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Mushangai, Dandira

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University of the Witwatersrand

Author: Dandira Mushangai (566387)

Supervisor: Dr Vishwas Satgar

Master of Arts Research report

Department of Development Studies

Does the State Disable Small Businesses? A Critique of Hernando de Soto

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Abstract

The research dealt with the crisis of development and the crisis in development theory with reference to small scale business development in the context of South Africa, Soweto, Jabavu. The focus was on the emergence of Hernando de Soto within the development fraternity and the implication of his propositions with regard to legal institutions and the formalisation of the small businesses on the development of the Third World countries and their transition to sustainable capitalism. The qualitative methodology was employed for its versatility and flexibility in interrogating the various factors in relation to small business development and the development of South Africa in general. The study argues that, the critics of development have failed to comprehend the central maxims of the De Sototian development approach, hence have applied it to dissimilar contexts and circumstances which smacks of hypocrisy and uncritical academic scholarship serving no purpose but to cloud our understanding of development. This has had the confusion of the development processes as its resultant effect. The study arrived at the conclusion that, if placed within its contextual limits, the De Sototian approach has tremendous capacity to stimulate SMEs development in particular and development in general, hence facilitating transition of the Third World countries to sustainable capitalism.

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Declaration

I, Dandira Mushangai declare that this research report is my own unaided work. It is submitted for the degree of Master of Arts in Development Studies. It has not been submitted before for any other degree or examination at any other University.

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Abbreviations and Acronyms

ANC	African National Congress
ASGI-SA	Accelerated and Shared Growth Initiative South Africa
BBBEE	Broad Based Black Economic Empowerment
BEE	Black Economic Empowerment
BDS	Business Development Services
BMF	Black Management Forum
BNG	Breaking New Ground
CSBD	Centre for Small Business Development
CSESE	Centre for Social Economy and Social Entrepreneurship
DED	Department of Economic Development
DSE	Department of Science and Technology
DRDLR	Department of Rural Development and Land Reform
DTI	Department of Trade and Industry
FDI	Foreign Direct Investment
FABCOS	Foundation for African and Consumer Services
G7	Group of Seven Countries (Canada, USA, France, Germany, Italy, Japan, and the UK)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Strategy

GEM	Global Entrepreneurship Monitor
GEP	Gauteng Enterprise Propeller
IDC	Industrial Development Corporation
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
ISBDS	Integrated Small Business Development Strategy
ISEDS	Integrated Small Enterprise Development
LDCs	Late Developing Countries
LRAD	Land Redistribution for Agricultural Development
Mafisa	Micro Agricultural Financial Institute of South Africa
MFRC	Micro Financial Regulatory Council
MIGA	Multilateral Investment Guarantee Agency
NAFOC	National African Chamber of Commerce and Industry
NCR	National Credit Regulator
NEDLAC	National Economic Development and Labour Council
NEF	National Empowerment Fund
NGP	National Growth Plan
NGOs	Non-Governmental Organisations
NIPF	National Industrial Policy Framework - 2007
NYDA	National Youth Development Agency
NSBAC	National Small Business Advisory Council

NSB Act	National Small Business Act of 1996
Nibus	National Informal Business Upliftment Strategy of 2013
OECD	Organisation for Economic Co-operation and Development
PDIs	Previously Disadvantaged Individuals
RPD	Reconstruction and Development Programme
SAIRR	South African Institute of Race Relations
SAPs	Structural Adjustment Programmes
SARS	South Africa Revenue Services
SBDC	Small Business Development Corporation
SEDA	Small Business Development Agency
SLAG	Settlement/Land Acquisition Grant
SME	Small Medium Enterprises
SMME	Small Medium Micro Enterprises
StatsSA	Statistics South Africa
UJ	University of Johannesburg
UK	United Kingdom
UN	United Nations
UNIDO	United Nations Industrial Development Organisation
UNDO	United Nations Development Programme
Unisa	University of South Africa
USA	United States of America
USSR	Union of Soviet Socialist Republics

VAT	Value Added Tax
WTO	World Trade Organisation

Chapter 1: Introduction

1.1 Introduction to the study

The development policies and frameworks in South Africa since the early 1980s to date have been influenced by the neo-liberal thinking of the World Bank, the International Monetary Fund and other international institutions led by the United States of America. The neo-liberal thinking has been based on a number of tenets amongst which is the prominence of the markets in resource distribution, deregulation of the economy, liberalisation of the exchange rates, prominent role and freedom of the individual to make economic decisions, free trade between nations, privatisation of public enterprises, reduction in the size of the state and the central role of the capitalist bourgeoisie class in production and reproduction. Thus in the 1980s the World Bank was of the opinion that development in the Third World countries could be stimulated if the economies of these countries were restructured in line with the neo-liberal economic ideals. During this period, the World Bank emphasised the need for titling and registration of the properties of the entrepreneurs as the backdrop to a successful take-off to capitalism. However, starting from the 1990s the neo-liberal development thought has been heavily influenced by Hernando de Soto's ideas on underdevelopment, production and reproduction. De Soto works within a neo-liberal framework, but his ideas on the informal sector, small businesses and capital formation have had a profound impact on other neo-liberals on how development in the Third World countries is perceived and is to be achieved. The lynchpin of his argument is that capital formation is a function of property formalisation. In his view, the state has been a major hindrance to development as a result of unnecessary legal strictures and being too bureaucratic which acted as a disincentive for the formalisation of many entrepreneurs who continued to languish in the informal sector. To De Soto any transition to capitalism in the Third world countries would lie in enabling the formalisation of the entrepreneurs operating in the informal sector so as to free them from the burdens of informalisation and allow them to generate wealth in an open market environment. A critical assessment of the South African macro and micro economic policies and policy frameworks since 1994 tends to show that these have been heavily influenced by Hernando de Soto. Starting with the Growth Employment and Redistribution (GEAR 1996), the Accelerated and Shared Growth Initiatives (ASGI-SA 2006) and the New Growth Plan (NGP 2010), and now the National Development Plan, all demonstrate a slant towards the neo-liberal ideals as propounded by De Soto. In the field of land reform, the influence of De Soto is seen in the Communal Land Rights Bill (2003) and the change from Settlement/Land Acquisition Grant (SLAG) to Land Redistribution for Agricultural Development (LRAD). The Small Business Amendment Act of 2003-4 also, reflects the need by the state to facilitate and promote the formalisation of the small scale businesses in South Africa. In other areas the SBP (2007) noted that, the government has facilitated the formalisation of many small medium businesses. To crown this, President Mbeki's idea of the two economies and the need to merge the second economy with the first economy was all a reflection of De Soto's Influence - his idea of a

parallel economy - the legal and the extra-legal. Further, the Black Economic Empowerment (BEE) philosophy is also grounded in De Soto ideas on the need to create a class of black capitalist bourgeois (black capitalist class) to drive the economy. As of now, South Africa can be seen as a De Sototised country bearing in mind that the social grants in South Africa also reflect De Soto's emphasis on the role of the state in scouring the poor and the less fortunate in society. This is reflected when de Soto emphasised that, one of the state's primary responsibility '---is to redistribute resources to the poorest and the least fortunate members of the population, although this must not be used as a pretext for giving privilege to a few and thwarting everyone else including the poor'(De Soto, 2000). This, he further elaborated by saying, 'In the Third World country, with huge economic iniquities, no cultural cohesion and tremendous social problems, ---the state has redistributive functions. Only when those huge differences have been reduced to reasonable proportions is it possible to talk about truly impartial rules of the game identical for all'. He concluded by saying, '—with the imbalances we have today ---, even the best conceived and purest measures tend in practice to favour the few and harm the majority' (De Soto, 2000). In effect, the case of South Africa is reflected when De Soto said that his arguments for legal reforms provided the Peruvian head of state with a formidable argument that, 'the majority of the nation's population is cut off from the official market economy and access to capital as starkly as apartheid once separated white and black South Africans and we are going to correct that' (De Soto 1992). Thus, De Soto's theory of development is an integration of both the liberal and the social democratic tenets bringing about a new hybrid of development theory - all in all reflecting neoliberalism as a messy hybrid as has been commented by Jamie Pack (2010). However, the question remains, has these processes of legal reform managed to stimulate development through the setting up of successful formalised business enterprises? It is against this background, that this study has been crafted with the aim to investigate and generate information to critique, confirm or disconfirm Hernando de Soto's ideas basing on empirical data on the performance of formalised small business enterprises in Soweto, South Africa.

1.2. *Aims and Objectives*

The aim of the study was to critique Hernando de Soto's theorisation of small business development based on documented history of small businesses in South Africa and on case studies from Jabavu - Soweto, South Africa. This was done with the aim of improving the quality of our intervention in the development of the small scale businesses.

1.3. *Problem Statement*

Hernando de Soto's ideas have been extremely influential in promotion and policy development for small businesses in South Africa. This study wanted to show how pervasive this is, but, was more importantly guided by the following core research question:

What are the major problems and limits of Hernando de Soto's conception of small business development in the context of South Africa?

1.4. *Research Questions*

What are the main small enterprise policy frameworks and to what extent do they embody De Soto's ideas and assumptions of small enterprise development?

What is the role of the state in small business development in terms of regulation, finance and technical support?

How far has formalisation of small enterprises proceeded in South Africa?

What has been the impact of state practice on SME's?

What are the conditions that contribute to failure or success of a small business?

1.5. Rationale

The justification of the research lies in the growing recognition of the role small businesses play in a country's development. The importance of the Small Medium Enterprises (SMEs) in an economy is no longer a matter of debate, as international literature increasingly points to the centrality of entrepreneurship in economic growth and development (World Development Report, 2007). The experts in the field of economics and development are increasingly coming to an agreement on the importance of the SMEs in growing the economy through employment creation, increased productivity, export revenues, innovation and entrepreneurial skills. Vosloo (1994) regards SMEs as a crucial ingredient for a successful formula of achieving economic growth, whilst Bashir Ahmad Fida (2008) regards SMEs as the first step towards the development of economies towards industrialisation. The South African government has also realised the importance of the small scale businesses in stimulating and growing the economy. The Minister, Trevor Manuel in his *Foreword to the White paper on small business* (1995) emphasised that, 'Small, medium and micro enterprises represent an important vehicle to address the challenges of job creation, (and) economic growth in our economy'. He went on to say, 'We (government) are committed to doing all we can to help create an environment in which business can get on with their job'.

However, important to note is that, South Africa has been bedevilled by the triple threat of poverty, unemployment and inequality as a result of the legacy of the apartheid system and the failure of the policies of the democratic governments since 1994 to address the problem of unemployment. For various reasons, the South African big businesses have not been able to create employment on a scale needed to lower the unemployment rate. The companies (foreign capital) which used to absorb the excess labour power have undergone restructuring as a result of the need to cut down the increasing production costs and as a result of the improvements in technology, all with the resultant effect of reducing the demand for human labour power (Atkinson 2010). This has caused the mass retrenchment

of labour hence, limiting the capacity of the people to save and invest thereby increasing the rate of poverty in South Africa. This problem was worsened by the capital flight that took place in the early 1990s as most businesses became suspicious of the seemingly radical ideas of the nationalist African National Congress.

The inability of the established business enterprises to absorb the growing labour force has resulted in concerted effort among different stakeholders to try to stimulate entrepreneurship through the setting up of small businesses so as to eliminate the scourge of unemployment and poverty in South Africa. It is now believed that sustainable development in Africa and South Africa in particular, as was the case for many East Asian countries, can only be achieved through nurturing home grown capital through investment in local small businesses rather than a continued uncritical dependence on foreign capital. The Asian countries (Asian Tigers-Taiwan, South Korea, Singapore, Vietnam, Hong Kong and China) have been successful in breaking from the cul-de-sac of underdevelopment by stimulating their economies from this basis resulting in what has been termed the 'Asian miracle' in the 1990s. Hernando de Soto (1989 and 2000) has also realized the potential of the small businesses and of those locked in the basement of the informal sector in transforming the economies of the Third World countries. Thus, De Soto views, the small businesses and those operating in the informal sector as possessing the 'magic bullet' required in transforming Africa's fortunes. The research wanted to confirm or disconfirm De Soto's model of small business development as it is applied within the South African geo-politico environment. If successful the research product might improve the quality of our intervention in boosting the small businesses by addressing some important gaps in the existing research knowledge.

1.6. But why Hernando de Soto?

The importance of Hernando de Soto lies in turning the tables upside down without destroying the neo-liberal development framework. Originally neo-liberalism centred on the strong belief in big businesses as the motor power of capitalism and the neo-liberal focus was on these as both developed and developing nations competed with each other offering different incentives to attract big foreign capital (FDI). Before the De Soto era, small businesses and informal traders were seen as making the cities unsafe hence a threat to the ability of cities to attract foreign investment capital. According to Sager (2011), the policies dealing with the management of commercial areas aimed at making the city safe and profitable to do businesses. The former neo-liberal policies aimed at projecting and protecting the image of a 'cool' and business friendly city if it were to attract corporate headquarters and company offices. This phase in time was also characterised by other neo-liberal policies as the housing policies which were exclusionary of the poor as they deemed it necessary to make the city a safe place for foreign capital investments. The poor were supposed to benefit from neo-liberalism not as a result of their petty entrepreneurialism but as a result of the trickledown effect of capital generation by the big businesses. Their

place was deemed to be on the peripheries of the modern cities, as a reserve army of cheap and flexible labour for the big capitalist engines of development.

These early periods of neo-liberalism aimed to resolve the capital question of development and transition to capitalism in the Late Developing Countries (LDCs) by facilitating accumulation from above by big capital. The emergence of De Soto had a reverse effect on some of the neo-liberal fundamental axioms as it turned the tables upside down, which made it possible to realise that, the capitalist bourgeoisie class can also emerge from the grassroots small businesses to propel development and the transition to sustainable capitalism. Thus De Soto advocated for accumulation from below through legalisation, decriminalisation and the support of the small businesses if the third world countries are to successfully make a transition to capitalism. Hernando De Soto preaches what has been referred to as 'popular capitalism' by Gilbert (2002) as opposed to monopoly capitalism of the multi-nationals and other big capital (Roy 2007). His ideas influenced the champions of neo-liberalism (World Bank, IMF etc.) leading to the acceptance of the co-existence approach to development involving meagre capital businesses and big capital and the encouragement of linkages so as to foster development. The impact of De Soto lies in the encouragement of the participation of the lower and the under-class in the formal economic activities of a nation. This also defines some of the contradictions within neo-liberalism as a mode of capitalism. Within this axis, his major contribution lies in the now rooted belief that rapid economic development occurs through the reduction of inequalities and by encouraging the broader participation of the people through the opening up of opportunities to many, thereby facilitating them in the realisation of their full potential in the pursuit of happiness.

This is part of the bottom-up approaches which shares strong ideological predilections with Amartya Sen's capability theory and a variety of other empowerment theories advocating for people centred approaches to development. This approach is opposed to the long held notion that inequality is the forerunner of development based on an unfounded belief that it facilitates capital accumulation by a few which in the end enables capital investments to grow the economy. This idea asserts that inequality enhances growth because the concentration of income provides excess wealth for investment (Nicholas Kaldor 1960, Michal Kalecki 1971). The idea forms the basis for the trickle down approach to development. This idea has been expounded by Arthur Lewis (the enclave economy) of the Manchester School (1957) and later appeared again in a modified form as the basis for the neo-liberal trickle down approach to development which formed the basis for the Gear strategy to development in South Africa. The extent of the impact of Hernando de Soto's work is seen in the worldwide recognition of his approach to development. The Time magazine chose him as one of the five leading Latin American innovators of the century (May 1999) and included him amongst the 100 most influential people in the world in 2004. In October 2005, over 20,000 readers of *Prospect Magazine* of the UK and Foreign Policy

magazine of the U.S. ranked him as number 13 on the joint survey of the world's Top 100 Public Intellectuals Poll (*Economic Realms, 22, 04, 2013*).

Various presidents of the United States of America have also praised De Soto's work. Bill Clinton called him, 'The world's greatest living economist' (*Economic Realms, 22, 04, 2013*), George H. W. Bush declared that 'De Soto's prescription offers a clear and promising alternative to economic stagnation…' (*Economic realms, 22, 04, 2013*), Ronald Reagan said, 'De Soto and his colleagues have examined the only ladder for upward mobility'. His work had also been commended by the United Nations. Former UN Secretary General, Kofi Annan has this to say, 'Hernando de Soto is absolutely right, that we need to rethink how we capture economic growth and development' and another Javier Pérez de Cuéllar remarked, 'A crucial contribution. A new proposal for change that is valid for the whole world' (*Economic Realms, 22, 04, 2014*). All of these praises from such powerful people and institutions shows that De Soto is a force to reckon with in the field of development, hence many programmes of tenure formalisation of many small businesses in a many countries throughout the world.

De Soto's ideas of a city with many small scale entrepreneurs have been applied to a number of development fields worldwide but with varying degrees of success and failure. Within the South African context, the application of his ideas to the field of housing and land reform has led to the alienation and impoverishment of many people. It is widely accepted that the Communal Land Rights Act of 2003 was a result of the Hernando De Soto effect. Its promulgation however alienated many women and minors as most of the land parcels in the communal areas were converted into new order rights on the same old apartheid basis that favoured men and tended to recognize women only in relation to men. Thus, the ideas of equality were therefore trampled upon by the uncritical application of De Soto's ideas in the field of Land reform in South Africa. Studies by Ananya Roy in Calcutta (2003) have disputed De Soto's claims that formalised properties are secure, increase the owner's credit worthiness with formal institutions, and will lead to property improvement (Roy 2007). Also Ben Cousins (2005) in South Africa discovered that property formalisation on the Joe Slovo farm (Cape Town) did not improve tenure security as the properties were registered in the name of one person thereby reducing the security of other members of the family. He also discovered that formalisation of the houses on the Joe Slovo farm had not improved the owners' credit worthiness, nor had it led to property improvements. In fact he discovered that many of the poor were duped in to selling their houses cheaply by the rich people. Despite these criticisms of the effects of De Soto's ideas on development and the participation of the poor people, this did not however stop the South African government from applying De Soto's model of small business development as a framework guiding small business development in South Africa. As of now De Soto's work has not been thoroughly criticised as it applies to small business development in South Africa and hence its effect with reference to this area are not well known. It was for this reason that this research was

formulated to try to determine the effect of the application of this model of small business development to the South African context.

Chapter 2: Theory and literature review

2.1. Introduction

The emergence of Hernando de Soto has had an earth shattering impact in the field of development as his theory tended to question many if not all of the theories that had been put forward to account for development or for the lack of it among different countries of the world. De Soto tended to question both the leftists and the rightists' assumptions. For De Soto it matters not whether a government is aligned to the right or to the left, for the rightists and the leftists had failed to unpack the 'mystery of capital' as both are concerned with wealth distribution and not wealth generation. For the 'rightists', wealth' is to be distributed in favour of the redistributive combines[1], whilst for the leftists wealth is supposed to be distributed in favour of labour. There is therefore, no basic difference in their logic to economics for all of them are interested in wealth distribution and not wealth generation. For De Soto, wealth generation is about institutions which allows for the participation of the greater majority of the people who have been forced to operate in the informal sector. Conducive legal reforms that stimulate entrepreneurship are considered one of the basic conditions to sustainable development. Once businesses are allowed to operate formally, this will allow for the unfettered process of capital accumulation. The government therefore has a limited role to play in the economy by facilitating the legal reforms bringing about institutional changes allowing for fair competition and for the formalisation of those businesses operating in the informal sector. De Soto operates within the neo-liberal framework but is not a neoliberal orthodoxy. This chapter unveils De Soto's theory of development and reviews the neo-liberal literature on Entrepreneurship and development as a way of placing De Soto in the context.

2.2. De Soto's theory of Entrepreneurial development - entrepreneurship failure and success

Hernando de Soto approaches small business development from a legalist perspective within the Smithian tradition of open markets. De Soto both in *The Other path* (1989) and *The Mystery of Capital* (2000) theorised that the nemesis to development in the Third World countries is to be found in the immense bureaucracies and the legal strictures of these countries which are behind the growth of market distortions and the high transaction costs which make it difficult for the development of open markets and the formalisation of those entrepreneurs with the potential to transform these nations' fortunes who remain locked up in the basement of the informal sector. These hindrances are a result of the economic system of mercantilism in these countries. Thus, to De Soto, underdevelopment is as a result of nations failing to break from the grips of mercantilism. He defines mercantilism not in its traditional sense whereby it means that, a government of a state should control the commercial transactions of its citizens who deal with foreign businesses so that a surplus of

[1] Distributive combines is the term used by De Soto to describe the monopolies and the vested interests of the powerful politicians vis-à-vis the small businesses and those who operate in the informal sector

precious metals is accumulated in the native country. In *The Other path* mercantilism has been taken to mean a transitional phase between feudalism and capitalism, a stage at which the state instruments are manipulated by the 'redistributive combines' in their own interest with the effect of blocking the emergence of a free market economy. The redistributive combines in the mercantilist states are constituted of powerful oligopolies and the vested interests of powerful politicians (elites and foreign capital). Mercantilism is taken to mean, 'a bureaucratised and law ridden state that regards the redistribution of national wealth as more important than the production of wealth' (De Soto 1989). It has been further defined as 'the supply and demand for monopoly rights by means of laws, regulations, subsidies, taxes, and licences (De Soto 2002). The fallout of these privileges creates a wall of legal barriers that exclude the poor. He further contends that, mercantilism is a politicised and bureaucratised environment dominated by privileged redistributive combines that prevailed in Europe before and during the industrial revolution before the rise of democratic capitalism. The major problem with the oligopolies is that they are opposed to free market competition, though they themselves are incapable of generating wealth but interested in a skewed redistribution of wealth already in existence (De Soto 1989). Redistribution here is taken to mean, 'the concession of monopolies and favoured status to a, small elite that depends on the state and on which the state is itself dependent' (De Soto 1989). It is noted that, instead of favouring the production of new wealth, the system of mercantilism is monopolised by a closed circle of those who benefit from it, and discourages any such effort preferring merely to recirculate an ever diminishing amount of capital. According to De Soto, this system is not only immoral and inefficient but also anti-democratic capitalism. He believes that in the Third World countries, economic freedom is a 'principle emblazoned in our constitutions that has no more reality than the principle of political freedom to which our politicians render hypothetical tribute' (De Soto 1989). As such economic freedom is just a paper statement and not a reality to many people especially the poor.

Further, the oligopolies in a mercantilist state by their monopolistic tendencies (as under the apartheid regime) block the entry to the formal sector by those entrepreneurs in the informal sector who have already demonstrated their potential by accumulating the necessary capital for the take off stage to capitalism. De Soto noted that, these businesses, 'instead of favouring an egalitarian and dynamic system in which the law would guarantee free competition and reward creativity, has adapted itself to the mercantile system and dedicated its best effort to obtaining monopolies' (De Soto 1989). From this, De Soto concluded that, 'The existence of such massive exclusion generates two parallel economies, legal and extra-legal. An elite minority enjoys the economic benefits of the law and globalisation, while the majority of entrepreneurs are stuck in poverty, where their assets adding up to more than US $ 10 trillion world wide – languish as dead capital in the shadows of the law' (Wikipedia, De Soto, 2014). De Soto and his colleagues have argued that the value of the poor's assets is, 'ninety times greater than that of all bilateral foreign aid and forty times larger than international development loans received by developing nations and

a value larger than the size of the world's twenty largest stock markets' (De Soto 1992). This means that, the poor countries can therefore develop on their own without any external assistance provided that the poor's assets are formalised to generate more capital. He noted that the poor have '--- businesses but not statutes of incorporation' making it impossible to trade outside local circles, to access bank loans and to set up some linkages. De Soto, believes that, the development of underdevelopment lies in the failure of these nations to recognise the entrepreneurship of those within the informal sector, a process that could only be realised through the abandonment of mercantilism as both a political and economic system and by realising that economic growth and development are not a result of new government policies and planning, but of an end to government's unnecessary controls and regulations which would have the effect of unleashing entrepreneurship zeal and a free market competition (De Soto,1989). Seen in this light, De Soto's theory regards the legal system in the Third World countries as the principal enemy of the new entrepreneurs in particular and development in general, for without formalisation of the poor's assets, these new entrepreneurs would not have the access to the facilitative devices that a formal legal system should provide to help them organise and leverage resources. It is noted that:

Because they have no secure property rights, and cannot issue shares, they cannot protect innovations. Because they have no patents or royalties, they cannot protect innovations. Because they do not have access to contracts and justice organised on a wide scale, they cannot develop long term projects. Because they cannot legally burden their assets, they are unable to use their homes and businesses to guarantee credit' (De Soto 2000).

This argument is in line with the Marxian questions on who makes the law and who benefit - as the right wingers will never consider on their own volition the possibility of general laws for the benefit everybody. Laws could only be fair if they are an expression of the general will, which is not the case with the mercantilist system. De Soto believes that, if the legal system is reengineered to provide everyone with the tools for entrepreneurship, development will thrive in the Third World countries. This analysis is grounded in Adam Smith's conclusions that, if people are free to experiment in competitive markets, the efforts, 'of every individual to better his own condition' will alone be so powerful, 'that it alone, and without any assistance is not only capable of carrying on society to wealth and prosperity, but of surmounting a hundred impertinent obstructions which folly human laws often encumbers its operations' (Smith 1776/1999).

As part of the solution Hernando De Soto considers the deregulation of the market as a crucial element of development for it allows nations to, 'tap the vast entrepreneurial reserves that are developing throughout the country *for the more* the people are able to participate in the economy and detect opportunities, the greater the potential development' (De Soto 1989). He went on to say that, 'the strength of a market economy is that it relies on the people's ingenuity and capacity to work instead of the limited

contribution of an arbitrary chosen elite'. In his opinion, a complete solution to underdevelopment therefore lies in, 'informalising the 'formals' in order to free them from legal restrictions - (and) --- formalising the 'informals' in order to reduce the adverse consequences of informality' (De Soto 1989). By this, De Soto meant, the removal of unproductive restrictions from the legal system and incorporating everyone into a new formality. He emphasised deregulation, decentralisation and decriminalisation and accelerated legalisation of illegal businesses as the bedrock to successful entrepreneurship. De Soto (2002) thinks that, formalised property regimes are secure, they increase the owner's credit worthiness with formal institutions, they are more productive, are more likely to lead to property improvements. They provide, an 'accountable address for the collection of debts and taxes and they make assets more fungible and combinable and are more likely to lead to the development of market transactions' (De Soto, 2002). Legalisation creates a public memory facilitating individuals' engagement in crucial economic activities. Without the formalisation of small businesses' development will remain elusive and an illusion for De Soto noted that, '---the poorest and the most discontented members of the population are not prepared to accept a society in which opportunities, property and power are distributed arbitrary' (De Soto, 2002) and that capital formation is a function formalisation. The poor will therefore, rebel against legal exclusion and disturb the general conditions that are necessary for development to take place. Violence will scare away investment and destroy development already in place. Like Karl Marx, De Soto noted that there is class struggle in the Third World countries where mercantilism is still the order of the day and that this has to be resolved through a dialectical process. However, while Marx sees the conflict as emanating from the ownership of the means of production in a horizontally divided society - a society divided between the owners of the means of production where those above accumulate by appropriating the surplus value resulting from labour exploitation, De Soto is of the view that, the source of the struggle is the vertical dividing '--frontier to the right of which are the politicians, bureaucrats, and businessmen who profit and live off the government's favour and to the left of which are legal and extra-legal producers who are excluded from favour' (De Soto 2010). Unlike Marx who saw the revolutionary class as being made up of the working class, De Soto sees it as being made up of, '---micro, small and medium-sized entrepreneurs who during the last half of the 19th century began migrating from the rural areas to the towns and cities to work in fragmented market economies of the informal or the extra-legal sector' (De Soto 2010). Both Marx and De Soto, however, believe that possibilities for change and development can be initiated by a crisis. Thus, De Soto noted this by quoting Rudolph Von Jhering, a German jurist who had argued that, 'the rule of law is not a pre-set order *as it* arises from conflict and the legal system responds to circumstances' (De Soto 1989). Both Marx and De Soto believe that the poor hold the key to victory. According to Marx, (Berlin 2007) this is because they are the majority and 'have nothing to lose' and to De Soto (2002) because, 'they are the overwhelming majority and it is they who are looking for change most fervently'.

Like Karl Marx, De Soto's theory sees the developed world as providing an image of the future of the less developed parts of the world[2]. He thinks that the legal reforms for the formalisation of the extra-legal businesses in the Third World countries can be facilitated by adapting, 'Western market and corporate law to the vibrant cultures and customs of the new entrepreneurs of the developing and the former---countries'. Marx had called for the British colonisation of India and Turkey so as to do away with the vestiges of feudalism to pave way for capitalist development. The modernisation approach of Talcott Parsons and others calls for the exportation of the modernising values and cultures of the Western world to the less developed parts of the world as the basis for capitalist development in these places. However, De Soto differ from these in that he calls for the integration of these cultures bearing in mind that the informal, illegalised businesses in the Third World countries have already managed to develop their own functioning extra-legal institutions which together with the western cultures should be emulated in the reformation of the discriminatory legal institutions in these countries. The notion that, such a scheme may lead to cultural clashes whereby the people in the Third World countries do not have traits that would allow them to succeed, is regarded as nonsensical by De Soto. He argued that these arguments rather concentrate on the differences between people and they miss what the people have in common which forms the basis for development (De Soto 2009). This argument calls to mind, the former labels of the less developed Germany and Japan of the 'lazy Japanese and thieving Germans' which had since been dumped as a result of the remarkable development feats achieved by Germany and Japan in the preceding century.

