advance and promote regional industrial development. This strategy also aims to establish a Systematic Competitiveness Support Facility or Thematic Fund to support and sustain innovative regional development start-ups initiatives. This strategy will also ensure that these initiatives benefit mostly small enterprises.

Broad-based black economic empowerment strategy (B-BBEE)

Objectives of the B-BBEE strategy bear relevance to small business development.
These include:
Attaining and maintaining a significant increase in the number of new black enterprises, increasing the number of black people who own and control existing and new enterprises in the priority sectors of the economy which government has identified in its macro-economic reform strategy, and increasing and promoting economic community enterprises and co-operatives (DTI, 2005).

Besides increasing enterprises owned by blacks, the B-BBEE strategy also aims to increase procurement from black-owned enterprises, and to strengthen the supply capacity of black-owned firms. That entails, setting preferential procurement measures to increase levels of preference to black-owned enterprises. Also, through the Department of Trade and Industry, the B-BBEE strategy aims to co-ordinate incentive grants that target SMME initiatives, and to establish an administration

system that links the incentive grants to other financial and non-financial support mechanisms in order to maximize SMME access and BEE impact.

National strategy for the development and promotion of franchising in SA

This strategy seeks to promote the contribution of franchising to the economic empowerment of historically disadvantaged entrepreneurs through increasing their participation in franchising. This entails: creating an entrepreneurial culture through franchising, promoting associations and connections between big and small enterprises so as to encourage the establishment of new franchise enterprises. For this to materialize this strategy proposes to stimulate entrepreneurship by putting processes to stimulate a culture of entrepreneurship through franchising. This strategy also proposes a framework to franchise opportunities using a comprehensive database of franchise opportunities, especially on affordable opportunities that will attract entrants from previously disadvantaged communities (DTI, 2005).

Strategic framework on gender and women's economic empowerment

This strategy proposes various initiatives aimed at providing various kinds of support to women-owned enterprises. This involves entrepreneurial education and training through "women enterprises programmes" and young women in entrepreneurship programmes". This strategy also proposes the escalating of business information for women through "business symposia" and "information business fairs/forums". Furthermore, this strategy proposes developing rural women entrepreneurs through "economic capacity development" and co-operatives capacity-building programmes (DTI, 2005). .

National youth enterprise strategy

The youth enterprise strategy outlines the key objectives to be attained through its implementation: to target youth and enhance their entrepreneurial quest, to nurture entrepreneurial talent among youth so that they feature in the South African socio-economic life, and to make micro-finance readily available to prospective young entrepreneurs (DTI, 2005).

Co-operatives policy and development draft strategy

Through the Department of Trade and Industry, this strategy seeks to ensure that all policies, strategies and support programmes which are developed to support SMMEs are aligned and available to support co-operative entrepreneurship, and stimulate the participation of co-operative enterprises in the economy. Support programmes which provide business skills and access to finance and access to markets will be designed across government and its agencies to promote co-operatives sector (DTI, 2005).

Draft strategy framework for forestry enterprise development

This strategy by the Department of Water Affairs and Forestry proposes to develop "Forestry Enterprise Development Programme". Through this programme, previously disadvantaged communities will be developed in enterprises involving timber production, timber processing and marketing enterprises. The "Forestry Enterprise Development Programme" envisages providing training and extension services as well as financial and business assistance to forestry entrepreneurs (DTI, 2005).

Some paramount policy instruments of most importance to SMMEs are the White Paper on the Development and Promotion of SMMEs and the National SMMEs Act 102 of 1996. The National SMMEs Amendment Bill of 2003 and the National SMMEs Amendment Act 29 of 2004 are other policy directives which are significant to SMMEs:

White Paper on the Development and Promotion of SMMEs

The main objective of this Act is to regulate, stimulate and promote small business activities in South Africa. In brief, the Act states that SMMEs represent an important vehicle to address the challenges of job creation, economic growth and equity in South African society through the diversification of the economy, enhancement of the country's productivity stimulation of investment and the flourishing of entrepreneurship.

National SMMEs Act 102 of 1996

This Act was passed in 1996 in order to simplify the regulatory procedures of the small business sector. As mentioned in the above, the objectives of the Act were to establish both the National Small Business Advisory Council and the Ntsika

Enterprise Promotion Agency (currently SEDA). The Act also encouraged all the government departments to instil and promote the culture of entrepreneurship.

National SMMEs Amendment Bill of 2003

The purpose of this Act was to amend the National Small Business Act. Those amendments involved the creation of a voice for small businesses, especially during the closure of National Small Business Advisory Council. The amendments also entailed that the mandate of Ntsika Enterprise Promotion Agency is focused and to remove the overlap of its functions with other organizations.

National SMMEs Amendment Act 29 of 2004

This Act amends the National Small Business Act, 1996, so as to repeal all provisions pertaining to Ntsika Enterprise Promotion Agency, and provides for the establishment of the Small Enterprise Development Agency (SEDA). The Act makes provision for the incorporation of the Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre and other designated institution into SEDA and to provide for the necessary transitional arrangements to this effect.

2.5.1 National Support Programmes to SMMEs

The SMME supporting framework of the National government as put on the White Paper of the National strategy for the development and promotion of small business in South Africa mentions twelve elements that indicate the government's commitment to SMME promotion. As briefly highlighted in the above, the White Paper later became the National Small Business Act of 1996. No other document on the same subject matter has been published after this one. This Act identifies the SMME support framework as consisting of the following: the creation of the legal framework that would enable small businesses to function, streamlining regulatory conditions, helping small businesses to access information and advice, helping small businesses to access market and procurement, assisting small businesses to access finance, building the physical infrastructure, providing training in entrepreneurship skills and management, encouraging joint ventures between government and business as well as business to business, assisting in building capacity, giving financial incentives. Though these elements have been slightly touched in the above as challenges facing small business, it is worth clarifying their significance of application:

Creating an enabling legal framework recognizes the importance of small business sector in economic reconstruction and development as well as facilitation of policy implementation, the government passed amongst others, a Transaction and Procurement Act, a Small Business Finance Act, and a National Small Business Act 1996 (Act). The latter was established to provide guidelines for organs of state in order to promote small business in the country. The Act was also intended to incorporate an appropriate legal framework for co-operatively organized small business which fell outside existing legislation on co-operatives. The Act stipulates all the types of SMMEs.