De Soto's thesis rejects the idea of an enclave economy that has been forwarded by other scholars as a basis for development in the Third World countries. The idea of an enclave economy was first forwarded by the dependence theorists in Latin America in accounting for the perpetual Dependency of the Third World countries on the so called First World countries. Scholars such as H. W Singer, Andre Gunder Frank and the Neo Marxist Paul Baran had criticised the possibilities of development in the Third World countries when the economies of these countries are dominated by an enclave of well capitalised firms from Europe and North America all geared for export production. The enclave economy as the basis of development pushes the notion that inequalities are the basis for accumulation which guarantees investment and will in the long run bring about development and the equalisation of opportunities. This notion forms the linchpin of the Washington Consensus development strategies, such the GEAR approach in South Africa, calling for the trickle down model of development (growth first idea of development). The trickle down augments for economic growth and development were set out in the 1960s and 1970s by economists such as Nicholas Kaldor and Michal Kalecki. The trickle down model underlies the early models of the Structural Adjustments Programmes (SAPs) as they were applied by the World

[2] Important to note is the difference in Karl Marx's writings. This is taken with reference to Karl Marx's earlier writings. However, his later expositions on transition especially in Capital were much more nuanced and complicated as compared to his early expositions.

Bank and the IMF in the late 80s and early 90s as the basis to propel development in the Third World countries. De Soto following the Dependence theorists and the neo-Marxist scholars such as Paul Baran, has argued poignantly stating that, 'The existence of prosperous enclaves in a sea of poverty conceals an abysmal retardation in many nations' capacities to create channels of communication with the excluded and to make available the underpinnings of the rule of law by providing formal property rights to the majority of its citizens' (De Soto 1989). Instead of breeding development, De Soto sees such model as leading to terrorism in support of the excluded majority.

Hernando de Soto's work has had a profound impact on the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the World Bank which augmented all of his recommendations on wealth creation in its paper entitled *Land Policies for Growth and Poverty Reduction* (2003). However, there is rather an increasing consensus that development planners should focus more on economic restructuring and regulating monopolies and the formulation of inclusive property rights institutions. Despite this call, mainstream planning approaches continue to exclude the poor and to marginalise them from the city. As a result, neo-liberalism and the accompanying financialisation have spawned multiple exclusions, devastations and violence. It is now widely believed by some that addressing the these maladies is not possible without establishing the command of the social and collective over the private and the individual but Hernando De Soto believes in the command of the social and free market competition conceding that, 'for the *poor* the market economy and capital are not bourgeois prejudices or culturally alienating concepts but goals that they and their informal organisations strive to achieve' (De Soto 2000). The influence of De Soto's ideas has compelled the South African Government to embark on a crusade for the formalisation of illegal businesses so as to allow these businesses to generate wealth in an open market environment.

To note is that, de Soto's model of small business development involves the following, 1: a socio-legal focus, 2: technical skills and training (an inference from his recognition of the need to collect debts and taxes which can only be done if the small businesses are documented and when improvements have been made in management and accountability) 3: a spin-off from 1 - that is, access to credit and social capital (linkages). The technical issues are brought to the fore by de Soto (2001) when he noted that:

'the ability to take risks and calculate is important because it means that a broad entrepreneurial base is already being created. Informality has turned people into entrepreneurs, into people who know how to seize opportunities by managing available resources, including their own labour relatively efficiently. This foundation of development for wealth creation is simply the product of combining interchangeable resources and productive labour, --- wealth is earned little by little, in an active market where goods, services and ideas are exchanged and are constantly learning and adjusting to others needs. Wealth comes from knowing how to use resources' (De Soto 1989).

The use of the words 'relatively efficiently' shows that De Soto believes, legality will allow the small entrepreneurs to maximise their capabilities and develop their potential fully as well as enhance their ability and efficiency to access some of the business development services (BDS) by the state and other private entities on issues ranging from training, mentoring, incubation, linkages and financing. Without inclusive property rights, the new entrepreneurs would not have the access to the *facilitative devices* that a formal legal system should provide to help them organise and leverage resources. Thus De Soto believes that this new business class once the right legal apparatus are in place, they provide with a very valuable resource - the human capital essential for economic take off.

The social argument stems from the fact that there is no virtue in excluding citizens from the benefits accorded to other citizens. Further, De Soto noted that the business activities of the poor are not anti-social as in other crimes as drug dealing, trafficking, and theft ex-cetera but are providing a remedy to social problems such as poverty and unemployment. These activities are designed to achieve essentially legal objectives as, 'building a house, providing a service, or developing a business'. As such, it is inhumane to condemn people to poverty just to protect the privileges of a few who have become anti-developmental because of monopolies. For the realisation of real development, De Soto contends that social capital is important for it enhances interdependence and integration which are the basis for a true capitalist economy as noted by Adam Smith (1776) and Karl Marx (1848) respectively.

2.3. Literature review

2.3.1. Neo liberalism and Small business development

The concept of neo-liberalism has gained much popularity in the field of development studies in the last 20 or so years. Several authors have suggested that neoliberalism is the 'dominant ideology shaping our world today' and that we live in 'an age of neoliberalism' (Saad-Filho and Johnston 2005) whilst others have referred to it as 'the only game in town' (De Soto). Liberalism evolved from the liberal theories of Adam Smith, Benjamin Constant, John Stuart Mill, John Dewey, Lock Hayek and others. It is, however, important to note that the liberal scholars did not agree on the composite nature of liberalism, especially, on the role of the state (Thorsen and Lie 2009). Neo-liberalism rose as a response to Keynesian welfare economics which had dominated development thinking and economic policy making in the period between 1945 and 1970 which was now to be replaced by the more monetarist and related theories and researches of Milton Friedman (Friedman 1962; Friedman and Schwartz 1963). This philosophy was later on championed by the World Bank, the International Monetary Fund (IMF), the United Nations Industrial Development Organisation (UNIDO), the Organisation for Economic Cooperation Development (OECD), the International Finance Corporation (IFC) and other international institutions as a package to approach the development challenges of the Late Developing countries (LDCs). As a package neo-liberalism is made up of a number of tenets amongst which is the need for liberating the individual entrepreneurial freedoms and skills within a framework

characterised by strong private property rights, free markets and free trade (Harvey 2005). Neo-liberalism also gives emphasis to the reduction of the role of the state in the economy, privatisation of public enterprises, floating of the exchange rate, and the curbing of inflation. The emphasis on these has been seen in many of the countries that have implemented the Structural Adjustment Programmes (SAPs) of the World Bank and the IMF. Neo-liberalism can be seen as a variegated form of regulatory restructuring that produces geo-institutional differentiation across places, territories and scales (Brenner, Peck and Theodore 2010a). It is against public intervention in the markets where entrepreneurs do business. According to Brenner et al (2010), neo-liberalism represents an historical specific, unevenly developed hybrid, patterned tendency of market-disciplinary restructuring' (Tore Sager 2011). Tore Sager (2010) has this to say, a '--- neoliberal policy is one that is promoted by neoliberal regimes and implies a shift from government to (partly) private strategies or conversion from publicly planned solutions to competitive and market orientation'. It is the anti-thesis of the Keynesian welfare state economics in favour of market liberalisation taught by the Chicago school of political economy.

According to Saad-Filho and Johnston (2005), neo-liberal economics view most forms of government intervention as an intrusion into the voluntary contractual arrangements between individuals. As a political and economic ideology, it aims at generating administrative efficiency, entrepreneurialism and economic freedoms than political democracy (Tore Sager 2011). As noted by Dumenil and Levy (2004) and by Harvey (2005, 6), neo-liberalism as of now is shaped by economic globalisation, highly mobile international capital, erosion of the welfare state, decentralisation of the central government, privatisation, deregulation, less restrictions on business operations, extended property rights, unequal economic development and increasing social polarisation. Some have expressed the view that neo-liberalism is shaped around the idea of the market disciplining politics, an idea opposed to the social democratic view of politics determining the market forces (Brown 2003, Clarke, 2004, Jessop, 2002). Others would like to look at neo-liberalism as a mode of production restructuring the relationship between private capital owners and the state which rationalises and promotes growth first approach to development (Tore Sager 2010). To note however is that, 'the concrete design of neo-liberal policies whenever they are implemented are influenced by the legacies of the locally inherited institutional frameworks, policy regimes, regulatory practices and political struggles' (Tore Sager 2011). Thus, in South Africa for one to fully understand its operation, one has to be aware of the political philosophies the apartheid system, its legacies and its implication on and the implications of the democratic transition occurring in 1994. This history will allow us to appreciate the current incentive structure, its origins and the extent to which it is neo-liberally aligned. As a result of this, the neo-liberal discourse shows that not even the USA or the UK have implemented the neoliberal ideology featuring all its theoretical characteristics in their pure form/s. According to Sager (2010), 'the variety and hybridity of neoliberalism's empirical form makes it work well suited as a framing device for different policies --- as they

are all part of the revival and renewal of the laissez-faire economic liberalism pressing for reform of the welfare state and part of the same economising mode of market rationality which insists on the primacy of the private'. To Peck, Theodore and Brenner (2009b) neo-liberal policies reflect a, 'cluster of recurring --- characteristics and family resemblances associated with neo-liberalism such as 'deep anti-pathies' to social collectives and social-spatial redistribution and open ended commitments to market government systems, non-bureaucratic models of regulation and corporate expansion'

Further, neo-liberalism as a form of capitalism is full of contradictions operating back and forth in reverse and opposites. It keeps on mutating, taking various forms at different times and spaces. In some countries it has allowed the concentration of capital into the hands of a few thereby alienating the populace from the means of production and forcing them into various kinds of labour. Neo-liberalism does not occur by itself but with the active support of the state. Some of the contradictions that can be discerned from this ideology and neo-liberal systems is that, whilst it (these) gunners for competitive bidding (market) it also believes in incentives (which distorts market) to attract and retain big businesses (e.g. through rents free periods, income tax relief, loan guarantees discretionary credits tax allowances etc. (interventionism)), believes in devolution of the central government but at the same time requires the strong support of the government in protecting and guaranteeing the vested interests of big businesses and in the formation of big capital alliances such as the public-private partnerships.

Neo-liberalism has influenced small business development approaches as seen in the work of De Soto and many other Scholars. The development of small businesses has come to be heavily depended on the normative models and frameworks as defined by the neo-liberal philosophies. The neo-liberal ideologies are normative underpinned by the zeal to achieve economic growth. Internationally the approaches to small businesses have shown a methodological slant towards the neo-liberal preoccupation with growth. O'Farrell and Hitchens (1988) have identified 5 main perspectives in explaining small firm growth; the industrial economic perspective, the stochastic models, stage models, strategic management perspectives and the social and personality approaches. Story (1994) has identified and categorised the determinants of small business in to 3; the characteristics of the entrepreneur, the various features of the businesses, and growth associated with business strategies. Orser et al (2002) determined four categories: the biological models of growth, decision making, social psychology and integrative.

Most of the approaches to small business development reflects the neoliberal concern with addressing growth constraints and have tended to conflate growth with success. These models have tended to address the small business growth constraints as identified by UNIDO, the OECD, the World Bank and the IMF and some American funded NGOs. UNIDO in collaboration with the OECD (1999) has identified the major challenges confronting the small businesses as, lack of supportive policy framework and appropriate institutional

arrangements for promoting the SME sector, SME networking and inability to respond to market demand (also identified by Parahald 2002), entry barriers emanating from a general lack of business management skills, poor performance, weak support institutions and policy induced disadvantages and gender-specific constraints and biases. A critical assessment would show that the identified constraints are as a result of the researches, reflections, evaluations and recommendations by researchers. Another important realisation is that, small business operations have been under-theorised as compared to larger businesses. This has tended to influence or rather compel the SMEs' research to rely uncritically on mainstream management theories (Javis 2002). The fact that most of the studies have been predominantly quantitative, survey based and normative tends to point to a number of limitations associated with such researches. For example, on the technical issues of accountability, the quantitative methods are less flexible in investigating as to how this neo-liberal emphasis with managerial skills might have entered the areas of small businesses and with what results. Further, quantitative approaches, especially surveys make it difficult, if not impossible to capture the differences in the management styles of the small businesses. As a result, many researchers employing surveys and the deductive approaches have ended up, taking some vague idealised practices as the basis for the propositions which they seek to test. Most of the GEM reports are found on this basis.

Moreover, the neoliberal focus of the OECD, UNIDO, IMF, the World Bank and other related institutions have been on growth policies. This unintentionally resulted in the problem of selectivity, concentrating our knowledge and understanding on some forms of small business whilst neglecting or clouding our understanding of other forms of businesses - those classified unworthy of study. Thus, businesses that are not growth based such as social businesses and lifestyle businesses have not been thoroughly investigated as emphasis has been on those idealised as policy subjects. Gray (1999) discovered that, the majority of the SMEs are not growth oriented and that success for a small business cannot be simply equated to growth. Bellamy et al (2003) shows that SMEs purse a wide range of goals other than growth alone and that these goals change over time.

More so, the neoliberal preoccupation with growth has had the bias of only studying newly established SMEs and less on non-growth businesses. For example, those still at micro level after 5 or so years in operation. Gibb (2000) also noted that, turnover; profit or employment cannot be a reliable measure of business dynamism but may tend to indicate other issues such as the need for support rather than purported lack of managerial skills. Neo-liberalism also supposes linearity in the growth of businesses but such a teleological approach to small business development may not capture the differences in the experiences of small businesses and tends to obscure reality. Further, the growth based approaches tend to portray a small business as an autonomous whole separate from the owner manager. However, it seems that these businesses' survivability tends to rely on the owner; his/her mission and vision.

In addition, international research on small businesses has also been influenced by the neo-liberal concern with productive deregulation. A number of researches within the neo-liberal framework have investigated the effects of a number of variables perceived as burdens to small businesses hence their growth. Some of the issues which have been investigated included the areas pertaining to vat accounting, tax levels, reporting and filing requirements, tax compliance, and audit requirements (Chittenden 2001, Chittenden and Solan 2007, Chittenden et al 2005, Collins et al 2004, Short 1990, Eierle 2008). According to Simon Parry, the focus of these studies point to the fact that the area of accountability in small business is the most accessible in terms of policy making. The problem of these studies however, is their assumption of a clear relationship between accountability and enterprise success. Smith (1997) has suggested that this, has led to research offering neat, easy technical solutions to small business problems. These researches have been reductionist, ignoring the complexity of SMEs. There is rather a need for qualitative researches to unravel the complex managerial control measures adopted by small businesses. Gibb (2002) suggested that the focus on growth in many countries has been as a result of external influences exerted upon different governments by the international neo-liberal organisations. Thus, Gibb (2000) noted that, 'There is no doubt that the venture capital companies, the banks, the major accounting firms and local authorities all nurture this particular typology of business'.

Another area that has received much attention in international literature concerns the decision making qualities of the owner managers. Research in this area has produced an idealised neoliberal entrepreneur favouring innovation and creativity. A number of other studies have investigated the relationship between businesses' success and access to quality information (Holmes et al 1991, Lybeart 1998). Lack of quality information has been associated with business failure (Story et al 1987) whilst better information is associated with success and business survivability and growth (Jones 1985, Hutchinson and Roy 1986 Street and Meister 2004). Though these researches cover a wide spectrum of issues pertaining to the success or failure of the small businesses, most of them are guilty of reductionism narrowing their focus to growth alone. This has served to buttress, reinforce and reproduce the neoliberal discourse of entrepreneurship.

The neoliberal defined researches have resulted in models focusing at the services provided to the SMEs, access to information, the legal and institutional framework, managerial and accounting skills, good/ best practices. Despite, the growth of these biological models, Jarvis (2000) has argued that an attempt at a prescriptive answer, based or based upon a preconception of a small business as a scaled down version of a large business, would come against complex, differentiated small businesses and managers. He suggests that, 'assuming a single unambiguous model, which small firms should be admonished to follow or be judged by is highly suspect'. The neoliberal teleological approaches to small business development are littered with a number of weaknesses and research based errors as reflected in this discussion. The differentiated nature of small businesses cannot be fully

investigated and understood through the inflexible quantitative methods upon which most of these approaches were found.

Further, the neo-liberal belief in micro-finance as exemplified by Mahammad Yunus and the Grameen Bank in Bangladesh has been criticised for setting the poor in a poverty trap. Because of the interests rates, the poor in some instances are forced to sell their belongings so as to repay the loans and the accumulated interests. Thus, according to Milford Bateman (2010) micro-financing has led, 'the destructive rise of local neo-liberalism'. Bateman sees the growth in microfinance as a neoliberal political gimmick to divert attention from the real roots of poverty so as to shift the blame to the poor themselves. He contends that, there has not been any quantitative proof that microfinance reduces poverty. However, Bateman's arguments are not nuanced enough as he rightly referred to the transformation of micro-financing through years towards the direction of profit making. This in itself meant that micro finance is important but only becomes an exploitative tool when it is driven by the profit motive of the greedy capitalists. Further,a study by Shahid Khandker in 1998 based on Grameen Bank's projects concluded that these projects reduced poverty by almost 5 percent. Of note is that, Bateman recommends the provision of 'patient capital' something that has already been recommended in other countries in line with De Soto's argument as under ASGISA in South Africa. Further, De Soto noted that, loan provision should not be taken as an end in itself. De Soto emphasised the need for institutional shifts and the need for technical and management skills for the success of small enterprises. Thus an argument that seeks to consider the issue of loans outside the broader scope of things as outlined by De Soto will end up with an explanation far removed from the prevailing reality. In fact Professor Munir Quddus, has noted, that the issue of micro-financing charging exorbitant interest rates is not in line with empirical data available. He noted that in Bangladesh, micro -financial institutions are regulated and that in some cases the interest rates they charge are negligible. Thus, Professor Quddus ended by encouraging that, 'instead of tearing what is a great success story, the need of the hour is constructive criticism and support'. Though micro-financing has its own loopholes, in some circumstances and if it is not high-jacked by greed capitalists, can have transformative effects on the lives of the poor.

2.3.2. South African literature on small business development

GEAR laid the framework for neo-liberalism in South Africa. The fundamental goal of Gear was, to achieve macroeconomic stability through the reduction of state expenditure and state intervention in the economic sphere. Some scholars have supported the introduction of neo-liberalism in South Africa based on the surveillance of the international and domestic economic trends. This according to, Hirsh (2005 b), 'the state exists within a market economy that depends on private investments and, --- a successful state creates an environment that supports high levels of investment'. Gear, was instituted with the purpose of promoting, both domestic and international capital flows in South Africa. This

demonstrates, Sager's (2011) argument that neoliberalism is based on the premise that, countries have to compete in attracting FDI and that, for countries to benefit they have to create business friendly environments. The introduction of neoliberalism in South Africa within the GEAR framework was considered crucial in, 'unlocking investment by the private sector' (Faulkner and Loewald 2008:23,) to achieve, 'a fast growing economy, which creates sufficient jobs for all work seekers'. The vision was income redistribution and the provision of sound services to all. However, Webster and Sikwebu (2010) have noted that, the controversy around Gear lies around the means as identified for the achievement of the set goals. They pointed out that, 'its integrated strategy highlighted fiscal deficit reduction, gradual relaxation of exchange controls, reductions in the tariffs, tax reductions to encourage private sector investment and restructuring state assets'. Important note is that, the social forces in the National Economic Development and Labour Council (NEDLAC 1994)[3] were bypassed in Gear negotiations.

Ahmed Veriava (in Bond 2006) contends that, 'From the early 1990s, the South African state began introducing measures aimed at removing obstacles to accumulation and the logic of the market. This culminated in the adoption of the Growth Employment and Redistribution Strategy in 1996 as well as the closure of all formal political means to contest it'. He went on to note that, 'The significance of Gear lies in its articulation of the structural framework for neoliberalism in which its introduction facilitated the closure of formal means for the contestation of this policy framework, most famously through the declaration of Gear's non-negotiability by then president, Nelson Mandela' (Bond 2006). The non-negotiability of Gear, was a failure by the state to honour the aim for which NEDLAC was constituted, that is, 'to prevent a narrow corporatist arrangement of the big three (labour, Industry and the government)' (Webster and Sikwebu, 2010). However, Cassim (2006) noted that, even though, NEDLAC was not consulted in the Gear negotiations, it still had indirect impact on economic growth and employment through policies such as trade reform, export guaranteed scheme, supply side measures, regional industrial programmes, competition policy and the promotion of Small Enterprise development programmes that were tabled by NEDLAC and which according to him, formed the pivot of the South African 'pro-growth strategy' (quoted in Webster and Sikwebu, 2010).

Further, Satgar (2014) indicated that, neoliberalism has manifested itself within the South African context in a number programmes which were championed by the government and were meant to blind the populace into believing that capitalism can be made to work for the poor. He remarked that, 'The neo liberalisation of the development discourse in the post-apartheid South Africa has expressed itself through various concepts of control, embedded in the ANC's nation building programmes. These concepts have played key roles in

[3] NEDLAC was established through an Act of parliament and it expanded the traditional nature of the tripartite emphasising development policy formulation by three main constituencies, that is, labour, industry and the government. The 1994 Act of parliament expanded this framework to include a fourth constituency labelled, the community, made up of civil society groupings, representing the poor and the marginalised.

engendering consent and legitimacy among monopoly and transnational class forces, while marrying popular common sense to the fallacious notion that globalised capitalism can be made to work for the poor'. Some of the concepts articulated to entice the poor to accept the neoliberalist doctrines have been identified by Satgar as: The Broad Based Black Economic Empowerment, making the two economies one and the concept of the developmental state. This arrangement has not managed to transform the South African economy with reference to ownership as elite formation has replaced the transformation agenda (Marais 2010, quoted by Satgar 2014).

Though the Gear strategy managed to bring about relative economic growth, it however failed dismally to reduce unemployment which according to Webster and Sikwebu (2010), 'climbed up to 30% in 2002 as labour force participation, rose faster that job creation'. Marais contends that, 'there has not been a neoliberal adjustment such as the one championed by Gear, that has succeeded in overcoming inequality (2000). The opening of local industries to international competition, led to the loss of many Jobs as these industries were outcompeted by foreign capital especially those in the textile Industrial sector where cheap imports from Asia quickly saturated the market leading to the retrenchment of many workers. The setting up of minimum wage for all industries, big and small, increased labour costs thereby burdening the ability of business to employ more people. Nattrass and Seekings (2006) noted that, the increased burdens to business resulting from labour reforms and economic circumstances, led to the retrenchment of many workers as business was unable to cope.

Despite the criticisms of neoliberalism as it operated in South Africa, a number of empirical studies on SMEs demonstrate consensus among researchers and policy makers on their pivotal role in economic development through the creation of employment opportunities, capital formation, export revenue, skills acquisition and social inclusion. However, many if not all alludes to the challenges that impact negatively on the growth of the small businesses worldwide.

Empirical literature around small scale businesses in South Africa, touches on a number of cardinal areas including: 1. the characteristics of the SMEs, 2. the definition of the SMEs, 3. the issue of information asymmetries, 4. managerial competences and skills, 5, the lack of collateral and access to finance, and 6. the problem of product design. The concern with these variables reflects the neoliberal's influences on the South African literature with its emphasis being on the provision of some technical solutions to challenges of the small businesses.

The value of SMEs to job creation and economic growth is now recognised worldwide. Vosloo (1994) noted that small businesses are regarded as an essential element in a successful formula for achieving economic growth. About 22% of the adult population in developing countries are employed in this sector (Daniels, 1994, Daniels and Ngwiru, 1992, Daniels and Fisscha, 1992, Fisscha and McPherson, 1991, Gallagher and Robinson 1993). In

South Africa, Dr Neil Rankin of the University of the Witwatersrand estimated that 73% of the workers are employed by firms with less than 50 employees; and that 45% of all employed people work in firms with less than 10 employees. Other commentators and researchers have also highlighted the importance of small businesses in job creation, and economic growth, the most informing being Abor and Quartey (2011), and Bartel and Martin (1990). The importance of entrepreneurship to society warrants this study for an understanding of what lies behind success or failure, will improve our intervention strategies to improve the survival rate of the SMEs in South Africa.

Definition: There is no consensus as to how the SMEs should be defined. The National Credit Regulator (NCR 2010) categorises the SMEs definitions into two - one economic and the other statistical. The economic definition hinges on 3 main levers: these are a firm is small if it has (i), a relatively small share of the market, (ii), it's managed by owners, and (iii). It is independent and does not form part of a larger enterprise. The statistical definition relates to areas of, (i), the size's sector contribution to GDP, employment and exports, (ii), comparing the extent to which the contribution to the economy has changed over time and iii, a cross country comparison of small firms to the economy. These two definitions, however, confuse each other. For example, the economic definition which says that a small business is managed by the owner/s and not through a medium of a formal structure may not stand the statistical definition of a small firm with 200 employees. For practical considerations, this study did however; adopt the definition by the *National Small Business Act* of 1996 as amended in the *National Small Business Amendment Acts* of 2003 and 2004. The Act defined a small business according to turnover and the number of employees (less than 200 employees and turnover of less than 64 million per year). According to the Act, a small business is, 'a separate and distinct business entity , including co-operative enterprises and non-governmental organisations, managed by one owner or more, including its branches or subsidiaries--- is predominantly in a sector or sub-sector of the economy…'. Despite this tentative definition, the definition of an SME is still problematic as shown by the dti's *Annual Review of Small Businesses in South Africa 2005-2007's* (2008) readiness to admit, that the 'report will embrace as comprehensive a definition of small business as possible, provided that the economic activity remains below the thresholds for a large enterprise'. This indicates lack of a common definition as to what is meant by an SME. The lack of common definition makes it difficult and complicated to compare when carrying out researches. The results may compromise the reliability of the data.

In addition, the FinScope Business Survey (2010) and Stats SA (2008) provide excellent information on the characteristics especially relating to education, information available to the entrepreneurs, business formalisation and other proxies which are important and necessary to all would be researchers in this field. The FinScope Business Survey of 2010 found that, there were approximately 5, 6 million small business owners in South Africa owning about 5, 9 million businesses. However, Stats SA puts the number at 2, 4 million businesses in 2007. This difference might have resulted from the way in which an SME is

defined. All what it means is that, the extent of those operating in this sector in South Africa is not known. What remains true; however is that there are some missing links in our knowledge concerning small businesses in South Africa. It will not be possible for us to understand the small business sector and its challenges unless all round information concerning small businesses is made available.

Furthermore, the FinScope Survey (2010) on South Africa is very comprehensive, providing information on a number of important variables ranging from the level of education of the small business owners, the awareness of organisations that give support and advice to small businesses, the target market of the small businesses, and issues pertaining to the obstacles in growing a business in South Africa. Thus, the FinScope Survey (2010) shows that the majority of the business owners (63%) acquired their business skills through self-education. On awareness, the FinScope survey shows that, the majority (75%) of the small business owners were not aware of the organisations that give support and advice to small businesses in South Africa. This observation is also augmented by the SBP (2009), Chimucheka and Rungani (2011) and Orford (2005). According to the SBP, the lack of support shows that government agencies and initiatives have been less successful than intended. Chimucheka and Rungani's (2011) study shows that the SMEs surveyed never applied for a loan, the main reason being the lack of understanding of the procedures when applying for a loan. Orford (2005) contends that, lack of awareness of these agencies stems from poor marketing. All this invokes the need for an investigation to determine the alignment of government policies and initiatives with the needs, aspirations and priorities of the small businesses in South Africa.

On businesses formalisation, the National Youth Development Agency (NYDA 2011) noted that there is, a high proportion of businesses that are not registered in South Africa, such that much is needed to be done to raise awareness about the benefits of formalisation. The FinScope Survey (2010) data also shows that out of a total of 2050 youth owned businesses surveyed, only 279 were registered. In addition the data reveals that 1732 businesses owned by young people were not registered whilst 2660 owned by people above the age of 35 were also not registered. In spite of the above figures, the SBP (2009) has discovered that in the recent past, the government's attention has been on the very small businesses resulting in many of them being formalised. Important to ask, is whether formalisation matters. This study will thus, strive to discover whether the small formalised businesses in South Africa have derived some benefits from being registered and the impact thereof on the success or failure of these businesses or whether the campaign for registration is only for tax purposes. If they are any benefits, then the study will seek to determine the interaction of entrepreneur with these in transforming the fortunes of the concerned businesses.

Chapter 3: Research Methodology

3.1. Introduction

The substance of this study was to gain an in-depth understanding of the significance of business formalisation on the success or failure of small businesses in South Africa. The research attempted to determine De Soto's influence on the South African development policies in relation to the formalisation of small businesses and the impact of thereof on small businesses. It was from this basis that the research decided on a qualitative design as the core methodology. The qualitative methods seek to gain in-depth knowledge of the subject matter that cannot be comprehended adequately using the statistical quantitative methods. Maxwell 1998 has argued that qualitative research design offers a deeper understanding of the socio-politico-economic phenomena. At stake here, were the policies of the government of the Republic of South Africa - the political, economic and social issues and the extent of Hernando de Soto's neo-liberal influence on these and the impact of this. It also involved an analysis of the government's will power at implementation. A qualitative research design by its nature was therefore wider to interrogate these issues, hence its justification as the basis upon which this study revolved.

3.2. Research Methods

The research was conducted at 2 levels; that is at macro level and at micro level.