Streamlining regulatory conditions, the government, as a regulatory body, has, according to the Act, committed itself to putting appropriate regulations through the Department of Trade and Industry, which is tasked with monitoring the regulatory reform process. Through the Act, it has to look particularly at existing regulations pertaining to taxation, labour, zoning, health and occupational conditions, and how they can be made more suitable for small business, to look at small business constraints by the Competition Board as well as making sure that provincial and local tiers of government reduce restrictive legislative and regulatory conditions. Government has committed to facilitate feasible avenues of legal assistance to small business, facilitate matters of business registration and licensing and simplified tax returns forms.

Access to information and advice is a government initiative encouraged the formation of country-wide network of national local service centres (LSCs) where prospective entrepreneurs get mentorship and business advice from the business experienced advisors. Basically it's the transfer of business skill, information and experience to small start-up enterprises.

Through ***access to marketing and procurement*** the South African government promotes the small business growth through encouraging the Competition Board to prevent and reform restrictive practices suffered by small enterprises and to make the Competition Board more accessible to SMMEs, motivate the big business sector to systematically expand its links with small enterprises, simplify tender procedures among all public-sector and parastatal tender authorities in order to make it easier for

small enterprises to compete and eliminate gender bias, adjust public procurement practices at central, provincial and local government levels in order to facilitate the granting of some proportion of contracts to black-owned or controlled enterprises, encourage/facilitate small-enterprise export-support programmes and to promote reasonable access to raw materials and quality services at affordable prices.

By access to finance, the South African government, through the Act is committed to assisting small enterprises by establishing links with commercial banks and other SMME financiers like, Small Business Development Corporation (SBDC), Get Ahead, Informal Business Enrichment Centre (IBEC), The Informal Business Training Trust (IBTT), the Development Bank of Southern Africa (DBSA), the Independent Development Corporation (IDC) and other small-business financiers. The Non-Governmental Organizations (NGOs) are as well invited by the government to supplement SMME funding, especially to the micro and survivalist enterprises of the rural and informal sectors. As determined by the Act, through the Department of Trade and Industry (DTI) and the Small Business Development Agency (SBDA) commercial banks are made to be responsive of their long-term strategy within the Reconstruction and Development Programme (RDP) framework of making banking services more accessible to township people and black enterprises.

Through access to physical infrastructure, the government is committed to address the past neglect of the needs of black townships and emergent enterprises a serious backlog of even basic facilities has emerged in both rural and urban areas and has been identified in the RDP as one of the areas deserving special attention (DTI, 1995). Through the Act, the South African government looked at the establishment of LSCs and Small Business Centres and to investigate the scope for an affordable system of start-up rental subsidies for special categories of emergent entrepreneurs (e.g. small manufacturers and rural hives). Special attention had to be given to the planning and physical infrastructure needs of women entrepreneurs.

Training in entrepreneurship, skills and management are regarded as one of the critical factors for success in small enterprises. In that regard, the national government together with other institutions such as, NGOs, parastatals, the private sector including the provincial as well as the local tiers of government has taken the

responsibility to strategize the small business training through dissemination of current knowledge about training programmes in small business (e.g. Small Business Fairs, Small Business Indabas/Conferences, Small Business Exhibitions, etc.). The National government, through the Act again, has prioritized the school curricula and other school-related activities to inculcate entrepreneurial attitudes and a general awareness and understanding about self-employment opportunities. The Act also prioritizes micro-enterprises in rural areas, women entrepreneurs, and youth problems in self-employment as specific areas that need skills development in entrepreneurial training and management.

Industrial relations and the labour environment, a view more in line with the RDP and modern international thinking holds that more egalitarian labour relations in SMMEs and a participatory style of management, combined with deliberate attempts to improve the skills base results in higher levels of productivity, which enhances the competitiveness of enterprises. Similarly, steps to safeguard the basic interests of workers should not be confined to the rigid enforcement of existing industrial council agreements but should seek to develop the industrial relations system in such a way as to take into account the needs and interests of small enterprises (DTI, 1995). The National government has then initiated support reforms to accommodate special needs and interests of small enterprises through greater flexibility and simplicity in the system of collective bargaining. Government has again emphasized the accessibility, in particular by the survivalist enterprises, to the services offered by the Local Service Centres in the labour sphere.

Through access to appropriate technology, government support has been seen as important and been encouraged to influence the success of small enterprises. Lack of sophisticated technology needed for competitiveness of small enterprises in the modern manufacturing and services sectors as well as appropriate technology for small enterprises operating in the labour-intensive and low-skill spheres has justified some government support. Government as a regulatory entity has, according to the Act, committed itself to focus on the technology needs for small enterprises through certain institutions like, the Council for Scientific and Industrial Research (CSIR), Foundation for Research Development (FRD) as well as the National Productivity Institute (NPI). Universities and technikons also give greater recognition to the

SMME-related issues and technical research. At the grassroots level, Local Services Centres (LSCs) are the most appropriate channels to filter technology information through to individual small enterprises.

Through encouraging joint ventures, government has seen it significant to encourage joint ventures due to its (government) inability to provide all the needs of small enterprises. Entering joint ventures with experienced business partner is the most effective way to acquire experience and skills, enter new markets, structure additional financing and meet market competition.

Government has then promoted ventures in the form of co-operative partners, black and white partnerships, big business and small enterprise link-ups, franchise partnerships as well as foreign and local ventures. Furthermore, the government is committed to support mechanisms to ensure that foreign joint-venture initiatives give due attention to black partners, contribute effectively to capacity building among emergent enterprises and fit in generally with the Reconstruction and Development Programme (RDP) framework.

Capacity-building and institutional strengthening are other areas of the socio-economic development, and where organized business has an important role to play in the strengthening of small business interest. This relates as much to business organizations operating at national level as it applies to those operating at provincial and local level (DTI, 1995). Nevertheless, South African businesses are financially weak, and most of them have a very limited capacity to actually support and strengthen small businesses, compared to well-developed countries (DTI, 1995). Against this background, the National government has committed itself to encouraging each SMME to be a member of one business-related association of their choice, encouraging accredited business associations to operate as Local Service Centres (LSCs) to relay business assistance or information to especially emergent small, medium and micro-enterprises.

Through the Department of Trade and Industry (DTI), the Small Business Development Agency (SBDA) and the provincial SMME desks, the National government has implemented the utilization of accredited business associations to put

in place capacity-building support policies particularly to emergent rural small enterprises. These support policies should uphold affirmative action principles, in terms of race and gender, as required by the government. As put by the National government again, small enterprises should be represented at all government levels and RDP-related forums.