3.2.1 Macro level

The macro level involved analysing the primary government policy documents and secondary literature such as published books and peer reviewed academic journals to unravel the role of the state and the Hernando de Soto effect on small business development policies in South Africa. This was considered crucial in establishing the foundation of the study. Documentary analysis and discourses analysis were employed extensively in tracing the changes so as to understand the historical trajectories and the connectedness of various issues of the subject matter. Newspaper articles were consulted so as to capture the current development trends on small scale businesses in South Africa. At the macro level, the research also banked on deliberations at workshops and conferences on grassroots development involving the South African policy makers which were attended by the researcher. This was considered important in trying to understand how the various policies came into play and what has been done so far to promote the SMEs in South Africa and with what effect. Also at this level, interviews were done with officials running agencies dealing with small business development to ascertain the role of the state in small business development in South Africa.

3.2.2. The Micro level

The micro level involved a study of business cases research in the Jabavu area in Soweto. This was done through semi structured interviews of the owners of formalised small businesses. The semi-structured interview questions were employed with the purpose of eliciting the small business owners' experiences with respect to areas such as business formalisation and its impact on operational issues, financial management, human resources management, business mission, vision, strategies, marketing, external support, safety and security. The semi-structured interviews allowed the researcher to mine the rich information about the entrepreneurs' experience and their daily interactions with different institutions within their environment. This was achieved through interviewing formalised small businesses in Jabavu, Soweto. Each interview lasted approximately 45 minutes to one hour. The interviews took place in a shop or the shop office at a time convenient to the respondent. The grouping of questions allowed for the collection of data around certain areas important in a business and how these areas have been influenced by the running of a business as a registered entity. All of the interviewees could speak English very well and, so all of the interviews were conducted in English. This ensured a high degree of coherence in the final interview transcript.

3.2.3. Sampling

3.2.3.1. Macro level

The study relied heavily on primary policy documents and secondary literature such as peer reviewed academic journals collected from the Cullen Africana Library at the University of the Witwatersrand. The Library was consulted for three main reasons that is, to obtain primary sources to be analysed, to find secondary sources to put primary sources in a critical context and lastly to seek answers to specific questions that arise during research. Thus, the sources which allowed for the identification of multiple perspectives on the same object of study were selected. Also those relevant texts with citations that enabled the location, clarification and connections among different works were selected. The sources selected were evaluated for bias and to assess the author's line of argument. As for the online material, a number of things were considered in the selection of sources. Among these was authorship, sponsorship of the website, the purpose and the target audience, and lastly currency in relation to the date of publication

As for the three small businesses development agencies interviewed, that is, The Centre for Small Business Development (CSBD), Centre Social Entrepreneurship and Social Economy (CSESE), and the Soweto Local government, their selection was based on convenience sampling and access.

3.2.3.2. Micro level

The study employed convenience sampling in the selection of those to be interviewed. The sample consisted of 16 respondents operating formalised small businesses in the Jabavu area of Soweto. Their ages ranged from 20s to late 50s. There were 2 Pakistanis (all men), 5 Black women, and 9 Black men. Of the 16, two withdrew due to various commitments. Thus all in all, 14 interviews were conducted with small businesses owners in Soweto. Convenience sampling was chosen for its cost effectiveness it terms of both time and financial resources. The sampling technique demands little time in preparation and this saved time which was greatly limited in this research. It allowed for great easy in the collection of data leaving the researcher time to concentrate on data analysis. Again with convenience sampling, the researcher had to pull from local populations on hand and the data is readily available. The researcher does not have to travel great distances to gather data, hence it is cost effective.

3.2.4. Method of data analysis/Interpretation

In analysing the data, the research employed thematic content analysis, documentary analysis and discourse analysis. Important to note is that, here discourse was employed in the way in which it was employed by Parry (2011), that is, to denote to an ideology encompassing generalised ideas, beliefs and assertions. This involved the analysis of government documents, published books, peer reviewed journals, newspaper articles and magazine articles in relation to Hernando de Soto's propositions to gauge the extent to which the South African business policies have assimilated his ideas and the impact thereof on the success or failure of small businesses. Thus, various literatures were analysed in relation to various themes as financing, marketing, business location, business skills, security and safety in relation to business formalisation. Discourse and documentary analysis allowed the researcher to judge De Soto basing on what has already been investigated and written by others in the field of small business development in South Africa.

At the micro level, thematic content analysis was employed in the analysis of interview data. This technique employed a thematic reconstruction of responses to questions as well as others which arose from the answers. Interviews were transcribed and analysed using a framework technique developed by the researcher. This involved: 1. familiarisation, 2. identification of the recurring themes in relation to identified themes in the literature review upon which the questionnaire was framed; 3. rearrangement of data according to thematic content, allowing for cross examination of and within cases analysis, 4. involved the mapping and interpretation of the data. Thematic content analysis is a common qualitative method and involves the identification of recurring themes. This method is the most appropriate when analysing interview transcripts and responses to open ended questions.

The final product was a synthetic exegesis of the data from discourse analysis, documentary analysis and thematic content analysis.

3.2.5. Ethical Considerations

Ethically, responsible research depends on the integrity of the individual researcher and his or her values. This research considered the following, respect and courtesy, acceptance and understanding, integrity, individualism, honesty, sincerity, confidentiality and anonymity. In relation to these, each participant was informed of the purpose of the study; namely to investigate the impact of business formalisation on the success or failure of small businesses in, Jabavu - Soweto, South Africa. No specific concerns were raised by the respondents at the time of obtaining informed consent. In this research all personal information will be kept confidential and study participants are referred by pseudonyms. Each participant gave his/her informed consent by signature to participate in the study. Seven participants agreed to have interviews recorded and for the recordings to be kept by the researcher for 4 years. However, six others were not comfortable with recording and for these notes, were taken and written up.

3.2.6. Limitations of the study

The study took into consideration the various debates around development and Hernando De Soto's proposition on how development could be achieved in the Third World countries in connection to small businesses. The factors accounting for development and the success and failure of small businesses are highly debatable. Further, due to the limited amount of time, it was very difficult to explore all of these factors thoroughly in relation to De Soto's propositions on the importance of legality in small business development in particular and development in general. Bearing the limited nature of the sample, though possible to make generalisations, this however impacts on the authenticity of the findings. Further, while others agreed to have their interviews recorded, some, six of them, were not comfortable with recording, making it difficult quote to them verbatim.

Chapter 4: South Africa's SME policies: Assessing the influence of De Soto

4.1. Introduction

Ideas do not emerge from a vacuum; they are rooted in people's beliefs as determined by their histories and experiences. Some ideas emerge and vanish over time but the central maxims upon which these ideas were hinged remain and form the basis upon which new developmental paradigms are found. The importance of the SMEs is not new; it has been defined and redefined by a people and their government in accordance with the burning concerns of the times as they are defined by a people's historical circumstances and experience with development.

The dynamism in the evolution of the SMEs developmental approaches worldwide is compelling. A number of debates and reviews have been witnessed in the area since the birth of democracy in South Africa in 1994. There has been an unwarranted growth of literature, leading to a number of often confusing shifts in the ideas, themes, paradigms and objectives in the field of SME development and the development of capitalism as a whole. Since 1994, a number of ideas and a variety of participatory paradigms in relation to SMEs have all raced for policy space both as objectives and approaches. What is worth noting is that all the former paradigms and frameworks on small scale enterprise development, through the analysis of their strengths and weaknesses provided the present day policy makers with some fertile grounds upon which the current policies on SMEs development were crafted. Thus, worldwide the SMEs are increasingly believed to be the Magna Carta[4] to the economic advancement of a country and finally to industrial capitalism. Many governments are now concerned with the creation of an enabling environment in order to realise their unfettered growth. This chapter outlines the South African small business policies and assesses the extent to which they have been influenced by Hernando De Soto's ideas on business development and by so doing will reveal the role that the state has assumed in small business development. The chapter is guided by two research questions which are: What are the main small enterprise policy frameworks and to what extent do they embody De Soto's ideas and assumptions of small enterprise development? and, What is the role of the state in small business development in terms of regulation, finance and technical support?

[4] The Magna Carta was a great charter granted by the English King John under pressure in 1215, recognising the rights and freedoms of the barons, church and freeman. It established the principles that the king could not levy tax without the consent of the parliament and that no freeman could be deprived of liberty or property without due processes. The charter curbed the dictatorial tendencies of the monarchy and laid the foundation for British constitutionalism. Though, the Magna Carta was a solution to a specific problem, than a grand declaration of rights for all people, it came to be used as a kind of bill of rights. The British have built upon it to further the principles of democratic development and constitutionalism

4.2. Contextual background

Post-apartheid South Africa has been characterised by persistent unemployment, inequality and poverty. South Africa is smarting from the egregious legacy of the apartheid era with the continued existence of a dual economy characterised by the first economy which is highly modernised on one hand and a second economy that is poor and survivalist in its nature. This dichotomy has engendered the entrenchment of inequalities along racial lines raising fears of political and social instability. The post-apartheid governments have, therefore, as their mandate to ensure the radical transformation of the South African society to address the challenges of economic development, inequality, unemployment and poverty through the democratisation of the economy in a sustainable way. The SMEs have been recognised as the way out of this predicament with some scholars pointing to the potential of small businesses in promoting economic growth and development (Parahald 2002, Maiti and Sen 2010). It has been argued that the promotion of SMEs can facilitate the achievement of the double edged mission, that is, employment creation and the integration of the South African society

In South Africa, the current policies and policy frameworks on small scale businesses are shaped around the country's historical experiences with the exclusionary policies of the apartheid regimes and their legacies and also international developments such as the Washington and the Post Washington Consensus with the latter having been heavily influenced by the recent exposition by Hernando de Soto as to how capitalism could be developed through an inclusive approach by facilitating the participation of the formerly excluded majority through institutional and legal reforms. The major axiom of the De Soto thesis is to be found in the now rooted belief that, the environment and the people within such an environment should be the major informants of development hence his emphasis on the dexterity of the business acumen of those operating small businesses with the unfavourable legal regimes in different countries as their Achilles heel.

Since 1994, a number of policies and policy frameworks have been crafted to deal with the challenges of the small scale businesses with the aim of boosting these businesses as a way of dealing with the triple threat of inequality, unemployment and poverty. Amongst these is, the RDP and the *White Paper on the National strategy for the Development of Small Business in South Africa* (1993), *The National Small Business Act 102 of 1996 (NSB)*, *The Mid - term Evaluation of the Strategy on Small business of 1999, The Ten Years Reviews of the Status of Small Enterprises in South Africa 2004, the New Growth Path (2011) and The Integrated Small Enterprise Development Strategy (DTI 2005), and the Accelerated and Shared Growth Initiative (ASIG-SA 2011) and National Informal Business Upliftment Strategy (Nibus, 2013).*

4.3. *The Policy Frameworks - National Level*

The thrust of transformative legislation in South Africa has its roots in the Constitutional Bill of Rights. Section 9(2) stipulates that equality includes the full and equal enjoyment of all rights and freedoms by people irrespective of their race, gender and related profiles (Constitution of the Republic of South Africa, 1996). The Bill of rights provides that to achieve this objective, legislation that provides preferential rights to previously disadvantaged individuals may be promulgated to justify and ensure the same. The effect of the provision was a number of pieces of legislations passed to provide substantive and procedural regulations that various stakeholders can invoke to achieve the objective. Thus, the constitutional imperative of an inclusive society ushered in the crafting of the *White pape*r of 1995 facilitating the development of the small businesses. To note is that, the transition to democracy in South Africa happened at the time when the neo-liberal thinking was dominating following the collapse of the USSR and the Berlin Wall with scholars such as Fukuyama (1989) at the global level celebrating the victory of neo-liberalism in his *End of History and the Last Man.* Such an environment casted a long shadow over South Africa's emerging developmental policies.

The SME policies in South Africa have been largely informed by the 1995 *White Paper on national strategy on the development and promotion of small business*. The *White Paper* evoked the need for the creation of an enabling legal framework by the government to facilitate access to information, access to finance, affordable infrastructure and to boost procurement (White paper 1995). All of this was anchored on the RDP philosophy and principles as a national framework to remedy the legacy of Apartheid and its attendant effects of marginalisation based on race. However, the influence of De Soto continued to reverberate through these policies and frameworks.

In order to put in to effect the provisions of the RDP (1994) and the 1995 White Paper strategy, the *National Small Business (NSB) Act* was passed in 1996 in which stipulations pertaining to the sector were built into the *Broad Based Black Economic Codes of Good Practice*. The objectives of the Act were specified as, to provide for the establishment of the Advisory Body and the Small Enterprise Development Agency; to provide guidelines for organs of state in order to promote small enterprises in the Republic; and to provide for matters incidental thereto (NSB Act 2004, 1996). This resulted in the setting up of agencies for the purpose of facilitating the development of SMEs which were then distributed across 5 government departments namely: 1. The Presidency, 2. Department of Agriculture, 3. Department of Science and Technology (DSE), 4. The Department of Trade and Industry (DTI) and 5., The Department of Economic Development (DED).

4.4. The Institutional Agencies

A number of institutional agencies had been set up since then to facilitate the realisation of capital formation in South Africa through the propping up of small scale enterprises.

Amongst these, was the National Youth Development Agency (NYDA) of 2009, the Small Business Development Agency (SEDA) of 1996, the National Empowerment Fund (NEF) of 1996, the National Small Business Advisory Council (NSBAC) of 2006, the Khula Finance ltd (1996) the Micro Agricultural Financial Institute of South Africa (Mafisa). The role of the Industrial Development Corporation (IDC) was also reaffirmed[5]. Despite other things, the central focus of the government policies, programmes and schemes have been to stimulate and prop up small business development in South Africa by ensuring access to financing, technology, affordable infrastructure and the acquisition of the requisite skills. These agencies established after the demise of the apartheid system were informed by the White Paper of 1996 which found effect through the National Small Business Act of 1996.

4.5. The Integrated Small Business Development Strategy (ISBDS 2003).

The White Paper of 1996 manifests itself well in the *Integrated Small Business Development Strategy for 2005-2014*. The ISBDS aims at increasing the financial and non-financial support to SMEs, creating demand for SMEs products and services and at reducing the regulatory constraints. The Integrated Small Business Development Strategy is a summary and correction of the errors and limits which emerged in the evolution of small business support frameworks and institutional arrangements based on the Review of ten Years of Small Business Support in South Africa (1994-2004). It summarises the weaknesses and strategy gaps that became apparent over the years after the White Paper. The strategy noted that, the great diversity of small enterprises and their needs have to be given greater recognition, that there has to be more knowledge and understanding across the full range of support suppliers as to what support each one is providing, as well as to whom and under what conditions (ISBDS 2005). The strategy raised concern that, many support programmes at offer only tackle the symptoms of deeper-lying problems thereby preventing a more systematic approach to those structural issues (e.g. access to finance for black entrepreneurs). As a strategy, it also seeks to clarify the roles and responsibilities of different levels of the public sector and to impact on their coordination and effectiveness.

In addition, the ISBDS seeks to improve representation of small-enterprise-interest groups in existing or evolving business associations so as to improve feed-back on specific needs (ISBDS 2005). It noted with concern that, there are still substantive differences in the capacity to absorb small-enterprise-support programmes in the different provinces and regions of the country and in different sectors and expressed dissatisfaction about the insufficient interaction between small-enterprise-support programmes and other thrusts of

[5] A New Ministry of small businesses was created in 2014 under Minister Lindiwe Zulu. However, it is still early to assess its impact on the SMEs. Some of the responsibilities of the ministry are still with the Department of Economic Development. Other people like the South African businessman Jannie Mouton have already indicated that this ministry will not change anything as those who are running it, do not have any experience what so ever in starting small businesses (quoted by Chris Barron in the Sunday Times: Business Times, 19 October 2014,p 3).

the government's socio-economic development support (ISBDS, 2003). The ISBDS review (2010) ended by concluding that the decade (1994 to 2004) has revealed an inability on the part of the Centre for the Promotion of Small Business (the dti chief directorate) to co-ordinate all the support programmes developed by different national government departments for small enterprises, thorough regular monitoring and evaluation of the evolving support processes have been lacking (ISBD 2005). It was this diagnosis that determined the nature and composition of the *Integrated Small Enterprise Development Strategy* presenting a framework for action from 2004 to 2014.

4.5.1. The Integrated Small Enterprise Development Strategy (ISEDS) for 2005-2014

This Framework revolves around three pillars for, 'unlocking the potential of South African entrepreneurs' (ISEDS 2005). Pillar 1, targets the promotion of entrepreneurship under which the following will be encouraged, that is, to strengthen national awareness about the critical role of entrepreneurship, promote alternative focus on ownership, expand franchise opportunities, strengthen business associations and networks, information, research, monitoring and evaluation (ISEDS 2005). Pillar 2, puts emphasis on the creation of enabling environments around which the following will be observed, that is, to maintain small business sensitive regulations, improve access to finance, strengthen access to markets via procurement, exports and business linkages, facilitate the availability of business infrastructure and premises, and increase the effectiveness of enterprise support (ibid). Pillar 3, is aimed at enhancing competitiveness and capabilities at the enterprise level by strengthening of managerial, business and technical skills, facilitating improved quality, productivity and competitiveness. It also supports technology transfers, incubation and the commercialisation of business services. The strategy also focuses on the expansion of SME focused support strategies, information, research, monitoring and evaluation.

The Integrated Strategy has been designed to address the needs and development potential of the whole small-enterprise sector, which includes micro, small and medium-sized enterprises but with special focus on the previously disadvantaged groups, 'which remain hindered by the burden of South Africa's dual economy' (ISEDS 2005). It noted that, 'South Africa is still burdened by a dual economy in which established --- white-owned businesses have greater access to resources and opportunities than black-owned businesses' (IESDS 2005). Further, the ISEDS noted that, small businesses often find it more difficult to penetrate new markets. To dismantle this dualism in the economy, the framework seeks to address market failures that exist in particular segments of small enterprises and the degree to which these segments create opportunities to support the government's special development goals and the viability of suitable instruments to government in order to impact on these segments. In conjunction with the Integrated strategy is the *National Industrial Policy Framework (NIPF).*

4.5.2. The *National Industrial Policy Framework (NIPF. 2007)*

The National Industrial Policy Framework (NIPF) was constituted in order to; 'contribute towards government's goals for 2014 and beyond' (NIPF, 2007). It envisions the promotion of a broad-based industrialisation path characterised by greater levels of participation of historically disadvantaged people and marginalised regions in the mainstream of the industrial economy. To note is that, the NIFP is not isolated from other policies and frameworks but rather complements these other constitutions. It stated clearly that it has adopted and extended the same methodology as ASGI-SA (NIFP, 2007: 9) and that it is not a new policy direction but a logical evolution of government economic policy, all of which is inspired by the principles of the Reconstruction and Development Programme (NIFP 2007:7). Of importance is the solution proposed for the challenges of integrating the second economy. In its section entitled *The NIFP and the Second Economy*, the framework points as one of its solutions, the promotion of SMEs by assisting people to become entrepreneurs and noted that, this, 'includes both the creation of new enterprises that in turn generate formal jobs, and the 'graduation' of certain viable informal enterprises to formal businesses' (NIFP 2007:14). Further, the NIFP just like ASGI-SA takes the Broad-Based Black Economic Empowerment as an integral part of policies to integrate the Second Economy into the industrialisation processes.

4.5.3. The Accelerated and shared Growth Initiative (ASIG-SA 2006)

ASGI-SA is another crucial strategy in the promotion of the SMEs in South Africa. As a strategy, it is hinged on the need to reduce unemployment and poverty by 'eliminating' constraints identified in the regulatory environment for the small and medium-sized businesses. It prioritises the SMEs - small, macro and micro enterprises in its interventions. It noted that, the 'two economies' remains a searing human issue and a cause for concern about our economic sustainability emphasising that:

South Africa has a highly unequal economy in which people with access to wealth experience the country as a developed modern economy, while the poorest still struggle to access even the most basic services. The differences in conditions between the two are so stark that they appear to be worlds apart – giving the notion of, 'two economies' resonance. --- Certain key legacies of apartheid make this inequality deeply structural (ASIG-SA).

Some of the key legacies of the apartheid system to be addressed are identified as, the centralised monopoly structure of South Africa's core economy, the spatial legacy of Bantustans and apartheid cities and the highly skewed distribution of assets (including land, capital and also human capital). It ended up by noting that, 'the concept of the 'Second Economy' is used to describe this economic marginalisation, and the poverty and social alienation that characterise it' (ASIG-SA 2008).

As part of the interventions to address the challenges of the second economy, the ASGI-SA proposes, the need for providing greater recognition and legitimacy to the sector, to improve conditions and returns in the marginal economic activities and that, this would include, 'clear rules' of the game to reduce their risks and vulnerability to abuse; to facilitate access to storage and ablution facilities, as well as services such as electricity supply. It also proposes support to forms of co-operation and organisation to reduce their costs and increase their 'voice'.

- Noted the need for technology to fast-track increased access to financial services through savings products, cash transfers, and access to micro-credit and to incremental housing finance to enable home-based enterprise activity.

- The employment focus in industrial policy needs to address issues of market access and the spread of power and benefits in value chains, to enable greater SME participation and employment creation.

- Transformation should focus on both ownership and need to address issues of power and distribution in value chains.

- Achieving this also requires stronger advocacy capacity and, 'voice' from small producers and new entrants within sectors.

- Alignment of social, economic, infrastructure and land use planning to increase efficiency, 'crowd in' economic opportunities and promote dynamism, including within residential neighbourhoods.

- Provide the 'patient support' required to turn 'start-ups' into 'stay-ups'.

4.5.4. The New Growth Path (NGP) 2011

Like the former policies and frameworks, the New Growth Path realised the importance of the enforcement of the competition Act of 2003, enterprise development - promoting small business and entrepreneurship and eliminating unnecessary red tape and the importance of the BBBEE in integrating the economy. It noted with concern that, 'government has adopted the position that black economic empowerment should seek to empower all historically disadvantaged people rather than only a small group of black investors' (NGP 2011).

4.5.5. The Broad Based Black Economic Empowerment (BBBEE)

In pursuit of equality as enshrined in the South African Constitution, the government of South Africa has developed a number of documents to stimulate the empowerment project. Amongst these, is, The Strategy for Black Based Economic Empowerment (March 2003), The Broad Based Black Economic Empowerment Act (Act 53 of 2003) and the Codes of Good Practice which provides an explanation of the approach to be adopted by the government in the measurement of the BBBEE compliance. As adopted by the South African government,

the BBBEE implies the promotion of black people in the ownership and control of the means of production. Among other things, it seeks to promote empowerment through procurement sourced from the graded Broad Based Black empowered enterprises and enterprise development through the provision of financial and operational assistance to such enterprises.

4.5.5.1. The objectives of the BBBEE

The BBBEE has a number of set objectives which include the promotion of economic transformation in order to enable black people to participate meaningfully in the economy, the achievement of substantial change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises. It aims at increasing the extent to which communities, workers, cooperatives and other collective enterprises own and manages existing and new enterprises. It also aims at increasing access to economic activities, infrastructure and skills training. Further, the BBBEE targets the promotion of access to finance for BEE, the application of preferential procurement and investing in the enterprises that are owned or managed by black people. It also calls for the promotion of rural communities in development policies and programmes. All of these are deemed necessary to promote black people defined as, African, Indian, and Coloured.

The most important components of the BBBEE touch on direct empowerment (centred on-management and ownership) Human Resource Development (skills development and employment equity) and indirect support (involving Enterprise support, preferential procurement and residual support). With regards to the SMEs, the last one is of greater importance. Preferential procurement would promote BBBEE through the allocation of preferential scores to enterprises with higher BBBEE contributions. This is, deemed to be an effective way of creating market access for the black people's small businesses in an environment characterised by extreme monopolies. Code 500 of the BBBEE codes outlines principles to be observed in the determination and measurement of the level of affirmative procurement. The BBBEE entrepreneurs will further be supported through assistance in the creation, and enhancement of the entrepreneurs' operational and financial skills. It also aims at synergising financial, non-financial services in boosting entrepreneurship by the black people. The BBBEE Code 600 outlines the principles applied when determining the level of enterprise development. The residual element recognises other factors that may also boost Black people entrepreneurialism and this is dealt with under Code 700. The pronounced interventions have, the small, micro, and medium enterprises owned and controlled by the black people as their beneficiaries.

4.6. Gauteng SME Policies

Gauteng's policies on small enterprise development have largely been determined by the national priorities namely: to facilitate black people empowerment, to be achieved through

the extension of financial and non-financial support in a way that would have the effect of altering the structural defects in the South African economy thereby facilitating greater inclusion and equality. The Gauteng Enterprise Propeller Act of 2005 was enacted to facilitate the provision of financial and non-financial support to the SMEs and co-operatives in Gauteng province. It has, long term socio-economic goals, the most crucial being the creation of employment, development of sustainable businesses and poverty alleviation. The Act was also meant to enhance the participation of SMEs in the mainstream economy and on reinforcing synergistic partnerships with business, the academia and government. The Gauteng Enterprise Propeller Act has led to the initiation of a number of projects with the aim of boosting the growth of the small scale enterprises. Amongst these, is the 20 Prioritised Township Programme (20 PTP Programme) which seeks to empower the small scale enterprises by improving their premises, fittings, fixtures, equipment among other things. Those selected receive business mentorship and training support under their Gauteng Plato Mentorship Programme. As envisaged, this mentorship programme would provide the small scale businesses with the platform to learn business expertise on how to handle business challenges and the establishment of support networks for the purpose of facilitating the sharing of ideas by the owners of these businesses. The propeller has also pioneered the *Township Business Renewal Programme,* an investment programme with the focus on developing township businesses to effectively compete on the market.

Gauteng as a province is not entirely independent of the national frameworks, but works within the ambits of the national frameworks such as the New Growth Path of 2011. It seeks to reinforce the targets of employment creation as commandeered by the NGP[6]. Whilst the NGP had set itself a target of achieving a growth rate of creating 5 million jobs (7% per annum) by 2020, the Gauteng Enterprise Propeller had set itself a target of 1,5 million jobs by 2020 and 150 000 per year. To meet this target, the small scale businesses are seen as the cornerstone of the whole project.

Further, the *Gauteng Employment and Development Strategy* is also in line with the dictates of the NGP and defines its strategic focus as the provision of integrated support services to SMEs to ensure their sustainability. It emphasised that, 'we expect to assist more SMMEs through partnerships which should bring more resources and technical industries and sector skills for the benefit of SMMEs' (P.1).

Recently the Gauteng premier, David Makhura in his 2014 *State of the Province Address* launched the *Gauteng Ten Pillars of Radical Transformation* (2014) in which small businesses were articulated as the motor power of growth and development in the achievement of the long term goals of equity and social economic justice. The premier poignantly stated that, 'We start this term of the 5th administration with a tremendous

[6] The New Growth Path has also committed itself to building a social economy. However, as noted by Satgar and Williams (2011), this happened at a time when these social formations had been hijacked by elitism, corruption and patronage.

sense of historic obligation --- to effect radical socio-economic transformation in the country' and that the province will take steps to make Gauteng an 'integrated city-region characterised by cohesion and economic inclusion'. To achieve this, Gauteng province will have to revitalise and mainstream the economy by supporting the development of township enterprises, co-operatives and SMEs that will produce goods and services that meet the demands of the township residents. The *Ten Pillars of Radical transformation* is in line with the BBBEE programme and noted the need for the provincial and municipal governments to boost employment and economic inclusion by ensuring that 75% of their goods and services are procured from South African producers especially the SMEs and township enterprises.

4.7. Assessing the De Soto influence

Since time immemorial, ideas have permeated from one society to another through a number of mediums. The importance of trade networks which brought civilisations into contact with one another has been paramount in the diffusion of ideas from society to society. Also wars have been another important medium in the casting of ideas from society to society. In our present capitalist civilisation, the universe has become a global village with the massive technological innovations which allows societies far away from each other to interact on daily basis. The internet, news channels, the television and a number of social mediums have exacerbated and accelerated the diffusion of ideas from society to society.

Trans-cultural diffusion is the term used in cultural anthropology to describe the spread of cultural traits such as ideas, technologies, religions, languages and styles between members of a single community and from one culture to another. For example, it is now an archaeological truism that, the culture of growing crops and rearing of animals started in the Middle East and diffused to all other parts of the world. Winthrop (1991:82) depicts diffusion as a process by which discrete culture traits are transferred from one society to another through migration, trade, war or other means. Acculturation which is the intermingling of cultures may result from the direct and aggressive contact of one society with another. According to Winthrop, these processes have the ability of bringing about major transformations in the behaviour, values, and modes of adaptation (Winthrop 1991:4). As a result of these processes, it can be argued that there is hardly any society as of now that has not been affected by these processes. However, as a result of the disequilibrium in the balance of political and economic power emanating from the uneven regional growth and development and also from the unequal integration of the Third World countries into the global capitalist system, those countries to industrialise first - countries from the north have assumed considerable powers as world trend setters. Ideas have been casted widely basing on their immutable technological strength and a number of global institutions set up by them. Thus, the Global Institutions such as the World Bank, the IMF, the WTO and others have been prominent in the diffusion of the Western development thoughts and models based on the western superiority complex that their development

models were the best in the world and that peoples of the world should benefit by assimilating them, that is, the modernisation project[7].

Over past few decades, the neoliberal conception of capitalist development has been articulated by a number of international organisations and has been casted widely across the world. Satgar (2014:10) contends that:

Over the past six decades it (neo-liberal conception of development) has been firmly anchored in the World Bank, the International Monetary Fund (IMF), World Trade Organisation (WTO), United Nations (UN), International Labour Organisation (ILO), government-linked development agencies, transnational think tanks (such as the Organisation for Economic Cooperation and Development, or the OECD), and transnational private forums such as the International Chamber of Commerce and the World Economic Forum. All of these forums have provided a nexus for elite and technocratic consensus.

Thus, the international development organisations and agencies, through their networks connecting even the remotest parts of the world, have provided a context for the easy diffusion of the capitalist development ideologies. To buttress this point, Satgar (2014:10) quoted from Cox (1994:49) who had remarked that:

This process generates consensual guidelines, underpinned by an ideology of globalisation, that are transmitted into the policy making channels of national governments and big corporations. Part of this consensual-formation process takes place through unofficial forums like the Tri-lateral Commission, the Bilderberg conferences, or the more esoteric Mont Pelerin Society. Part of it goes on through official bodies like the OECD, the Bank of International Settlements, the IMF and the G7. These shape the discourse within which policies are defined, terms and concepts that circumscribe what can be thought and done. They also tighten the transnational networks that link policy making from country to country

As such, the Washington consensus has seen western crafted development strategies such as the Structural Adjustment Programmes (SAPs) being choked down the throats of many Third World countries with the vision of bringing them closer to the West (modernisation).

Due to the disastrous consequences of the SAPs on the development of the Third World countries, the Washington consensus has now been replaced by the Post Washington Consensus (Stiglitz 2001) which to some extent was influenced by De Soto on the role that

[7] The modernisation project assumes that the Third World cultures are anti-development. It despises such values of ascription, the extended family, in favour of achievement, competition and the nuclear family. It argues for the entrenchment of the Western values in the Third World Countries as the basis of stimulating development. Thus, the traditional cultures in the Third World Countries are deemed an anathema to development and had to be done away with, if development is to take root. It is an approach that that has been puddled by such scholars as Talcott Parsons, Walt W Rostow in his Stages of Economic Growth and has taken by the development institutions such as the World Bank and the IMF when they introduced the SAPS. However, this approach has since been challenged by the recent development of the Asian countries such as China which had relied much on its Confucian culture.

the state can play in development, especially with regard to monopolies. This was not however, before the South African government had imposed its own home grown SAP in the name of the *Growth Employment and Redistribution Strategy (GEAR) of 1996*. South Africa has been heavily influenced by the development ideologies emanating from the centres of global capitalist development. Since the dawn of democracy in 1994, the South African government has been an active participant in international forums, interacting with the global thought leaders in the G 20, the United Nations, the International Monetary Fund, the World Bank, the World Economic Forum and the World Trade Organisation. If anything, this participation amounts to an endorsement of these organisations' ideas on how development can be brought about in the Third World countries. Of note, is that, some of the South African policy makers even ended up holding positions of influence in the international development institutions. For example, Alec Erwin during his time as South Africa's Minister of Trade and Industry became the President of the United Nations on Trade and Industry (from May 1996 up until February 2000). Further, Trevor Manuel has also occupied a number of influential positions in the international development institutions. In 1994, Trevor Manuel was appointed to the Advisory Committee of the UN Initiative for Trade Efficiency (Bond 2001). He was also the chairman of the Board of Governors of the International Monetary Fund at the Annual meeting in Prague in September 2000. Again, from November 2001 to September 2005, Trevor Manuel was the Chairperson of the Development Committee of the World Bank (Bond 2001). From all these interactions between the South African policy makers and the International development institutions, it would surprising if one is to argue that, the South African development policies were not to some extent, a result of the development ideas emanating from these institutions.

Moreover, the transitional policies to democracy in South Africa were crafted with the assistance of the World Bank. South Africa received an amount of $850 million from the IMF in 1993 (Bond 2001). It also received R340 million from the World Bank in 1997, for the purpose of propping up the SMEs so as to help them to compete on the world market. However, Bond (2003) contends that, the most high profile initiative by the World Bank was the Growth, Employment and Redistribution Strategy. Of note is that, two other World Bank Subsidiaries, that is, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have also been active in South Africa starting from the 1990s.

The interaction between the South African government and the General Agreement on Tariffs and Trade (GATT) and later on the WTO led to a number of trade reforms with a number of offers being made by South Africa to these organisations. Webster and Sikwebu (2010) noted that, in the 1990s the reforms in trade in South Africa were conducted at two levels: the first level was composed of the removals of tariffs barriers and tariff reductions and at the second level, were trade negotiations and agreements between South Africa and other regions of the world. South Africa's readiness to dance according to the tunes of global powers, was demonstrated by the protests in the textile industry in 1996, protests

aggravated by the fact that the government, was opening up more rapidly than had been agreed at the Uruguay Round negotiations[8] (Webster and Sikwebu, 2010). South Africa's commitment to the WTO became effective in 1996 (Webster and Sikwebu, 2010).

It is important to note that, Hernando De Soto's ideas have had a huge impact on most of the international development institutions to an extent that most of their schemes, projects and programmes starting from the early 1990s were based on these ideas. De Soto has held a number of positions in these institutions. In June 2008, De Soto had the privilege together, with Madeleine Albright[9] to co-chair, The Commission on Legal Empowerment of the poor sponsored by the United Nations Development Programme (UNDP). Formerly, De Soto had been an economist at the General Agreement on Trade and Tariffs (GATT). The Assembly Streaming Material (September 19, 2005) has noted that:

On the world stage, De Soto participates in several of the major economic organizations, including the World Commission on the Global Dimension of Globalization, the United Nations Development Programme Task Force to Examine Private Resources for Development, and the Research Advisory Council of The Global Markets Institute at Goldman Sachs.

Hernando de Soto was also an important participant at the World Economic Forum's conference in Davos - Switzerland in 2012 where he emphasised the need for the legal empowerment of the poor. Further, De Soto's ideas for helping the poor to create capital have been championed by the World Bank and the U.S. Agency for International Development and other international development institutions. According to the Assembly Streaming Material (2005), De Soto is credited with, 'spurring rural land reforms in countries throughout the world, including programs in South Africa and China'. Of consideration is that, the World Bank had integrated almost all of De Soto's ideas on development in its paper entitled *Land Policies for Growth and Poverty Reduction* (2003). It is for these ties with the power circles that, De Soto has been criticised by John Gravois as, 'the patron saint of the global elite' (Osorio, September 15, 2005). Gravois accuses De Soto of taking his ties with the global elites, to sell his panacea on poverty: a panacea that has been 'packaged and peddled all over the world' (Osorio, September 19, 2005). Bearing in mind, the interactions between De Soto and the world's power circles and that of South Africa and the global development institutions; it becomes difficult if not impossible to argue against De Soto's influence on the South African political economy landscape. The process of diffusion and the

[8] The Uruguay Round negotiations resulted in the creation of the WTO which succeeded the GATT in 1995.The WTO has facilitated an impressive reduction in tariff and non-tariff barriers to international trade. It ensured that member states enjoy the benefits of freer trade and more open markets, access to which is negotiated on a multilateral basis. Further, they do so in a consistent and reliable manner due to the enforceable rules that underpin the multilateral trading system. South Africa made a number of offers which became effective in 1996. In fact, it implemented these offers more rapidly than has been agreed with WHO which resulted in a number of schisms with the Labour movements culminating in the 1996 Textile industrial protests.

[9] Madeleine Albright is the former Secretary of State for the United States of America.

power of the West in ideological manipulation through the manipulation of various mediums account for the dominant influence of Hernando De Soto's ideas on the South African SME policies today.

The influence of Hernando De Soto on the South African development policies should now be a matter beyond debate. The, then South African Minister of Housing in 2005, Lindiwe Sisulu, poignantly acknowledged the influence of De Soto on the South African socio-political landscape by urging that government strategies to, 'take into account the new thinking that has evolved internationally to end poverty' (Sisulu 2005:7 in Cousins et-al 2005). Further, De Soto has also had the opportunity of intermingling with a number of South African policy makers and influencers. In his 2005 visit to South Africa, De Soto concluded that South Africa was just like other developing countries and that in spite of, 'lots of migrations towards cities like Johannesburg --- most of the people are excluded from the legal system' (SAPA 2005). He went on to add that, 'property was the genesis of the rest of the market economy' and that without property titles, 'the merging of the first and second economy, *capital formation* would be impossible' (SAPA 2005). The influence of De Soto on South Africa has also been highlighted by Glyn Davis et-al (2007) who noted that, 'since the late 1990s, the views of the Peruvian economist Hernando De Soto, have had a growing impact on the international development community (and that) they are increasingly influencing South African policy makers and planners. According to Glyn et-al, the influence of De Soto in South Africa clearly manifests in the government policies such as the housing policy *Breaking New Ground* (BNG) of 2005 and the *Accelerated and Shared Growth Initiatives* (ASGI-SA). Also the Department of Trade and Industry's *National Informal Business Upliftment Strategy* (Nibus) of 2013 is also a direct reflection of the penetration of De Soto's ideas into the South African policy landscape. To note, is that De Soto's assertion on the importance of property and businesses formalisation to bridge the informal and the formal economy by resurrecting 'dead capital' speaks directly to the ideas on first and the second economy in South Africa as pronounced by president Mbeki. Thus, in 1998, the then deputy president of South Africa, Thabo Mbeki expressed the principal challenges of inequality, unemployment, underdevelopment and poverty by arguing that South Africa is characterised as comprising of two nations, the one white and relatively well off and the other black, extremely poor. As Mbeki puts it:

One of these nations is white, relatively prosperous, regardless of gender or geographical dispersal. It has ready access to a developed economic, physical, educational, communication and other infrastructure. This enables it to argue that, except for the persistence of gender discrimination against women; all members of this nation have the possibility of exercising their right to equal opportunity, and the development opportunities to which the constitution of 1993 committed our country. The second and larger nation of South Africa is black and poor, with the worst affected being women in rural areas, the black rural population in general and the disabled. This nation lives under conditions of grossly underdeveloped economic, physical, educational, communication and other infrastructure. It

has virtually no possibility of exercising what in reality amounts to a theoretical right to equal opportunity...' (Mbeki, 29 May 1998).

Thus, scholars such as Fine and Rustomjee (1996) are of the view that to understand this dichotomy there is need to refer of South Africa's industrialisation trajectory and its dependency on what they referred to as the 'minerals-energy complex' (MEC).They argue that the growth of monopolies cannot be fully comprehended without considering the role of MEC during the apartheid era and the role it has continued to play in the post-apartheid era. Thus, all other branches of the economy were connected in a state of dependency to the MEC, thereby facilitating the accumulation process by big capital but at the same time leading to the development of underdevelopment with regard to the second economy that did not have an independent existence of its own. Real transformation in South Africa that will bring about diversification and deconcentration can only be a result of structural and institutional changes. Only this will facilitate the emergence of SMEs that are not held in a state of dependency to the mineral energy complex. Thus, the two scholars Fine and Rustomjee are in line with De Soto's argument, when he proposed that the state is paramount in ensuring fair play and in putting an end to monopoly and domination by big capital. However, the solution which they have prescribed to South Africa is not nuanced enough and may lead to the same problem again. Thus, Fine and Rustomjee (1996) have argued that South Africa should follow the South Korean model of development in which the state plays an, 'instrumental role --- in promoting industrialisation and economic development'. To note is that South Korea is dominated by large vertically integrated corporations whose subsidiaries are dominant on and whose development were financed by targeted government assistance policies' (P.W. Alderfer, 1998)[10]. As such, the application of the South Korean model to South Africa is unlikely to change the structure of the economy shaped around the MEC.

De Soto, has indicated that structural change and the destruction of mercantilism can only be brought, about by a radical change of institutions- political, social, legal and economic institutions allowing for greater participation of the formerly excluded majority. Thus, South Africa has attempted at such a scheme through the introduction of the sectoral approach to its development. This approach realised about 21 sectors which were to develop sector specific development strategies independent of the MEC. . This approach is much nearer to De Soto's approach than South Korea's *Chaebol* (Big capital) approach to development. With 21 sectors in place, the sectoral approach is likely to bring about an end to dualistic nature of the South African economy.

De Soto considers the structural defects as the major hindrance to the emergence of sustainable small scale businesses. As a remedy he perceives democratisation as crucial and believes that change can only be sustainable if, 'it comes from within those that are

[10] Philip W Alderfer Reviewed Ben Fine and Zavareh Rustomjee's Book, 'The Political Economy of South Africa'. The review is found in *The Journal of Modern Africa Studies* , Vol. 36. No. 3, 1998, pp527-528.

changing' (Ellerman 2005). His approach revolves around three main elements, that is the extension of democracy as a crucial element of development, that is giving people a voice in their own development, that development interventions are crucial when they create independence rather than dependence on unsustainable incentives so as to, 'help the poor to help themselves' (Ellerman 2005) and that markets are a crucial element in development. However, Ellerman despised unregulated markets but favours the public management to ensure equity and fairness in the distribution of opportunities. The structural limitations on economic democracy prevents the great majority from participating in the economy, hence curtailing economic growth, a situation which de Soto characterised as mercantilism. Mercantilism results in a dual economy with a certain group enjoying the benefits of the law and other attended benefits while the other is marginalised and forced to operate in the extra-legal sphere. As such, structural transformation would be required to effect institutional changes capable of facilitating the participation of the majority in the economic activities of their country within the ambits of the law. This according to De Soto would ensure that the historically marginalised have their properties and businesses formalised, thereby leveraging their access to finance, security of tenure and technical assistance only available to formalised businesses. Only this would allow the generation of capital in an open market.

An analysis of the South African polices outlined above with regards to small business policies proves beyond any reasonable doubt the influence exerted by De Soto's ideas on the South African policy makers. De Soto's ideas manifest in The White paper of 1995, the Competition Act of 2003, the NIFP, ISBDS, the NGP, ASGI-SA, Breaking New Ground and the *National Informal Business Upliftment Strategy.* De Soto's theses hinges upon the three afore mentioned areas, that is, the legal focus to democratise so as to allow the poor to formalise their businesses, to give the poor a voice in their own development and facilitate the emergence of fairness in the markets, ii, Development interventions to empower the poor to help themselves - to be achieved through technical skills, and lastly iii, the above three would generate access to finance, security and others by the poor. The institutional changes advocated by De Soto would facilitate linkages between the first and second economy synergistically bringing about efficiency in the running of the economy. Here, De Soto acknowledges the importance of affirmative action[11] to bring the historically disadvantaged on an equal platform allowing for fair competition. The White paper of 1996,

[11] Affirmative Action is taken by De Soto to imply some forms of legal support to the poor to integrate them in to the mainstream economy and other social schemes to scour the less fortunate in society. These social schemes which might be considered positive discrimination in favour of the historically marginalised are deemed necessary to bring the poor on an equal footing with the established. Some of the integrative measures would ensure access to public markets by the poor entrepreneurs on favourable basis. In South Africa, The Employment Equity Act 55 of 1998 was passed to promote the constitutional right of equality and exercise true democracy. This idea was to eliminate unfair discrimination in employment, to ensure the implementation of employment equity to redress the effects of discrimination, to achieve a diverse workforce, to promote economic development and efficiency in the workforce. The BEE was also considered to empower the originally marginalised Black population in South Africa though this has been hijacked by elite formations.

the NSBA 1996, the ISBDS 2003, ISEDS 2005, the Asgi-sa, the NIFP 2007 and Nibus 2014, have all expressed the need for legal reforms to allow the inclusion of the historically excluded to participate on an equal platform. The White paper of 1996 invoked the need for the creation of an, 'enabling legal framework' by the government to facilitate access to information, finance and affordable infrastructure. The ISBDS realised the need to facilitate access to finance and markets which can only be done with the formal recognition and the empowerment of the small business owners. The NIFP also recognises the need for the inclusion of the historically excluded, while ASGI-SA emphasises the need for providing, 'greater recognition and legitimacy' to the SME sector which would include 'clear rules of the game' to reduce their risks and vulnerability. All of these recommendations are in line with the De Sototian recommendations on development. All of them advocate for the transformation of capitalism, 'which remain hindered by the burden of South Africa's dual economy' (ISBDS 2003) and which according to the NIFP (2007) would ensure the integration of the second economy and the, 'graduation of certain viable informal enterprises to formal businesses'. According to the ASGI-SA document (2006), this would facilitate, the, 'elimination of constraints identified in the regulatory environment for small and medium sized businesses and the weaknesses in the Second Economy'. All of these diagnostic remedies from different South African policies and policy frameworks speak directly to De Soto's assertions upon his visit to South Africa that, 'most of the people remain excluded from the legal system' and that without property titles, 'the merging of the first and the second economy would be impossible' (SAPA 2005). The ISBDS (2003) also noted that, the great diversity of small enterprises, and their needs have to be given greater recognition.

The De Sototian influence is further noted in the emphasis that has been placed on technical skills and training to facilitate the management and accounting capabilities of the SMEs. In fact, the De Sototian recommendations have altered the school curriculum with the introduction of Economic Management Sciences as a subject starting from Grade 5 in an effort to allow the young people to acquire business skills and also to inculcate the entrepreneurship culture in South Africa. The emphasis stems from De Soto's emphasis that debts and taxes would have to be collected once businesses are formalised and have an address for reasons of accountability. For the collection of debts and taxes, accounts have to be balanced and the owners must be able to account for improved access to finances. This emphasis is well reflected in the ISBDS pillar number three which aims at enhancing small businesses' competitive capabilities both in the market and at enterprise level through the strengthening of managerial and business and technical skills of the owners of the SMEs. This is also taken as critical in ASGI-SA and the BBBEE code 600 which noted that the entrepreneurs will further be supported through assistance in the, 'creation and enhancement of the entrepreneurs' operational and financial skills'. In addition, De Soto's assertions on the importance of the need for access to financial resources also find resonance in the White paper, the ISBDS, the NIFP and Asgi-sa. The White paper (1995) and

the NBA's (1996) call for an enabling legal environment to facilitate access to finance has resulted in the creation of a number of such agencies as SEDA, Khula, Samef and others for the extension of financial resources to small businesses. The second pillar of the ISBDS, recognised the maintenance of small business sensitive regulation and improved access to finance as principal to boosting the SME, whilst the ASGI-SA noted that in a sector mainly financed by, 'family and friends, tax cuts for, 'angel finance[12]' needs special adaptation to ensure access by more marginal families. All of these recommendations, show the extent to which the South African policies and frameworks resonates well with De Soto's sentiments on capital generation and the development of capitalism through the creation of sustainable businesses.

Further, De Soto's emphasis on property formalisation has been confirmed in all of these policies and policy frameworks. In this regard, the NIFP speaks of the creation of new enterprises that in *turn generate formal jobs, and the 'graduation' of certain viable informal enterprises to formal businesses' (NIFP 2007:14).* The ISEDS would promote SMEs alternatively focusing on ownership. Taking all this into consideration, it becomes easy for one to realise the influence of De Soto on the South Africa policies of small scale business enterprises.

4.7.1 ASGI-SA, BNG and Nibus

The clearest manifestations of De Soto with regards to small businesses are however found in ASGI-SA, BNG and in Nibus than in any other policies. ASGI-SA addresses directly some of the problems that hinder what De Soto terms, 'the capitalisation problem'. ASGI-SA has been seen as one of the government's remedial attempts to bridge the gap between the first and the second economy through the creation of new linkages. It seeks to achieve macroeconomic objectives through improving state efficiency, improving governance, creating a better environment for business and improving people's skills. Its 'second economy interventions' speaks directly to the need for reducing the historical inequalities to allow for greater participation in the economy. This can be equated to De Soto's proclamations that without dismantling mercantilism, the greater majority of the people will remain outside making it difficult for the take-off to a sustainable capitalist economy. A number of parallels can be drawn from what De Soto calls the legal and the extra- legal and the concepts of the first and the second economy in South Africa. ASGI-SA further referred to other macro-economic issues necessary for bridging the gap between the first and the Second Economy in South Africa. Amongst these, is the need for infrastructural programmes, public administrative reforms, education and skills and sector investment initiatives. On the other hand, De Soto categorically stated that, without the formalisation of land, houses and small businesses, it will be difficult if not impossible for the Third World

[12] Angel financing is usually financing done to small start-ups by investors, normally retired entrepreneurs or executives, for reasons that go beyond pure monetary return. These include wanting to mentor another generation of entrepreneurs, and making use of their experience and networks for the benefit of start-ups. Angel investors can also provide valuable management advice and important contacts.

countries to make a successful transition to a sustainable capitalist economy and that this calls for the incorporation of the extra-legal into the mainstream economy. Thus, without incorporation, the assets of the poor will remain, 'dead assets[13]' incapable of generating capital and therefore ensuring the accumulation process. In line with De Soto, the ASGI-SA identified a number of, 'dead capital' in South Africa such as small businesses, land, houses, livestock, skills and others which are invisible but with the capacity to generate capital once incorporated into the mainstream economy. Following De Soto's assertions, the ASGI-SA identified a number of ways as to how the formalisation of 'dead assets' could be achieved. These would include, land tenure formalisation, small business formalisation, implementation of the Financial Services Charter (2003)[14] and the provision of mentoring and skills training for the benefit of small businesses and the poor. Whilst De Soto speaks of the need of a formal title to 'bring capital' to life, ASGI-SA proposes for the formalisation of a number of the so-called 'dead assets' from traditional lands, informal businesses, livestock and others for the realisation of their value.

Lauren Royston (2007) has identified some of the parallels between the De Sototian thesis and the ASGI-SA hypothesis. According to Royston (2007), De Soto's formal property entails that, the formal recognition of property will, 'bring dead capital to life', 'capitalise the poor' by legalising their extra-legal property and documentation of property rights, turning them into assets that can be more widely traded or used as collateral for loans'. This according to Royston is directly connected to the formalisation of tenure in ASGI-SA. ASGI-SA speaks of the need for intervention in bridging the gap between the first and the second economies, reducing inequality and helping the poor to achieve sustainable growth. Over and above Royston's parallels, to note, is that, ASGI-SA aims to address administrative red tape to facilitate business formalisation and compliance issues with regard to governance. All this taken into consideration, one can observe clearly the direct influence De Soto has exerted on the South African policy environment.

The housing policy is also directly related to small business development in the townships, as most of the poor relies on their housing assets as the basis for setting up their businesses. In *de facto*, Lindiwe Sisulu during her tenure as the Housing Minister encouraged the uptake of De Soto's ideas stating categorically for the government to, 'take into account the new thinking that has evolved internationally to end poverty' (Sisulu 2005 quoted in Cousins

[13] According to De Soto, the poor's assets are, 'dead assets' because they are illiquid as they are unregistered and therefore cannot be converted easily in to liquid capital with the potential to generate more capital. In South Africa, ASGI-SA identified 'dead assets' of the poor to include, livestock, poor's houses, businesses and skills. Capital is taken by De Soto to imply the potential to generate more wealth. However, since the assets of the poor are not formalised, it becomes difficult for these assets to be easily and swiftly converted into capital with the potential to generate wealth hence his reference to them as dead capital.

[14]The implementation of the Financial Services Charter of 2003, in South Africa has resulted in Banks being compelled to offer credit to SMEs. Thus, business people such as Raymond Ackerman have reckoned that, the financing of small businesses has improved as compared to the Apartheid Era. The charter opened access to formally discriminated people.

2005). The Housing Policy - *Breaking New Ground (BNG)* entrenches De Soto's thinking in South Africa. The BNG has primary and secondary objectives. The primary objectives aims at improving the housing stock for the poor people through facilitating access to credit and subsidised saving and legislation, whilst the secondary objectives aims at the realisation of a number of positive economic 'spin offs' such as, 'realising the value of assets, realising property as an asset for wealth creation and empowerment', 'leveraging growth in the economy' and 'reducing duality ---'. This resonates well with De Soto's formalisation process to resurrect 'dead capital' and documentation to be used as collateral for loans, as share against investment.

Lastly, another important framework that addresses the call by De Soto is found in the *National Informal Business Upliftment Strategy* (Nibus) of 2013. Nibus seeks to facilitate the graduation of informal businesses in to the formal sector. It is also an initiative aimed at increasing access to finance and training. It seeks to incentivise the formalisation process so as to encourage many informal businesses to formalise. According to Fredricks (2014), Nibus is aimed at developing the business owners to a point where they have to register thereby qualifying for better opportunities. Nibus also offers a number of incentives to encourage the informal businesses to formalise, such as access to subsidised infrastructure, loans, technology, skills, promotional material, product improvement (DTI Small Business Connect, February 2014: 1).

The ASGI-SA, the BNG, Nibus and many other frameworks reveal that, there has been an undeniable extensive influence of Hernando De Soto's ideas on the development of the South African development policies especially with regard to small businesses. As a matter of fact, Moipane, the Director of the Centre for Small Business Development at the University of Johannesburg noted in an interview that:

There has been a lot of influence as people have been going around the world coping and implementing different models. If you look at models of financing small businesses, there are a lot of things that were brought in. I don't know if co-option is the right term. There are a lot of lessons that we have learnt from other countries and we continue to implement--- (Interviewed 10/10/1014).

Chapter 5: National Studies, Conditions and Trends: Critique 1 of Hernando de Soto

5.1 Introduction

There has been a general misconception that the formalisation, promotion and development of small businesses in South Africa have been only a feature of the democratic South African governments since 1994. O'Dowd (1996) is of the view that, the expansion of the Black capitalists in post-apartheid South Africa owes much to the triumph of liberalism in the 1990s. The liberalisation of the South African society associated with the birth of democracy in 1994 has been taken as a crucial time the in development of small scale township business enterprises in South Africa. Thus, Ben Turok, an ANC member of parliament had stated that:

Since April 1994, and at an amazing speed, African mobility has taken off. Black personnel have moved into the highest positions of the economy, including that of the government, monopoly capital, the public service, the security forces and the professions. Others have built medium-sized businesses on the basis of preferential state contracts (Turok 1997:24).

However, history has it that the formalisation of the small businesses, especially in the townships was not a result of the ANC coming to power but of a protracted struggle pitting the Apartheid governments and the Black South African entrepreneurs. According to Maseko (1999), scholars who have argued for the phenomenal impact of liberalism on the emergence of the black capitalists have erroneously, 'treated the Black bourgeoisie as something of a historical vacuum that never existed before'. This chapter traces the history and extent of small business formalisation and development in South Africa in a bid to assess the impact of business formalisation or legitimisation on their growth and expansion with reference to the capacity of the SMEs.

5.2. The historical trajectory of SMEs formalisation and development in South Africa

Since the 1920s an incipient capital accumulating class of black entrepreneurs had existed and according to Maseko (1999) this class gained momentum in the struggles it waged against the apartheid regimes in the 60s and 70s. Colin Bund in *The Rise and fall of the South African Peasantry (1988)* has detailed the resilience of some of the black agricultural entrepreneurs in face of the encroachment of the draconian colonial legislations which seek to paralyse this class thereby paving a way for the unfettered accumulation of capital by the white settlers. To deny that a class of Black capital accumulators existed before the collapse of the Apartheid regime will be missing the point and thereby clouding the historical trajectories of the development of small businesses in South Africa. This will amount to a distortion of the historical reality which we seek to unveil. Maseko, has argued that those who deny the existence of this class have provided a largely one dimensional story of side-lining, impoverishment and subordination of Black capitalists and have failed to grasp the historical processes of capital accumulation and class formation.

The small businesses in Black townships were a persistent feature of the apartheid era made possible by the loopholes in the apartheid legislations (Hart 1972). This class took advantage of these loopholes and also of the apartheid's limited reforms in the 1970s and 1980s to advance the interest of its members. Though the apartheid regimes perceived this class as a nemesis to the processes of white capital accumulation it could not overly extinguish the class as the policy of racial segregation denied the opportunity of one race trading or setting up businesses in an area to which they did not belong. Thus, according to Hart (1992), the inability to resolve these contradictions in policies permitted the Blacks to operate trading enterprises from the early colonial days. This practice of allowing the existence of the Native stores increased in the aftermath of the Native Urban Areas' Act of 1923 and its revision in 1945 as the Native Urban Areas Consolidation Act (Maseko 1999). The gaps in these policies were cleverly manipulated by the Black entrepreneurs despite other strict regulations which were formulated and implemented to curtail their operations.

The SAIRR Survey (1978) noted that the heightened urbanisation of the Blacks starting from the 1960s greatly facilitated the increase in the number of this class, such that by 1975 there were almost 30 000 urban black traders. Most of the entrepreneurs were not gainfully employed, did not have adequate schooling and were largely involved in the informal sector driven by the need to find means for survival and to aid their meagre wages. Further, the World Bank survey of 1993 found that small businesses were divided into 3 segments - that is the micro-enterprises that operated from home such as kiosks with a focus on trade and commerce, the street vendors and hawkers oriented towards manufacturing – clothing, footwear and beer and lastly minibus taxi industry. These micro enterprises were important in the emergence of a class of Black entrepreneurs. These enterprises were started for subsistence but through luck and business acumen some grew into profit making ventures. These businesses were however, tightly regulated by the Native Urban Areas Consolidation Act of 1945 which among other things prevented them from owning property and companies which Hernando de Soto considers crucial in capital formation. Important to note is that, the stringent measures by the apartheid system stimulated class consciousness which rose in dialectical opposition in an effort to advance its own class interests. The importance of group or class consciousness in the development of capitalism has been well emphasised by scholars such as Marx, Weber and others. This is illustrated by the formation of agencies for the advancement of black capitalists such as the *National African Chamber of Commerce (NAFOC)* 1960, the *Foundation for African Business and Consumer Services (Fabcos)* 1988 and the *Black Management Forum (BMF 1976)*. These agencies advocated for black empowerment through corporate advancement, shareholding and ownership and contracting small and medium micro enterprises.