Differential taxation and other financial incentives have been made for the differential treatment of small enterprises in order to reduce their tax burden and facilitate the reinvestment of small-enterprise profits, which are often the only basis for new investment or the expansion of existing small enterprises (DTI, 1995).

To endorse this, the National government has put forward some recommendations to exempt minimum amount of profit from taxation of SMMEs in order to encourage reinvestment, put exemptions or rebates from import duties on manufacturing inputs and capital equipment, stimulate subcontracting by larger firms and greater volumes of loans to small enterprises by the banking sector, normalize tax arrears of SMMEs, as well as to write-off expenses incurred as a result of costs to tax compliance for small enterprises.

2.5.2 KZN Support policies and programmes to SMMEs:

2.5.2.1 KZN SMME development policy in brief

It is a well-known fact that the majority of people in KwaZulu-Natal (KZN) inhabit in rural areas. According to Dr Zweli Mkhize, the then MEC for the KZN Department of Finance and Economic Development, the major challenge is for the government to enable these rural areas to compete with more affluent areas in order to attract investment and promote sustainable economic development (DTI, 2008).

In his budget policy speech, Dr Zweli Mkhize, emphasized the province's commitment to SMME development. The provision of business support to small enterprises had been improved partly because of the establishment of the KZN SMME Support Service Delivery Network to integration small enterprise support programmes on a continuous basis in the province. "A framework has been conceptualized aimed at improving the direct involvement in the promotion of

SMMEs especially in the provision of expect advice on the development of credible business plans to access financial support from financial institutions as lack of funds make it difficult to potential entrepreneurs to achieve their business dreams", Mkhize, 2006 (cited in DTI, 2008, p.104).

One of the first KZN initiatives in SMME support was in the year 2006, when an amount of R200 million was allocated to the province's major development agency, that is, Ithala Development Finance Corporation to fund SMME development. A total of 678 SMME applications for loans, at the value of R 471 million had been approved by the Ithala Development Finance Corporation during the early months of the year 2006. Further, in 2006/2007 the KZN local government planned an investment of R400 million in business support in the form of SMMEs and co-operatives (DTI, 2008). Mkhize (2007) cited by (DTI, 2008) also mentions the SMME financing facilities established by the province to assist previously disadvantaged individuals to start and expand businesses. Mkhize (2007) further explains that the National Small Industries Corporation (NSIC) of the Republic of India will be used to develop a strategy for KwaZulu-Natal to support SMMEs on a district basis. That was meant to be a joint effort with the Small Enterprise Development Agency (SEDA).

2.5.2.2 The KwaZulu-Natal EPWP

The Expanded Public Works Programme (EPWP) is a major national initiative to directly promote employment generation and stimulate economic growth through training. Together with skills development it is the primary active labour market policy pursued in South Africa (DTI, 2008).

According to Ndebele, 2007(cited in DTI, 2008) R635 million of the EPWP was given to Kwa-Zulu Natal under the leadership of the Transport Department. In addition, R128 million funding from the National Treasury was given to KZN to improve infrastructure. Furthermore, more than R56 million was spent on Agriculture and Environmental projects that is said to have created 100 000 jobs (Ndebele, 2007). most successful has been the Zibambele (meaning, "do it ourselves") project – a labour-intensive road maintanance project aimed specifically at providing sustainable jobs to the poorest women-headed households. These Zibambele workers have savings clubs which empower them to invest in business enterprises. Some of the

workers have with the help of the government, started sustainable livelihood projects like, sewing reflector road safety vests, growing mushrooms and making tents (Ndebele, 2007 cited in DTI, 2008).

Also, the "Siyazenzela" community-based waste management project is another scheme aimed at facilitating poor households' exchanging waste for food products, and this is being piloted in the Pietermaritzburg and Durban municipalities as well as on the Hibiscus, south coast of Durban (DTI, 2008).

2.5.2.3 The KwaZulu-Natal Co-operative Development Programme

The view that co-operatives represent a business form that is particularly well-suited to poverty alleviation due to its relevance in South Africa's social conditions is reflected in the national co-operative development policy (DTI, 2008). The idea is that co-operative development will enable socially marginalized communities and individuals to engage in business activity and that co-operative development will support SMME development because some co-operatives will develop into prosperous SMMEs. The importance of co-operative enterprises growing into SMMEs was reiterated by the KZN Department of Economic Development stating that "the aim is to assist co-operatives to 'graduate' into Small to Medium Enterprises and to eventually become role players in the First Economy and to for them to become an effective instrument to accelerate the concept of Black Economic Empowerment" Gijima Report, 2006 (cited in DTI, 2008, p. 107).

However a Gijima report (2006) found out that there is a bottleneck from a number of individuals entering the process of co-operative development when the co-operative registration and loan processes start. The biggest challenge occurs at the point when mentoring starts, where people should be getting advice on starting, managing, and marketing a business (suggesting the crucial significance of business mentoring). It is for this reason that the KZN Department of Economic Development has implemented a system of compulsory incubation for newly formed co-operatives where guidance and assistance starts at the very moment of conception of the idea.

The Kwa-Zulu Natal Provincial Growth and Development Strategy (PGDS) has also identified co-operatives as being of significant policy interest for the KZN province. It

is therefore not surprising that 40% of co-operatives nationally are found in KwaZulu-Natal (DTI, 2008).

2.6 Conclusion

The main focus of this chapter was to examine the challenges to SMMEs, particularly rural-based SMMEs. Firstly, the chapter conceptualised SMMEs. Some of the challenges faced by SMMEs such as access to technology, training, access to finance and markets as well as government SMME support programmes have been discussed. Furthermore, the chapter identified strategies to address these challenges, for example, providing an enabling environment (facilitating access to finance and markets) skills development and capacity building (training on business skills) have been discussed by this chapter. SMME legislative framework has also been discussed in this chapter. Lastly, this chapter presented a brief outline of KZN support policies and programmes to SMMEs.

The next chapter (Chapter 3) discusses the methodology used in this study.

CHAPTER THREE
Research Methodology

3.1 Introduction

The chapter discusses the methodology used in the study. It discusses the background to the study, research design, study population and sampling, research instrumentation, data collection, data analysis and ethical consideration.

3.2 Background of study area

"Pietermaritzburg" is an English translation of a Zulu name "uMgungundlovu" meaning, "The place of the elephant". The name was originally given to a military base of Dingane, a legendary Zulu chief, known to his people as the elephant.

UMgungundlovu is one of the 11 district municipalities ("districts") of KwaZulu-Natal province with its headquarters in Pietermaritzburg.