Despite the success of some of the Black owned businesses, Maseko (1999) noted that many others were hindered and hampered by a 'myriad of constraints' impacting on their operations. For consideration is that, prospects of vertical advancement virtually did not exist as the owners were not allowed to own property and companies. Therefore, it stands

that, the only way for growth was through horizontal expansion by setting up a chain of enterprises of the same type. Compounded to this, was the fact that they could not access loans from the banks for these were established for people of white descent only. The state sponsored *Bantu Investment Corporation of 1959* financed only those enterprises based in the homelands. It has been noted that many informal businesses and other small businesses could not open accounts because they did not have a permanent address nor could they provide security for the loans, a factor that has been well elaborated by Hernando De Soto in the *Mystery of Capital*. As a result, most of the small businesses' applications for loans even from the Small Business Development Corporation were dismissed for lack of collateral. The *Tribute Magazine* (1988) unravelled that; Black entrepreneurs did not have enough resources and relied on personal savings to start their businesses. The issuing of licences was highly regulated so as to curtail the number of these enterprises and the areas they operated in together with the type of activities of their engagement. Bearing in mind the fact that the education system was not open to them, one tends to reason that these business owners were also lacking in terms of basic business management principles, skills and knowledge of legislations. Added to this, must have been the problem of inadequate premises, high rents, inadequate infrastructure, and lack of electricity, water, transport and other means of communication which were distributed according to the spatial geography of the Apartheid system. Further, the apartheid laws saw to it that the Black entrepreneurs were overtraded in certain types of businesses.

Indian Entrepreneurship in South Africa

The Indian entrepreneurs began arriving from India in the 1870s, a decade after the introduction of indentured labourers to meet their needs in the colony of Natal (K. Hiralal 2007). Unlike the indentured labourers, they were free of the contractual labour system and differ from indentured labourers in their origin, language and religion. They came from the Gujarat province in the West Coast of India. The majority of them were Muslims who spoke either Gujarat or Urdu (Hiralal 2007). A minority was made up of the Hindu Indians. They engaged in a variety of trade such as money lending, banking, grain dealing to cotton merchants. These Indians were of different backgrounds ranging from holding positions in local governments, shipping, trades, with a majority being of peasant origins, seeking better livelihoods (Klein 1986). In Natal three categories soon emerged that is; the established merchants, the petty storekeepers, and the hawkers. Many started by seeking employment as hawkers, selling fresh produce and Indian groceries, salesman, supervisors in a store to raise the capital for general dealership or setting up wholesale businesses (Hiralal 2007). However, European colonialism defined the nature of interaction across the four major groups of people that is, the Whites, Indians, Coloureds, and Africans. The varying historical and contemporary experiences shaped the character of Indian entrepreneurship in South Africa. The racially based Indian experiences both under apartheid and democratic South Africa are reflective of the country's changing economic and political dynamics.

Though 19th century arrival of Indian entrepreneurs was greeted positively by the indentured laborers because 'there, religious, and socio-cultural needs were finally being

met', however, this did not endear them to their white counterparts. As a result of their business acumen and persuasion skills the Indian were able to capture the market among the indentured laborers and the Africans (Hiralal 2007). Their skills and the increasing potential urged them to spread out and venture into bigger and more rewarding trading activities. They were more successful in trade, credit and money lending but also realized the potential of moving beyond these limits (Hiralal 2007). This was by no means a hindrance to White capital accumulation but as with African and Coloured entrepreneurship, was not taken lightly by their White counterparts. Thus, Pahad (1972) cited a number of complaints from magisterial desk that appeared in archival material with one remarking that, '--these people render it impossible for small European store keepers to make a living' . As such, a number of a number of strategies were mooted by the successive colonial governments to circumvent the perceived Indian 'threat' on White economic interests. This trade jealousy and sheer racism resulted in the enactment three Bills in the 1890s to curtail Indian and African and Colored entrepreneurship activities. These were the Franchise Act of 1896, The Immigration Restriction Bill and the General Dealers' Licences Bill of 1897. However, these measures were challenged by the Indian traders, claiming that as British Indian subjects they were also entitled to equality as it applied within the Empire and hence the right to enter any part of it (Hiralal 2007). In so doing particular attention to the immigration laws seeking to curtail their right to enter and do business in South Africa.

Further, in the period after the Second World War, the Indian businesses, just like their African and Colored counterparts were confronted by more entrenched forms of racism and segregation. The Victory of the Nationalist Party in 1948 saw the entrenchment of segregation and racism through the introduction of the institution of the philosophy of separate development' 'Apartheid'. This was facilitated by the enactment of the Group Areas Act and the Population registration Act in 1950. The framework for these had been laid down by the previous government for example the Pact Government sought at protecting white skilled and semi-skilled work. Further, the manipulation of Wage Boards and the Industrial Councils tended to keep all other groups out of skilled work reserved for Whites. The Group Areas Act had serious ramifications on the Indian as it had on the African and Colored entrepreneurs. Those accused of penetrating white residential and business areas were required to move and were grossly compensated for their properties. Thus, the Van der Merwe Commission (1952) recommended that many traders penetrating even the areas inhabited by the natives had to be reduced. The commission suggested permits to control the presence of Indian traders in these areas. As such, by the end of 1975 many Indian and Colored people were forcibly removed from their homes as a result of these recommendations and in the process a lot of properties were lost. However, many, especially, the Gujarati Indians with a sizeable capital were able to expand and to benefit as a result of these recommendations. According to Meer (1975) (Cited in Haralal 2007) these recommendations enabled the concentration of capital in fewer hands as these Indians were able to form consortia to take advantage of land ownership, commerce and industry in

their communities. It is deemed that the Group Areas Act hastened the emergence of family monopolies and business consotia which invested in large blocks of flats, modern department stores, wholesale businesses, hotels and mills. This encouraged the retention of wealth in a small group that reaped the benefits of diversified economic fields.

5.2.1. Formalisation and the legitimisation of Black businesses in South Africa

The 1960s and 70s saw the South African economy stagnating marked by unemployment, skills shortages and smarting from the deficit of balance of payments (Atkinson 2010). In addition, the sanctions imposed by the international community acted as the sword of Damocles[15] on the already ailing economy. In response to this, the apartheid regime initiated reforms thereby opening up some space for the black capitalists. This resulted in the increase in the enrolment of the black students in educational and training institutions to address the skills gap. The Vorster government had protracted engagements with Nafoc from 1976 up to the late 1978 resulting in a number of concessions being granted to the black entrepreneurs (Maseko 1999). These engagements resulted in the number of business types which they could run being increased from 26 to 66, their trading sites also increased, partnerships were allowed between blacks, the possession of a homeland citizenship as a qualifying tool for a trading site was scraped, the 99 year lease on property and home ownership was granted to the Blacks (Maseko 1999). This amounted to a formal recognition of the Black entrepreneurs in South Africa with the establishment of the Small Business Development Corporation (SBDC) in 1988 offering credit to black entrepreneurs.

Though this was a political ploy to buy the allegiance of the Black business class in the face of adversity and as way of stemming out the tide of political struggle following the Soweto uprising of 1976, these measures were a massive leap in the development of the black entrepreneurs. However, others have noted that the SBDC was racist for most of the credit went to the White owners of small businesses whilst the Black business owners scarcely got anything. In spite of this, significant progress was however realised after the Temporary Removal of Restrictions Activities Act of 1986. This set aside all major obstacles to black business advancement of the apartheid system. Like their White counterparts, the Black entrepreneurs could now open their companies through a common regulating body. It was also (theoretically) now possible to access loans from the IDC. Despite these reforms, there were still some hurdles to be overcome by the black entrepreneurs in financing, skills, marketing and other areas. However, basing from these developments, it can be argued that the formalisation of the Black small businesses in South Africa started under the Apartheid regime. This was a result of the dialectical struggles as the black entrepreneurs fought for their legalisation and also as a way of integrating the changing political structure. The importance of these struggles was the emergence of class consciousness and the 'can

[15] The Sword of Damocles is an idiom that is used indicates a very bad and precarious situation. The phrase comes from the story of Damocles who had to eat with a sword hanging over his head which was tied by tied by a single hair. Refer to Ancient Greek History of the Fourth Century B.C.

do' spirit among the Black entrepreneurs. The Black entrepreneurs were determined to prove their capability in bringing about development and race was important in informing this realisation and determination.

As with the African entrepreneurs the Indian traders embarked on a number of the survival strategies in the face of White economic onslaught. Among these strateges, was the setting up of trade networks, credit and money-lending linking large coastal Indian, Wholesale and import houses linked to one another and to hundreds of small traders in Durban and Pietermaritzburg and in the rural areas (Hiralal 2007). The recognition of their businesses was also a result of their struggle with the White governments of the day. Thus, the merchant dominated Natal Indian Congress (NIC) was formed to advance their commercial interest. However, some of these strategies were at times at the expense of the interests of the indentured and ex-indentured Indians whose grievances at times were not taken into consideration. For example, though the World War 1 also presented opportunities for accumulation to entrepreneurs with the influx of foreign troops and the rise in prices of basic food commodities, the Indian traders sought to profit at the expense of poorer section of the Indian population by hoarding and raising the price of rice (Hiralal 2007). This created divisions and hostility between the trading and the non-trading sections of the Indian population. It also raised anti-Indian sentiments among the whites leading to the Asiatic inquiry Commission of 1921, which however refuted the myth of Indian menace. Despite the commission's findings, it however advised on voluntary economic and commercial segregation, thus laying the foundation for the proposition and enactment of future discriminatory legislations. The Pact Government of 1924 was quick to capitalize on the recommendations regarding the Indian community as, 'aliens' and a threat to White economic interests (Hiralal 2007).

The Pact Government's solution to the Indian 'menace' was to impose limits on their free entry into South Africa, and further restrictions on trade and residential rights of domiciled and South African Born Indians. Thus, the Class Areas and Areas Reservation (1924) and Immigration and Registration Bills (1925) were aimed at providing such a solution. The Bills stipulated that, the Indians could only purchase or lease immovable property in demarcated areas set aside for them. Had the Bills been enacted into law, would have resulted in restrictions on the entry of Indians into Natal and in compulsory segregation of the race. However, the intervention of the Indian government in 1926 -7 prevented such a step and warded off statutory segregation for the next 20 tears. Thus, the Indian Government also assisted in ensuring the recognition and formalisation of the Indian businesses in colonial South Africa (Hiralal2007). By 1924, the Indians merchants had made inroads into real estate, manufacturing, and import and export of commodities. Like the African, entrepreneurs, the Indian trading class also had to deal with the racist licensing officers who have all sought of reasons to limit their trading licenses in Natal.

In general terms, by the 1930s the social and economic conditions of the Indians had improved in the aftermath of the 1927 Cape Town Agreement by the Union government to uplift the settled South African Indian population (Hiralal 2001). This has had the effect of increased opposition to the Indian community among the Whites, whose racist views resented their improved socio-economic conditions and economic expansion. This was aggravated by the Indian demand for political rights, better housing, civic amenities and economic opportunities regarded important in keeping with their improved status. During this period some of the Indian entrepreneurs were acquiring houses in predominantly White areas because of the better quality of housing and services in these areas (Hiralal 2001). Such actions were however denounced by Whites as signs of 'penetration'. Thus, the Broome Commission of 1941 and 1943 appointed to investigate the issue of 'penetration' identified that the reasons for acquisition of property were not based on competition of races but on dire economic need. Whilst trade was restricted through licensing, the wealth Indian merchants dominating the NIC reacted with speed to the 'Pegging' Act by negotiating the Pretoria Agreement of 1944. The outcome was a victory for the Wealth Indian Class. This agreement affected the poor Indians but the wealth class was prepared to compromise as long as their vested interests were secured (Hiralal 2001). During this period restriction on Trade was instituted by the Slums Act of 1934 and the Rural Dealers' Licensing Act of 1935. These reinforced the desire of the White commercial community to maintain economic superiority in an environment of growing and developing Indian commercial class.

5.2.2. Democracy, Change and Continuities: The ANC and the formalisation of small businesses

The OECD (2010) noted that registration impacts negatively on the ability of an SME to access funding from the financial institutions. Registration is important for it enables the separation of the owner's finances from that of a business. According to Mengistae (2010) firms are considered registered if they have registered with the Office of the Registrar, if they are registered with the local courts or other government institutions responsible for commercial registration, if they have an operating trade licence or are registered for a general business with a municipal agency and if they have obtained a number from tax administration.

The ANC's *Ready to Govern* of 1992, declared its intention to promote small scale black entrepreneurs by levelling the playing field through the unbundling of monopolies in South Africa. In no uncertain terms, it stated categorically that:

The concentration of economy in the hands of a few conglomerates has been detrimental to balanced economic growth in South Africa. The ANC is not opposed to large firms as such. However, the ANC will introduce anti-monopoly, anti-trust and mergers policies in accordance with international norms and practices to curb monopolies, the continued domination of the economy by minority and promote greater efficiency in the private sector.

Maseko (1999) noted that, 'since being in office the ANC has enthusiastically supported the development of the black bourgeoisie such as awarding them 'preferential state contracts'. This has also been noted by the NYDA's (2010) study which noted that the Preferential Procurement Act made provisions for those previously excluded to be given preference where procurement by state organs is concerned (NYDA 2011). However, Maseko was quick to note that, preferential procurement should not be exaggerated, noting that some previously disadvantaged Individuals (PDIs) are accused of being white corporate using front or ghost directors[16], managers and companies to win empowerment state contracts.

More still, the NYDA (2011), noted that the South African government has created various entities among which is SEDA, Khula, IDC, Khula Enterprises Finance and others. It also noted that economic charters have been drawn up to ensure that people who were previously excluded from participating in the economy are given a chance to do so. This is also augmented by the small business research institute, the SBP (2009) which noted that:

For the past 15 years the government has invested in a plethora of initiatives aimed at supporting and growing the SMME sector. Broadly speaking, it has focused simultaneously on high end enterprise development, and the encouragement of micro enterprise activity as a means of reducing the gap between the first economy and the underdeveloped economy (SBP 2009:2).

It went on to note that , 'a great deal of taxpayers' money has gone into these initiatives such that for 2008/9 alone the adjusted appropriation for SEDA amounts to over R400 million with an additional R38 million going to the Apex Fund and R 70 million to Khula' (SBP, 2009:2).

A number of programmes have also been set up with the goal of improving access to finance, market and business operations. A study by the NCR (2011:38) noted that, as of now, 'South Africa has a wide range of support schemes[17] that target small business owners in the area of research and development and marketing support, exports and support for setting up manufacturing, tourism and co-operatives'. In addition, the government has had a number of publications devoted to the popularisation of these schemes. To that end, a lot of evidence suggests that the government has done a lot, at institutional level, to try to

[16] Ghost Directors - In some cases there is no real empowerment in South Africa as some companies have resorted to fronting as a way of demonstrating their BEE compliance. Most of the Black directors in BEE compliant companies have no power to make decisions that drive the company. There are just there as mere place holders. The BEE Commission was set up to try to identify and rectify such problems.

[17] A number of schemes have been set up in South Africa to support small businesses, among which is the Manufacturing Competitiveness Enhancement Programme(MCEP), The Aquaculture Development and the Enhancement Programme (ADEP), the Incubator Support Programme (ISP), the Black Business Supplier Database Programme (BBSDP), the Co-operative Incentive Scheme (CIS), the Export Marketing and Investment Assistance (EMIA), the Sector Specific Assistance Scheme (SSAS), the Business Process Services and the Film and Television Production Incentive Programmes (FTPI), The Critical Infrastructure Programme (CIP) et-cetera. These incentives are too many and most of them are not known by those who supposed to benefit from them.

rectify the maladies of the apartheid system by democratising the space to allow the people to realise their potential. Leah Gatt (2012) quoting from the GEM report noted that, there have been a noticeable increase in the number of SMEs in Sub Saharan Africa. This might have been a result of what the World Bank sees as significant improvements in easing the cost of doing business in their countries, as South Africa was ranked second after Botswana in the 2011 rankings. Also Gatt (2012) noted that, South Africa has short processing times, high access to credit and the least amount of bureaucracy involved in obtaining permits. However, despite these improvements, many of the obstacles faced by the small businesses survived democracy in 1994.

5.3. How far has formalisation proceed under the ANC leadership?

The setting up of a number of institutions for the promotion of the SMEs is part of the formalisation and legitimisation process of the SMEs which were highly curtailed by apartheid institutions. The importance of this lies in the official recognition of the existence of this class of Black petty bourgeois. So as a process, formalisation underlies institutional transformations, if it is to have the required impact on the growth and development of the small enterprises. There has been a noticeable increase in the number of SMEs in South Africa as noted by the GEM (2010) report. This must have been as a result of the campaign by the government to advance their cause by providing the necessary incentives and through the easing of the registration processes. Gatt (2012) noted that the SMEs are increasingly being recognised as productive drivers of economic growth and development for African countries. According to Abhor and Quartey (2011) the SMEs make up 91% of formalised businesses in South Africa. The World Bank Survey of 2008 discovered that out of a sample of 120 firms, 80% were registered. In terms of Housing as important for collateral for accessing business financing, the Shisaka Development Management Services (2003) research into dead capital in the South African townships discovered that, the issuing of title deeds was far behind the schedule. However, Nabelah Fredricks (2014) noted that the small businesses are expected to benefit from the recently launched *National Informal Business Upliftment Strategy (Nibus)* of 2013 which is aimed at increasing access to finance, training and business formality. Nibus was framed with the focus on encouraging the SMEs to register and also to provide them with some other assistance. The strategy also seeks to reduce administrative burdens of the requirements of registration. According to Umlaw, the manager of the project, 'no-one will insist on business and tax registration', also noting that, 'these business owners will be developed to a point where they have the option to register and thereby qualify for better opportunity' (quoted by Friedricks, *Business Connect*, 2014)

Despite the campaign by the government, evidence suggests that, though a number of SMEs have registered there is still a lot to be done. The FinScope Survey shows that out of a total of 2050 youth owned businesses surveyed only 279 were registered compared to 913 businesses owned by people aged 35 and above. This demonstrates that registration is an

issue, for both businesses owned by the youth and those aged 35 and above. Also data by the FinScope Survey (2010) shows that 773 businesses owned by young people were not registered and 2660 of those owned by people aged 35 and above were not registered. The SBP considered that, the failure of the government programmes might be due to the lack of knowledge considering the advantages of registration and also due to lack of thorough marketing of these programmes by government.

5.4. The impact of government interventions: A critique of Hernando De Soto

Indeed it is undeniably wrong to argue that the government has done nothing to promote development by propping up the SMEs. Though other commentators such as Petra Rees (2014) have raised concern that, 'we constantly hear the need for more entrepreneurs, yet not enough is done to assist people actively to start their own businesses or to smooth the way for them through the forest of laws and red tape', however, the evidence at hand speaks to the contrary as the government of South Africa has tried almost everything in an attempt to implement all of De Soto's suggestions on wealth creation and development.

The National Credit Regulator (2013) noted that over the past decade, commercial banks have significantly increased their exposure to SMEs with historically disadvantaged individuals of their clientele rising. It also noted the increase in black middle and upper class account holders. It went on further to note that the negotiated Financial Sector Charter (through the BBBEE policy framework) is likely to accelerate transformation in the future (Timm 2014). Despite the positive effects of these on development, it was however quick to point out that, the risk assessments about the SMEs have not changed. In spite of this observation, the World Bank study of 2007 noted that the barriers to loans in South Africa's banking institutions are very low and that on average it takes 4.13 days to process an SME loan as compared to the international average of 11.03 days. However, what is also important to consider is that an SME application takes around 2 times more days than other loans. This has been interpreted as related to the quality of information provided by the owner applicants. But what is more important to observe is that major transformations have been realised in this sector with regards to credit provision as most of the banks now have 'promotional or workshops to help SMEs' (NCR 2010).

Although the government has tried almost everything within its capacity to facilitate access to financing, the GEM report of 2008 shows that South Africa is still behind other developing countries in prompting the growth of SMEs with only 8 out of 100 adults owning a business when the average in other developing economies stands at 13 out of 100 adult people. The World Bank Enterprise survey of 2008 discovered that none of the unregistered firms made use of any credit products and that although 13% had applied for a loan, but all had been rejected whereas credit products firms did. It also noted that registered firms were rejected but slightly with less frequency. This discovery indicates the importance of formalisation in financing. This indicates that, De Soto might have been right to suggest that formalisation improves the owner's access to financing. Notwithstanding the marked improvement

resulting from the formalisation of a business, Chimucheka and Rungani (2011) contends that the number of rejections is still unacceptably high noting in their analysis that this might be as a result of lack the of collateral (37%), lack of financial deposit (17%) and non-viable business plans (7%). Improved financing by the SMEs might not have improved the rate of success as the then Minister of Trade and Industry, Rob Davis indicated in 2013 that, 4 out of 7 SMEs in South Africa collapse within their first year of formation (Sowetan, May, 16, 2013). That is a staggering 57% failure rate. This according to the SBP suggests that the agencies and initiatives by the government have been less successful than intended. The DTI is quoted by the SBP admitting that it has failed noting that, 'we are doing things on such a miniscule scale that given the needs and challenges we will not be able to make an impact' (SBP, 2009.1).

Further, StatsSA (2011), noted with reference to liquidations and insolvencies that 2475 businesses went under during the first three quarters of 2010. Voolgraaft (2011) observed that, of the 2475 companies, most of them were closed corporations - a type of operation formerly favoured by the SMEs owners (Business Times, Oct, 30, 2011). Thus, de Plessis contends that, 'most of these businesses go bust within three years' (Vollgraaft 2014). According to the New Age (2012), despite the claims by the IDC, the NEP and business partners to have money for enterprise development, this sector is still lacking. Some scholars have taken this slow response as an indication that De Soto's hypothesis upon which the South African intervention strategies are hinged are inappropriate as the basis for stimulating development in South Africa. However, before dismissing De Soto, it is important to consider the need by entrepreneurs themselves to complement the efforts of the government. Nolan Bushell, the founder of the Chunk E Cheese's chain of American family entertainment centres, remarked that, 'The critical ingredient is getting off your butt and doing something. It's as simple as that. Many people have ideas but few do something about them now. Not tomorrow, not next week but today. The entrepreneur is a doer, not a dreamer' (Y-Age, 2012). This quotation may otherwise capture the inertia in South Africa and maybe a call for the reawakening of the entrepreneurs as was under the apartheid system. This inertia stands is a direct contradiction to the kind of the entrepreneurship spirit of the black capital accumulating class of Maponya, Motale and others during the Apartheid time. The remark is an indication that development is not only a matter of government initiatives which may otherwise serve to entrench the dependence syndrome thereby stifling independence, creativity and innovation. This view also came out strongly in an interview with the Director of the Centre for Small Business Development, Moipane who remarked that:

Firstly there have to be a balancing act again, in that information is coming in but are the people ready to assimilate the information? On the ground you will find that a lot of people have attended programmes, they have certificates but what have they done with that information because the person who is giving you the information have done their bit because (they) go through a financing module and they are told these are the templates to

use and they go back home and they file them. So whose problem is this? (Interviewed 10/10/2014).

Success is also about taking responsibilities - that acquisitive capitalist spirit.

Hernando De Soto has indicated that the formalisation of small businesses is the *sine qua non* to the development problems of the developing countries. He indicated that with the formalisation of small businesses, the problems of financing and capital formation would be greatly reduced. Baumaun's pronouncements tend to dispute De Soto's diagnosis, noting that when it comes to supporting small and medium enterprises, credit is only available to individuals with the right mix of assets (skills, education, time, energy, connections, savings) and does not reach down to the very poor (Baumaun 2011). This has also been noted by Meagher (1995) who argues that the profitable sectors are a preserve of those members of the middle class with the capital, education, skills and with the connections. These variables bring about distortions in the SME sector curtailing people's prospects for upward mobility. In spite of Baumann and Meagher's observations, the NCR (2011) has noted that since its inception (micro financing) a 17 billion market has emerged of which 36% has gone towards development purposes - enterprise development, education and housing. The Micro Financial Regulatory Council (MFRC) concludes that about 3 million people now have access to formal finance and that the majority of these did not have access to finance before. Another scholar, Royston (2007) does not deny the importance of formalisation. He has argued that access to title has a place in some segments of the market which historically had been denied, but was however, quick to note that De Soto's assumptions about formalisation are faulty unless an approach is adopted that segments the market or differentiates the 'poor', as the current approach reveals that the poorest are not catered for in South Africa. However, Ben Cousins (2005) noted that the assertion by De Soto that formalisation will open access to credit has not been realised in South Africa as the banks are not prepared to lend to the poor because of the risk of non-payment, low market value of the poor's assets and the relatively high transaction costs. He noted that households earning less than R3 500 per month are unlikely to get credit. This is well elaborated by Mouton (*Sunday Times*, BusinessTimes Oct 10, 2014, 3), who noted that, formalisation or business registration alone will not guarantee financing. He asserted that:

It is difficult to lend money on a business plan. The business must be in operation. So it must start small and build. If somebody comes to us and asks for money, the first thing, I ask for is a set of financials. I want to see the starting point. We won't invest in a dream or self-publicity. There must be something there.

As a result of this Hassim (2007) is of the view that the connection between formalisation and participation in an economy is far from assured.

Moreover, De Soto placed emphasis on systemic factors as major hindrances hampering SMEs development in particular and development in general. These factors push the SMEs

to operate outside the law. The OECD has indicated that the factors that favour informality would include, the few perceived benefit of SMEs operating transparently, the avoidance of being regulated and taxation in the formal sector and the government's lack of administrative capacity to enforce the law. De Soto noted that, the disadvantages of operating in the informal sector include the lack of security and operators' goods being confiscated by the law enforcement agencies. This disadvantage is out of question even in South Africa. For example *The Star* of November 22, 2013 noted with dismay how the operation dubbed 'clean sweep' stripped the traders in Johannesburg of their livelihoods in relation to the City of Johannesburg Metropolitan Municipality Street Trading By Law (21 May 2004) whose section 10(1)(a) states that an authorized official may remove and impound any property of a street trader which he or she reasonably suspects is being used or which is intended to be used or has been used in or in connection with street trading. Some evidence tends to show that those with registered properties and businesses feel secure as compared to those with unregistered properties (Rust, 2007). When registered, instead of fighting against the law enforcement agencies, these agencies are there rather to protect their properties and businesses. A study by Rust (2007) in the townships in South Africa found that those with title deeds to their houses felt that they were safe and had to work for long hours from home which increased their productivity. However, the GEM survey of 2010 indicated that crime was still a problem in South Africa.

More so, De Soto had indicated that cumbersome legal system was also a hindrance to success in developing countries. As a remedy to the problem De Soto proposed deregulation. Important to note is that conditions in South Africa have changed since the dawn of democracy in 1994. The World Bank, *Doing Business Project* of June 2014 indicated that in South Africa it takes an average of six days to register a new business. This is quite remarkable indeed when compared to other countries for example; Peru under mercantilism where De Soto noted that one had to spend almost 3 years. To note however, is that, in addition to company registration, South African companies and businesses also have to register for Unemployment Insurance Fund, Pay As You Earn, Skills Development Levy and with the department of Labour in terms of the Compensation for Occupational Injuries and Diseases Act, VAT and others. The business owner also needs to register with the South Africa Revenue Service (Sars). Petra Rees is of the opinion that this is too burdensome, and that something must be done 'to assist people to actively start their businesses or to smooth the way for them to through the forest of laws and red tape' (*Citizen: Buy in Bulk*, September 16, 2014: 1). For consideration is that, the government of South Africa has provided a number of incentives and also worked much to reduce the legal burdens curtailing the SMEs. Though, the GEM (2010) report discovered that legal burdens were among the reasons accounting for the failure of businesses, it must be noted that *Nibus* even promised that, 'no one will insist on --- tax registration' to encourage business to operate (*Business Connect*, February 20, 2014). This is, despite Caroline Skinner's accusations in relation to the Draft Licencing Bill (2013) that it demands all businesses to

register when the government is providing no incentives but punishments for not doing so' (Sunday Times *BusinessTimes*, July, 27, 2014).

Some of the accusations being levelled against the government are insincere, as the government has played its part in an attempt to prop up the small businesses. The World Bank's *Doing Business report* of June 2014 showed that the South African government is trying despite other short comings. As such, the World Bank ranked South Africa 43 out of a total of 189 countries that were surveyed in this regard. Therefore to say that businesses are failing because of cumbersome regulations in South Africa now as it was under the apartheid system might not capture the reality of the South African situation currently prevailing. Rod Davies dismissed the criticism that the high failure rate of small businesses was exacerbated by the amount of red tape that they are burdened with, arguing that the government had imposed regulations that should not necessarily be confused as red tape (*Sunday Times, BusinessTimes*, October, *30, 2011. p. 11*). However, Johaan va Tonder an economist at the Bureau for Market Research at Unisa, responding to the 2011 mid-term budget policy statement pointed out that the regulatory problems which Gordhan mentioned were identified during Thabo Mbeki's time as president and that we have been hearing about these for so long (*Sunday Times, BusinessTimes* October *30, 2011. p.11)*. Van Tondor's statement seem to suggests that South Africa has been able to diagnose correctly some of the problems which hinder the growth and development of the small businesses but has lacked the will power or capacity to implement some of the proposed policies. If this is correct, it means that the SMEs are still failing because of the old challenges as the government is not capable of implementing the reforms proposed.

Some forms of regulation will however still be required as recognised by De Soto. Regulations no matter what, will always be required to ensure fairness on the playing field, and to protect consumers and labour. Regulations may compel the SMEs to improve the quality of their products and services and this increases chances for linkages with highly developed businesses. There has been more in regulation in South Africa with the effect of curbing unethical behaviours such as fronting, in procurement, and monopoly tendencies (the Competition Act 1996) by big capital. David Cole the head of Risk at the *Swiss Re*, remarked that, '--- there are moments when capitalism can go into overdoing and it is important to have measures in place --- that ensure we avoid *excesses of capitalism' (Sunday Times, BusinessTimes,* June 1920, 14.). This should not however, be taken as a dismissal of De Soto's ideas on capital formation, it may reflects that the reduction in excessive regulations is just part of a contingency of factors that may bring about the success of SMEs. The *Y-Age* (2012:76) contents with regards to South Africa today that, 'the day of cumbersome legislations with many loopholes, which enabled dishonest or inefficient business *practices* are long over. Submitting returns to the receiver isn't as daunting or difficult as it used to be'

In addition to the above, the notion that formalisation will improve access has not materialised for all businesses in South Africa in to relation the need for space to operate from. The evidence tends to suggest that, the space to operate from has continued to be a stumbling block in the development of the SMEs just as it was under the apartheid system as discovered by Maseko in his study. Maseko (1999) discovered that, during the apartheid era black entrepreneurs faced problems of inadequate or unsuitable premises located in bad locations, high rentals and an inadequate infrastructure. The government has set up The Khula Property Portfolios so as to provide business premises to business start-ups and those expanding to medium sized business. In fact the DTI (2013) remarked that, the rental charged is 'highly subsidized'. Despite, some of these measures taken, the FinScope Survey (2008) revealed that the space to operate from was ranked number one as an obstacle to business growth in South Africa. Rob McGaffin (2010) indicated in a study that, the invasion of Malls in the township has not resolved the problem of the need for space to operate from, as these small scale businesses could not relocate to these malls because of the lack of customers, lack of funding, high rentals, low profits and the fear of competition from the nationals.

Furthermore, De Soto has argued that business formalisation would enable the SMEs access to some of the government programmes that are made accessible only to small formalised businesses. The Gauteng Enterprise Propeller (GEP) has a number of programmes to support the SMEs skills base. Also at national level, a number of skills programmes are at offer to help in improving the management capabilities of the SMEs. The GEM report (2001-2010), noted that SMEs suffer from poor management skills as a result of the lack of adequate training and education. According to the NRC (2011), this results in high rates of failure. As a result of the lack of the requisite skills, the GEM reports of 2002 and 3 noted that a number of entrepreneurs from poor countries did not keep financial records. It went on to note that cash flow problems were significantly reduced in the SMEs that kept a cash book, kept a record of debtors, practised active debtor management and controlled inventory. The report also noted that implementing these was associated with a reduction in the probability of an exhausted overdraft and that implementing the four, reduced this probability by 61%. The remedy to this is to be found in training programmes and mentorship schemes. Thus, in response to then Minister of Finance Gordhan's midterm budget policy statement of 2012, Tommy du Plessis, the Director of the Potchefstroom Business School at the North West University contends that businesses fail because, 'people are taught technical skills and vocations, but never learn how to do business' and that, this is, 'despite every school in every town teaching some form of entrepreneurship. But we do not see the results' (*Sunday Times, BusinessTimes, October, 30, 2011. p. 11*). Du Plessis contents that what small businesses need are management skills and mentorship.

The government has done a lot to address this problem with the setting up of Sector Education and Training Authorities and also the Khula Mentorship Programme. However, the problem has been the lack of awareness among the small business owners and the lack

of qualified mentors for the efficiency of the programme. According to the FinScope survey (2010), 75% of SMEs owners were not aware of any of the organisations that give advice and support to small business owners. Nonetheless, Rob Davis remarked that, 'the performance and uptake of the incentive programmes across provinces and sectors continues to grow' (The Business Connect, February 2014). The NCR (2011) however noted that many mentors used in the programmes had little skills, no business experience, and struggled to understand the basic principles of accounting, hence were/are incapable of adding value to their clients. The programmes were expensive but with little results. The existence of many of these programmes though less effective proves the point by De Soto that legal and social change will effect the democratisation of the space to allow the small capital some play. The lack of awareness of the skills and mentorship programmes by the small businesses cannot be taken as has been done by many to indicate that the De Soto business model is not applicable to South Africa. The failure of small businesses in South Africa today cannot be taken as an excuse to dump the De Soto thesis, for De Soto also emphasised the need for capable institutions and the reduction of information asymmetries which brings about market distortions and increased transaction costs for the poor.

The other factor accounting for the general failure of the SMEs has been crime and corruption. The OECD noted that, 'crime is perennially an important issue in business climate surveys, with South Africa ranked amongst the worst countries in the world on this front'. In the 2007/8 Global Competitiveness Index calculated by the World Economic Forum, South Africa was ranked 121 out of 126 countries for the business costs of crime and violence. It stressed that in South Africa the result were not only simply a problem of perception. The Forum went on to note that South Africa has one of the highest homicide rates in the world with particularly high numbers of violent death (quoted in Engineering News Magazine 2008). Further, the World Bank (2008) found that 30% of entrepreneurs in South Africa rate crime as the major or severe constraint on investments. It is for this reason that De Soto realised the importance of law enforcement. The South African government has done a lot to ensure the safety of businesses. The 'shoot to kill' deterrent strategy introduced during the time of Police Commissioner General Bkeki Cele had its roots in this attempt to create some space for enhanced business security. Despite this campaign, it seems that crime is still a big problem coupled with some outbursts of xenophobic tendencies targeting small foreign owned businesses.

The government has attempted a number of initiatives to prop up the small businesses in South Africa. However, the results to date are disappointing. The common criticism of the government's approach to SMEs is that it has been over-ambitious with a complex mix of strategies. According to the SBP, the government's approach has not been sufficiently nuanced. Further, according to Rust (2007), De Soto's argument that formal title to land, houses or business owned informally will encourage the use of houses as collateral for business finance is an oversimplification of the reality within the South African context. For this to work, Rust (2007) argues that, it requires a level of affordability that is limited in

South Africa to 14% of the population. The model expects that most of the home owners will want to mortgage and will want to risk losing their homes by offering collateral which is, 'not sensible given the market and economic volatility' (Rust 2007). For De Soto's model to work, Rust contends that, it requires a 'thick property sector' with able buyers and sellers to enhance choice and opportunity. Numerous studies (Cousins 2005, Rust 2007, Shisaka Development, 2006) have shown that these do not exist at the present moment in South Africa.

The study by the TRPM (2006) to gauge the contribution of homes to business success however discovered that, the most common use of housing was not as collateral but as a venue for business - a shop, crèche, office, as a base for production or storage of goods. None used it as collateral for venture capital. Of the 400 businesses surveyed, 68% said that their dwelling made it easier to open a business, and only 3% said it made it easier to obtain a loan from the financial institutions. Of the 3%, it was discovered that none of them used the mortgage to start a business. The majority used their own funds from savings, pension pay-outs, and retrenchments packages to fund new businesses. Rust's analysis suggests that the role of housing in wealth creation was not straight forward as assumed by the De Soto thesis. According to Rust, the housing asset represent a significant asset because of its worth not as collateral for business loans but because of its physical use for business purpose. The research by the FinMark Trust (2005) discovered that housing entrepreneurs, 'operated at a nexus of housing and local economic development strategies, whether as small scale landlords, incubators for SMEs or survivalist ventures thereby making an important contribution to the economy. The FinMark (2005) report noted that housing entrepreneurs are developing sustainable livelihoods using their houses as economically productive assets and that this should be supported by national, provincial and local governments. Rust, further contends that, what needs to be done, is to support incremental forms of finance, make housing loans affordable, micro lending to support the development of income generating activities in the home. This approach according to Rust recognises the entire housing stock as a social, economic and financial asset. Rust contends that this is more than what De Soto proposed. However, Rust seems to have a narrow understanding of De Soto for all of her recommendations underlie De Soto's broader scope of things as shall be seen below. De Soto's argument that formalisation increases productivity, was meant to include other positive spinoffs. The avoidance of goods being impounded by the police and right for legal enforcement of the property rights are some of the assumed advantages.

Stephan Schirmer (2007) has raised concern that, most of the reviewers of De Soto's work have been reductionist in their nature. He remarked correctly in accordance with the evidence at hand that, 'reducing De Soto's work to such a mechanistic one size-fits all prescriptions will do little to advance the cause of development in South Africa and anywhere else'. According to Schirmer (2007), 'the hype that spans de Soto has served to obscure some of the more complicated realities he describes in his books' and that if they are interpreted in a particular type of paradigm, they contain valuable lessons for promoting

gradual but sustained processes of poverty alleviation. Schirmer contends that democratisation should be the basis for formalisation and that the formalisation of property rights cannot be achieved in mechanistic top-down titling fashion. Formalisation has to be real and for this to happen the process should be meshed with the people's values, norms, beliefs. That is to say they should be part of a people's culture; they should have meaning to the people. Schirmer thinks that, they can only be meaningful if they bring about integration and enhance people in the economy. Thus, the creation of such rights should be a complex process and not the top-down processes which may result in similar structures as mercantilism. According to Schirmer, to better appreciate De Soto, people should be able to understand property rights in a very broader way as these should be taken as a way of describing the social and legal institutions that will allow people to become willing participants in the markets. Schirmer (2007) considers four important things for property rights to be defined as such and these are: they must be relatively easy buying and selling of property, investing in their enterprises and getting others to invest in them as well, taking legal action against those violating property rights, and entering into contracts that are binding and enforceable. He argues that if one has the will to enter into one of these but cannot because of barriers in their way, it means that property rights have not been effectively established. With reference to South Africa, this may be interpreted to mean that the continued failure of the SMEs is not a problem to be found within De Soto's approach to development but a problem in the South African superstructure which has not managed to effectively effect legal and socio institutional reforms.

Further, Schirmer (2007) has indicated that, a property right that is not secure cannot be considered as such. Property rights are therefore broad and cannot be equated to 'paperised' forms of ownership only recognised by the state or a legal paper not allowing the holder to participate in the market effectively. Such a title will just be the same as the informal title described by De Soto. Property rights are therefore, complicated, enmeshed in networks of laws and norms and the processes for their attainment are more complicated than simply handing formality papers to the poor people. A clearer and thorough appreciation of the application of the De Soto thesis in the context of South Africa should have to consider such an understanding and anything short of that will be a misapplication which will only serve to cloud developmental realities. It will be like applying a paradigm to dissimilar circumstances as opposed to its propositions. This is what has happened with many scholars in South Africa who have applied De Soto in a half-baked manner, clearly demonstrating a misappropriation of his work in a bid to dismiss it as platitudinous and inapplicable. That is surely a travesty of just which does not further in any way the advancement of academic scholarship or our understanding of reality. In fact, De Soto in the *Other Path* noted that the process of establishing property rights is not as straight forward a process or as cheap as we are made to believe when we see some business licences being handed over to business owners in South Africa. In Peru, De Soto noted that there were a

lot of challenges, failures, restarting the process again and again without getting it right. Thus De Soto (2001:34) noted that:

The process within the formal system that breaks down the assets into capital is extremely difficult to visualise. It is hidden in thousands of pieces of legislations, statues, regulations and institutions that govern the system --- that allowed the people to grasp in the minds values that human eyes could never see and manipulate, things that hands could never touch.

The processes of institutional change are difficult, gradual, and involve the transformation of the established social and ideological underpinnings of a society. It is a process that demands the co-operation of all the social forces for it to be binding. Property rights have to be universal for them to be functional. For this to happen, a number of prerequisites are important to achieve and guarantee the same. The most essential requisite is the need for a competent bureaucracy to carry out the reforms. The failure of small businesses in South Africa may therefore be attributed to the lack of a competent bureaucracy capable of implementing formulated reforms as noted by Johaan van Toder of the Bureau for Market Research at Unisa (*Sunday Times, BusinessTimes* October, *30, 2011. p. 11*). Also bureaucratic weaknesses are a result of the lack of skilled and qualified manpower. For example, it has been noted that the Khula Mentorship Programme was unable to add value as most of its mentors did not have the relevant skills and qualifications to perform their duties. It has also been indicated that to stimulate rural entrepreneurship, the Department of Rural Development and Land Reform (DRDLR) is supposed to work with all stakeholders concerned. However, with regards to rural entrepreneurial development, Ruth Hall (2007) noted that this might be difficult for the DRDLR especially when taking into consideration the history of the schism that had existed between the Department of Land Affairs and that of Agriculture, a schism that had made it difficult for the provision of support to small scale rural entrepreneurs who had benefited from the proceeds of the land reform. With regard to the same field, Atkinson (2007) also noted that previously the government departments have not been coordinated in dealing the challenges in rural development and that there has been some confusion, and overlapping in the functions of the national departments and provincial departments, district municipalities and local municipalities concerning service delivery. According to Atkinson, this was a notable case of government's failure where it is concerned with improving the lives of the poor. Thus, there is still need for a competent bureaucracy to propel change in the right direction for the benefit of the SMEs in South Africa.

5.4.1. Assessing the BBBEE and the De Soto impact

The BBBEE as a model of development by facilitating the inclusion of the historically disadvantaged groups as a means of outdoing the historical legacy of the apartheid system has been met with limited successes. Yes, there are success cases the clearest examples of these being the much publicised Kumba Iron Ore and the Standard Bank deals. These deals

have had a characteristic advantage in that their focus was on empowering the employees and not individuals. However, with regards to many other deals, Motlanhte, regrets that, the policy was, 'muddled up politically, because there was no clarity on the formula to ensure that this dividend would flow to the broadest cross section of those who had been previously excluded' (Quoted by Ben Turok, 2014:18). It has been noted that despite the positive postulations of the, BBBEE and other frameworks such as the ASGISA, in the promotion of SMEs and the formerly excluded, this process has been hindered and hampered by the growth of corruption and patronage networks in the, 'neo-liberalised post mercantile De Soto South Africa'. Thus, there has been an increasing tendency of the growth of an entrepreneurship culture hinged on cronyism, capturing state rents, and corruption through the ruling party-state nexus. (Turok 2014, Sunday Times, 17, May 2015).This goes back again to the emphasis of De Soto on the need for strong institutions for the enhancement of transparency and accountability. The Minister of Trade and Industry, Rob Davies also noted, with concern that limited success has been realised in this field but noted that the broad goals of transformation have not been advanced. He indicated that:

--- *the performance in the private sector in South Africa was BEE 7, which is almost non-compliance (and that) far too little performance was realised in those parts of the programme that were intended to support black entrepreneurs through enterprise development and supplier development (Interview by Ben Turok 2014:33).*

In a bid to rectify some of the shortcomings, the government has introduced the BEE Amendment Act (2013) to remedy the problems pertaining to fronting (BBBEE Commission) to strengthen the verification process, enhance supplier development and skills development and ownership.

The BBBEE has failed the small black companies wanting to perform alongside with big companies. As a back drop to this cooperation, it has been noted that the big companies wanted these verified whilst the verification agencies were too expensive, charging exorbitant fees such that these small companies had to pay R30 000 to R40 000 rands to get a certificate as black empowered. This, according to Rob Davis is, '--- red tape, bureaucracy gone wild' (quoted by Ben Turok, *New Age*, 2014). The amendment bill seeks to smoothen the process and for 100% black owned companies to be automatically recognised as level one and for any company dealing with them to accept just an affidavit or to go to the commission for the confirmation. Despite these attempts, the original design of the BEE has shifted the goal posts. Formerly, it was a legitimate process of democratisation through levelling the playing field so as to allow the historically disadvantaged black majority, defined as the Blacks, the Indians and Coloureds, to participate. However, the process has been hijacked by vested interests for individual aggrandisement to the extent that some of the groups formerly falling under those defined as black are longer considered as such under the new conditions. This is what De Soto referred to when he correctly noted that the

democratisation processes may end up creating conditions similar to mercantilism, if the people are not involved in their design and implementation.

With regards to mentorship and skills, the government has also been rolling out incubators and incubation support programmes. Thirty programmes have been accomplished in this regard (Roy Davis 2014). The first of these was the SASOL ChemCity in Sasolburg. Incubation has also been facilitated by private players. There are notable numbers such as the Awethu Project in Braamfontein - Johannesburg and the Harmony Gold in Soweto. Rob Davis noted that, 'These programmes have been successful in many parts of the world (and) even in South Africa' (Rod Davies quoted by Turok 2014). He was, however, quick to point out that, in South Africa, we have too few of them to make an impact. Incubation may be crucial in unbundling monopolies when they are linked to big companies. For example, as with the Toyota City in Japan, with the Toyota plant is surrounded by small supplier companies. Thus, the SASOL ChemCity in South Africa has employed same model. However, it is still early to assess the results with certainty.

The incubators have the advantages of providing the people or start-ups with access to machinery, equipment, and formal and informal mentoring. They may also bring people with a common idea on a particular business line. That these projects can be and have been successful though to a limited extent is illustrated by the example of Piennar, the Founder of a manufacturing company *Straight to Your Door* in Alexandra-Johannesburg (Y-Age 2012). The company manufactures bread, rolls and confectionery. Piennar gained directly from the Awethu Project (Business Incubator) in the form of training, business facilities (computers, fax machine) and being linked up synergistically with established companies. As a result of the connection with the Awethu Project, *Straight to Your Door* has been linked up with a giant company known as Kraft Foods with an interest in developing town ship markets. Linkages, both the backward and forward linkages are an effective way by which the small companies can be encouraged to improve on quality in production and also in capturing or expanding their markets. According to one of South Africa's most successful entrepreneur, Raymond Ackerman, 'do not go to the expense of opening your business before you have spent a number of years learning at someone else'. From the case of Piennar, it can be concluded that the De Soto function of enabling the acquisition of skills by the small business owners is of great importance and can have positive spin-offs, if well undertaken. The only problem in South Africa is that incubation is expensive and attempts at these have been minimal, hence, the SBP (2009) noted that one of the major causes the failure of small businesses in South Africa has been the lack of mentorship.

Despite the number of failures of the SMEs, some evidence however suggest that quite a number of Indian entrepreneurs have responded positively to government's democratisation efforts and attempts to prop up the formerly disadvantaged communities.

This is exemplified by the case of *Universal Print Group*[18], transformed from a mere family business into an international corporate enterprise in post apartheid South Africa (Hiralal 2007). This group has been very successful in embracing the BBBEE such that 90 percent of its employees are members of the previously disadvantaged communities (Hiralal 2007). However, quite a number have also been affected by the proliferation of malls that has affected the small players - Indian, Coloured and African, who could not afford the exorbitant rentals charged in these places. Further, the failure to establish a peaceful environment in post apartheid South Africa in such places as Durban has seen many small entrepreneurs suffering from increased criminal activities (Hirallal 2007). Also the hyperactivity of the hawkers selling commodities at very competitive prices on the streets has had negative effect on these entrepreneurs.

In conclusion, it has been revealed that many scholars are of the view that De Soto's analysis of small business development leaves a lot to be desired. However, it is also important to take the context in to consideration when discussing the ideas of De Soto, for most of the countries in Europe had been successful because of these ideas. Maiti and Sen (2010) also discovered that some of the small businesses connected to big businesses in India are doing well, which tends to support the De Soto thesis. However, with the success of the Asian tigers whose systems are based on limited state intervention and some form of open market, it can be concluded that development is not a one way process and nations are therefore advised to juggle with all the available paradigms taking into consideration their own environment in the process.

[18] K, Haralal (2007) noted that, 'Universal Web Printers (UWP) was founded by Virjiee Mehta who arrived in South Africa from India in 1908. Metha was employed by Mohandas Karamchand (Mahatma) Gandhi as a compositor on his newspaper, Indian Opinion. In 1924, he founded his own company Bomay Printing Works (later renamed Universal Printing).He was later succeeded by his two sons, one of whom was Kantial Mehta. The business continued as a small successful, family concern until 1978, when Kantial's sons, Harish, Bharat and Yatish, became fully fledged members of the company. Collectively, they played an instrumental role in the transformation of the printing industry in South Africa, and in the 1940s was one of the first Indian owned printing companies to take on apprentices as compositors (type setters) and machine minders. *With the dawn of democracy,* empowered through equal opportunity, incorporating cutting edge technology and skills transfer, the Universal Print Group is today one of the largest, most versatile and technologically advanced print communication companies in Southern Africa'.

Chapter 6: Case Studies in Soweto: Critique 2 of Hernando de Soto

6.1. Introduction

The literature review revealed that the South African SMEs faced a myriad of constraints in relation to financing, marketing, business location, regulation, business skills, safety, security and others. Hernando De Soto has argued that most of the problems confronting small businesses in the Third World countries are as a result of the system of mercantilism still in place in these areas. According to De Soto, democracy and the formalisation of small businesses would result in sustainable development. The formalisation of small businesses would, as noted by De Soto result in the reduction of the factors which hinders the growth and success of these businesses, with regard to financing, business skills, business linkages, safety, security and others. Business formalisation is, therefore taken as the launch pad to the generation of successful businesses as this will open up opportunities that had formerly been a cleavage of a few privileged businesses in relation to accessing government programmes, financing and marketing among other benefits. This chapter is an exegesis of Hernando De Soto's propositions basing on the views and opinions of those owning small businesses in Soweto who were interviewed with regard to the impact of formalisation on their businesses. The chapter revolves around various themes upon which these interviews with the small businesses in the Jabavu area of Soweto were framed[19].

6.1.2. Regulation

The impact of regulation has been a constant theme in the promotion of the SMEs in South Africa. This theme has come out from a number of literatures relating to small business development in relation to the cost of compliance once a business is registered. The respondents in the interviews which were conducted in Soweto raised their concern about the impact of regulation on their daily operations with regard to profit realisation and the possibilities of business growth. All of those who were interviewed stated that their businesses were registered entities. In response to the question, *Do you comply with sectorial regulations in terms of labour, health, safety etc.?* Reggie the owner of a Restaurant in Soweto has this to say, 'Yes, we do comply with the regulation requirements. We have a health certificate and our tax forms are in order' (Interview 10/09/2014). On the same question, Maphere who is running a manufacturing and construction company mainly dealing with aluminium products said, 'We do comply with the requirements. We have a health certificate. We have a health plan' (Interview 15/08/2014). Dr Lambo who is running a surgery noted in the interview that, 'Obviously you need to be registered. I need to be registered with the Health Council, with the Health sector. For private practice, I need to be registered with the Board of Health Department' (Interview 20/10/2014). Most of the businesses that are operational have tried to comply with the legal demands of a registered

[19] Table 1. Schedule of the interviews conducted in the Annexure

business but the question is, how have these impacted on their businesses. In response to the question, in what ways does compliance requirements impact on these formalised businesses, most of the small businesses interviewed thought that registration was important to them no matter what. According to Lambo,

These have not really impacted in a negative way. I have complied with the law for me to operate ---. In this sector I disagree that registration has a negative impact. It all depends with how you work with people. If you are a good service provider, patients are going to come and this is what I have been trying to invest in (Interview 20/10/2014).

According to Mahpere,

I can't say regulations drain the resources because you just need to comply, you just have to comply. The benefits of compliance are like, for example in our industry, obviously it's like when you pay tax, it helps other sectors that are in need of cash. Our own business so far I can't say the benefits of paying tax. Maybe on our side is getting the tax returns, especially annual returns. It's obvious when you submit you get something in return. Tenders! To get tenders compliance is very important. It's like in most cases we subcontract, for example with June 16 Museum we are the one who installed the shop front, the sliding doors, the whole building we are the one who did that. There are quite a few that we have done and it was via sub-contracting. You can't, sub- contract without paying the VAT (Interview 15/08/2014).

Basing from these responses, it can be said that regulation and compliance are important and do not impose such a burden as had been portrayed in other literatures. There are indeed other sectors where it is virtually impossible to operate without complying with sectorial registration requirements as indicated by Doctor Lambo who operates a surgery in Soweto. Also important to note, with regards to government tenders some of which are profitable, Maphere indicated that compliance is a prerequisite. Formalisation in this sense is crucial if the SMEs are to advance themselves in those areas that are considered a preserve for only those that registered such as running a surgery in this case and also if one is to get tenders from the government or from other companies as indicated by Maphere, one of the interviewees quoted above. All this points to what Moipane, the Director of the Centre for Small Business Development based at the University of Johannesburg (Soweto Campus) said in an interview. She noted that, 'Formalisation is important because for one to be a business person, you can't go to the SABC and say I want to produce before obtaining the SABC standards because they want quality' (Interview 20/10/2014).

The findings confirm also the findings by the GEM (2010) report which noted that regulation was not considered such a burden by small businesses in South Africa.

6.1.3. Financing

The existence of easy access to financing and a legal framework that encourages entrepreneurship has been taken as of the crucial factor driving American capitalism. With reference to the development of the American economy, Niall Ferguson (2008) asserted that:

The ability to walk away from unsustainable debt and start over again is one of the distinctive quirks of American Capitalism. There were no debtors' prisons in the United States in the early 1800s, at a time when English debtors could end up languishing in jail for years. Since 1898, it has been every American's right to file for Chapter VIII (liquidation) or XIII (voluntary reorganisation). Rich and poor alike, people in the United States appear to regard bankruptcy as an 'inalienable right' almost at par with 'life, liberty and pursuit of happiness'. The theory is that American law exists to encourage entrepreneurship – to facilitate the creation of new businesses. And that means giving people a break when their plans go wrong, even for the second time, thereby allowing the natural-born risk takers to learn through trial and error until they finally figure out how to make that million. After all today's bankrupt might be tomorrow's successful entrepreneurs[20]

With reference to South Africa, the interviews which were conducted in the Jabavu area of Soweto, financing was one of the recurring themes in small business development with regards to business formalisation. However, the responses of the interviewees running small businesses in Soweto show that formalisation has not really assisted much in this area even for those businesses that are sound enough. According to Brian one of the interviewees, who runs a construction company, formalisation has not improved anything with reference to what De Soto calls the 'capitalisation problem[21]'. He remarked that:

The idea was to grow the business to another level but you can't do it if you don't get any assistance from the financial institutions and from the government sectors. You just have to save the money you have and try to buy. As I have said, I wanted to buy into franchise from these companies but without assistance from these institutions it becomes difficult to reach that destiny. It will take time, unlike if there was assistance you are able to do whatever you

[20] Ferguson noted that many of America's successful businessmen failed in their early endeavours, including the 'ketchup king', John Henry Heinz, the 'circus supremo', Phineas Barnum and the automobile magnate Henry Ford. All of these men, become very rich because they were given a chance, 'to try, to fail, and start over'. However, he also noted, the changes that have since taken place within the American system with the introduction of mortgage bond lending which has made the system very unstable and vulnerable due to unproductive speculative lending and borrowing.

[21] This is the problem faced by the poor in converting asserts into liquid capital to finance and expand their businesses. The Problem, according to De Soto can only be solved through the formalisation of their property so as to allow them to use them in concluding business transaction and as collateral for business finance. Formalisation will also allow them a fixed address which is very important for a number of reasons in a business e.g. as the basis for building trust with clients. Thus, capital is not the fixed assets but the potential locked in them with the capacity to generate wealth. The capitalisation problem is a problem arising from the difficulty in converting the poor's assets to liquid capital so as to capitalise their businesses.

want to do so that you can create a job opportunity. The government and the financial services don't want to help you, then that is not the end of your goals, you just have to push (Interviewed 12/09/2014).

However, Maphere seems to contradict himself a bit with regards to the importance of registration to business capitalisation. His response was:

No! I had never received any finance from any. It's either the DTI or SEDA or GEP. Financial institutions, these are the last I would go to. I had never approached them. We were busy trying to venture into the stockist of Aluminium products. We tried to approach them and they gave us lot of promises that were not fulfilled. We never gave up and on the 3rd of September we are going to the third convention of this franchise; the idea is to buy into the franchise of PSG. They are the main suppliers of Glass and aluminium products in conjunction with WISPECO - SA (Interview 15/08/2014).

Further, another SME owner Dumisani (Interviewed 08/08/2014) who owns a registered maintenance and landscaping company noted that, the government programmes have not improved in any way in the capitalisation of his business. He remarked that, despite attending many functions organised by the NYDA, he has not received any financing from the government agencies in spite of having applied for that from the NYDA. However, others have benefitted well from government subsidies. For example, Moira who owns a crèche and a day care centre and employs accredited teachers had this to say:

Our only challenge was to raise the required resources to get this project running. That was 7 years ago. A number of requirements had to be fulfilled. You need a health certificate, you need a fire certificate and the place was inspected several times. When working with kids safety comes first. We started receiving a grant from the department in the second year of this project. As you can see now, we have many children and the place is small. We have 70 kids right now! (Interview 28/11/2014).