According to Urban-Econ (2007), the uMgungundlovu **District** Municipality (UMDM) has 2658 SMMEs; these come from **local** municipalities: Msunduzi (1740), uMngeni (481), Mkhambathini (7), Mpofana (227), Impendle (130), uMshwathi (37), and Richmond (36). Urban-Econ (2007) further states that, out of 2658 SMMEs, 1675 are micro enterprises, 478 very small businesses, 336 small business and 139 medium enterprises. The dominant business activities include wood & wood processing, manufacturing, agriculture & agri-processing, poultry farming, professional and financial services, wholesale & retail trade, construction, cleaning services, tourism, bricks/blocks manufacturing, vegetable farming, catering/vending, clothing and textile, bakery/baking, grass cutting/gardening and other general trade and services.

3.3 Research Design

The study adopted a qualitative approach. According to Bryman (2004, p.266) "qualitative research is a strategy that usually emphasizes words rather than quantification in that collection and analysis of data". Gubrium and Holstein 1997 (cited in Bryman, 2004, p.267) assert that qualitative research "seeks to understand social reality in its own terms; 'as it really is'; provides rich descriptions of people and interaction in natural settings". The study was also exploratory nature.

Exploratory research contains the basis or the step-stone towards the explanatory social behaviour pattern (i.e. the causes and reasons of/about the social phenomena) (Babbie & Mouton, 2001).

3.4 Study population

The study population consisted of owners of rural-based SMMEs in Pietermaritzburg in Kwa-Zulu Natal. There are close to four hundred SMMEs from seven local municipal districts around Pietermaritzburg. Survivalist micro- and medium-sized enterprises were selected for the study. The reason for choosing these enterprises is that they are the ones most likely to fail or struggle to grow as a result of their being at the lowest level (Bauman, 2003). These are the enterprises that require government support. The study also used key informants from SMME desks of the local municipal districts. The key informants were individuals working for the local government SMME desks, who promote and develop local communities within the SMME sector.

3.5 Sampling Procedures

Purposive non-probability strategy was used to select a sample of five (5) rural-based SMMEs. This sampling strategy was based on the judgement of the researcher regarding their appropriateness to be included in the sample. Thus, rural-based SMMEs were chosen according to the researcher's judgement as to their suitability for the study. Through this strategy, "selected units are judged to be typical of the population under investigation" (Bless, & Higson, 1995, p 95).

Three key informants from the SMME Local Desks were chosen/drawn from three individual rural local municipalities around Pietermaritzburg in Kwa-Zulu Natal (that is, uMkhambathini, uMngeni and uMsunduzi local municipalities). One key informant was chosen from each of the three local municipalities. Using SMME key informants helped to promote and secure the validity and reliability of the findings. This is because they are also involved in SMME issues, that is, from the promotional and supportive point of view.

3.6 Research Instrumentation

Two different semi-structured interview schedules were administered to the participants and the key informants. The strength of using interview schedules is their

reliability and their ability to gather abstract information of all types, that is, interview schedules give allowance for in-depth responses from the participants (De Vos, Strydom, Fouche, & Delport, 2011).

3.7 Pre-testing of the research tool

Pre-testeting was done to determine the suitability of the research tool so that the validity or the accuracy of the tool is enhanced. The same interview was conducted/repeated verbally with the same key informants/participants. The responses of the pre-tested tool were similar and did not warrant any change in the questions.

3.8 Methods of data collection

Data was collected using face to face interviews. Interviews took approximately 30 minute and were conducted at the offices of the participants, at a pre-arranged time which was convenient to the participant. Face to face interviews helped to develop rapport with the participants. Interviews are also effective and economical in gathering data (De Vos *et al*., 2011). However, interviews have their shortcomings, in that, they rely on the accessibility and the willingness of the respondents to co-operate hence the precision of the study results is/may be compromised (De Vos *et al*., 2011). The purpose of the research was explained to the participants as well as the key informants as the relevant participant information sheet and the consent forms were given to the participants and the key informants.

3.9 Data Analysis

Data were analysed using thematic content analysis. Thematic content analysis comprises two distinct stages: encoding and decoding, where encoding refers to the conclusions drawn from the obvious content and decoding refers to inferences drawn from the unidentified content (Guba & Lincon, 1989). These coding stages help to reduce data into manageable concepts (i.e. reducing larger volumes of data and easily retrieving it). This study followed the coding process in the analysis of data and data were analysed using themes and concepts. The themes and concepts arising from the findings were categorised and grouped together to ease the analysis.

3.10 Limitation of the study

The limitation of this study was its small non-probability sample which precludes the generalization of the results to the broader population of SMMEs. However, it is not the intention of qualitative research to make generalizations. Another limitation of the study was that some research participants may have provided socially desirable answers considered to be correct or suitable.

3.11 Ethical considerations

Voluntary participation: All the participants were informed about the nature and purpose of the study. Consequently, the participants were enlightened of their ethical rights before they participated in the study. The participants therefore agreed to participate in the study without coercion; as a result, the "participant information sheet" was given to each participant and key informant.

The informed consent: participants were asked to sign the consent form if they agreed to participate in the study. It was also explained that they had a right to withdraw from the study or refuse to answer any particular questions if they felt uncomfortable.

Confidentiality: Participants were advised that their response would be kept confidential and that the data would only be accessible to the student and his supervisor. Participants were also advised that data would also be kept in a safe cabinet for five years or two years if published.

Non-maleficence: The researcher made it his responsibility to protect the participants from emotional or physical harm as well as to protect the dignity of the participants.

Ethic Clearance: A clearance certificate was granted by the non-medical ethics committee of the University.

3.12 Conclusion

This chapter provided a description of the methodology used in this study. Data collection was done using face to face interviews by this study. This study used semi-structured interview schedules and this helped to provide in-depth responses from all the participants. The next chapter will focus on data analysis and findings.

CHAPTER FOUR

Presentation and Discussion of Results

4.1 Introduction

This chapter presents and discusses the findings of the study. This is done according to the objectives of the study. The objectives of the study were as follows:

- To establish the nature of government support extended to the owners of rural-based SMMEs,
- To elicit the views of the owners of rural SMMEs on the factors that can contribute to the success of rural-based SMMEs,
- To examine constraints experienced by the owners of rural-based SMMEs and,
- To elicit the views of the owners of rural-based SMMEs on how their enterprises can be strengthened.