From these statements; it seems that though most of the registered small businesses have problems with financing, some in fact, a few businesses have benefitted from government financing programmes as indicated by Moira's case. Most of the businesses, however, indicated that they started their businesses from personal savings having worked somewhere. Problems of financing impacted heavily on those who just registered a business without having worked somewhere such as Dumisai referred above who could not even manage to get his business operational. This fact was also expressed by Bongani Mabuse (2014) of the City of Johannesburg at the *Conference of The Social and Solidarity Economy: A pathway to socially Sustainable Development* which was organised by the CSESE on the 3rd and 4th of September 2014. Mabuse noted that grant making 'is not a stimulus but savings. Your savings are very important. Government adds to what is there. Communities have to save. Entrepreneurship must be there in the community'. Important to note is that, most of the SMEs fear approaching the banks and this finding also confirms Professor Ben Cousins'

2005 study. Thus according to Doctor Lambo, '--- I did not want --- you know (to) approach the bank, (to) get the loan --- because I had all other financial obligations---' (Interview 20/10/2014). This also emerged out in an interview with Reggie who remarked that, '--- when short of money you work hard, work(ing) for extra hours, you make a plan, you don't go to the bank, ---, borrowing money won't help us at all' (Interview 10/09/2014). All this, seems to point to the fact that formalisation may improve one's access to resources but the poor are not prepared to risk their resources by getting indebted to the financial institutions. But with regard to state agencies, it seems that these have not been very much useful in financing the poor. To note also is that only a few of those interviewed were aware of the existence of a number of government agencies that provide financial assistance to start-ups. Only the NYDA is well known by the businesses owners. Moipane, the Director of the Centre for Small Business Development is of the view that, the lack of skills when presenting business proposals accounts for the failure of SME owners' failure to secure funding even from the government agencies (Interview 10/10/2014).

6.1.4. Business location and the space to operate from

The space to operate from also comes up from the interviews as one of the issues that curtail small businesses. Maseko (1999) noted that, during the apartheid era, Black people's businesses were limited and found in bad locations. De Soto has argued that institutional reforms and the formalisation of SMEs would also imply benefits to operate in designated areas that are also protected by the law enforcement agencies. Whilst some of the small business owners interviewed in Soweto argued that their operating areas were fine, others however, are of the view that formalisation has not improved them in this regard. Moipane, the Director of the Centre for Small Business Development at the University of Johannesburg (UJ) noted in an interview that, 'in terms of infrastructure, there is an infrastructure issue in terms of small businesses. They don't have access to places where they can sell their products because it's expensive' (Interview 20/10/2014). Also Dumisani one of the small business owners interviewed has this to say, in regard to this area:

---we do want to have an office but as a small business we can't afford to rent one. The office has many advantages; clients see that it's a serious company - registered company. We applied to the NYDA but we are still waiting to hear from them. We want money for tools and just a small office where people can come and see us (Interview 08/08/2014).

With regards to this, Brian noted, saying:

---you know when you start a business your geographical factor counts a lot. When the business grows you then need a big structure of which it is our aim to use the building where we are --- make use of this current one as a show room in the future. As you see, the office is small, the workshop is small. There is nothing we can do. We are looking to going may be into a bigger building. At the present moment, we are still looking for a bigger structure,

maybe in the industrial area, but we will keep this one and convert it to a show room (Interview 12/09/2014).

However, Doctor Lambo whose surgery is based on a rented house sees the place he is operating from is as good one. He remarked, 'It's an ideal location closer to the main road for ready use and because of the numbers really, --- in actual fact, I don't think I would like to go to another place. I would rather expand it here; even buy the next house to make it bigger' (Interview 20/10/2014). Doris who runs an internet café expressed the same sentiments. With regards to her place she noted, '---it is an ideal place centrally situated business area next to the school, accessible to kids for assignments' (Interview 15/08/2014). An aspect to note is that, the idealness of a place to a business depends on the sector one is operating in. Moira who runs a crèche from a rented house that had been converted into classrooms expressed her dilemmas with regard to the place of operation. She noted that with the number of kids at 70 the place was now small but indicated that moving to another area again was a problem as the catchment area of their businesses was within the immediate location. Thus, businesses such as crèches, internet cafes, and surgeries thrive in areas that are highly populated with a ready market while others would require some offices in the malls which are well secured and where clients of different classes could come and make orders or bookings. The target market is therefore important with regard to business location. Important to note is that, there is only one government agency - the Khula Property Portfolios that assists in terms of infrastructure by offering subsidised offices to SMEs. All of the small business owners who were interviewed were not aware of this. Even Dumisani who would like to have an office to operate from was not aware of the Khula Property Portfolios. The lack of information is also another cause of failure.

6.1.5. Business linkages

Another theme that was explored revolves around the importance of formalisation in setting up business linkages. Responses from those interviewed showed that a number of registered SMEs have benefitted from establishing links with the established businesses in terms of skills development, supplies, business information - all of which augments the level of operations with regard to scale, scope and quality assurance. In response to whether formalisation has assisted in any way, Ingrid the owner of a Restaurant has this to say:

Not really. Maybe partnering with other organisations because other organisations need you to have a tax clearance for them to do business with you. I think they just linked me up with some people and it's not a partnership as such, it's not like I benefited directly from them. It's like they just linked me up with some tourists (Interview 20/08/2014).

Formalisation, thus, enables business linkages with government agencies with the benefits accruing to the business owner. Maphere also indicated that he has benefitted from linkages with other established companies especially from training and supplies. He remarked in the interview:

'We train via WESPECO. If there is a new product that has been implemented like folding doors. Even myself, I have just gone through training with them for folding doors and shop fronts. This is, for products that have been introduced' (Interview 15/08/2014)

Another one running a restaurant noted that, they have benefitted from registration for most of the products that they need are delivered to them by their suppliers .He also noted that they have benefitted from these linkages in terms of training. He noted that, 'we do have --- different products and some wine producers who say give us your staff and we train them. There is always ongoing training' (Interview 15/08/2014). However, another thing to note is that, most of these linkages are backward linkages[22] except for those who have benefited from government subsidies and tenders like Maphere who benefitted from a tender for fixing the June 16 Museum and Moira who received government subsidies for operating a crèche and a day care centre. For this, Dr Susan Steinman the director of the Centre for Entrepreneurship and Social Economy noted that in our effort to promote SMEs in South Africa, we need to look at both the supply and the demand side of the equation (CSESE Social and Solidarity Economy Conference Speech 3 September 2014). Kate Meagher (1995) further noted that the backward linkages need to be scrutinised as they are exploitative with suppliers over charging their products. From this, it can be discerned that, linkages - the backward linkages tend to create markets for big businesses and not for the SMEs. Parahalad (2002) a supporter of De Soto has noted that these linkages are important in growing small businesses as has happened in India where they are connected synergistically to big businesses. In Soweto among those interviewed, it seems that they are important in reducing transaction costs as big suppliers have to deliver their products to the small businesses in the township. It has also been noted that some have benefitted from the acquisition of important skills provided by the established companies to which they are linked.

6.1.6. Competition

The small businesses raised the concern of heightened competition as having some bit of negative impact on their businesses. Though the SME owners mention the invasion of the townships by big companies in the big malls, their biggest worry was the competition posed by other small businesses especially, those operating in the informal sector. From those interviewed, it seems that these small businesses which do not have to meet any compliance requirements are very much attractive to the customers. The interviewees raised their concern that, the law enforcement agencies are not effectively dealing with those operating in the extra-legal sphere. Maphere one of the interviewees whose company specialises in maintenance and manufacturing noted that those operating informally are killing the business pointing to the fact that:

[22] The backward linkages emphasise the supply side of a business. Though, these are important especially in reducing transaction costs, in some cases they can be very exploitative with suppliers overcharging their products. Forward linkages are crucial for creating market for SMEs. Access to the market facilitates realisation and investment and growth of the SMEs.

The government has a role to play, especially what we have discovered to this aluminium industry. It's not regulated especially, every dick and harry can just do as they please and get out any day and time and start something which kills the industry. The majority are not even registered especially in the Black townships (Interview 15/08/2014).

This was also noted by those operating restaurants who voiced their concern that at each and every corner of the street in Soweto we have a 'Chisa Nyama'[23] and that these are taking their former local clients/customers. According to Ingrid, 'There is competition but we beat off competition by offering different products and best quality. This is a growing problem like you know, at every corner (of the street) now we have got these Tshisa-Nyamas and they do attract a lot of people' (Interview 20/08/2014). The problem of competition was also raised by Dumisani who revealed that most of this competition is coming from foreigners who are unregistered. Dumisani noted that, those businesses that are registered are stable and are not a problem to him as they do not operate in the townships but in the big malls and in the low density suburbs. He remarked, '--- Ya there is competition, but because they are charging less because some are foreigners, they don't charge much. Well established companies don't work in the township households but in suburbs and in malls' (Interview 08/08/2014).

However, it was noted that, these challenges are sector specific. They are not heard of, for example, from those operating surgeries or those running crèches.

In spite of these sentiments on competition, it seems that competition has had its own beneficial side-effect, which is the quality of service provision. As Ingrid remarked in the interview, 'there is competition and we beat off completion by offering a different product and best quality' (interview 20/08/2014). Maphere also noted that they beat off competition by improving their products. He remarked, 'We have competition and it's good to have competition because it makes you always to be on top of your game, in terms of your pricing' (Interview 1/08/2014). Competition also brings about innovation. For example, Zakari who owns a Bakery noted that they responded to the threat by the SASKO and Albany bread through innovation.

It's like --- people don't have money. They can't afford 12 rand for Albany or Sasko on daily basis, so we decided to make our loaf small and its cheap, just 6 rand. Again, we sell it fresh, it's hot! We deliver to many centres, the Soweto old people's home and this youth centre also used to order their bread from us. (Zakari Interviewed 14/10/2014).

From this, it can be argued that formalisation though not completely advantageous, it has forced small businesses to innovate, to perfect products, to beat off competition so as 'to stay in the game'

[23] Chisa-Nyama - is taken to refer to braai or a places where people do braai and buy some pap

6.1.7. Access to information.

Lack of information was another theme that came out of the interviews. Most of the interviewees were not aware of the government agencies despite the attempts by the government to market these agencies and programmes that assist small businesses. This confirms the study by the SBP (2009) which noted that the uptake of the incentive programmes has remained very low and contends that, this is due to lack of marketing of these programmes by the government. As a result, most of the businesses are of the view that the government is not doing enough to support them. However, one of the interviewees noted that, 'the lack of support from the government is probably due to the lack of readily available information and *(not)* knowing where to go. Maybe I am at fault because I haven't done my part' (Dr Lambo Interviewed 20/10/14). Also Mzwandile a small business specialist with the Soweto local government remarked that the local government has nothing to offer as most of the programmes that deal with the SMEs are located with the central government (conversation with Mzwandile 19/09/14). This means that the officials responsible are not readily available to the owners of the SMEs for advice and other needs hence the need for further decentralisation and democratisation so that the local government agencies are located within people's proximity. Though some of the government agencies are known, for example Reggie is connected to the GPA, Dumisani to the NYDA and Moira to the Department of Education, and Maphere to the GEP, it was discovered that many were not aware of the vast agencies, programmes and initiatives by the government.

The other reason for the lack of information as was discovered was the lack of belonging by many of the small businesses to business associations or chambers. Those who belonged to associations were much more updated in terms of information on the government programmes offering assistance to small business. For example, Maphere who belonged to the Black Management Forum was well updated concerning the government programmes. This was as a result of the information that is constantly supplied to him by this organisation. As such, he had managed to attend a number of business courses with regard to business operations and management skills which he thinks had improved him a lot as a business person with regards to cash flow management, human resources management, marketing and other business areas. It is therefore not surprising that Maphere has managed to expand horizontally and also to open 2 other branches, one in Rustenburg and the other in Mpumalanga all in all employing 26 people. Information pertaining to specific business sector is very important for it enables connections and linkages that are important. As indicated above by Doctor Lambo, it is they, the owners of small businesses who are at fault for they do not seek information. To note is that everything concerning the government incentives and others from the private sector is now there on the One Stop Shopping Centre created for marketing purposes on the DTI website. Moipane, the Director of the Centre for Small Business Development at the University of Johannesburg also noted that the SMEs are also at fault as they do not have that zeal to seek for information.

Moipane thinks that the government has played its part, doing the marketing on TVS, radios, newspapers, and the internet. The lack of information is linked to lack of the capitalist spirit which stimulates the entrepreneurs to keep on searching for opportunities. Moipane noted that:

Firstly they have to be a balancing act again in that information is coming in but are the people ready to assimilate the information. On the ground you will find that a lot of people have attended programmes, they have certificates but what have they done with that information because the person who is giving you the information have done their bit, because they go through a financing module and they are told these are the templates to use and they go back home and they file them. So whose problem is this? The SME owners need to be responsive; they need to assimilate the knowledge that they are having (Interview 20/10/2014).

The utterance confirms Dumisani's predicament. He has attended a number of courses but the skills he had acquired have not been put into practice. However, to note again with reference to Dumisani's case, it was discovered that those with work experience before setting their businesses were in better positions to begin operations from own savings but as for Dumisani he did not have enough tools for business operations. This, points to what the SBP (2009) noted when it said the government policies are failing because they are provided not as a compact but in an isolated manner. People like Dumisani could benefit had the skills training come at the same time with angel funding. This points to the misalignment of the government programmes to the needs and aspirations of the SMEs owners.

6.1.8. Crime

Crime was one of the major themes in relation to the success or failure of small businesses in Soweto. This has been reflected in a number of literatures and has also been perceived as a problem by the respondents who participated in this research. One of the respondents noted that 'we have a lot of crime here. It's really a problem. People know you work from home, they know that the tools are at home and they break to get these tools' (Dumisani *08/08/2014*). Maphere also reflected on the risks of running a business in Soweto when he says, 'The risk of theft is the most serious and again working with people who are not part and parcel of your vision. You always clash' (Interview *15/08/2014*). Doctor Lambo elaborated,

In Soweto in general security is always an issue but I think I have done my part. There is a 20 hour alarm response, burglars, so I think I have done my part. It has happened, you know, with other colleagues here in Soweto, and there are also other people who have not experienced it and I think let us be realistic about it. In as much as it is a perception, it is something that can happen and so we need to be proactive (Interview 20/10/2014).

However, Reggie noted that in Soweto the issue about crime though affecting their businesses is much about people's perceptions. He thought things have improved greatly as a result of the increasing number of police patrols in Soweto. He contends that:

The risk is obviously the perception people have about Soweto that it's not safe but it's quite safe. We haven't had any incidences of crime'. He went on to note that*, 'Yes, the government has done a lot, having better visibility of police around. We can do much with other colleagues to market Soweto but --- we need the government to do more' (Interview 10/09/2014).*

All of these utterances indicate that the government has done a lot in terms of guaranteeing safety and security in the townships since the dawn of democracy in 1994. However, this has not eliminated crime and it calls for the communities themselves to work together in fighting the scourge of crime and its deleterious effects on small businesses. Thus, De Soto links formalisation to institutional reforms in relation to security of property and the safety of property. The utterances of the interviewees tend to point towards the fact that the government has done something in this regard, but now the perception people have of the Old Soweto is affecting businesses, especially to those operating in the Tourism and Hospitality sector hence Reggie's call for the government to do more it terms of marketing Soweto as a safe tourist destination. None of the interviewed reported having been robbed since their businesses started to operate.

6.1.9. Business Skills.

The major theme coming from the interviews concerns the issue of skills among the businesses owners. The importance of skills was noted with regard to cash flow management, marketing, and human resource management. The lack of these skills had affected many of the small businesses in the realisation of their profit. In this regard, most of the business owners noted that they gained most of their skills from previous work. It was discovered that the lack of these skills affects the efficient operation of the SMEs in Soweto with regard to their recruitment practices, linking up with other businesses, financing, joining associations and aligning the vision to the strategy. It was noted that, for those businesses with managers, these managers did not have any skill with regards to how a business should operate. The assistant manager of the Rubian Hair Salon did not have any knowledge and had never received any form of training, be it in financial management, customer care or marketing (Nomvula, Interviewed 10/09/2014). This was the same with the manager of a restaurant owned by Ingrid (both manager and owner interviewed but at different times (Interview *20/08/2014*). The owner was never around but the manager knew nothing about financial management. They all confirmed that they had never received any form of support in these areas from the government. Another interviewee also confirmed that all of his skills were on the job learning. He remarked, 'I ran this side of the business but we have not had any support on this from outside the business ---. No qualification in finance but on the job training' (Reggie, Interview *10/09/20140)*. Those who had been

working before reported to have gained some skills from their former work. The demands and pressures of work exposed them to competitive environments that prepared them for their own businesses. However, as a result of their businesses running as registered entities, some of the owners of these businesses have benefitted in one way or the other from either the government or from programmes run by private agencies. It was discovered that Maphere had attended a number of programmes run by the University of Johannesburg to enhance small business owners' the management skills in human resources, financial management, and marketing management. Dumisani had gained from the training programmes by NYDA. Reggie had also benefitted from the training offered by his suppliers. Moira reported that her cash book was in order and that sometimes the government inspectors come to inspect since they also receive the subsidies from the government. Dumisani has had difficulties in implementing what he has learnt and as a result, his business is not fully operational and is struggling to market it. Further, to this, Reggie seems not to have a clear marketing strategy. Even Maphere with a business that seems to be very much alive does not have a clear marketing strategy.

Important to note is that, business skills do enlighten the owners on the importance of becoming a member of an association or belonging to a business chamber. Maseko (1999) noted that most of the successful Black capitalists such as Maponya and others were partly successful as a result of their role in the business chambers where they discussed issues and shared information. The lack of skills impacts negatively on the operations of a business. As noted in this study, others have attended a number of programmes to improve on these skills but have not been able to implement them in order to improve their business operations. This factor points to what Du Plessis the Director of the Potchefstroom Business School at the North West University elaborated on when he noted that*:*

--- while it sounded a priority to allocate money and say there were too many regulations on small business, one crucial thing small business needed was management training ---. There is need for an independent institution which advises and mentors entrepreneurs about business --- You can teach someone to be the best artisan but he needs to manage cash flow, administration and marketing --- he cannot learn in classroom - he needs someone to help and mentor him (Vollgraafe 2011).

One of the problems is the inability of the small business owners to implement what they are taught. SME owners need someone to take them by hand, to help them to comprehend the art of implementing ideas.

6.2. Conclusion: Advantages of formalisation

From the analysis of the responses from the interviews, it seems that the government of the Republic of South Africa has not been very much beneficial to the SMEs. However, it will be misleading to argue to the effect that the government incentives have not had any impact on the development of the SMEs. Some have benefitted but not to the extent envisaged by

these programmes. The uptake of the programmes and incentive schemes has been slow and this has been as a result of the lack of information, the schisms between different programmes and different departments, and the lack of alignment between the different programmes. Thus Ruth Hall noted that, the schism between the Department of Land Affairs and that of Agriculture had made it difficult for the provision of post settlement support to the small scale entrepreneurs who had benefitted from the proceeds of the land reform. Further, it seems that only a few programmes and government agencies are well known to the SME owners in Soweto hence their slow uptake and impact on the transformation of these businesses. However, as noted recently by the Minister of Trade and Industry, Roy Davies 'the performance and uptake of the incentives programmes across provinces and sectors continue to grow' (*Business Connect,* February 2014, p 3). It is for this reason hoped that, since development is not an event but a process, the effects of the government in retooling and realigning its programmes will gradually bear the required results in the long run.

The data from the interviews, indicates that a number of SMEs have benefited from formalisation as it has allowed for linkages with other businesses, and the acquisition of business skills, offered only to formalised businesses by both the government and other institutions. Among these benefits are, tenders from the government, subsidies from the government, operating from a fixed place and benefits from formalisation as the basis for building trust with the clients/customers. Though some of the SME owners have not grasped these as benefits, the testimonies of others tend to point to these accrued benefits. The differentiated nature of the small businesses tends to be aligned to the individual's own acquisitive behaviour in searching for information. Judging by the analysis of the interview data, it came out that some of the interviewees were connected to business associations allowing them vast information on businesses development at their disposal. One of the respondents Maphere, who is also a member of the Black Management Forum received a tender for the fixing and maintenance of the June 16 Museum in Soweto as a result of having access to information. Such an opportunity can only be grasped if a business has been formalised. The same respondent is also in the process of finalising a deal for buying into a franchise with WESPECO and PSG-South Africa. Beyond this, the same respondent basing on the fact that his business is registered has also received management training from the University of Johannesburg's School of Management. These are some of the opportunities that befall registered businesses. Maphere has also applied for further training from the Gauteng Enterprise Propeller for which he is waiting for response. Even, though Dumisani's company is still struggling to take off but as a result of formalisation he has managed to place his company on the data base of PIKI-IT-UP - a refuse collection company in case, job opportunities arise with the City of Johannesburg. The formalisation of a business coupled with the entrepreneurship spirit within the person, that is the entrepreneur, explains some of the success stories of entrepreneurship in Soweto.

In addition, formalisation in some cases has allowed for the granting of subsidies to small businesses in Soweto that operate within the education sector. In this project, it was realised that some businesses such as that of Moira who operates a registered crèche and a day care centre offering accredited programmes has been propped up by government subsidies for the past 7 years. Basing from the fact that people would not trust bogus businesses, trust is very important in the life of a business. Once a business is registered, it has to have a fixed address allowing the clients to track down the business owner whenever necessary. As a result of formalisation it seems that Moira was able to win the trust of the community hence many people have entrusted her with the lives of their children. In the interview Moira, reflected that their enrolment figures have grown to 70 kids such that the house which they occupied has become small to accommodate more kids. This was also underscored by other small business owners in Soweto. Reggie recalls that the Gauteng Tourism Authority had to refer tourists for bookings at his place. This could not happen without trust of which the formalisation of a business is important in achieving this. Reggie emphasised that he is also called to do catering at functions such as weddings. This cannot happen in an atmosphere where people or the clients do not trust the owner. Therefore, business registration and formalisation is a crucial step in building a relationship of trust with clients which forms the basis for a successful business.

In relation to business skills, though not all of the businesses interviewed had benefited, the research discovered that some have benefitted from the government agencies or from private institutions. One of the respondents Maphere reported having benefited from the small business training programmes run by the University of Johannesburg, whilst Dumisani had benefitted from training programmes run by the NYDA, and Reggie had benefitted from training programmes offered by his suppliers. All of these advantages accrue to registered business entities. Also to note is that registration averts problems such as having running battles with the law enforcement agencies on the streets as what happens with informal traders.

In the area of business formalisation, it seems that the government has tried to reduce some of the bureaucratic demands in relation to the time it takes to register a business. One of the respondents, Reggie noted that, seven years ago, he had to spend almost 3 years trying to register his business. Nonetheless, it took Dumisani only 3 months to register his business in 2013. Dumisani noted that the delays in the registration of his business were as a result of the fact that he had not supplied all of the required papers at the time of submitting the application. All this points, to the fact that the government of the Republic of South Africa, has been trying to smoothen the way to facilitate small businesses to register their businesses.

Chapter 7, Assessing conditions of success and failure of small businesses in South Africa

7.1. Introduction

A critique of the literature on the development of the SMEs in South Africa and the themes from the interviews with the South African entrepreneurs points to a number of issues to be attended to, if we are to ensure the sustainability of SMEs in South Africa. These key messages serve as the basis for comprehending the impediments to SMEs' development and for focusing the government interventions to target the cardinal areas thereof. The messages from the entrepreneurs have a diagnostic significance pointing to areas in need of greater attention for structural transformation, whence a call for commitment in terms of resources in addressing these areas. The analysis of the data exhumed by this research tends to point to the fact that areas such as the importance of titles, the misalignment of policy and practice, institutional incapacities, empowerment and skills development, information asymmetries, inaccessibility of the policy makers, lack of prioritisation and marginalisation of the SMEs in policy formulation and implementation, and the importance of social capital and linkages, as areas determining the success or failure of small businesses.

This chapter is a diagnostic summary of the legal and institutional frameworks that influence the success or failure of small businesses within the De Sototian framework.

7.2. The Relevance of titles or business formalisation in South

Despite many studies (Cousins 2005, Royston 2007, Rust 2007 etc.) pointing to the fact that formalisation has not increased the poor's access to financing, it will however be misleading to take this as a pointer to the fact that business formalisation has no role to play in the success or failure of the small businesses in South Africa. This fact does not disqualify the importance of formalisation in stimulating SMEs development in a sustainable way. Some studies have demonstrated that all of those with small businesses operating in the extra-legal sector had their applications for loans rejected whilst a few applications from those with registered business were accepted. Further, the importance of formalisation should not be viewed only in relation to financing as this will be reductionist with regard to propositions by Hernando De Soto. From the interviews of small businesses in the Jabavu area of Soweto, it was discovered that some have been able to access a number of government and other non-governmental programmes aimed at stimulating the growth and development of the small scale businesses. For example, Maphere noted in the interview that, 'The organisation that helped is Property Point. We have network sessions every month whereby they teach us how to run the business efficiently in areas such as financial management ---'. Business formalisation has also enabled small businesses to establish linkages with other businesses synergistically. This, points to the importance of business formalisation to SMEs. Formalisation enables the SMEs' owners to access a number of government programmes aimed at empowering the owners in terms of financing and skills development and others. What is important for the government is to ensure that these

processes are well marketed by ensuring access to information by the township communities. For formalisation to have the much required impact, it should go hand in hand with transformation in other institutions to ensure the greater participation and hence the realisation of benefits. There is therefore need for transformation from viewing the business licences as pieces of paper, to something that mirrors the capabilities of the owner. For this to happen, it calls for the issuing of licences to go hand in hand with other empowerment programmes in relation to skills development, facilitating linkages with developed businesses, incubation, and mentoring.

The problem in South Africa is that the government's programmes were implemented haphazardly in an uncoordinated manner, hence could not produce the required outcomes. The programmes should be implemented concomitantly for them to impact positively on the growth and development of the SMES. Formalisation should be perceived in a broader perspective with the perceived benefits also being taken as part of the process. Formalisation should be able to bring about mutual trust between business partners; hence it is something that should not be reduced to a piece of paper. This will be a contradiction to the meaning given to it by Hernando de Soto. Hernando De Soto (2001:231) emphasised that, 'It is an instrument of thought, representing assets in such a way that people's minds can work on them to generate surplus value. That is why formal property must be universally accessible'. It is a fact that without such an approach, the legal documents and business licences will remain inked papers incapable of insuring the intended benefits. Formalisation is thus, a process demanding a lot of time and thought, for it is something that has to be achieved through the coordination of many government departments, together with the participation of the citizens in the meaning making processes. It calls for patience, for it is about the transformation of the people's ways of thinking about business and property which cannot be separated from people's beliefs, norms and values and calls for interactive processes and not the top-down window dressing fashion[24] by which some of these processes were introduced in South Africa. The people were not involved so there was no social contract[25]. Thus, De Soto calls for the democratisation of such practices, and not just the issuing of papers which could not facilitate people's participation on the market. Formalisation should thus be taken as a cultural, political, social and economic transformation with the power of shifting people's ways of thinking about property that is, giving meaning to people about property and titles. This is rather the most important

[24] Most of the development approaches are commandeered by or originates from ones having the highest rank in society. As such, these approaches miss the nitty-gritties of the lived realities of those at the bottom of the pyramid. Policy should also be as a result of the bottom up approaches which are informed by the real needs and aspirations of the poor and not as they are assumed by the policy makers. The window dressing fashion mimics the needs and aspirations of the grassroots as they are assumed by the high ranking government officials whose lot is far removed from the daily lives of the poor.

[25] Social contract is taken here to mean an agreement for the mutual benefit between an individual or group and the government. Usually, this is arrived at as a result of continuous interaction and consultation between the two parties. (Refer to the original usage by philosophes such as Rousseau, Locke and Hobbes).

precondition for building an environment allowing for the participation of formalised small businesses in the market. The 'so-called' formalisation in South Africa, though important for a beginner, is short of creating the conditions for real formalisation allowing for the small businesses to operate successfully as envisaged by De Soto. This links to the next factor which is the misalignment of government policy and practice.

7.3. The misalignment of policy and practice in South Africa

The study noted that the government of South Africa has correctly identified the challenges to the sustainable development of small businesses. Most of the South African government's policies, though in line with the De Sototian approach to development, have not brought about the much required transformation because they were not nuanced enough. What the government has achieved in policy formulation was not realised in implementation. Moipane noted that, 'The policies are there, the policies are awesome but I think we really struggle with implementation. It could be the skills in the sector to implement these kinds of programmes' (Interview 20/10/2014). Policy implementation is linked to institutional capacity. As a result of the incapacity of the government's institutions, the uptake of many of the government's programmes have not been realised. The NYDA has noted that most of the small businesses are not aware of the various government institutions offering support to small businesses. There is therefore a need for the strengthening of the monitoring and evaluating mechanisms to trace resource flows by the government so as to check whether these reach the intended beneficiaries. Ian Goldman et-al (2014) indicated that the setting up of a ministry and department of performance monitoring and evaluation in South Africa was a result of the need to advance the monitoring and evaluation agenda. Such mechanisms are important in realising and guaranteeing transparency and accountability. While there is evidence, to say that many resources have been released by the government targeting the SMEs, 9 of the 14 interviewed argued that they had never received anything despite their numerous attempts. The lack of such mechanisms proved to be a negation to the South African democracy as the government failed to implement 'what it preaches'. The information asymmetries has resulted only in those who are politically connected benefiting whilst the majority remained in the dark as a result of the government programmes not being fully marketed.