4.2 Profile of the participants and their businesses

Gender	Race	Age (years)	Level of Education	Average years in business	Type of business	Products/ Services provided	Average monthly turnover of business	Size of business[1]	Registered with business organisation
Male	White	58	Matric	33	Furniture factory	Wooden furniture	Confidential	Small	No
Male	Black	41	Grade 12	7	Wood carver	Pallets	+/- R 300 000.00	Very small	Yes
Male	Black	53	Standard 6	5	Used furniture	Beds, Lounges, wardrobes	Confidential	Micro-enterprise	No
Female	Black	28	Post-Matric Diploma	2	Stock farming	Livestock	+/- R 50 000.00	Micro-enterprise	Yes
Female	White	52	B Sc (Hon)	24	Footwear factory	Footwear, Bags, Accessories	+/- R 450 000.00	Small	No

[1] Size as determined by the National Small Business Act, 1996

The table shows that small business sector is dominated by men. This finding then suggests a call for the government at local municipal level to intervene through women empowerment strategies (e.g. BBBEE policies) which encourage women, especially Black women to participate in small business. The table also shows that Black participants dominated this business sector, given that the majority of black people are located in rural areas where the study was carried out. The table shows that the two white participants were involved in the manufacturing sector of small business.

With regard to the level of education, the study found that most of the participants had at least matric except one participant. This notable level of education of the participants is significant in the way they conceptualize advanced business processes which ultimately benefits small business in terms of its growth and development.

The table revealed that Black participants were at the beginning phase of their businesses, hence their small size. The table also shows that only two participants had their businesses registered with a business organisation. This registration with a business organisation suggests that the participants in question require some support to grow their businesses, considering the factors mentioned above.

The table shows that; the products and services provided by the participants suggest the type of businesses mostly found in rural arrears.

Two of the participants chose not to disclose their business turnover. Nevertheless, where the relevant information was not available, the size of business was determined by the number of employees in the business, as per the National Small Business Act, 1996.

4.3 Nature of government support received by rural-based SMMEs

The first objective of the study was to establish the nature of government support extended to the owners of rural-based SMMEs

Participants indicated that they had never received any government support to develop their businesses. When asked if they had received government support, participant 1 said: *"No"*. Participant 2 also responded by saying: *"No"*. Participant 3 had this to

say*: "No, [because of] red-tape in government processes"*. Similarly, participant 4 attributed the lack of support to: *"red-tape".* Also participant 5 indicated that he did not receive government support because of: *"lack of knowledge of support structures for small business".*

Lack of knowledge about the support structures for small businesses and red-tape in government processes are a strain to small business owners who normally do not have time for lots of forms that they're asked to fill in. Rogerson (2006) reaffirms that legislative requirements are tedious exercises that pose a burden to SMMEs, hence SMMEs do not comply and their non-compliance is a hindrance to their development.

It is worth mentioning that inspite of the SMME not receiving any support from government, these SMMEs have individual special needs that warrant some form of government support. When SMME owners were asked: What kind of support do you think government should extend to small business? Participant 1 responded: *"government should partner with small business"*. It is against this backdrop that the South African government has through the National Small Business Act of 1996 encouraged partnership with small business so as to promote skills transfer between big experienced businesses and small inexperienced businesses. Also, a partnership with experienced businesses helps to expose small business to markets as well as to formal financial support mechanisms.

Participant 2 stated that they needed: *"training in business skills, financial support and monitor the utilization of that financial subsidy"***.**

Participant 3 added that they needed government to: *"subsidize start-up [and] specific business equipment"*. Start-up costs for emergent small businesses are a major challenge. Government should not to give cash to business owners because that money will end up being used for something else and not the main concern of business. Still, participant 4 said: *"the government should support its staff in the management of business grant applications"*. This is a belief that speedy approval of applications for business grants will reduce the long waiting period of business grant approvals.

Similarly, participant 5 said: *"government must subsidize learnerships, in-service training service – government should provide incentives to SMMEs related to the wages they give to their employees"* [that is, wage subsidies].

From the above responses, it would appear that municipal structures are not effective or perhaps the structures in question are not adequately resourced to help the SMMEs, either because these structures are not visible enough to potential SMME owners or possibly there are a lot of official requirements to be submitted by SMME owners which delay the process. The above responses suggests that government support to SMMEs should be in the form of business skills training, subsidised equipment and their payroll. In that way, SMMEs will be relieved of huge operational costs.

Whilst all the key informants stated that there were structures within their individual local municipalities that address small business development; most of them mentioned these structures were not helping small business owners adequately. For example, when responding to the question: Do you think your organization is effective in meeting the needs of small businesses? One key informant said: *"No, it's not".* Another key informant said: *"Not that effective, I normally send them to other business development organizations if I can't help them".* Only one key informant said that his organisation had, *"forums and policies in place"* that meet the needs of small businesses.

4.4 Views of the owners of SMMEs on factors that can contribute to the success of rural-based SMMEs

The second objective of the study was to elicit the views of the owners of SMMEs on the factors that can contribute to the success of rural-based SMMEs

The views of the participants suggest that there are diverse factors that can contribute to the success of rural-based SMMEs. Participant 1 observed that: *"partnerships/joint ventures and the availability of infrastructure"* were critical for the support of rural-based SMMEs. The participant referred to the co-operatives in the form of business partnerships and consumer market infrastructure as crucial to promote the success of rural-based businesses.

Participant 2 mentioned that: *"small business should dictate the minimum wage rate".* This participant meant that, minimum wage regulation often prevents SMME owners from employing more people. The participant added that if they set the minimum wage themselves, they would be in a position to employ more people

The issue of business skills was considered a critical factor in the success of rural-based SMMEs. Participant 3 noted that: *"business skills, personnel supervision and mentorship are to my opinion the significant factors to the success of rural-based SMMEs".*

Participant 4 mentioned that: *"subsidized training or skills development and the provision of infrastructure services is the most important"*

Similarly participant 5 asserted that: *"good infrastructure like roads, water provision and electronic communication can help the rural-based SMMEs to prosper"*

The views from the participants suggest that the success of rural-based SMMEs is dependent on the provision of good infrastructure and joint business partnerships. Rogerson and Reid (1997) confirm that, rural SMMEs are faced with severe backlog of infrastructure services where there is no water, electricity and street lighting, as compared to SMMEs in urban areas.

Key to the success of rural-based SMMEs are business skills. Segal Quince Wicksteed, (1997) share the same opinion saying that training in business skills explain whether a business will either failure or succeed. This is more so against the consequences of the apartheid background which denied rural-based SMMEs their right to exist and grow.