Furthermore, institutional incapacities have been noted in the lack of qualified personnel in facilitating skills development for SME owners. The employment of less qualified personnel has been the nemesis not only in the field of SME development. As noted above the mentorship programmes by the government have not relied on qualified personnel and have not added value to the processes. There are also worries that some of the government programmes are headed by less qualified personnel. Mouton a successful South African entrepreneur indicated that the new ministry of small business will never make any difference because the people heading it 'don't have the experience of starting small businesses' (*Sunday Times: BusinessTimes*, October 19, 2014, p.3). Sender (2002), has noted

that, 'inadequate state capacity in Sub-Saharan Africa has been a self-fulfilling prophecy; the outcome of a bet rigged by those in strong position to influence result'[26]. This is also supported by Moipane who pointed out in the interview that in countries such as Singapore ministries are run by administrators who are professionals and not by the politicians (Interview 20/10/2014). As a result of institutional incapacities, the government of the Republic of South Africa has not been able to implement its policies in toto and this has impacted negatively on the sustainable development of the SMEs. Institutions should be compact enough for them to be effective and for this to happen; checks and balances are required for transparency and accountability. Monitoring and evaluating institutions or programmes are paramount to the success or lack of thereof by the SMEs. These are important to ensure that problems that might hinder or hamper SMEs are nipped in the bud. The De Sototian paradigm emphasises the need for strong institutions capable of delivering, to ensure that the benefits of democracy are equally distributed and enjoyed by the citizens. In South Africa, as of now, we cannot say that we have capable institutions if the police is incapable of stopping crime and when some of the police officers are part of the criminals. Also we cannot say we have capable institutions when resources committed cannot reach the intended beneficiaries as indicated by the messages from the interviewees. Capable institutions are important in eliminating information asymmetries; reducing transaction costs and market distortions. They ensure fair play to all the citizens by breaking barriers to their participation. They ensure that the government successfully implements its policies and programmes (van Tonder noted that some of the problems in South Africa were heard during the time of Mbeki).

7.4. Skills development and the South African entrepreneur

Skills development is another crucial area of focus for government intervention. The study has discovered that most of the small business owners lacked the requisite business skills required in running their enterprises successfully. Though a number of institutions have risen to fill this gap, there has not been a link between knowledge acquisition and knowledge application in the real life. Further, most of the small business owners acknowledged that they have not received any form of training in terms of basic accounting skills, marketing**,** cash flow management and operational skills. Without these skills it is difficult if not impossible for one to operate and grow an enterprise successfully. As such, most of the SMEs operate at survival level because they lack these skills to transform their enterprises. Important also, is the link between skills and business plans. The lack of business ideas and skills has disabled small businesses in coming up with thorough and watertight business plans as important instruments when applying for funds. Without these

[26] John Sender is of the belief that state capacity in Africa has been a result of the unlimited uptake of the Washington Consensus programmes which have 'consistently demanded initiatives that impair government capacity for policy formulation and implementation'. The Washington Consensus, differ from De Soto's neo-liberal variant which perceives state capacity as the basis for legal and institutional changes for the benefit of small businesses and those poor entrepreneurs operating in the informal sector.

plans it is difficult if not impossible to pass the assessment tests by the financial institutions or to observe and respond to business trends. The financial management skills are important in the management of the cash flow for which a successful business cannot do without. Without organised and up to date financial statements, the banks and other financial institutions will not be able to release their money. The failure of many small businesses to access money from the banks and other financial institutions has been in most of the cases, as a result of their failure to provide their financials and/or the lack of coherent business plans, all of which are linked to the lack of business skills. It has also been impossible for the township entrepreneurs to explore markets outside their vicinity because of the lack of marketing skills and strategies. These businesses have tended to stay put in their areas of origin instead of widening their horizons by venturing into other markets as the markets in their own areas have to a greater extend become saturated. The importance of business skills and ideas is contingent to one's ability to research and forecast in relation to business trends. The lack of these skills has prevented many new entrepreneurs from starting new types of businesses with new products with a market of their own. As a result most businesses are concentrated in retailing. According to Moipane:

There are a lot of resources. The issue is skills. This year we ran an investor conference at UJ. It brought in investors from different countries. I mean, they started to question, 'is this, the calibre of entrepreneurs you have in the country? So money is there, one investor pledged 1, 4 billion rands right here at UJ in one meeting. South African's concept of the Dragon's Den, you know people come and say you know I want 1 million rands to prove a concept. Who will give one million because you are not BMW? I was speaking to another person about the things that one has to go through when doing financials? Somebody writes a page and tells you, I am going to do events. There are no projections. You don't know what they don't have - they don't have the skills, they don't have the capacity. Nobody will fund you no matter how many institutions you send it to (proposals). This goes back to the issue of skills; it goes back to the issue of institutions. People could think a lot in their own development. When you get into business you are not willing to give something. The businesses that did well are those of people with previous work experience. People need to take initiative, nobody will bring a plate to you every day, this will not happen. By going to meetings you can learn a lot of things; you can do that by observation (Interview 10/10/14).

Thus, business skills are paramount in the success or failure of small businesses.

7.5. South African entrepreneurship and the spirit of capitalism

The study has revealed some important differences between the Black capitalists under apartheid and the new Black entrepreneurs under democracy. There is rather a marked difference between these two categories. The conditions created by the apartheid regimes seem to have heightened the spirit of entrepreneurship and capitalism among the Blacks in South Africa during the apartheid era. The stringent apartheid laws strengthened the Black entrepreneurs' resolve to prove their capabilities in the field of entrepreneurship. This

group of Black entrepreneurs was made up of active information seekers who were quick to seize any space or loopholes in apartheid legislations to advance their own business interests. Nonetheless, with the exception of a few SMEs, most of the small businesses of today seem to lack that acquisitive behaviour, that zest to search, to discover and to respond to market imperatives. Many have argued that the democratic government has created an atmosphere of entitlement which affected the spirit of entrepreneurship - that unending quest for opportunities to ensure realisation. President Zuma has recently been quoted by Thami Mazwai, as having remarked that, '(Black) South Africans have become dependent on the state. Foreigners come to South Africa, see opportunities and thrive. People wait for government. They are not used to standing up and doing things. Hence, foreigners have taken over the small businesses' (Business Day, 5 November 2014).

The analysis of studies and the messages from the interviews tend to portray a picture of entrepreneurs that are not very eager to know, as most of the entrepreneurs interviewed were not even aware of many of the various institutions and programmes working for the advancement of their cause. There is rather a need to awaken the capitalist sprit in this new generation of entrepreneurs in South Africa, through the encouragement of entrepreneurship starting from primary schools and through community development committees. For the generation of such a culture, it is imperative for the government to enhance accurate data and information availability at community levels in the right amounts, in a timely manner and in an accessible language. The development of the entrepreneurship spirit is a crucial precondition for success as noted by Max Weber in his *Protestant ethic and the spirit of Capitalism* and by Karl Marx. However, such a development is strongly linked to institutional development and transformation, for it is about transforming mind-sets, people's values and beliefs that is the crystallisation of the protestant ethic among Weber's Protestants.

7.6. SMEs prioritisation and the differentiated nature of SMEs and the definition of success.

The literature on SMEs and the messages from those interviewed SME owners reflects a general perception of marginalisation despite the grandiose government schemes and programmes to prop up this sector. The study by Rust (2007) in Gauteng noted that the SMEs are differentiated and this fact calls for a graduated nature of intervention by the government, if interventions are to have an impact on all of those operating in this broad categorical sector. The interviews conducted demonstrated a general fear of indebtedness and loss of property if the owners of the small businesses are to borrow from the financial institutions. The housing entrepreneurs are much more concerned about safety and security and less more about growth. However, those who are young would like to see their businesses expanding as exemplified by many of those interviewed such as Dumisani, Reggie, Maphere and others. Some of these have clear cut visions and clearly defined strategies to arrive at their goals, whilst others though favouring growth and profit maximisation lacked in vision and strategy. These could not define steps as in real terms,

steps to be taken to expand their businesses. Further, those with well-defined missions (Maphere, Moira, Reggie and Brian, all of them participants in this research) were quite aware of the importance of research and linking up and as a result they have embarked on a number of initiatives to link up, to connect in attempting to marshal their way out to growth and profit realisation.

It is important for interventions to grasp the differentiated nature of the SMEs and for the policy makers to derive their intervention strategies from these. It would not benefit anyone to try to mask or homogenise these differences - for these may be a reflection of the different needs of these small businesses. It might also be a wise investment for the government to facilitate those with less clear visions and without strategies into cooperatives in which they could work together, and assist one another in cooperative business structures with the state as an enabler or a facilitator whilst those with well-defined and clear cut strategies can be assisted differently to realise their dreams. The aged housing entrepreneurs could also be assisted in a particular way for it has been noted that most of them are not concerned with growth but securing livelihoods. Such a graduated and differentiated approach would ensure that everybody benefits from the government schemes. The current government programmes though crucial, have not been nuanced enough to cater for the heterogeneity nature of this sector. As a result of the absence of clear government mechanisms to ensure that resources also reach those at the 'bottom of the pyramid' in this sector, the current approaches have tended to benefit those at the top of the pyramid. Further, the notion of success should not only be defined in monetary terms as some of the SMEs are just a means to a dignified life, that is safety and security and not for profit. This is an important precondition for the success of all of the entrepreneurs.

7.7. Inaccessibility of policy makers and of government's institutions in South Africa

The inaccessibility of policy makers has been another hindrance in the participation of the SMEs in decision making. Muzwandile, a small business specialist with the local government in Soweto, noted that the local government's mandate with the SMEs is much curtailed as most of the government programmes dealing with SMEs are located within the ambits of the national government (the dti). This has affected the interaction between the government policy makers and the poor owners of SMEs. Most of the government policy actions are based on assumptions of what the poor owners of SMEs want and not their lived realities. As a result, there seem to be a disjuncture between government policies and the needs and aspirations of the poorest SME owners. The Conference on Social and Solidarity Economy organised by the CSESE, has noted that most of those who attended were the elites from the middle class and not those who were the subject of discussion. There is therefore a need for decentralisation as a way of facilitating the interaction between the government and the poor SME owners. This again calls for institutional changes together with the way in which people perceive the functions of the government. Without this, it

would be difficult to solve the issue of the misalignment of policy with the needs of the SMEs; hence the perceptions of marginalisation will persist.

7.8. *Social Capital and the voice of the SME owners in development*

In the present capitalist societies where competition and survival of the fittest is the order of the day, social capital is fundamental to the survival or failure of a small business. Social networks and group solidarity are important in protecting the small business owners from the vagaries of the unpredictable business environments. Putnam (1995) has taken social capital to refer, to the connections among individuals, social networks and the norms of reciprocity and trustworthiness. As a set of connections, social capital provides for individuals within social groups or social networks with the norms and sanctions, allowing individuals to cooperate and assist each other for the benefit of all within the social network. Social capital forms, the basis for trust, reciprocity and for exchanging business ideas. It enhances group solidarity, encouraging easy flow of information among the members of a social group or a social network. Within a social group, people may learn jobs from each other and exchange ideas. This study discovered that, business owners who belonged to associations have easy access to valuable business information emanating from both the private and the public sectors. Maphere (Interviewed 15/08/2014) who belonged to the BMF, was much aware of the business trends in South Africa as compared others who were not connected. Further, a network of friendship enabled, Dr Lambo (Interviewed, 20/10/2014) to discover an opportunity to set up a surgery in Jabavu - Soweto. Social circles facilitated Maphere's access to information on small business training programmes offered by the University of Johannesburg.

Moreover, most of the businesses owned by the Pakistanis in Soweto have been successful in capturing the market as a result of their social capital. In response to the as to why, their goods were a bit cheaper to compared to those of the by black retailers, Khani (interviewed 13/10/2014), raised an important factor relating to how the resources of the SMEs owned by the Pakistanis are pooled together, when hoarding stock. This allows them to receive discount when they hoard their stock in bulk which in turn impacts on the prices they charge their clients/ customers. It is for this reason that, they have managed to undersell those SMEs owned by stand-alone black entrepreneurs. To note is that, social capital may also inspire confidence in social groups to take up responsibility to empower themselves by seeking information on business development and by engaging in group advocacy for the advancement of their sectional interests. Social capital thus, provides the foundation for building and enhancing the voice of the poor and the marginalised, in the political processes affecting their lives. As networked social groups and individuals, it becomes possible as compared to stand alone individuals, to take action, to advocate for the change of negative business policies. Also as a result of social capital, a sense of belonging is generated in the individual, encouraging the attendance of meetings where issues are discussed and solutions provided to challenges that may be confronting group members or members of a

social network. As such, social capital enhances group solidarity and generates a consciousness encouraging members to demand their constitutional rights or to engage in lawful protests whenever the government fails to fulfil its development commitments. Social capital is therefore essential in building the competency of the voice of the poor in representing their interests. The importance of social capital also falls within the De Sototian Framework, as Hernando de Soto had recognised the importance of the informal rules and the extra-legal institutions formed by the poor to advance their interest. De Soto also emphasised the importance of linkages between small businesses and the established ones as a way of propping up the latter. It is the an important condition that for a small business to do well, the owner has to have connections to enhance his or her access to information and other forms of support from those also operating within his or her sector of interest.

Chapter 8, Conclusion

As noted in the first chapter, the thrust of the investigation revolved around the need to ascertain the major problems and limits of De Sototian conception of small business development in the context of South Africa in an effort gauge whether it is the South African state that disables the small scale businesses or not. Important discoveries were made in this regard. It was noted that whilst the South African state has tried to implement the De Sototion approach to stimulate small business development, its efforts have not been coordinated to provide a compact programme for the development of the SMEs. Its programmes of formalisation which revolves around institutional change have been isolated from each other and have not had the required impact.

It was also discovered that the government had been too ambitious and had simultaneously embarked on numerous programmes with the resultant effect of resources being spread thinly across these programmes hence the failure to have the required effect.

Further, the government has remained far removed from the general populace and people have not been able to access the programmes meant for them. The lack of information resulted in the limited uptake of these programmes. More still, the entrepreneurship sprit implies institutional changes especially cultural changes. The State has not been fully able to steer the nation towards this end. In South Africa, the entrepreneurs lack that acquisitive capitalist behaviour to research for greater information.

This goes back to state capacity. Institutional limitations have resulted in the failure of the state to inform the people on the opportunities available. This again has been a result of the lack of qualified personnel to implement government policies. The lack of required mechanisms to channel resources, and to monitor and evaluate programmes to ensure that resources committed do reach their intended beneficiaries has been another sign of institutional failure in South Africa. More so, it was discovered that there has been a general lack of mechanisms to ensure that feedback is given back by the intended beneficiaries as a mechanism for institutional self-evaluation.

Important to note is that, formalisation is not about issuing paper licences but about institutional changes to allow those with formalised businesses to enjoy the benefits thereof. Anything that falls short of this will be an incomplete process. As noted by De Soto, the processes of formalisation are difficult and people have to keep on trying and reflecting. De Soto emphasised that, ‘The process within the formal property system that breaks down assets into capital is extremely difficult to visualise. It is hidden in thousands of pieces of legislation, statutes, regulations and institutions that govern the system’ (De Soto 2001:34).

This is a difficult process but one that acknowledges that institutions do change. Since institutions can be changed intentionally through the trial and error processes, the South African society will eventually achieve a De Sototian society and the much required

development. This presents the best realistic opportunity far removed from the madding crowd of the utopian theorists all of whom have failed to realise the dawn of social economic justice in their time.

Though the achievement of the De Sototian society is a difficult undertaking, it is a necessary evil in the South African quest for real transformation from the vestiges of the apartheid era. Despite the limited nature of the implementation of De Soto's ideas in South Africa, a few businesses have responded and this points towards the fact that, a full blown implementation of these ideas is the vehicle for radical transformation and development.

The difficulty but necessity of De Soto ideas is as reflected by William Shakespeare on human development. According to William Shakespeare,

There is a tide in the affairs of men,

Which taken at the flood, leads on to fortune,

Omitted, all the voyage of their life

Is bound in shackles and in miseries.

On such a full sea are we now afloat,

And take the current when it serves,

Or lose our ventures, (Julius Caesar, Act iv, Scene iii)

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Annexure

Table 1. Schedule of the interviews conducted

Name of the Interviewee	**Gender**	**Sector**	**Venue**	**Date**	**Time**
Dumisani	M	Construction	Home - Soweto- Jabavu	08/08/2014	10:00-11:00
Manekari	F	Communication	Home office –Soweto Jabavu	12/08/2014	10:11-11:00
Maphere	M	Manufacturing and Construction	Workshop, Jabavu, Soweto	15/08/2014	10:15 -11:35
Doris	F	Communication	Café, Jabavu, Soweto	15/08/2014	12:20-12:55
Ingrid	F	Hospitality	Restaurant, Jabavu, Soweto	20/08/2014	09:00-09:48
Reggie	M	Tourism and Hospitality	Restaurant, Jabavu, Soweto	01/09/2014	12:00 - 12:45
Karabo	M	Retail	Shop- Jabavu, Soweto	09/09/2014	08:45-09:25
Dumisani	M	Construction	Home, Jabavu, Soweto	08/08/2014	10:00-11:00
Nomvula	F	Beauty Industry	Salon-Jabulani Mall – Soweto	10/09/2014	11:00 11:35
Brian	M	Manufacturing	Office, Jabulani Mall – Soweto	12/09/2014	12:00 13:00
Khani	M	Retail	Shop, Jabavu, Soweto	13/10/2014	16:00-16:52
Zakhari	M	Manufacturing	Bakery, Jabavu, Soweto	14/10/2014	14:00-15:05
Doctor Lambo	*M*	*Health*	*Surgery Office, Jabavu, Soweto*	*20/10/2014*	*16:00-16:57*
Tshepo	M	Health	Phamacy , Jabavu, Soweto	24/10/2014	15:00-15:47
Moira	F	Education	Office, Jabavu, Soweto	28/11/2014	16:00- 16:52
Small Business development institutions and agencies					
Name of the	Institution/Agency		Venue	Date	Time

Person				
Moipane	Centre for Small Business Development	Johannesburg University Soweto Campus	10/10/2014	11:00-11:50
Mzwandile	Soweto Local Government	Soweto Local Government	19/09/2014	12:03-12:55
Lulu	Centre for Social Entrepreneurship and Social	Sunnyside Park Hotel	03/o9/2012	1300-1346

Interview guides

Questionnaire guide for interviews with small business development agencies – Johannesburg

History of policy development in South Africa

What are the main policies and policy frameworks guiding small business development in South Africa?

How did you come up with these policies? /How did they come into being?

What were your some considerations in framing these policies- history, pragmatism?- technical issues, Explain

Was there an external influence that guided you in the framing of these policies? If yes explain

What do you think of Hernando de Soto's ideas in reflecting the South African SMEs developmental environment? (On empowerment, BEE, regulation, SMEs development, business linkages, competition and monopoly and popular capitalism)

To extent was Hernando De Soto's influence on the framing of National Industrial Policy Framework (NIPF) *National strategy for the Development of Small Business in South Africa* integrated *Small Enterprise Development Strategy* RDP, New Growth plan, ASGISA, BEE policies,

Alignment of government policies with the needs and aspirations of the SMEs

Responsiveness

-What do you consider to be the important SME programmes in your national developmental plans?

-To what extent are these programmes to your aligned to your 5 year development plans? Explain

-What is the percentage of the local government out of the total government budget?

-Out of that percentage how much is what percentage is spent on the development of the SMEs?

-Do you think the government programmes and activities are in consonant with the requirements of the grassroots?

-Do you have any fora for the SMEs to express their concerns and priorities with regard to crucial issues and priorities affecting their businesses?

Empowerment

Business formalisation

-Are the Small businesses aware of the advantages of business formalisation?

-To what extent have the government's programmes gone in terms of the formalisation of small businesses?

-How have the small businesses responded to the for business formalisation?

Have the small business started to enjoy the benefits of formality? Explain

If not, what are you doing to ensure that this happens?

Information

-How do you ensure that the SMEs are kept informed of any developments by the government to assist them?

-To what extent have these been essential in approaching the challenges of the SMEs as government?

-Are there any bodies for established for the dissemination of important information relevant for the development of the SMEs by the government?

If yes, explain the roles of these and how they further the aspirations of the SMEs

-How effective have these been in enabling the government to raise awareness pertaining to different programmes and institutions set to assist the small businesses? (Timely accessibility to such information and programmes by SMEs)

-What might be some of the requirements to strengthen the role of these institutions?

Skills

-How has the government been able to minimise the burden of regulation on small businesses? Explain with reference to e.g. consumer protection, labour protection, quality insurance etc.

-What have been done to ensure the acquisition of the necessary business skill by the SMEs financial skills, technical skills, marketing and tender processing?

What has been the response of the SMEs to the need for skills acquisition?

-Have these skills ensured access finance, and other business needs?

-Have these been able to transform their operations? Explain

Political governance

-Have the SMEs been responsive to government programmes? Explain

-Have the government been able to keep and uphold its promises to the SMEs. How?

-Are the political leaders conscious of their developmental obligations to the SMEs? What have been done so far to increase effectiveness in this regard?

-Are the political offices readily accessible to the SMEs for dialogue on developmental issues? What are of the ways in place to facilitate this?

-Is there cooperation among the different departments and other stakeholders in fostering the development of the SMEs?

If yes, explain

-Do you think the government programmes are fair and open enough to allow most of the entrepreneurs to benefit from them? (Transparency). Explain

Mechanisms for resource flow to the SMEs (effectiveness in the channelling of government resources)

-Have the prioritisation of the SMEs resulted in increased access to resources, finance and others

-Have the resources by the government been able to reach their targeted beneficiaries? / How do you assess this?

What are some of the mechanisms in place to ensure that resources to reach their targeted beneficiaries? Explain who they work?

Overall

What has been the impact of state practice on SMEs?

Semi - structured interview guide with SMEs in Soweto

1. **BUSINESS INFORMATION**

QUESTION	CLARIFICATION/Probe	ANSWER

QUESTION	PROBE	ANSWER
1.1 Business name		
1.2 Participant's name	Name of interviewee	
1.3 Positions of participant	Owner or manager	
1.4 Gender	Male/female	
1.5 E-mail address	Business/personal	
1.6 Telephone	Participant/business email	

2. BUSINESS INFORMATION

2.1 What services does your business provide /what products are you trading in?	What do you do (products/services)? Where and when? What needs/functions do you satisfy? Which customers/clients do you serve?	
2.*2What is your business's legal form*?	Closed corporation, company, trust NGO/ hybrid, an Association	
2.3 How do you describe the sector of your operation?	Retail, building ,services manufacturing	
2.4 Where are you operating from	Home, office mall, shop etc. Has the government or any other agencies assisted in this regard?	
2.5 For how long have your business been operational?	Number of years/ Was there a time the business operated as an unregistered entity?	
2.6 *Do you comply with government regulations?*	Have the businesses registered for tax? Do you have a tax clearance? Have you done the returns for the DTI? Are all your government forms in order?	
2.7 *Capital-Where did you obtain the capital for your business?*	Family, own money pension, bank, etc.	
2.8 *Has the formalisation of your business assisted you in any way?*	Finance? Marketing? Partnerships etc.	
2.9 Would you like your business to grow?	If yes –under what circumstances and in which areas?	

3. EXTERNAL ENTERPRISE SUPPORT

3.1 *Have you got any material/ non-material support through government or any external*	External stakeholders- government agencies, banks, companies' enterprise	

stakeholders? What type of support if any?	development, incubator, free training mentorship or business network. Explain	
3.2 How does each of the support/lack of it influence the success or lack of it with regards to your business?	Probe How support of the lack of it has influenced the success or lack of it If little how did the business benefit from it	
3.3 Did you think the support /lack of it have anything to do with the formalisation of your business and why?		

4. VISION, MISSION, VALUES AND STRATEGY

4.1What is your vision for your business?	The participant to state his/her vision, mission. What motivated him/her to start the business? What role do employees play in the realisation of the dream?	
4.2 Strategy: How will you realise the dream?	Capture the participant's strategy for the realisation of the dream	
4.3 What need to happen for the vision /dream to materialise?	What are you doing, to do? Do you need any support from whom and why?	
4.4 How do you ensure that this happens?	What will you do for the success of your strategy? What have you planned to overcome the obstacles?	
4.5 Has the government assisted you in any way in this regard 4.6 *Do you know of any government institutions that can assist you in realising your vision?*	*Did you receive government support in this regard/Can government support enhance your success chances* If yes, which once have assisted you or you have requested for assistance from? /if no have you tried to find out?	
4.5 What are the values guiding your business?	Explain values in relation to services products such as high quality, honesty, transparency in dealing with clients. Why is the quality of services/ products important to the owner?	

4.6 What effects do your business have on society	How do you take your business, what does it mean to you? Do you think it gives meaning or add value to society? Who are these and why would they say so?	

5. OPERATIONAL ISSUES

5.1 Where is your business located? What's your for feeling about the idealness of your business location?	Appropriateness in relation to the product offered. Why is your business located where it is located? Probe – would the business do better if it where run from home, office park, or closer to CBD? What are the pros and cons of the business location?(neo-liberalism and city spatiality planning) *Has the government assisted in this regard/ do you know and have you approached any government agency responsible for assistance*	
5.2 What are the risks of running a business and how do you manage them?	Risks may include anything crime, flooding, lack of electricity	
5.*3 Do you think the government has a role in mitigating these risks?*	*What has the government done so far/ in your case or the area?*	
5.4 Do you have access to material, suppliers, basic amenities (supply chain) or is there a good flow between the different components to produce your product or service to the customer?	This relates to supply chain management/flow- this includes not only the manufacturer and , suppliers but, transporters, warehouses, retailers and customers themselves	
5.5 Do you offer besides your main product other supplementary products and services(evidence of diversification)	E.g. selling machines and training how to use machines	
5.6 *Do you comply with sectorial regulations in terms of labour, health and safety etc.(is formalisation any advantage or a disadvantage)*	*Other sectors have minimum wage. Food industry has health standards and regulations. What are some of the agreements, charters and*	

	regulations governing your business?	
5.7 *In what ways do these compliance requirements impact on formalised businesses*	How have these charters and agreements and regulations help or hinder the progress of your business?	
5.8 Do you have access to business transport to and from markets?	Do you have own car for products transportation? If not what do you rely on / is the station near the business. Do you need a car to visit clients and market your product?	

6. SALES AND MARKETING

6.1 Who does sales in your business?	Do you do it yourself or do you have someone appointed for the job/	
6.2 Does the person responsible for marketing undergone marketing training	What type of training? Is the training sufficient? What other training is needed? *What role has the government played or can play in this regard to enhance the success of your business?*	
6.3 On what basis is your sales driven to ensure the best possible sales figures?	Do you have sales targets, incentives or commissions?	
6.4 Do you have a marketing strategy?	E.g. Selling through agent, direct sales/marketing. Is your strategy successful? Is there anything needed to be done to make it more successful?	
6.5 How do you retain your customers?	Do you make follow ups to ensure that your customers happy with the services provided to them?	
6.6 Do you have competition in your business? How do you deal with competition?	Important to determine whether the market is oversaturated with the service or whether the service is unique and what the person does to stay in play	
6.7 *Did you receive any form of help from the government or*	If yes, what form of help and how did it impact on the	

government agencies on how to improve your marketing?	business? If not, do you know of any governments agencies providing such kind of support and have you approached any of these?	

7. HUMAN RESOURCES MANAGEMENT

7.1 How many people work for your business?	Number- full-time, part-time, family etc.	
7.2 How were they recruited and why were they recruited in this way?	Important because small business often hire people 'of the streets' and end up with incompetent people How professional are they in recruiting people?	
7.3 Do you train your staff?	Do you send them for external courses or do you do in-house training? What kind of training do you invest in and why/	
7.4 Who manages Human resources and how?	How is it managed? Do you have someone taking care of that and are the employed full-time or part-time?	
7.5 Have you received any form of assistance in this regard from government?	What kind of assistance, drawing of contracts? Motivation of workers? Do you use labour law person to do contracts etc.	
7.8 What do you do if you have problems with staff, e.g. Non-performance, excessive absenteeism, stealing, alcohol abuse etc.	How are problems with staff dealt with? By an external person, does the interviewee do it him/herself?	
7.9 Do you have regular performance appraisal or evaluation of your staff?	How do you do these performance appraisals? How often?	
7.9.1 What is the spirit or culture among your staff members in your business?	Do you work as a team? Can individuals take decisions for themselves or do you prefer a strong manager? Autocratic or democratic leadership styles-probe	
7.9.2 Do you take care of your staff's wellbeing? If yes How?	Wellness- health, safety, psychological, HIV/AIDS in work place and the general	

	well being	
7.9.3 What impact do your employees have on the growth or success of your business?	What role do they play in your business? Do they help to make it a success? How?	
7.9.4 *Does your business respond to the government's call to care for the environment?*	E.g. - No toxic waste, keep area clean, no dumping of material. Do you have a policy relating to wastage of paper of dealing with waste-recycling? If yes have this had anything to do with the success of your business	

8. FINANCIAL MANAGEMENT

8.1, *Have you received any financial aid from external stakeholders?*	E.g. Government or financial institutions. If yes why do you think you were successful? If no what did they were the reason for the failure of your application?	
8.2 How are your business finances managed?	Do you have a qualified person/s for bookkeeping, and financial management?	
8.2.1 Do you have a budget to work to?	If yes, Do you keep your budget? If not why not?	
8.3 How do you manage your cash flow?	Do you take care of 'tomorrow'- to purchase stock by banking it or do you live from the till?What6 do you do when you are short of money? Can you lend?	
8.4 How do you do the costing of your products or services, what factors do you consider?	What costs would you include to determine the price of the product or you go by the market price or your competitor's prices?	
8.5 *Did you receive any external stakeholders' assistance (training) in this regard?*	What have been the advantage / disadvantage of keeping of updating and keeping/not keeping your books of accounts in order?	
8.6 Do you have a business plan?	Probe- Did you draw it yourself, Did someone help you or did it for you?	
8.7 Is your business plan important to you?	In what ways? when dealing with external stakeholders	