One key informant mentioned that one factor that is needed for the success and the development of SMMEs is the implementation of *"incubator, support system for emergent SMMEs".* This system assists SMMEs during their infancy stage to crawl into their advanced, developed stage. Yet another key informant suggested the need to: *"instil basic business skills"[and that]"formal trainings/workshops should be done more aggressively".*

4.5 Constraints experienced by owners of rural-based SMMEs

The third objective of the study was to examine constraints experienced by owners of rural-based SMMEs

Constraints are common in business. Participant 1 mentioned that his business was running well and was successful but found it difficult to supply his customers with pallets because the *"distances between his delivery points are far apart"* and this was exacerbated by *"lack of own proper transport"*.

Participant 2 revealed her constraints as follows: *"it's transport, I don't have enough qualified staff and consistent lack of services, for example, frequent power outrages"*. Yet, participant 3 said that her business was: *"not successful".*

Whilst some participants have constraints to their individual businesses, others indicated that they had no constraints in their businesses. This could be due to the fact that their businesses were running well. As participant 4 said: *"I don't have a problem so far in my business, it is very successful and has grown from being a survivalist enterprise to being a microenterprise".* Similarly, participant 5 stated that his business was: *"very good, successful"*.

The above views from the participants indicate that rural-based SMMEs are faced with a challenge of poorly-resourced areas. This situation points to a serious resource requirement. This also implies that in order for an SMME owner to overcome this challenge, she/he needs to be well-resourced in terms of own transport. From the above responses it also indicates that the participants operate in areas where there is frequent lack of services (power outages). Lack of qualified staff is indicated as another constraints suffered by rural-based SMMEs.

Against the abovementioned responses of the participants, key informants mentioned that there were support structures and systems within their individual municipal offices to support SMME owners. When responding to the question: What programmes do you have that cater for the needs of SMME owners that you serve? One key informant responded: *"awareness programmes or campaigns and workshops".* Another key informant said: *"mentorship and training from external*

stakeholders". Similarly another key informant said: *"business fairs, expos, seminars related to small business".*

Furthermore, one other key informant said that, in their municipality they have service delivery provisions looking at the needs of the SMMEs they serve which involve provision of roads, electricity, water and they also form partnerships with other stakeholders, that is, agencies which provide infrastructure development for government.

According to one key informant; their main role to addressing constraints to their SMMEs is *"through capacity building we provide for SMME development, for example, training, facilitating registration of potential companies, provide business skills".* This helps to empower SMME owners intellectually for them to be able to address their business constraints on their own than to keep relying on government assistance to solve their problems.

Also one other key informant identified some of the constraints as: *"lack of business skills, access to finance and access to market"* as some of the constraints to SMMEs. However, he told that: *"I create a conducive environment for small business enterprises to operate through facilitating their development"*. The key informant pointed out that he conducts assessments and periodic analyses. This is done to determine the performance trends of SMMEs and to determine what the challenges of these SMMEs are and then respond accordingly.

In general, key informants confirmed that SMME owners within their areas of operation suffer some of the constraints to the development of their businesses. They mentioned that even though there are initiatives in place to assist the participants these seem not to reach the SMME owners for help. This could be due to a number of reasons. Poor infrastructure is the main challenge or constraint identified from the abovementioned views of the participants. Another constraint mentioned by the participants is the shortage of human resources. This then calls for the strengthening of the infrastructure as well as sourcing competent people for rural SMMEs where these SMMEs operate so that business operations are not disturbed instead they run smoothly.

4.6 Views of the owners of rural-based SMMEs on how their enterprises could be strengthened

The fourth objective of the study was to elicit the views of the owners of rural-based SMMEs on how their enterprises can be strengthened

When asked: How do you think your business could be improved? Participant 1 indicated that: *"by acquiring business knowledgeable staff/personnel, by improving infrastructure"*.

Participant 2 stated: *"by employing staff with business skills, by selling good quality products".*

Similarly, participant 3 said: *"subsidies on alternate services, for example solar panels [and] if government would provide a simple system for grant applications"*.

Also, participant 4 indicated that they needed: *"to get own transport, [and] buy more machines"*. The participant also mentioned that the number one priority in business development is: "*land"*. The participant asserted the need to, *"extend space and building"*, as his personal needs to strengthen his enterprise.

Participant 5 emphasises an internal factor notably: *"self-drive by the management/owner".*

One key informant said that, to strengthen SMMEs: "*I do needs analysis, monitoring and evaluating SMMEs' progress".* Another key informant said: *"through conducting audits, such as skills audit, as well as mini surveys",* the strength of the SMMEs that I serve can be built.

The findings suggest that participants were of the opinion that through good systems and good services, their businesses can be improved or strengthened. They believed that their businesses could be strengthened if government puts in place user-friendly application procedures for business grants and if the government employs people who the findings suggest that business cannot thrive unless the owners have their own transport and enough tools for their businesses. The support from government will enable owners of SMMEs to sell goods and services of high quality. Finnegan (1999,

p3) reiterates to say that the "spirit of entrepreneurship is a major factor which contributes to the success of enterprises…" Finnegan means that self-determination in acquiring skills and business information, being ahead of business advancements, being clever and vigilant in taking business risks and being receptive to the needs of clients and also ensuring high quality of goods and services offered can strengthen an enterprise.

The findings suggest that business acumen; and customer care are also factors that can contribute to the strength of small businesses. Business acumen means the capability to make quick and correct business decisions. When participants were asked about the business location as an indicator of business acumen, most of them stated that their businesses are well located. Of note is that, business location has advantages and disadvantages. For example, a business which is located in densely populated area is more likely to attract a wide range of potential customers than a business in a remote area. Therefore, a strategically positioned business increases its possibility to grow. Equally, the capability to locate your business tactically is indicative of good business acumen.

The study revealed that all individual municipal organisations have different tasks to perform with respect to promoting the development of SMMEs. These tasks include the provision of infrastructure, creating an environment which is conducive for SMMEs, providing capacity for SMME development, establishing partnerships and facilitating business registration. The study further revealed that these organisations offer services related to training, mentorship, workshop/ trainings and linkages with different stakeholders, for example, banks and other business development agencies in order to strengthen the SMMEs.

In terms of customer care, the study indicated that some of the SMMEs that the participants possess are at the lowest level of the economy (survivalist and small enterprises). To strengthen this section of the enterprises, the study suggests that participants should utilize the monitoring and evaluation systems available at their municipal offices. This is done to assess the strengths and weaknesses of these SMMEs with a view to strengthen them. The study concluded that there is a need for a joint intervention so as to strengthen rural-based SMMEs through discussion forums

of government sector that a responsible for business development and also through business development agencies that represent SMMEs from rural areas.

4.7 Conclusion

This chapter presented and discussed the findings as per the objectives of the study. The findings reveal that even though rural-based SMMEs have a variety of needs, the municipal structures do not extent their support to these SMMEs. The key factors to the development and success of rural-based SMMEs are the provision of competent personnel, joint business ventures and good infrastructure. The next chapter, chapter five will give a summary of the main findings, conclusions and recommendations arising from the study.

CHAPTER FIVE

Main Findings, Conclusion and Recommendations

5.1 Introduction

The aim of this study was to explore the challenges faced by rural-based SMMEs in Pietermaritzburg, KwaZulu-Natal. The study examined the nature of government support extended to the owners of rural-based. The study also looked at the views of the owners of rural based SMMEs about factors that can contribute to the success of rural SMMEs. The study further looked at the constraints experienced by the owners of rural-based SMMEs. Finally, the study examined the views of SMME owners on how rural-based SMMEs can be strengthened.

This chapter presents a summary of the main findings, conclusion and recommendations. Main findings of the study will be presented in accordance with the objectives.

5.2 First objective

To establish the nature of government support extended to the owners of rural-based SMMEs

The findings reveal that none of the participants had ever received government support for their businesses. One of the reasons that participants mentioned was that, they found it difficult to access services offered by local or municipal offices because of stringent legislative requirements that they have to comply with. It also emerged from the study that participants were not aware of business support services found from their municipal offices. Nevertheless, participants stated that they need support from the government. Specific support required by the participants included subsidy for capacity-building workshops, tax relief to SMMEs, training in business skills, facilitation of business linkages and identification of markets for rural-based SMMEs.

5.3 Second objective

To elicit the views of the owners of SMMEs on the factors that can contribute to the success of rural-based SMMEs

The responses of the participants around this objective revealed that joint ventures and the availability of infrastructure can contribute to the success of rural-based SMMEs.

Participants indicated that determining the minimum wage given to employees would enhance their chances of success. The study identified business skills, personnel supervision and mentorship, especially of emergent small businesses, as fundamental factors to the success of rural-based SMMEs. Participants further mentioned that good infrastructure and skills development are other important factors for the success of rural-based SMMEs.

5.4 Third objective

To examine constraints experienced by owners of rural-based SMMEs

Whilst the participants revealed that rural-based SMMEs do experience constraints in their normal operations, most participants asserted that their businesses are successful. That then does not suggest that successful businesses do not experience constraints. The major constraints identified by participants was lack of own transport given the location of their businesses. This hinders the growth of their businesses. The findings also revealed that, lack of good infrastructure was another constraint which hampered the development of rural-based SMMEs.

5.5 Fourth objective

To elicit the views of the owners of rural-based SMMEs on how their enterprises can be strengthened

Participants mentioned that, rural-based SMMEs can be strengthened by acquiring business knowledgeable staff and by improving infrastructure. The participants further revealed that, by selling good quality products, your business can improve and be strengthened. The study also revealed land and building are some of the main requirements among the owners of the rural-based SMMEs that can be utilized to strengthen their enterprises. The factor of self-drive or self-determination by the business owner is another revealed by the study which can strengthen an enterprise.

5.6 Conclusion

Rural-based SMMEs suffered from apartheid policies that neglected rural areas. Even if the current government tries to resolve the problems of colonialism and apartheid, the damage done by these policies seems irreparable. This condition ultimately has negative repercussions on the development of rural-based SMMEs. Consequently, this calls for a strong political will to make reparation.

5.7 Recommendations

The following recommendations arise from the study:

5.7.1 Proposals for partnerships between community, government and big business

There is a need to make loans more accessible. This can be achieved by establishing partnerships between banks and community business support organizations. Stokvels /revolving credit schemes/associations can be encouraged to provide loans to SMMEs. This will help to create community participation and social cohesion which will facilitate co-operation among the financially struggling small enterprises in rural locations.

Subcontracting to large businesses that operate around rural communities should be encouraged as this can unlock market opportunities. This can be facilitated by government through its procurement preferences which favour SMMEs from rural location.

Courses in entrepreneurship should be introduced in schools in order to develop business skills at an early stage. Also, there should be a strong monitoring and evaluation system in all levels of government so as to observe and assess the progress of government support programmes for SMMEs, especially rural-based ones. This system will help to identify challenges or gaps in the support system with a view to addressing them.

5.7.2 Proposals for policy interventions

Government should review or reassess its support to SMMEs. it should facilitate or promote consumer/trading markets and business networks so that SMME owners are not dependent on government hand-outs.

The local/municipal government should give incentives to individuals who start small businesses especially in isolated rural areas.

5.7.3 Proposals for future research

Research should be conducted to examine the strengths and weaknesses of government support programmes that are extended to rural-based SMMEs. This initiative will help in identifying gaps and assess the progress/success of these programmes.

A study needs to be conducted to look at challenges/constraints suffered by owners of rural-based SMMEs. This study should be replicated using a larger sample in order to gain a deeper understanding of the challenges faced by rural-based SMMEs.

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APPENDIX A

Table 1 Schedule from the National Small Business Act (1996)

Column 1	Column 2	Column 3	Column 4	Column 5
Sector or Sub sector in accordance with the Standard Industrial Classification	**Size -class**	**Total full-time equivalent of paid employees**	**Total annual turnover**	**Total gross asset value (fixed property excluded)**
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very Small	10	R 0.4 0m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining/ Quarrying	Medium	200	R 30.00 m	R 18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very Small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R 40.00 m	R 15.00 m
	Small	50	R 10.00 m	R 3.75 m
	Very Small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R 40.00 m	R 15.00 m
	Small	50	R 10.00 m	R 3.75 m
	Very Small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R 20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very Small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10. m
Retail and Motor Trade and Repair Services	Medium	100	R 30.00 m	R 5.00 m
	Small	50	R 15.00 m	R 2.50 m
	Very Small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R 50.00	R 8.00 m
	Small	50	R 25.00 m	R 4.00 m
	Very Small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering Accommodation and Other Trade	Medium	100	R 10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very Small	10	R 1.00 m	R 0.20 m
	Micro	5	R 20.00 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R 10.00 m	R 5.00 m
	Small	50	R 2.00 m	R 2.50 m
	Very Small	10	R 0.15 m	R 0.50 m
	Micro	5	R 20.00 m	R 0.10 m
Finance/ Business Services	Medium	100	R 20.00 m	R 4.00 m
	Small	50	R 10.00 m	R 2.00 m
	Very Small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R 10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.5 m
	Very Small	10	R 1.00 m	R 0.5m
	Micro	5	R 0.15 m	R 0.10 m

APPENDIX B: PARTICIPANT INFORMATION SHEET (FOR "PARTICIPANTS")

Dear Participant,

My name is Sipho Nxaba and I am a student at the University of the Witwatersrand doing a Masters in Social Development. As part of the requirements for the degree, I am conducting research into the challenges faced by rural-based Small, Micro and Medium Enterprises (SMMEs).

You are please requested to give at least 30 minutes of your time to be interviewed in my study. Your participation is entirely voluntary and refusal to participate will not be held against you. If you consent to participate in the study, I shall arrange to interview you at your suitable place at your convenient time. You are at liberty to withdraw from the study at any time and you may also refuse to respond the questions if you feel uncomfortable answering them.

No one other than my supervisor will access the recordings, and on completion of the study, the recordings will be locked up in a secured cabinet. Please be assured that your name and personal details will be kept confidential and no identifying information will be included in the final research report. You may also remain anonymous during the interview, by not telling me your name. This interview is of course meant to uphold confidentiality of your personal details.

You are free to ask any question regarding the study. I may be contacted on Cell No. 072 2048 179. Should you wish to know the results of the study, they will be provided on request.

Thank you for your time.

Yours truly,

_____

S B Nxaba

APPENDIX C: CONSENT FORM FOR PARTICIPANTS IN THE STUDY

I hereby consent to participate in the research project. I have been informed of the aim and the practice of the study. I understand that my participation is voluntary and that I may refuse to answer any question or withdraw from the study at any time without any negative consequences. I have been told that my response will be kept confidential.

Name of participant _____

Date _____

Signature _____

APPENDIX D: INTERVIEW SCHEDULE FOR OWNERS OF SMMEs

Demographic background

Gender ……

Age **....**.....…….

Educational level……..

Profile of SMME

Location of business ..…….

Average years in business …….……..

Average monthly turnover of business ……..…….

Type of business ……

What products/services do you provide? ……....

What is the size of your business? ……..

Is your business registered with the relevant business organization? …….

Knowledge of business acumen/skills

What do you think of your business location as a place to conduct business?
……

……

What are the main advantages to your business location?
……

……

What are the main disadvantages to your business location?
……

……

What do you think should/can be done by government to improve your business environment?

……

How successful is your business?

……

……

What are the factors that can contribute to the success of rural-based SMMEs?

……

……

Awareness of government support to small enterprises

What are the constraints to your business?

……

……

How do you think your business could be improved?

……

……

What specific support do you need to address these constraints?

……

……

Have you ever received government/municipal support for your business? If yes, provide details. If no, explain why.

……

……

What kind of support do you think government should extend to small business?

……

……

Knowledge of business development services

Are you aware of Business Development Services available to you?

……

……

If yes, what kind of Business Development Services are those?

……

……

What kind of business related services have you made use of?

……

……

Was the services received improved your business?

……

……

General comments or suggestions

……

……

APPENDIX E: PARTICIPANT INFORMATION SHEET (FOR "KEY INFORMANTS")

Good day,

I am a student at the University of the Witwatersrand and am conducting a research study for my Master's degree. This Master's project is about challenges faced by rural-based Small, Micro and Medium Enterprises (SMMEs).

Your participation in this project will be very much appreciated and will help, through its findings, to provide your municipal office with better information to develop appropriate mechanisms in the interest of SMME development and entrepreneurship. Your participation will also help owners of rural-based SMMEs, particularly in your municipal area to build their capacity and for their enterprises to grow.

Participation in this study is optional. However, it would be fully appreciated if you would respond to a questionnaire.

Remain anonymous and do not disclose any personal details when responding to a questionnaire.

Kindly allocate enough time to the questionnaire.

Your cooperation is greatly appreciated.

Yours truly,

I am,

_____

S B Nxaba

APPENDIX F: CONSENT FORM FOR THE "KEY INFORMANTS"

I hereby consent to be interviewed for the study. I understand that my confidentiality will be maintained at all times. I have been told of all ethical standards associated with my willingness to be interviewed. I have been told that I may decline to be interviewed at any time of the interview if I feel so.

Name of participant _____

Date _____

Signature _____

APPENDIX G: INTERVIEW SCHEDULE FOR "KEY INFORMANTS"

Organizational Profile

What is the main function of your organization?

……

……

What services does your organization offer?

……

……

How do you offer these services?

……

……

Does your organization have a mission statement about small business development?

……

……

Do you know any of the legislations relating to small business development?

……

……

Are there any specific structures within your organization which address small business development? If yes, explain the nature and function of these structures.

……

……

Business skills development

To what extent is staff trained around small business development policy issues.

……

……

Are you active in determining the training requirements within your organization?

……

……

Is sufficient training in the key areas of small business development?

……

……

Customer care

Who are your most types of SMME owners that you serve?

……

……

How do you get SMME owners that you serve?

……

……

How do you determine the needs of SMME owners that you serve?

……

……

Are you able to respond to the needs of SMME owners that you serve?

……

……

Do you at times refer SMME owners to other relevant organizations for assistance?

……

……

What programmes do you have which cater for the needs of SMME owners that you serve?

……..

.....

Do you have a monitoring and evaluation system to monitor the progress of your SMME owners?

……

……

Government support to small enterprises

Do you think your organization is effective in meeting the needs of small business?

……

……

If there was anything that you could do or implement regarding small business development what would it be?

……

……

What do you think should be the key issue to small business development?

……

……

What are the key problems with regard to small business development in the public service?

……

……

How do you think these problems could be resolved?

……

……

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON MEDICAL)
H110921 Nxaba

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER H110921**
PROJECT TITLE	Challenges of rural-based Small, Micro and Medium Enterprises (SMMEs)
INVESTIGATOR(S)	Mr S B Nxaba
SCHOOL/DEPARTMENT	Human and Community Development
DATE CONSIDERED	16 September 2011
DECISION OF THE COMMITTEE	Approved Unconditionally
EXPIRY DATE	30 September 2013

DATE 07 October 2011 **CHAIRPERSON** (Professor R Thornton)

cc: Professor E Kaseka

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10005, 10th Floor, Senate House, University.

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

Signature

11 / 10 / 2011
Date

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES