

**AN IMPACT ANALYSIS OF SOUTH AFRICA'S NATIONAL
STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF
SMMEs**

**CLEMENT STANLEY CHALERA
(Student Number: 2339623)**

**AN IMPACT ANALYSIS OF SOUTH AFRICA'S NATIONAL
STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF
SMMEs**

by

CLEMENT STANLEY CHALERA

Submitted in fulfilment of the requirements for the degree

PHILISOPHIAE DOCTOR (PhD)

In the

**DEPARTMENT OF MARKETING AND COMMUNICATION
MANAGEMENT
FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES**

At the

UNIVERSITY OF PRETORIA

PROMOTER: PROFESSOR RONÉL RENSBURG

Pretoria

May 2006

ACKNOWLEDGEMENTS

This research report, to reach this final form, is built on the experiences, knowledge and sacrifices of many people. It will indeed be difficult for me to mention them all, but I would like to mention those who had gone the extra mile with me:

Thulani Nkwananzi, Morwesi More, Sunday Mahlangu and Mzwandile Masina from the Department of Trade and Industry.

Keabecoe (KB) Motlhoioa, Phinnah Mukwevho and Sibongile Msibi from Ntsika Enterprise Promotion Agency.

Sizwe Tati and Tello May from Khula Enterprise Finance Limited.

Dann Morgan, Lemmy Mduli, Annoinette Baepi and Stan Mathabatha from Gauteng, Mpumalanga, North West and Limpopo provincial SMME desks respectively.

Kanyo Gqulu, Tshepo Tjatjie and Sibongile Dlamini from the Department of Minerals and Energy (DME).

Sipho Mseleku, Patrick Silo and Vusi Nthlapo from National African Federated Chamber of Commerce.

Virginia Banda (Gerina) for her assistance in the coding and analyzing of the study's questionnaire and for undoubted support when I needed it most.

My promoter, Professor Ronél Rensburg, for her guidance during the entire period of the study.

All the owners of the small black economic empowerment mining companies who participated in the study by responded to the study's questionnaire.

May the good Lord bless them all.

DEDICATION

I dedicate this research study to two special people in my life: my mother, ***Naphumisa*** and my son, ***Tiyamike***.

It is my mother who, since my childhood, implanted into me the realization of the power of knowledge and perseverance.

Omai, ku Matenje kale-kale, munanena kuti, “Mwana wanga, limbikila sukulu, tsiku linatu amenewa adzakugwadirani”.

It is because of those powerful prophetic words and whatever you have provided me physically, mentally and morally since that day you brought me into this world, I dedicate this work to you, ***Wokwathu!!!***

To my son Tiyamike: “I failed you dismally as a parent during the time I was conducting this study. It is for your courage and uncompromising love and trust you have in me as a father that I also dedicate this work to you, ***Tiya!!!***”

AN IMPACT ANALYSIS OF SOUTH AFRICA'S NATIONAL STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF SMMEs

Abstract

This study explores the effectiveness of the South African National Strategy for the development and promotion of small businesses in South Africa, where it first evaluates the effectiveness of the instructional framework created under the government's National Strategy i.e. Centre for Small Business Promotion, Ntsika Enterprise Promotion Agency and Khula Enterprise Finance Limited for the attainment of the government's National Strategy's objectives of job creation, income generation and economic growth from an economic point of view. It also investigates the government's National Strategy's effectiveness with regard to services provision by both the financial service providers and non-financial service providers including the recipients of such services i.e. the SMMEs themselves from a business management perspective with regard to the success factors of functional areas of management. The study also evaluates some government departments which are not incorporated in the government's National Strategy's institutional framework and other business organizations all of which are engaged in small business development initiatives. The study further evaluates some parastatal organizations and provincial SMME desks in relation to the government's National Strategy. Lastly the study evaluates the impact the government's National Strategy has had on the small black economic empowerment mining companies as a sector, specifically if the government's National Strategy has created an enabling environment for them to succeed in their small-scale mining operations.

Job creation and growth of the small business sector will remain one of South Africa's most urgent needs. Most severe social and economic ills result directly from inadequate progress in both these domains. Since the first democratic elections of 1994, an intensive process had been undertaken to address the urgent need for job creation and income generation, particularly among the majority black population. From these processes, policies were formulated, institutions created and funds allocated in the quest for these goals.

While opinions may differ widely on the most effective measure to achieve steady progress, one factor has not been placed in doubt, namely that the richest source of job creation may come, not from the country's big business sector, but from the small and medium enterprise sector. This reality is hardly unique to South Africa alone, but a proven fact in virtually every country developed and less developed alike.

According to the study there seems to be a consensus that job creation ranks among the country's most urgent priorities, along with AIDS, crime and education. High unemployment remains the obstacle to the country's long-term social, economic and political stability. The government's National Strategy was meant to address all these issues as it is a web that links many economic and social sectors of the country. Job creation in the all-important small business sector is not just an "industry" issue; it cuts across many different policy areas, from individual livelihoods, economic development, political empowerment, human resource development, market development and physical infrastructure.

The government's National Strategy, according to the study, is not perceived as a "strategy" as such, which would imply an integrated national plan linking all programmes at the national and regional level to achieve defined goals. It is however, seen as an array of independent, largely uncoordinated programmes, aimed at a common set of social and economic goals.

A critical flaw in the government's National Strategy, the study had also shown, is its failure to "segment its market", namely to realistically differentiate its support among its two principal target groups - micro/survivalist enterprises and small/medium businesses - each with distinctly different needs. The government's National Strategy also appears to have suffered from several internal contradictions especially with regard to the institutions created under its institutional framework.

With regard to the implementation of the government's National Strategy, the study has noted that the National Strategy seems to be leaderless and not effectively coordinated. The National Strategy also seems to have spawned an explosion of programmes and service providers, frequently duplicating other national and regional programmes. The Centre for Small Business Promotion within the DTI seems not to be playing the role it was intended to play while Ntsika's centralised/standardised mode of operation makes adaptation of training to diverse local groups and needs very difficult and Khula's programmes seem to have fallen short of their objectives, despite an effective and professional internal organization.

Contrary to its design, provinces and municipalities do not play a major policy or operational role in the government's National Strategy yet these are typically most informed and connected to local businesses and often have better understanding of the needs and success factors.

With regard to the small black economic empowerment mining sector, the study has revealed that the government's National Strategy has not been utilized effectively by this sector and because of this the government's National Strategy has not played a pivotal role in creating an enabling environment for small-scale miners to fully succeed in their small-scale mining operations.

TABLE OF CONTENTS

Chapter 1: INTRODUCTION		Page
1.1	Introduction	1
1.2	Background to the study	2
1.3	Purpose and objectives of the study	9
1.3.1	Purpose of the study	9
1.3.2	Objectives of the study	11
1.4	Problem statement	14
1.5	Delimitation of the study	16
1.6	Research design	17
1.6.1	Type of study	18
1.6.2	Propositions/assumptions	19
1.6.3	Research methodology	19
1.6.4	Sample design of the study	20
1.7	Possible findings of the study	21
1.8	Structure of the study	22
1.9	Summary	24

Chapter 2: SOUTH AFRICA'S POLITICAL BACKGROUND AND ITS LEGACY

2.1	Introduction	25
2.2	Political background	25
2.3	Discriminatory measures	26
2.3.1	Land reservation	26
2.3.2	Job reservation	28
2.3.3	Education	30
2.4	Legacy of discrimination	32
2.4.1	Inequality	32
2.4.2	Economic growth	33
2.5	The impact of the legacy on the small business sector	34
2.6	The government effort to address the apartheid's legacy	35
2.7	Conclusion	36

Chapter 3: THE SMME SECTOR IN SOUTH AFRICA

3.1	Introduction	37
3.2	Main functions of SMMEs	38

3.3	Structural features of the South African economy and its implications for SMME growth	39
3.3.1	The apartheid legacy	39
3.3.2	International experience in dealing with such legacy	40
3.3.3	Way forward for South Africa	41
3.4	Can SMME resolve the unemployment problem? – a theoretical consideration	42
3.4.1	Capital, productivity and demand for labour	42
3.4.2	Labour markets, wage rates and productivity	43
3.4.3	Role of the high productivity in labour markets	43
3.4.4	Role of the micro-enterprises and the SME sector	44
3.5	Size, profile and performance of South Africa’s SMME economy	48
3.5.1	Introduction	48
3.5.2	Numbers of SMMEs in various size categories	49
3.5.3	Sectoral structures of South Africa’s SMMEs	51
3.5.3.1	Current sectoral profile	52
3.5.3.2	Sectoral dynamics	54
3.5.4	Ethnic structure of South Africa’s SMME	59
3.5.4.1	“Black business”	59
3.5.4.2	Racial discrimination by sector	60
3.5.4.3	Cross-racial partnerships	60
3.5.5	Geographical location of South Africa’s SMMEs	61
3.5.5.1	Rural and urban SMMEs	61
3.5.5.2	Evidence of untapped potential in rural areas	63

3.5.6	SMMEs' contribution to the economy	64
3.5.6.1	SMMEs' contribution to employment	64
3.5.6.2	SMMEs' contribution to the GDP	67
3.5.6.3	SMMEs' contribution to investment	69
3.5.7	Statistical data on SMME – conclusions and recommendations	70
3.5.7.1	Direction for data collection	71
3.5.7.2	Direction for data presentation	72
3.5.7.3	Direction for data analysis	73
3.6	Conclusion	74

Chapter 4: INTERNATIONAL, REGIONAL AND LOCAL EXPERIENCES IN SMME DEVELOPMENT

4.1	SMMEs as major employment creators – evidence from industrialized countries	75
4.2	SMMEs as major employment creators – the experience in Africa	76
4.3	Employment creation through SMMEs – South Africa's debate	78
4.3.1	Government's perspective: SMMEs as a vehicle to tackle the problem of unemployment	78
4.3.2	Government initiative: Supply-side policy to promote SMMEs	79

4.4	Conclusion	81
------------	-------------------	-----------

Chapter 5: SOUTH AFRICA'S STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF THE SMME SECTOR

5.1	The evolution of the SMME policy framework	82
5.2	The development of institutions to facilitate SMME development	86
5.2.1	Department of Trade and Industry and its related institutions	87
5.2.1.1	Centre for Small Business Promotion	89
5.2.1.2	Ntsika Enterprise Promotion Agency	90
5.2.1.3	Khula Enterprise Finance Limited	92
5.2.1.4	Provincial SMME desks	94
5.3	Conclusion	95

Chapter 6: SOUTH AFRICA'S MINING INDUSTRY OVERVIEW

6.1	Introduction	96
6.2	Structure of the mining industry	97
6.2.1	The private sector	98
6.2.1.1	Black economic empowerment mining companies	99
6.2.1.2	Chamber of mines	102
6.2.1.3	South African Mining Development Association	103
6.2.2	The government	103

6.3	South Africa’s mining industry strengths	105
6.4	Minerals exploration	107
6.5	Communication, infrastructure and labour	108
6.6	The industry’s role in national economy	110
6.7	Mineral production and sales in 2004	112
6.8	Mineral beneficiation	114
6.9	South Africa’s imports of mineral products	115
6.10	Forecast of minerals exports for 2004 to 2009	116
6.11	Regional co-operation – (SADC)	118
6.12	Conclusion	120
 Chapter 7: TYPE OF STUDY		
7.1	Introduction	121
7.2	Qualitative data of the study	121
7.3	Qualitative data analysis of the study	122
7.4	The interactive nature of the study process	124

7.5	Conclusion	124
------------	-------------------	------------

Chapter 8: PROBLEM STATEMENT, RESEARCH OBJECTIVES AND PROPOSITIONS

8.1	Introduction	125
8.2	Problem statement	126
8.3	Objectives of the study	128
8.4	Research propositions	131
8.4.1	Testing the effectiveness of the institutions created within the framework of the government's National Strategy	132
8.4.2	Testing the effectiveness of the government's National Strategy	134
8.4.3	Testing of other institutions influencing small business development	136
8.4.4	Testing of parastatal organizations and provincial SMME desks	137
8.4.5	Testing of small black economic empowerment mining companies	139
8.5	Conclusion	142

Chapter 9: RESEARCH METHODOLOGY

9.1	Introduction	144
------------	---------------------	------------

9.2	Research design	146
9.2.1	Assessment of the institutions created within the framework of the government's National Strategy	147
9.2.1.1	Centre for the Small Business Promotion	148
9.2.1.2	Ntsika Enterprise Promotion Agency	149
9.2.1.3	Khula Enterprise Finance Limited	150
9.2.2	Assessment of the effectiveness of the government's National Strategy	152
9.2.3	Assessment of other institutions influencing small business development	155
9.2.4	Assessment of the role of parastatal enterprises and provincial SMME desks	156
9.2.4.1	Parastatal organizations	156
9.2.4.2	Provincial SMME desks	157
9.2.5	Small black economic empowerment mining companies	158
9.2.5.1	Assessment of small black economic empowerment mining companies	158
9.3	Scope of the study	160
9.4	Research methodology of the first phase of the study	163
9.4.1	Objectives	165
9.4.2	Population and Sample	168
9.4.2.1	Centre for Small Business Promotion	168
9.4.2.2	Ntsika	169
9.4.2.3	Khula	169

9.4.2.4	Financial service providers	169
9.4.2.5	Non-financial service providers	170
9.4.2.6	Small, medium and micro enterprises	171
9.4.2.7	Other institutions influencing small business development	171
9.4.2.8	Parastatal organizations	172
9.4.2.9	Provincial SMME desks	172
9.4.3	Information required	172
9.4.4	Sampling	173
9.5	Research methodology of the second phase of the study	174
9.5.1	Objectives	175
9.5.2	Population and sample	175
9.5.3	Information required	175
9.6	Conclusion	176

Chapter 10: RESEARCH RESULTS AND ANALYSIS

10.1	Introduction	178
10.2	Research frame work	178
10.3	Research findings of the first phase of the study	178
10.3.1	Centre for Small Business Promotion	178
10.3.1.1	Analysis of mission and objectives of the CSBP	178
10.3.1.2	Analysis of the structure and activities of the CSBP	181
10.3.1.3	Analysis of the performance of CSBP activities	182

10.3.1.4	Related observations and findings	184
10.3.1.5	Research proposition with regard to the CSBP	185
10.3.1.6	Study findings with regard to the CSBP	186
10.3.2	Ntsika Enterprise Promotion Agency	187
10.3.2.1	Analysis of Ntsika's objectives and mission	187
10.3.2.2	Analysis of the structure of Ntsika	189
10.3.2.3	Ntsika's success in meeting its programme objectives	191
10.3.2.4	Ntsika's monitoring and evaluation	201
10.3.2.5	Related observation and findings	203
10.3.2.6	Research proposition with regard to Ntsika	207
10.3.2.7	Study findings with regard to Ntsika	207
10.3.3	Khula Enterprise Limited	210
10.3.3.1	Analysis of Khula mission and objectives	211
10.3.3.2	Analysis of Khula's programmes and their performance	214
10.3.3.3	Related observation and findings	220
10.3.3.4	Research proposition with regard to Khula	222
10.3.3.5	Study findings with regard to Khula	223
10.3.4	Analysis of the effectiveness of the National Strategy	225
10.3.4.1	Summary of the findings	226
10.3.4.2	Research propositions with regard to the effectiveness of the government's National Strategy	233
10.3.4.3	Study findings with regard to the effectiveness of the government's National Strategy	234
10.3.5	Analysis of other institutions influencing small business development	237
10.3.5.1	Overall findings	237

10.3.5.2	Awareness of the government’s National Strategy and its institutions	243
10.3.5.3	Perceived strengths and weaknesses of the government’s National Strategy and its institutions	245
10.3.5.4	Effects of the government’s National Strategy on the operations of these organizations	250
10.3.5.5	Collaboration with the government’s National Strategy’s institutions	251
10.3.5.6	Research propositions with regard to other institutions influencing small business development	253
10.3.5.7	Study findings with regard to other institutions influencing small business development	254
10.3.6	Analysis on the role of parastatal organizations and provincial SMME desks	255
10.3.6.1	Observation on parastatal enterprises	257
10.3.6.2	Observation on provincial SMME desks	261
10.3.6.3	Research propositions with regard to parastatal enterprises and provincial SMME desks	264
10.3.6.4	Study findings with regard to parastatal enterprises and provincial SMME desks	264
10.4	Study of the small black economic empowerment mining companies	267
10.4.1	Study findings with regard to small black economic empowerment mining companies	267
10.4.2	Research propositions with regard to small black economic empowerment companies	270
10.4.3	Testing the propositions of the of the study with regard to small black economic empowerment mining companies	271

10.5	Conclusion	274
-------------	-------------------	------------

Chapter 11: CONCLUSIONS AND RECOMMENDATIONS

11.1	Introduction	275
11.2	Centre for Small Business Promotion	275
11.2.1	Principal conclusion	275
11.2.2	Principal recommendation	277
11.3	Ntsika Enterprise Promotion Agency	278
11.3.1	Principal conclusion	278
11.3.2	Principal recommendation	279
11.4	Khula Enterprise Finance Limited	282
11.4.1	Principal conclusion	282
11.4.2	Principal recommendation	283
11.5	Effectiveness of the National Strategy	284
11.5.1	Principal conclusion	284
11.5.2	Principal recommendation	284
11.6	Other institutions influencing small business development	286
11.6.1	Principal conclusion	286
11.6.2	Principal recommendation	287
11.7	Parastatal enterprises and provincial SMME desks	289

11.7.1	Principal conclusion on parastatal enterprises	289
11.7.2	Principal conclusion on provincial SMME desks	289
11.7.3	Principal recommendation on parastatal enterprises	290
11.7.4	Principal recommendation on provincial SMME desks	291
11.8	Small Black Economic Empowerment mining companies	293
11.8.1	Principal conclusion	293
11.9	Overview conclusion of the study	296
11.9.1	Introduction	296
11.9.2	SMME policies as part of a wider framework	297
11.9.2.1	Macroeconomic policy and its impact on SMME growth	297
11.9.3	The labour market and SMMEs	299
11.9.3.1	Labour regulation and employment dynamics	299
11.9.3.2	Flexibility of labour	300
11.9.3.3	Future research on labour and SMMEs	300
11.9.4	Capital markets and future intermediation	301
11.9.4.1	Some policy framework guidelines	301
11.9.4.2	Future research needs	302
11.9.5	Trade and market structures	305
11.10	Conclusion	306

**FIGURES, TABLES, REFERENCES, APPENDIXES AND
ABBREVIATIONS.**

		Page
8	LIST OF FIGURES	xvi
9	LIST OF TABLES	xvii
10	REFERENCES	308
11	APPENDIXES	
11.1	Appendix One: Questionnaire	325
11.2	Appendix Two: Ntsika’s non-financial service providers interviewed	332
11.3	Appendix Three: Khula’s financial service providers interviewed	333
11.4	Appendix Four: SMMEs interviewed	334
11.5	Appendix Five: Provincial and Financial Affairs departments interviewed	336
11.6	Appendix Six: Provincial Public Works departments interviewed	337
11.7	Appendix Seven: Parastatal enterprises	338
11.8	Appendix Eight: Provincial SMME desks	339
11.9	Appendix Nine: List of small mining companies	340

11.10	Appendix Ten: Proposed job structure and small business promotion	341
12	GLOSSARY OF ABBREVIATIONS	xix

LIST OF FIGURES

	Page
Figure 5.1: Institutional framework of the Government's National Strategy for the development and promotion of SMMEs	87
Figure 6.1: Commodities associated with small black economic empowerment mining companies (2003)	101
Figure 6.2: Geographical distribution of small black economic empowerment mining companies (2003)	102
Figure 6.3: South Africa's mining industry: Employment by sector, 2003	111
Figure 6.4: South Africa's mining industry: Remuneration by sector, 2003	112
Figure 9.1: Scope of the research process	161
Figure 9.2: Final research framework followed in the study	163

LIST OF TABLES

		Page
Table 3.1:	Different indicators for the size of the SMME sector	50
Table 3.2:	Ntsika statistics on the sectoral distribution of South Africa's enterprises	53
Table 3.3:	Primary, secondary and tertiary economy depending on enterprise size	54
Table 3.4:	Sectoral distribution of start-ups and new firms compared to the total distribution of South Africa's enterprises	58
Table 3.5:	Registration and de-registrations of CC's and Pty's by sector (1990-2000)	58
Table 3.6:	PDI share according to various studies	60
Table 3.7:	Racial distribution of firm ownership by Sector	61
Table 3.8:	Distribution of SMMEs according to location (Ntsika)	62
Table 3.9:	Distribution of SMMEs according to location (GEM)	62
Table 3.10:	Untapped potential of "opportunity entrepreneurship"	63

Table 3.11:	Contribution to employment by firm size – overview	65
Table 3.12:	Contribution to GDP by size – overview	68
Table 3.13:	SMMEs contribution to nominal gross fixed capital formation, 2000	70
Table 10.1:	Opinion on government’s provision of the necessary support for small business on 1 to 10 point scale	269

GLOSSARY OF ABBREVIATIONS:

ARM: African Rainbow Minerals

BBSEE: Broad Based Socio-Economic Empowerment

BBSEEC: Broad-Based Socio-Economic Empowerment Charter

BDS: Business Development Services

BEE: Black Economic Empowerment

BONI: Business Opportunities National Initiative

BONIs: Business Opportunities National Initiatives

BRAIN: Business Referral and Information Network

CBO: Community Based Organization

CC: Close Corporation

CCs: Close Corporations

CET: Contractor Entrepreneurship Training

CGIC: Credit Guarantee Insurance Corporation

CSBP: Centre for Small Business Promotion

CSDf: Corporate SMME Development Forum

CSIR: Council for Scientific and Industrial Research

DBSA: Development Bank of Southern Africa

DET: Department of Education and Training

DME: Department of Minerals and Energy

DTI: Department of Trade and Industry

EMIA: Export Marketing and Investment Assistance Scheme

EEZ: Emerging Enterprise Zone

FRD: Foundation for Research Development

GA: Get Ahead

GCC: Gold Crisis Committee

GDP: Gross Domestic Products
GEAR: Growth, Employment and Redistribution
HDSA: Historically Disadvantaged South African
HDSAs: Historically Disadvantaged South Africans
IDC: Industrial Development Corporation
IDT: Independent Development Trust
ILO: International Labour Organisation
ISS: Institutional Support Services
JSE: Johannesburg Securities Exchange
LBSC: Local Business Service Center
LBSCs: Local Business Service Centers
MAC: Manufacturing Advisory Centre
MACs: Manufacturing Advisory Centers
MDB: Mineral Development Branch
MED: Management and Entrepreneur Development
MMD: Matrix Marketing Databanks
NAFCOC: National African Federated Chamber of Commerce
NEPA: Ntsika Enterprise Promotion Agency
NGO: Non Governmental Organization
NGOs: Non Governmental Organizations
NMC: New Mining Corporation
NPC: National Population Census
NSBA: National Small Business Act
NSBC: National Small Business Council
NSC: National Steering Committee
OECD: Organization of Economic Co-operation and Development
PDI: Previously Disadvantaged Individual
PDIs: Previously Disadvantaged Individuals
PhD: Philisophiae Doctor (*Latin*)

PGMs: Platinum-Group Metals

RBSA: Reserve Bank of South Africa

RDP: Reconstruction and Development Programme

RFI: Retail Finance Intermediary

RFIs: Retail Finance Intermediaries

SABS: South African Bureau of Standards

SACOB: South African Chamber of Business

SADC: Southern African Development Community

SAR: South African Receiver of Revenue

SBDC: Small Business Development Corporation

SBEEM: Small Black Economic Empowerment Mining

SME: Small Medium Enterprise

SMEs: Small Medium Enterprises

SMME: Small, Medium and Micro Enterprise

SMMEs: Small, Medium and Micro Enterprises

SSA: Statistics of South Africa

SSP: Skills Support Programme

TAC: Tender Advice Centre

TACs: Tender Advice Centres

TPMAC: Technopreneur Programme and Manufacturing Assistance
Centre

TPMACs: Technopreneur Programme and Manufacturing Assistance
Centres

UIF: Unemployment Insurance Fund

USA: United States of America

VAT: Value Added Tax

CHAPTER 1

INTRODUCTION

“Small, Medium and Micro-Enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. We are of the view that – with this appropriate enabling environment – SMMEs in this country can follow these examples and make an indelible mark on this economy. The stimulation of SMMEs must be seen as part of an integrated strategy to take this economy onto a higher road – one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes” (RSA, 1995).

1.1 Introduction

The government’s National Strategy for the development and promotion of the small business sector in South Africa was formally endorsed by parliament in early 1995. The Strategy established several important objectives for the development of the small, medium and micro enterprises (SMMEs) sector over a ten year period.

To achieve these objectives, the South African government established institutions and programmes designed to improve the access of the SMME sector to critical resources, including finance, infrastructure, training and counseling, information, markets and technology. It also called for efforts to strengthen the SMMEs’ associations and chambers as well as efforts to improve the legislative and regulatory environment for the small business sector.

South Africa's integration into the global economy in 1994 provokes the question about its potential for building competitive advantage and prosperity at the local level in the context of an increasingly global economy. According to Timmons (1994), the experience of prospering localities in industrialized countries, in particular, Western Europe and Japan, suggests that the small and medium-sized enterprise (SME) sector is at the largest forefront of local economic development. Small and medium enterprises (SMEs) are reported to resolve the persistent problems of insufficient employment growth while being highly efficient in flexibly serving increasingly segmented consumer markets (Kesper, 2000).

The small business sector discussions had been taken up in South Africa, where, according to Rogerson (1994), SMMEs hold a numeric majority. SMMEs are expected to function as a driving force both in South Africa's social and economic transition if supported by supply-side measures targeting enterprises' constraints. Some studies on South African SMMEs reveal, however, a mismatch between reality and the model of the SMME sector used by South African policy makers. According to Kesper (2000), the South African SMME sector is far from homogeneous and would require a fine-tuned set of interventions rather than the generic assistance currently provided. Kesper (2000), also suggests that only the few, more dynamic SMMEs show a potential to contribute to rapid employment creation, while survivalist activities (as a result of "enforcement self-employment") constitute the vast majority of the South African SMMEs economy and grow in number but not in size.

1.2 Background to the study

A brief look at the historical development in South African political economy in addressing the problem of white people in the 1920s will help us understand that economic empowerment is not a new concept in South Africa. According to Qunta (1995), it has been there backed by legislation for white people.

According to Qunta (1995), the government began addressing the problem of white people in 1922 after the white workers' strike in protest to the number of black people who were starting to compete for employment.

The Industrial Conciliation Act of 1924 excluded black people from the definition of "employee" (Qunta *et al.*, 1995). This was followed by the Wage Act of 1925, which increased wages for white workers and also improved their standard of living. The private sector was subsequently subsidized to offer employment and acceptable wages for white people and according to Human (1993), these labour policies resulted in the retrenchment of 13 000 black workers by 1933. The most devastating legislation that was passed was the separate education system introduced in 1948 (Qunta *et al.*, 1995). Leaders such as Dr. H. F. Verwoerd stressed that the upliftment of white workers could only occur effectively if they were protected against "non-white competition" (Madi *et al.*, 1997).

With this brief scenario one would be essentially naive to believe that the current government in South Africa will not "look out" for its colleagues in a country that has for so long catered for a few. This will force the government to offer sensible and practical support in the form of appropriate legislation, for example, the National Small Business Act (NSBA), No. 102 of 1996. The government hoped that this Act would give impetus to the efforts of promoting the small business sector into the mainstream of the South African economy (RSA, 1995).

Since 1994, the democratically elected South African government has been faced with the challenges of re-integration into world markets as a global economy, while at the same time positioning itself to realize the high expectations of its populace regarding a successful transition towards a more democratic order. To achieve the objectives of economic growth through competitiveness on the other hand, and employment generation and income redistribution as a result of this growth on the other, South Africa's small business economy has been actively promoted since 1995 and according to Kesper (2000), since then there is still little clarity as to whether the

government's National Strategy to develop and promote the small business sector has indeed created an enabling environment for that sector to the attainment of its objectives of poverty alleviation, economic growth and job creation.

Job creation and growth of the small business sector will remain one of South Africa's urgent needs for years, if not decades, to come. Many of the country's most severe social and economic ills, according to Qunta (1995), result directly from inadequate progress in both these domains.

Much has been written about the need to address South Africa's burgeoning unemployment crisis. Everybody presents almost the same statistics. According to Magali Malherbe (2003), unemployment was running at about 49%, an increase of over fifty points from 1999 when it was only 32%. The same report indicates that at a sectoral level the long-term trends are even more disconcerting as between 1994 to 2003 the manufacturing sector had shed 22% of its jobs, construction had declined by 35% and mining by 47%. South Africa's economy, according to the same report, needed 400 000 jobs a year to just absorb net new entrants into the labour force. What is more worrying still, as per the same report, is that the majority of the unemployed (about 65%) have never worked before.

Much too has been mentioned of the need for job creation and reforming South Africa's labour markets. Job Summits have come and gone, with little change. What South Africa needs, one would assume, is a business environment in which one is able to do business, get a return on investment and employ people.

While opinions may differ widely on the most effective measures to achieve steady progress, one factor has not been placed in doubt, namely that the richest source of job creation will come, not from South Africa's big business sector, but from the small business sector. This reality is hardly unique to South Africa, but a proven fact in virtually every country, developed and less-developed alike (Kesper, 2000).

Small, medium and micro-enterprise (SMME) development was identified by the South African government as a priority in creating jobs to solve the high unemployment rate in South Africa. Presently South Africa's unemployment figure stands at 37% (Gideon Nieman & Marius Pretorius, 2004). In other words 6.9 million people out of 18.8 million economically active people are unemployed. According to them (2004), about 400 000 people join the labour market per year and that there are about 100 000 job losses per year owing to downsizing, reengineering and re-organization. They (2004) also point out that the growth of South African's labour force is about 2.8% per annum and that an average real economic growth rate of approximately 6% per annum is required to keep pace with the labour force growth.

South Africa's first democratically elected government moved quickly to attack the source of the problem. Decades of apartheid and disempowerment of the majority led to the new government to formulate an integrated national plan, based on many of the lessons from other countries. As a result, South Africa launched itself on a new, untried and ambitious experiment, called the ***National Strategy for the development and promotion of small business***, designed to forge a wide-ranging of public-private initiatives to develop and promote small businesses rapidly throughout the country. This was indeed the first attempt by government to put together an integrated framework for attacking the problems of joblessness in the country. The government's National Strategy is meant to fill a policy vacuum that has been felt for many years.

The government has got very high marks especially from the majority of the black population for the processes it undertook to develop the National Strategy and its forth-right efforts to confront these challenges. As of this year (2005), implementation of the government's National Strategy for the development and promotion of the small business sector will be underway for ten years. Institutions and programmes were developed without the benefit of history or sound precedents. It is also, however, very important to note that the government's National Strategy could encounter enormous difficulties and

growth pains in achieving its objectives because of South Africa's dearth of entrepreneurial tradition and culture among the previously disadvantaged populations, as well as lack of basic education and management experience needed to run successful businesses. These factors alone may mean that progress will be slow, regardless of the resources committed to these efforts. However, the South African's National Strategy for the development and promotion of the small business sector is an integrated institutional framework, which needs to be viewed and analyzed in totality to assess as to whether it has indeed played a pivotal role in facilitating an enabling environment for success for small businesses in this country.

Pressure to achieve measurable progress in these areas is reaching a critical point, as joblessness and economic disparities grow. Like the old government elected in 1994, the government elected in 1999, was also committed to the implementation of the institutional framework for the government's National Strategy. This institutional framework requires a close review from government and private sectors, most especially because its objectives of job creation and wealth creation (economic growth) are of national importance, as they will affect every citizen of this country.

The small business sector encompasses a very broad range of firms, from established traditionally family businesses employing many people (medium-sized enterprises) down to the survivalist self employed from the poorest layers of the population (informal micro enterprises). While the upper end of the range is comparable to the small and medium-sized enterprises (SMEs) population of developed countries, statistics reveal that an immense majority of small, medium and micro enterprises (SMMEs) are concentrated on the very lowest end (RSA, 1995). These are black survivalist firms.

According to the explanatory memorandum attached to the Bill (1995), the government's National Strategy arose from the White Paper on National Strategy for the development and promotion of small business in South Africa, where it identified the necessity for the creation of a more enabling legal framework which would give formal recognition to government's involvement

in small business support. This commitment by government, in the form of national legislation, was also welcomed in the context of the macro-economic blueprint detailed in the 'Growth, Employment and Redistribution (GEAR) Strategy document (RSA, 1995). The National Small Business Act (NSBA) should then be seen in the context of the GEAR Strategy and the White Paper, where the history of the small business person and entrepreneurs in South Africa is acknowledged as heroic by any standards. While black entrepreneurs have borne the brunt of discrimination through the limiting of the scope of business activities, all small business owners and entrepreneurs have waged daily battles against a hostile environment of bureaucratic red tape and institutions indifferent to their needs.

The extent to which these difficulties are minimized, is the benchmark the study will use in determining whether the government's National Strategy for the development and promotion of the small business sector spearheaded by the National Small Business Act is 'an instrumental building block' to underpin the government's commitment to facilitate a more enabling environment for the small business sector in this country.

It should however, be clearly understood that the National Small Business Act does not represent concrete support measures to the small business sector in the form of financial assistance, tax incentives, special export programmes and other supply side measures. It simply puts in place a broad framework from which such initiatives can be implemented.

The vision of the government's initiative in creating this National Strategy is clearly illustrated in Nelson Mandela's words when he commented on the Employment Equity Act (No. 55 of 1996):

"The primary aims of affirmative action must be to redress the imbalances created by apartheid. We are not asking for handouts for anyone nor are we saying that just as white skin was a passport to privilege in the past, so black skin should be the basis of privilege in the future. Nor is it our aim to do away with qualification. What we are against is not the upholding of standards as

such but the sustaining of barriers to the attainment of standards; the special measures that we envisage to overcome the legacy of past discrimination are not intended to ensure the advancement of unqualified persons, but to see to it that those who have been denied access to qualification in the past can become qualified now, and that those who have been qualified all along but overlooked because of past discrimination, are at last given their due. The first point to be made is that affirmative action must be rooted in the principles of justice and equality” (October 1991).

According to Ntsika’s and other agencies’ statistics (Ntsika’s Annual Review, 2002:6; Stats SA (2003), Financial Statistics of Manufacturing, 2003:13) it can be estimated that there are between 1.6 to 3 million small, micro and medium enterprises involved in the standard economic activities in this country. It is then logical to conclude that a study in this huge sector would be a mammoth and time consuming task if one had to conduct the study on the entire sector and also considering that each sub-sector within the entire SMME sector has its own characteristics and unique dynamics. For this reason, this study will, after evaluating the effectiveness of the government’s National Strategy’s institutional framework, only investigate and report the impact the government’s National Strategy has had on the small black economic empowerment mining (SBEEM) sector in the hope that it will give a general perspective of the entire SMME sector.

The mining sector was chosen for its sustainability considering the estimated mineral reserves as per the estimations by the Department of Minerals and Energy (South Africa’s Minerals Industry Annual Review, 2003/2004). The mining sector is also attractive considering its national contribution to the Gross Domestic Production (GDP). According to the Department of Minerals and Energy (South Africa’s Minerals Industry Annual Review, 2003/2004), the mining sector in 2003 contributed about 8% (about R81 billion) to the GDP of the country.

The reason for selecting the small-scale mining sector to be used in the study, even though the South African mining industry is dominated by big

companies, is because the study wants to assess the impact the government's National Strategy has had on small businesses and since small-scale mining sector falls within the small business sector category, it is assumed that the findings of the study will be in line with what the study wants to assess. The other reason why the small-scale mining sector was chosen is because the South African government has identified small-scale mining as one of the vehicles for stimulating rural economies and job creation as a contribution towards sustainable livelihood, especially in rural areas. This initiative is in line with the broader macro-economic framework that promotes the small, medium and micro enterprises (SMMEs) in the national economy. The government's objective is to bring about commercially viable and environmentally sustainable small-scale mining projects in South Africa in an effort to enhance the developmental aspects of small-scale mining and its potential towards rural development.

According to the Department of Minerals and Energy (2004), it is estimated that about 1 000 jobs can be created for every 7 to 10 sustainable small-scale mining projects assisted. A holistic approach in addressing major issues and constraints in the small-scale mining sector is the key to facilitate the promotion of the small-scale mining sector in this country.

1.3 Purpose and objectives of the study

1.3.1 Purpose of the study

There is still an apparent lack of accuracy on the information with regard to the economic impact the government's National Strategy has had on job creation and economic growth on the SMME sector in South Africa (Rogerson, 1997; Kesper, 2000; Ntsika, 2004). Basic text books with regard to SMME sector development in particular are scarce as one mainly finds journals and papers on the subject. The range of textbooks on SMMEs is also limited. A thorough literature review and analysis is necessary to place the SMME sector in its proper context. The argument is that SMMEs as

contributors to South Africa's employment creation and economic growth should be analyzed and contextualized.

The significance of the direct contribution made to employment levels and the economy by rapidly growing small firms can easily be demonstrated. Storey (1994:158) has found out that rapidly growing firms constitute a tiny proportion of the small firm population, but that they make a major contribution to job creation over a ten-year period.

Recognizing that most programmes created under the government's National Strategy for the development and promotion of the small business sector in this country have been operating for ten years to date, it is clear that undertaking an analysis of their economic impacts on the small, medium and micro-sized businesses should produce a representative perspective on the impact of the government's National Strategy.

This research study is then, deemed necessary as a means of developing a 'warning' system, which could assist both the concerned government and private sector structures incorporated in the government's National Strategy to make both major adjustments in approach as well as fine-tuning of existing programmes if necessary.

In essence the study is expected to provide an independent assessment of the impact of the government's National Strategy in relation to its key objectives of employment generation and economic growth in this country, and the impact it has had so far on the small black economic empowerment mining companies and the effectiveness and efficiency of the utilization of resources allocated to the implementation of the government's National Strategy. The study then, will review the institutional framework created by the government's National Strategy, the programmes created by these institutions and the utilization of their resources.

In summary, the study is intended to provide a frank and practical assessment in order for any interested parties to make efforts in making the government's

National Strategy more effective in meeting the critical objectives of job creation, income generation and economic growth in this country.

1.3.2 Objectives of the study

The main objectives of this study is to evaluate the impact the South Africa's National Strategy has had so far on the small business sector in general and specifically on the small black economic empowerment mining sector. The main focus areas can be summarized as follows:

- Analysis of the institutional framework created within the government's National Strategy spearheaded by the Department of Trade and Industry.
- Analysis of the effectiveness of the government's National Strategy through the provision of services by service providers (both financial and non-financial) created under the government's National Strategy and SMMEs who have received those services.
- Analysis of some government's departments not incorporated within the government's National Strategy's framework but having SMME developmental programmes themselves and other business organizations.
- A primary investigation of some parastatal organizations and provincial SMME desks.
- A study of the impact of the government's National Strategy through a structured questionnaire on small black economic empowerment mining companies.

Against this background, the objectives of this study are twofold: the provision of a more comprehensive understanding of the structure of the government's National Strategy's framework and the challenges at stake if any in order to highlight them to give future SMME policies a firm grounding i.e. an

explanation of the impact of the policy thus far and whether the policy has had any significant positive impact on the small black economic empowerment mining sector. It will also put forward some new suggestions regarding the direction that the government's policy should take.

In detail, the study will attempt to:

Revisit the rationale of the SMME policies

While there is a general consensus on the importance of SMMEs in South Africa, their economic rationale has not been well argued nor rigorously investigated. In particular, there is a lack of clarity on how the SMME sector fits within the industrial policy framework and with regard to other objectives of government (Kesper, 2000).

Propose some goals for policy

According to Rogerson (1997) optimizing the SMMEs' contribution to employment and economic development could be translated into the following broad objectives:

- Raising the rate of formation of new SMMEs with growth potential since these SMMEs will contribute to investment, employment and income generation.
- Encouraging new SMMEs arising from previously disadvantaged background, since these start-ups can contribute to redistribution of economic ownership and income, as well as a more participatory economy.
- Increasing the rate of graduation of micro-enterprises into the SME category, since only then the legacy of apartheid can be overcome.

- Raising the performance of existing SMMEs with a view to increasing both their competitiveness and their ability to fulfil a role in society.
- Decreasing the undesirable mortality rate of SMMEs that could be viable undertakings.

Main areas of intervention required

Achieving these broad objectives typically requires policies, which focus on:

- Increasing the supply of the entrepreneurial talent and opening opportunities.
- Providing support to existing SMMEs – micro-enterprises in particular – at no higher than its social opportunity costs.
- Providing incentives for formalization of enterprises, including cultural bridging.
- Assisting SMMEs (where necessary) to use the resources as efficiently as possible.

Within the context of the overall macro-economic performance, the ideal policy package for SMME support in South Africa should allow this sector to maximise its contribution to the economy's overall performance in terms of growth, employment and income distribution (RSA, 1995). This is likely to involve making more resources available to the sector as well as raising the efficiency with which it uses the resources already available.

Evaluation of policies to date

With policy initiatives already under way, the study aims to disentangle the reasons for SMME sector growth (low or high), and why it has made or not

made a more significant contribution to employment and overall economic growth in South Africa. By doing so, the study aims to assist the government in reconsidering its current SMME policy as an integral part of its industrial developmental strategies.

The impact of the government's National Strategy on small black economic empowerment mining companies

Apart from interviews with the institutions created under the government's National Strategy, services providers (financial and non-financial), other government institutions not created under the National Strategy and business institutions but involved in SMME developmental programmes, and other secondary data in relation to the SMME sector, the study will attempt to investigate the government's National Strategy's impact on the small black economic empowerment mining companies.

1.4 Problem statement

The current literature and statistics with regard to the structure of the small business sector is inconclusive (Kesper, 2000). There is a lot of conflicting assessment between different agencies' statistics including that of Ntsika. In addition, no literature or any research study was found (both from the private and public sectors) which analyzed the impact of the government's National Strategy on South Africa's small businesses.

This thesis will therefore serve as a seminal first step in evaluating the impact the government's National Strategy (designed in 1995) has had on the SMME sector with regard as to whether it has created an enabling environment for small businesses to achieve the government's National Strategy's objectives of job creation and economic growth.

The dearth to the unemployment crisis in South Africa is continuously posing major challenges to the South African government in both social (crime) and economic (income generation) circles. On the global arena, South Africa is

also faced with challenges of re-integration into the world markets, while at the same time positioning itself to realize the importance of addressing the local challenges. The international and local challenges, one would assume, will pose conflicting strategic priorities within the government's overall macro-economic strategy which are aimed at addressing both the local and international challenges.

It is a result of such challenges that forced the government to move quickly to launch the new and untried National Strategy for the development of the small business sector in this country. The National Strategy was structured to forge a wide range of participants in both the private and public sectors hoping that it would address the local challenges (job creation, poverty alleviation, economic growth) while also being globally competitive at the same time.

The government's initiative could, one would also assume, face enormous difficulties and pains to achieve its objectives because of the country's apartheid legacy which has created South Africa's dearth of entrepreneurial tradition and culture, lack of business skills and finance most especially among the targeted group (blacks). These factors may mean that progress to the attainment of the objectives of the government's initiative would face tremendous difficulties.

Since it is believed that job creation does not exist in the entire small medium and micro enterprises (SMMEs) but only in small medium enterprises (SMEs), the small black economic empowerment mining sector was chosen to compare the findings of the government's National Strategy's impact by an evaluation of the National Strategy's instructional framework and other related institutions to the extent the small black economic empowerment mining sector has benefited from the government's National Strategy and whether the Strategy has created an enabling environment for that particular sector.

The small black economic empowerment mining companies' database from the Department of Minerals and Energy is not updated on a regular basis and that created problems when conducting interviews with the small-scale mining

companies. Most of the companies in the current database no more exist or have changed locations and contact particulars.

1.5 Delimitation of the study

As a first step in the development of the government's National Strategy's impact analysis some limitations in this study will occur. The following aspects need to be noted:

- As an exploratory study, the study may encounter problems because of lack of well documented literature and statistics on the impact the government's National Strategy has had on small, medium and micro enterprises sector. The popular source of well documented statistics on SMMEs is that of Ntsika's *'The State of Small Business in South Africa'*. However, Ntsika's statistics also fall short of detail and clear elaboration on the impact the government's National Strategy has had on the SMME sector.
- Understanding the impact of the government's National Strategy and the attainment of its objectives require well researched statistics. Unfortunately, there is a lot of conflict on the literature and statistics available on SMME (especially Ntsika's and other agencies' sources) with regard to the size and structure of the sector. This may be because different agencies use different sources when conducting their studies.
- The major challenge to this study is that information on micro-enterprises, which is believed to constitute the largest part of the SMME sector, is hard to find as most of them operate without being properly registered.
- The small black economic empowerment mining companies' database has other companies in it well above the definition of the SMME sector (for example, African Rainbow Minerals Ltd, Mvelaphanda etc). Therefore, the Department of Minerals and Energy's database on small black economic

empowerment companies would be misleading as other big black companies are listed as such in the database.

- The information in the small-scale mining database is not regularly updated, so the interviews conducted on the small black economic empowerment mining companies was limited to the available updated information by the Department of Minerals and Energy, which also had a lot of misrepresentation especially with regard to their existence and contact particulars.
- When conducting the interviews with most small-scale mining companies, a lot of convincing had to be done to them to participate in the study, since most of them had doubts that the information sourced from them was required for study purposes only.

1.6 Research design

This thesis is an exploratory study to the extent that it could lead, through more continuous and perhaps comprehensive studies in both government and private circles in assessing the impact of the government's National Strategy for the development of small businesses in this country.

The approach was to start with investigations of the institutions created under the government's National Strategy i.e. CSBP, Ntsika and Khula. Secondly the effectiveness of the government's National Strategy through interviewing service providers (both financial and non-financial) and recipients (i.e. SMMEs) of those services. Thirdly, other government departments and business organizations, though not part of the institutional framework of the government's National Strategy but who are also involved in SMME sector developmental initiatives were also interviewed. Fourthly some parastatal organizations and provincial SMME desks were interviewed and lastly, a random sample of twenty-two (22) respondents of a population of all small black economic empowerment mining companies which are forty-four (44) in

total, according to Department of Minerals and Energy's database for 2005, were interviewed.

1.6.1 Type of study

This research study is a qualitative study. Unlike quantitative studies it is based on the following:

- Meanings expressed through words.
- Collection of results in non-standardized data which was classified into categories.
- Analysis was conducted through the use of conceptualization.

While number depends on meaning (Dey, 1993: 28), it is not always the case that meaning is dependent on number. Dey (1993: 28) also points out that: "The more ambiguous and elastic our concepts are, the less possible it is to quantify our data in a meaningful way". Qualitative data are associated with such concepts and are characterized by their richness and fullness based on the opportunity to explore a subject in as real a manner as is possible (Robson, 1993). A contrast can thus be drawn between the "thin" abstraction and description which results from quantitative data collection and the "thick" or "thorough" abstraction associated or description associated with qualitative data (Dey, 1993; Robson, 1993).

The nature of the qualitative data in this study therefore, had implications for both its collection and analysis. To be able to capture the richness and fullness of the data in this study, it had to be collected in a non-standard way, unlike that of quantitative study. The non-standardized and complex nature of the data in this study was classified into categories during analysis before it could meaningfully be analyzed; otherwise the most that could result was an impressionistic view of what it means. While diagrams and statistics are used

to show frequency of occurrence in other categories of data, the way the qualitative data is analyzed in this study is through the creation of a conceptual framework.

1.6.2 Propositions/assumptions

Most of the literature on the impact of the government's National Strategy for the development and promotion of the SMME sector in South Africa points out that the National Strategy has not had a significant positive impact on the SMME sector so far (for example, Levy, 1992; Cattell, 1993; Rilley, 1993; TaskGro, 1993; Eichler, 1994; Hirschowitz, 1994, Manning and Mashigo, 1994, Horn 1995; Sawaya, 1995, Rogerson and Reid, 1997). With this background the assumptions of the study are as follows:

- The South Africa's National Strategy has not created an enabling environment for the development of the small, medium and micro enterprises for the attainment of its objectives.
- From the background of the above assumption, it can then be concluded that the government's National Strategy has not created an enabling environment in the small black economic empowerment mining sector and therefore the entire SMME sector as a whole.

1.6.3 Research methodology

The methodological framework used in this study was as per the following stages:

- An investigation into the institutions created under the institutional framework of the government's National Strategy by conducting interviews with the Centre for Small Business Development (within DTI), Ntsika and Khula.

- An evaluation of the effectiveness of the government's National Strategy through interviews with service providers (both financial and non-financial) and the services recipients (SMMEs).
- Investigation into other government and business institutions not incorporated in the institutional framework of the government's National Strategy but having SMME developmental programmes as their institutions' initiatives.
- Investigation into some parastatal organizations and provincial SMME desks.
- Investigation into a random sample (through a questionnaire) in the small black economic empowerment mining sector to assess what the government's National Strategy's impact has had on the sector. This study was in an effort to cross-check the outcome of the study in the first phase of the study with regard to the institutional framework of the government's National Strategy.

1.6.4 Sample design of the study

The first phase of the study focused on the evaluation of the institutional framework of the government's National Strategy and comprised of the following:

- The Department of Trade and Industry (DTI) through its Centre for Small Business Promotion department in Pretoria was interviewed. The Centre for Small Business Promotion was selected because it was conceived as the central policy making, coordinating and performance monitoring group of the government's National Strategy.
- Ntsika Enterprise Promotion Agency (NEPA) in Pretoria was interviewed. Ntsika was selected because under the government's National Strategy for

SMME development and promotion, it was given the mandate to provide a wide range of non-financial services to local service delivery groups.

- Khula Financial Enterprise Limited in Johannesburg was interviewed. Khula was selected because under the government's National Strategy, it was given the mandate to improve access to finance for the SMME sector.
- Twelve financial services providers, twelve non-financial providers and twelve service recipients (SMMEs) were interviewed i.e. three respondents in each category in the four provinces the study was conducted were randomly selected. The provinces were selected for the study because the author was conducting business in those regions.
- Other government departments not incorporated in the institutional framework of the government's National Strategy including other business organizations were also interviewed. These were chosen on the basis that they have their own SMME developmental programmes.
- Other parastatals and the four provincial SMME desks in the targeted provinces were also randomly selected and interviewed.

The second phase of the study through a structured questionnaire interviewed 22 (50%) of the existing 44 small black economic empowerment mining companies as per the Department of Minerals and Energy's database. The sample of twenty two respondents was randomly selected.

1.7 Possible findings of the study

Most agencies who report on SMME development in South Africa point out that the government's SMME development initiative has not yet played a pivotal role in creating an enabling environment for SMME development.

Against this background the possible findings of the study are as follows:

- The South Africa's National Strategy has not had any significant impact in creating of an enabling environment for SMME sector development.
- Following from the above possible finding, it follows that the government's National Strategy has not had any significant impact on the small black economic empowerment mining sector and therefore the entire SMME sector.

1.8 Structure of the study

This study is developed in eleven chapters:

Chapter 2: South Africa's political background and its legacy

This chapter will attend to discuss the political background of South Africa and its legacy. It starts from the 17th century when the Dutch colonized this country and through the 18th century when the British arrived. The chapter also points out the impact that political legacy has had on entrepreneurship in South Africa.

Chapter 3: The SMME sector in South Africa

The chapter will give an overview of the South Africa's SMME sector with regard to its size, profile and performance in the country's overall economy.

Chapter 4: International, regional and local experiences in SMME development

This chapter will attend to discuss the international, regional and local experiences with regard to SMME developmental initiatives.

Chapter 5: South Africa's Strategy for the development and promotion of the SMME sector

This chapter will discuss the evolution and the structure of South Africa's National Strategy's institutional framework for the development and promotion of the SMME sector in this country.

Chapter 6: South Africa's mining industry overview

Since the study will investigate the impact the South Africa's National Strategy has had on the small black economic empowerment mining companies, this chapter will give an overview of South Africa's mining industry.

Chapter 7: Type of study

This chapter discusses in detail on the type of this study and specifically how data was collected and analyzed.

Chapter 8: Problem statement, research objectives and hypotheses/propositions

This chapter discusses in detail on the problem statement, research objectives and the hypotheses/assumptions of the study.

Chapter 9: Research methodology

The study's design, process and implementation will be discussed in this chapter.

Chapter 10: Research results and analysis

This chapter will present the findings of the study.

Chapter 11: Conclusions and recommendations

In this chapter a final discussion on research conclusions, the implications of the study and recommendations will be offered.

1.9 Summary

The study aims to contribute to the analysis of the impact of the government's National Strategy, since its inception in 1995, as to whether it has indeed achieved its objectives of job creation, income generation and economic growth in general, and specifically its impact on the small black economic empowerment mining companies in South Africa based on the findings of the study.

The descriptive findings on their job creation, income generation and economic growth will confirm unambiguously whether or not the present institutional framework of the government's National Strategy for the development and promotion of small businesses as a whole has been successful in tackling the problem of employment and economic growth in this country.

The following chapter will discuss South Africa's political background and its legacy and the impact such legacy has had on entrepreneurship in this country.

CHAPTER 2

SOUTH AFRICA'S POLITICAL BACKGROUND AND ITS LEGACY

2.1 Introduction

This chapter will attend to discuss the political background of South Africa and its legacy. It starts from the 17th century when the Dutch colonized the country and through the 18th century when the British arrived. The chapter also points out the impact of this political legacy on entrepreneurship in South Africa.

2.2 Political background

South Africa was colonized by the Dutch in the 17th century and then by the British from 1806 onwards (Qunta *et al.*, 1995). They found the indigenous Africans (including the Khoi and San) who archaeologists conservatively estimate to have been here since at least 770 AD.

Almost as soon as the Dutch arrived, trouble developed between them and the Khoi, who, though at first hospitable, gradually realized that their land and liberty were under threat. The armed clashes that ensued between the Dutch and later the British settlers on one hand and the indigenous people on the other hand started in 17th century and continued for close on to two centuries (Human *et al.*, 1993). Africans in the Cape bore the brunt of the colonists thrust, as eight wars of resistance were fought in Eastern Cape alone. The last major war was fought between the British settlers and the Zulu speaking Africans in 1879. The last to loose their independence were the Venda people in 1878.

The two important issues that these wars revolved around were land and labour. Control of either or both ensured wealth for the victor and poverty for

the loser. From the early days of colonization, labour was in short supply. According to Qunta (1995), initially the Dutch imported slaves from Malaysia and Java, and also enslaved the Khoi. As they expanded their control over the country and began to farm, their labour needs increased.

Diamonds were discovered in 1867 near the Vaal and Orange rivers and three years later in Kimberly (Browning *et al.*, 1989). Gold was discovered in the Witwatersrand area in 1886. The discovery of diamond and gold transformed the economy of the country from a largely agricultural one to an industrial one with mining and mining related manufacturing activities. As a result, the need for skilled and unskilled labour increased dramatically. The problem that the Dutch and the British had had from the beginning (how to get Africans off land and onto White farms and mines) now increased. So did their efforts.

When the British had disputes with Africans, they conducted what they referred to as “pacification campaigns”. Such campaigns were usually accompanied by widespread burning of crops and looting of livestock. The historian Bernard Magubane refers to these as “scorched earth campaigns that were meant to deprive the Africans of their entire independent livelihood”. According to Magubane (1979), in the war of 1851 with King Kreli of the Gcaleka people, the British invaded his land and confiscated 37 000 head of cattle, 14 000 goats and a few horses. Kreli’s headquarters were burnt down and a further 10 000 head of cattle were taken.

2.3 Discriminatory measures

2.3.1 Land reservation

The land that had not been seized through warfare was taken through legislation, namely the notorious Native Land Act of 1913. According to Qunta (1995), the effects of the Native Land Act were to reserve 13% of land for Africans and to leave the rest for Whites. The land reserved was largely inhospitable and unproductive and was situated in what was later to be known

as “Bantustans”. The Native Land Act was like a legislation mopping-up operation after most of the land had already been lost through warfare.

The absence of Africans in the main stream of the economy has its origins not only in the loss of vital wealth producing resource such as land, but also in the array of legislative measures adopted by successive white governments from the time the first colonists arrived. It is clear that discriminatory labour legislation had their origins not in the coming to power of the Nationalist government in 1948 but much further back. The National Party built upon what had already existed, and implemented these measures with a religious zeal.

One of the earliest Acts was the Vagrancy Act of 1809. According to Adams (1993), the effect of the Act was to declare all black people who were not working for whites, Vagrants. Anyone who was a vagrant was breaking the law. In addition, Africans were required to carry a pass and they could only obtain it once they had a labour agreement with a white farmer. If they did not have such an agreement they could be arrested under the Vagrancy Act. The Court could then assign them to work for local farmers as part of their punishment. Anyone who did not have a "fixed abode" or a "visible" means of support could be classified as a Vagrant.

The Vagrancy Act of 1867 was also meant to curtail the "idleness" of the indigenous people. It covered all those who were "without sufficient or visible lawful means of support, wanderers and loiterers". Those who fell foul of this law were sent to prison or were sentenced to work in the municipality, public works, divisional council or for any private person.

Another technique used by the British to get Africans away from subsistence farming and onto White farms and mines was to impose arbitrary taxes on them. According to Qunta (1995), through the Glen Grey Act of 1894, a labour tax was introduced, which every African farmer had to pay. Given that they were not involved in a cash economy, the Africans were forced to go to the mines to earn the money to pay the tax. Cecil John Rhodes justified the tax by saying that the Act "removed the natives from the life of sloth and laziness

teaching them the dignity of labour, and made them to contribute to the prosperity of the state and give some returns for the wise and good government". In light of such sentiments, Zimbabwean historian Tendai Mudenge (1988) was perhaps not overstating matters when he called Rhodes "Africa's greatest racist".

Poll taxes were introduced and failure to pay constituted a criminal offence. It was resistance to one such poll tax that gave rise to the last armed uprising by Africans in the 1900s. According to Madi (1997), that uprising was called the Bambata uprising, after the name of the leader who refused to pay the poll tax that the British had imposed in Natal.

The earliest legislation that controlled Africans who were in the employ of the colonists was the Master Servant Ordinance. Ostensibly it was meant to regulate the relations between employers and employees. The Ordinance was promulgated in the Cape in 1841. A harsher version was enacted in 1856, after the Cape had been granted representative government by the British.

The Native Labour Regulation Act of 1911, according to Madi (1995), had the same effect as the Master and Servant Act but was applicable to the mining industry only, and like the earlier Act, applied only to African workers. Leaving employment without notice was a criminal offence, as was refusing to obey a command of the employer.

2.3.2 Job reservation

As more and more Africans were forced off their land, they moved into mines and developing industries. White workers, especially the unskilled ones, saw African workers as a threat because they had to compete with them for employment. The skilled workers also feared being undercut by African artisans. According to Browning (1989) the first official colour bar relating to jobs came into being in 1893 with the stipulation that only whites could become engine drivers.

The first job reservation legislation was the Mines and Works Act of 1911 and according to Browning (1989), it made racial discrimination, in the form of hiring on the basis of race, official. It set aside 32 types of jobs in the Transvaal and Orange Free State for which only whites could be recruited. Thousands of black people, including the "coloureds", were prevented from getting wages as carpenters, or other skilled workers. But the Act did not keep skilled black people out entirely, since paying them unskilled wages for skilled labour was cost-effective for the mine owners. According to Browning (1989), black miners earned about a tenth of the wages of their White counterparts.

The 1922 strike by white workers came as a result of mine owners trying to replace some white workers with black workers in order to save costs (Madi 1995) and according to Madi (1995) it was the biggest and most violent strike by white people in the history of this country. On the insistence of White workers, who demanded more protection from the competition with black workers, the Mines and Workers Act of 1926 was passed to more effectively enforce the colour bar. It provided that no Africans or Indians should work in jobs that required certificates.

The Apprenticeship Act of 1922, which was amended in 1944, provided for apprenticeship as an entry requirement for certain specified trades. An educational requirement of standard six was also prescribed. This effectively excluded black people who through lack of educational opportunities very rarely reached standard six and who would in any case find it difficult to obtain an apprenticeship.

The 1951 Native Building Workers Act removed Africans from the ambit of the Apprenticeship Act and defined the areas they could work (Browning, 1989). It provided for their training and control. It also prohibited anyone in an urban area outside the "Native" reserves from employing Africans in the building industry and in other allied occupations. The minister concerned had the right to decide how many learner builders were to be trained each year. Thus not only were skilled Africans removed from the major urban centers and away

from competing with white tradesmen, but the number of people who could be trained each year was restricted.

The Factories Act of 1941 enforced segregation in the place of work by requiring different work areas and separate facilities (canteens and toilets among other things) for different racial groups (Browning, 1989). The cost of satisfying these requirements discouraged employers for employing more than one group and they usually settled for white people. After 1924, the job reservation became an integral part of the South African economy, despite the fact that it was inefficient and costly for employers.

The National party continued this trend started by the British. By the time the pass laws, which were at the heart of the influx control, were abolished in 1986, millions of Africans had received convictions and had their lives disrupted.

2.3.3 Education

The most powerful tool in ensuring white domination was an education system for blacks specifically designed to be inferior to that of whites. It is useful to quote Dr. H. F. Verwoerd's now famous words: "When I have control over native education, I will reform it so that the natives (i.e. blacks) will be taught from childhood that equality with Europeans is not for them" (Nkwanazi and Rall, 1994).

Verwoerd remained true to his promise. The syllabi and examinations used in black schools were different from those used in other races. Different education departments saw to it that differences were maintained. The subject material was kept different, aimed at keeping black education inferior. A cursory glance at the sums that were spent on an African child and White child is instructive. Nkwanazi and Rall (1994) recorded that in 1990, R3 083 was spent on a White child and only R 764 was spent on an African child. Thus four times as much was spent on a White child.

According to the Race Relation Survey (1993/1994), African teachers were not adequately trained. In 1992, 14% of the teachers at the Department of Education and Training (DET) schools in the "non-independent Bantustans" did not have a teaching qualification, and 57% were under-qualified, i.e. did not have a matric with three more years of teaching training.

Furthermore, African schools have been overcrowded; facilities such as good libraries and laboratories were virtually non-existent. It is therefore not surprising that there was such a vast discrepancy in the matriculation pass rate between African and White pupils. According to the Race and Relation Survey (1993/1994), in 1991 matriculation examination, only 41% of African pupils passed and 11% obtained matriculation exemption, as opposed to 95% of White pupils who passed and 42% who gained exemption. In 1992 the percentage of Black pupils who passed matric was 44% whilst 98% of Whites passed.

Those few Blacks that managed to pass were limited in their choice of University. They were barred from attending White Universities unless they obtained a special permission from the Minister of Education. He would give such exemption only where the desired course was not available at the various ethnic Universities. These Universities were usually referred to as "bush colleges", not on account of their location but because of the type of education provided there. None of them had facilities of medicine, business or engineering, for instance. Students mostly studied arts related courses.

There is a vital absence of Africans in the technical fields on account of these policies. According to Leadership Magazine (1994), in 1991 there were only 30 African engineers as against 17 840 White ones; 31 pharmacists as against 731 White ones. In 1994, there were only 60 African chartered accountants out of 14 036 in the country and fewer than 20 architects out of a total of 2 650.

2.4 Legacy of discrimination

2.4.1 Inequality

Discrimination (i.e. Apartheid) has left a legacy of inequality. In the labour market the disparity in the distribution of jobs, occupation and income reveals the effects of discrimination against black people. These disparities are reinforced by social practices, which perpetuate discrimination in employment against this disadvantaged group (blacks), as well as by factors outside the labour market, such as lack of education, medical care and transport.

Black people have suffered as a result of job reservation and education and lack of skills under apartheid. This discrimination sometimes takes the form of direct and conscious decision, based on the prejudice or stereotypes, to exclude certain groups from jobs or promotions. For instance, some employers, believing that black people are not assertive enough to manage or supervise other employees will not consider them in any senior position.

Whereas South Africa is not poor by international standards, it is infamous for having the most unequal distribution of income in the world. According to Country Review (1996) the International Labour Organisation (ILO) concluded that South Africa had the highest levels of inequality than any country in the world.

The Labour Commission notes that the country's skewed income distribution is reflected in the fact that the bottom 20% of income earners captures a mere 1.5% of the national income, while the wealthiest 10% of the households receive fully 50% of the national income. Further, poverty is overwhelmingly concentrated in the African and Coloured population: 95% of the poor are Africans. The Labour Market Commission notes that roughly 33% of Coloured population lives in poverty, compared to 20% for Asians and 0.7% for Whites.

This racial inequality is also reflected in the situation with respect to unemployment in the country. According to Wingrove (1995), in 1994,

unemployment stood at 41% among Africans, among Coloureds was 23%, whilst among Asians 17% but was only 6.4% amongst Whites.

The Green Paper on Employment and Occupational Equity (1996) pointed out that amongst the employed, a third of the Blacks earn below R500 per month, compared to fewer than 5% of Whites. The Green Paper also noted that a white male South African was five thousand times more likely to be in top management position than an African woman. These apartheid-induced inequalities are reflected in the current distortions within the occupational and professional structures of the labour force. A survey of some 107 organisations by the Breakwater Monitor in 1996 indicated that in the top managerial ranks of most companies, Africans constituted only 2.9%, Coloureds were 0.43%, Asians 0.21% whilst Whites were 96.38%. The same study found out that for the lowest grades Whites constituted 1.85%, Africans 89.01%, Coloureds 7.94% and Asians 1.20%. There is, in short, little correlation between the composition of the workforce at technical, professional, and managerial levels and the overall demographics of South Africa.

2.4.2 Economic growth

The World Competitiveness Yearbook (1997) rated South Africa last out of 46 countries with respect to competitiveness of its workforce. A skilled labour force increases a country's competitiveness. Racial discrimination in education and access to employment, coupled with the constant denial of opportunities to blacks has led to the very poor overall skills levels to be found in South African labour market. Inequalities led to market distortions, which in turn resulted in the inadequate utilization of resources. It follows that the reduction in inequality in society is therefore a way of promoting economic growth and job creation.

2.5 The impact of the legacy on the small business sector

The legacy of apartheid constitutes an important factor in the inability of black-owned or –controlled small business to face business development constraints. According to the White Paper on National Strategy for the development and promotion of small business in South Africa (Notice No. 213 of 1995), for decades, if not centuries, the majority of South Africans were deprived of viable business opportunities in the following ways:

- Bantu Education restricted opportunities for the acquisition of technical and professional skills by black people.
- There was total absence of entrepreneurial education or sensitizing for young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship.
- Apartheid confined the majority of the African people to homeland areas which were not only poorest in terms of living standards and business opportunities, but also lacked a dynamic business environment.
- Even outside the homelands the system of apartheid made it impossible for black would-be entrepreneurs to participate in business apprenticeships and partnerships with more established (non- black-owned/controlled) enterprises.
- Racially segregation residential areas, enforced through the Group Areas Act, not only uprooted millions from the places of residence and business, but also led to large capital losses and virtually destroyed the fabric of black small businesses.
- The drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan

financing; it also excluded blacks from the long-run process of capital accrual and growth through rising property values and share prices.

- Apartheid left no real space for the business involvement of black women; marriage laws reduced women to unions with no contractual capacity at all; even though marriage laws have changed, customary law remains intact and there are cultural, behavioural and attitudinal constraints which affect women's participation in business, particularly in rural areas. There are also restrictions in terms of access to land.

2.6 The government efforts to address the apartheid's legacy

According to the White Paper on National Strategy for the development and promotion of the small business sector in South Africa (1995), due to apartheid's legacy, the government's small business support policies will for a considerable time also have to focus on the particular needs of black enterprises and ways to overcome the remaining consequences of the apartheid legacy. The White Paper also points out that this does not imply that policies should only focus on black-owned or –controlled enterprises or business-infrastructure facilities in formerly black-reserved towns, but that policy differentiation will have to include affirmative support.

The new South Africa's government (elected in 1994) came up with many policies in an effort to trying to completely swipe out the apartheid legacy in the country. One of these policies named the National Small Business Act (No. 102 of 1996) is the government's effort to develop and promote the small business sector mostly involved by the black majority, thereby trying to readdress the prevailing apartheid legacy in the country.

The overall objective of the government's National Strategy was to create an enabling environment for SMME growth in the country as a way of addressing basic inequalities in the economy. The mechanism for small business support outlined in the White Paper became constitutional through the National Small Business Act, which also provides the first comprehensive definition of

SMMEs. The Act legalized the establishment of new institutions, affirmative procurement reform and the formation of an advisory board to review SMMEs' legal and regulatory environment.

2.7 Conclusion

This chapter discussed South Africa's political background and its legacy focusing on the impact of such legacy on small business sector and the government's efforts to address that legacy.

In the following chapter, the South African SMME sector will be discussed.

CHAPTER 3

THE SMME SECTOR IN SOUTH AFRICA

3.1 Introduction

Although the statistical base of SMMEs in South Africa is still poor, there can be little doubt about their relative significance. The small business sector is highly diverse in this country, with structures, problems, growth potential and access to support differing widely between segments. These differences relate as much to the economic sectors – retailing, manufacturing, mining, etc. – as they relate to stages of growth of enterprises, viz. start-up, expanding or stagnating.

From a broad strategy perspective the most important distinction is between survivalist activities, micro-enterprises, small enterprises and medium-sized enterprises, with the general term “small business” and the abbreviation “SMMEs” widely used to contrast this sector with big(ger) business. Due to the similarity of some of the obstacles facing them, survivalist and micro-enterprises are often lumped together.

This chapter begins with a general outline as to why a dynamic SMME sector is important in an economy. It attempts to provide a theoretical perspective as to how it can specifically be linked to the unemployment and productivity problem in South Africa. It aims, with a level of abstraction, to understand how an economy with typically South African characteristics functions, specifically with regard to productivity and unemployment. The chapter also sketches the main functions of SMMEs and the theoretical conditions necessary for their attainment. It will also describe the current state of the South African SMME economy with regard to its structures, and the effect of economic reforms. It will specifically investigate the potential impact that the SMME sector can have on employment, considering the micro-enterprises on one hand, and small medium enterprises (SMEs) on the other.

3.2 Main functions of SMMEs

SMMEs as enterprises have some economic roles to fulfill as they contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products, and to a larger extent, services to foreign clients, thereby contributing to the overall export performance.

From an economic perspective, however, enterprises are not just suppliers, but also consumers, which have an important role to play if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demand of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production). In addition, demand is important to income-generation potential of SMMEs, and their ability to stimulate the demand for both consumption and capital goods.

Most importantly, and from a South African context, SMMEs have, at least in theory, the potential to generate employment and upgrade human capital. Economic historians have demonstrated the importance of this phenomenon in Europe's industrialization and the subsequent development of other emerging economies. As technological progress in agriculture liberated the agrarian labour force, this unskilled excess labour force was absorbed into small manufacturing industries and exposed to business experience, thereby encouraging a "learning-by-doing" effect. This combination of employment of a vacant labour force, and the improvement of their skills through business exposure, strongly characterized the process of industrialization and development (Kesper, 2000).

South Africa's current economic situation is comparable to the above scenario: the excess labour force is "released" not so much from the

agricultural sector, but rather large enterprises in the secondary and tertiary sector (Kesper, 2000). Generally, these enterprises are not necessarily facing economic recession, but rather are growing and transforming themselves in such a way that their demand for unskilled labour is decreasing. This results in an abundant pool of unskilled labour, which SMMEs can possibly employ and upgrade.

From a different viewpoint, it has been suggested that, in cases of “jobless growth” and a mismatch between the demand and supply of unskilled labour, a shift in both the sectoral composition of the economy and the occurrence of growth in different categories of firms may be an important avenue for the generation of both employment opportunities and growth. The question here is whether a more robust SMME growth strategy in South Africa will bring about such changes. This in turn depends on whether SMMEs are more labour-intensive and therefore likely to employ unskilled labour, and whether they are able to provide a “skills upgrading process”.

With these categories of functions defined from a theoretical perspective, the following section examines the structure of the South African economy to see whether SMMEs can, in their current position, fulfill these roles.

3.3 Structural features of the South African economy and its implications for SMME growth

3.3.1 The apartheid legacy

In comparison with many other developing countries, the contribution of South Africa’s SMMEs to employment and economic growth is low (Manning, 1996). This relatively poor performance is often associated with the racial distortions in education, income and economic empowerment inherited from the previous white regimes. Nevertheless, there is a danger in ascribing all the responsibility for the underdevelopment of SMMEs to political disenfranchisement, since the corollary to this argument is that the new economic order provides a sufficient condition for revitalization of the SMME

economy. According to Kesper (2000), the removal of apartheid, although necessary, has been insufficient in the unraveling of the full potential of the SMME economy, because the inherited structures contribute to the following:

- A high dualistic economy not only characterised by a high productivity (modern) and a new low productivity (informal) sector with little interaction between them, but also a division along racial lines.
- A transition phase marked by political uncertainty and considerable crime and violence, both impacting negatively on local and foreign direct investment in the modern sector.
- A recent shift in individual policy to liberalization of trade and finance, and a rapid technological change reflecting a comparable process at the global level.
- Low levels of education and training among the participants in the traditional sector who have, in addition, suffered from the suppression of entrepreneurial activities.

3.3.2 International experience in dealing with such legacy

South Africa's peculiar features imply that policy makers may partly draw on international experiences when looking for policy responses to promote economic and employment growth. There are other economies like Chile or Venezuela, for example, which have a historically strong mining base. Like South Africa, they suffered from high levels of unemployment and/or underemployment, resulting in income inequality, because public interventions and resources were focused on strengthening the mining industry, to the detriment of the more labour-intensive agricultural and manufacturing sectors.

Chile, for example, solved the unemployment dilemma by creating a large public sector, while other governments protected their agriculture and

manufacturing sectors so that the shrinkage in employment would not be so pronounced. For a country like South Africa, however, protectionism and increased state expenditure are contrary to the liberal philosophy adopted, as shown below.

3.3.3 Way forward for South Africa

South Africa has adopted a regime of trade liberalization and fiscal prudence, thereby limiting the use of protectionism and public sector employment. This may partly explain why unemployment levels and income inequality have increased.

Taking into account the characteristic of dual economy, adequately remunerative employment could originate from:

- The high productivity sector increasing its level of employment i.e. absorbing people previously located in the low productivity sector (or unemployed).
- The low productivity sector increasing its income generating capacity through investment, technological improvement and education and training.

However, the success of each of these mechanisms is limited by historical neglect of education and training for both employers and employees in the low productivity sector. Therefore the key challenge is identifying the best policy levers available to the government, given the problem of inequality and the overall thrust of an economic reform strategy comprising fiscal prudence, trade liberalization and deregulation of various economic sectors.

3.4 Can SMMEs resolve the unemployment problem? – a theoretical consideration

This section tries to highlight, from a theoretical standpoint, the requirements for using SMMEs as vehicles for employment creation where the interaction between capital, productivity and demand for labour are explained.

3.4.1 Capital, productivity and demand for labour

Economic production is defined as the combination of capital and labour to generate a “product”. The demand for labour can be understood as a function of the country’s national product, the availability and productivity of both capital and labour and the ratio of substitution between capital and labour. More precisely, the productivity of one factor is boosted by the quality and abundance of the other factor, and this explains the difference in labour demand amongst enterprises and across countries.

Countries with a broad capital base (typical of developed countries) exhibit high labour productivity, and because their national product is high, will be able to employ the majority of their labour force. By contrast developing countries, South Africa included, are characterized by lower capital endowments and an abundance of low-skilled labour. Overall productivity in developing economies cannot be high as long as only a limited number of workers are needed to operate the fixed amount of capital. This results in a dearth of employment opportunities for unskilled labour.

A similar distinction can be made between the various sizes of enterprises. This is done on the assumptions that the larger firms are more capital-intensive, and that the demand for labour is directly related to its marginal productivity. In large capital intensive firms, the first few workers are highly productive, but as workers are added their marginal productivity tapers off fast. Thus the initial demand for labour as a whole or for high-skilled labour is high, but then falls sharply as workers are added.

In contrast, the labour demand of the micro-enterprise sector does not achieve high levels at any given point. To begin with, much of the demand is imputed since the workers are self employed. In addition, the marginal product of the labour employed is low because of the limited capital and simple technologies employed. The demand hence remains relatively flat (elastic), because of the low barriers to entry.

The labour demand of the SMME sector lies between these two extremes. The first workers are relatively more productive than those in micro-enterprises, but less so than those in large firms. Productivity declines slower than in large firms as workers are added, but faster than in micro enterprises.

3.4.2 Labour markets, wage rates and productivity

The summation of the three labour demand scenarios described above constitutes the total demand, which in turn is a function of the wage. Its intersection with the supply of labour represents the equilibrium wage, which is applicable to all low-skilled workers in the absence of labour legislation or other institutions, which affect wages of various subgroups of the workers, found in this labour market segment.

The demand is high at the beginning, where most of the demand for labour originates from the high productivity sector, but flattens towards the bottom where it reflects the existence of the micro-enterprise sector. In other words, in a country with a large labour supply, the equilibrium wage for this category of relatively unskilled workers is defined by the marginal labour productivity in the micro sector.

3.4.3 Role of the high productivity sector in labour markets

A healthy high productivity sector directly contributes to employment creation (Kesper, 2000). However, when capital is scarce, its main impact on employment is indirect, by means of technology spin-offs, subcontracting and transfers to the lower productivity sectors. The combination of an increase in

the demand for labour in the high productivity sector, as well as the rest of the economy, produces a rightward shift of the labour demand.

In South Africa's case, according to Rogerson (1998), however, technological upgrading seems to work in the opposite direction. The high productivity or modern sector seems to grow "vertically" i.e. with no transfer, technology spin-offs or other indirect benefits. As a result, wages in the high productivity sector rise, but fall in the other sectors. Such growth causes more income inequality, reinforced by likely fall in wages of low-skilled micro-enterprises because this segment of the labour market gets flooded.

According to Kesper (2000), international experience suggests that the direct (low) employment creation capacity of the high productivity sector does not vary much across developing countries, but that the extent of its positive impact on employment creation in the lower productivity sector does. In the case of Latin America for example, there has been virtually no net employment creation of this sort in the 1990s – even though a modest rate of overall economic growth was achieved. The Latin American experience suggests that the high productivity sector cannot be expected to provide the answer to a developing country's employment needs in a world of liberalization, fiscal prudence and rapid technological change. Its employment growth is slow, and unless productivity was raised in other sectors, the equilibrium wage would stay low for a discouraging long period.

3.4.4 Role of the micro-enterprises and the SME sector

Returning to the employment and wages in low-skilled segment of the labour market it is important to distinguish between the micro-enterprise sector and the SME sector. The micro-enterprise economy increases the average productivity of labour in the economy as a whole by "pulling into production" unemployed low-skilled labour whose skill levels are not sufficient to qualify for employment in larger firms. Although this probably does not raise the average labour productivity of the employed labour force, it makes the most productive use of the unemployed economically active population. This has

the effect of raising total output in the economy at little or no opportunity costs. By means of support measures, the average labour productivity of those so employed could be enhanced.

The marginal product of labour in the micro-enterprise sector determines the equilibrium wage for unskilled labour in the whole economy, although labour legislation and trade union power artificially push up wages in large scale firms and part of the SME sectors, so that the actual wages tend to lie above those paid in the non-unionized micro-enterprise sector. Nevertheless, the social and economic importance of having policies that raise the productivity in this micro sector must be viewed in light of the fact that its impact on earnings can go beyond the micro-enterprise itself. Their successful implementation raises not only the incomes of people employed therein, but of all other comparable workers in the economy whose incomes are not above the equilibrium due to “institutional distortions”.

Promoting the micro-enterprise sector with a micro-finance programme, for example, may raise the productivity of enough micro-enterprises (or induce the formation of dynamic ones to replace less productive micro-enterprises) so that the labour demand (labour productivity) of that sector will rise. Unfortunately, this cannot be the final resolution to the challenge of adequate employment, because the productivity levels of micro-enterprises have a relatively low ceiling. Hence, while effective policies impact positively on micro-enterprise productivity, they achieve poverty alleviation at the most, but not an expansion of the middle class.

The SME sector, by contrast, is not just a desirable complement to growth in the high productivity sector and a multiplier of productivity increases in micro-sector, but holds in itself the main key to whether the country will succeed or fail in confronting its employment challenge. Labour productivity is sufficiently high in most of this sector so that its workers earn above the poverty line. Further productivity improvements raise average wage levels of this sub-sector. Even more helpful, however, is the horizontal expansion of this sector,

through entry of new and growth in size of existing firms. This shift in the size distribution of firms can be explained by:

- The redeployment of former lower skilled micro-enterprise employers to SME firms (or the “maturation” of micro-enterprises into SMEs) until eventually only a few micro-enterprises are left.
- The redeployment of high skilled and less skilled workers from the high productivity sector, which tends to replace labour with capital.

SMMEs therefore emerge not only from a productivity perspective, but also with an interest in income distribution, as the most promising section of South Africa’s economy. The country could have raised its average labour productivity by allocating a high share of capital to large firms, which yield scale economies, and/or firms using modern technologies. In this case, only a few high skilled labour and well paid workers would be needed to operate this capital, while the majority of the labour force produces with little capital, and hence low levels of productivity and remuneration. In this scenario, labour (as the abundant factor of production) is sub-optimally used and income distribution worsened, especially with regards to unskilled workers and labour entrants in particular.

Since South Africa boasts a large pool of low-skilled workers, maximizing average labour productivity of those who are employed seems to be the wrong path to follow at this time. Such a strategy would lead to a high rate of unemployment, and hence inequality in income distribution. While the micro-enterprise segment usually absorbs some of the unemployed, therefore slightly increasing the overall productivity of the economy, it is more desirable to have SMEs generate the bulk of employment, which is more productive, and hence able to pay higher wages.

Admittedly, the correlation between size, labour intensity and labour productivity varies from country to country and industry to industry, but allows

a first assessment of the potential of the SMME sector. If the theoretical assumptions above are accepted, and it is acknowledged that the upgrading of skills in the labour force is pivotal to a prosperous SMME sector, it becomes equally clear that the overall economic success of a country like South Africa depends on the nature and effective implementation of its SMME support policies.

All over the world it has been recognized that the small business sector plays an important if not critical role in the economic and social development of a country. This also applies to South Africa, where the small business sector has been neglected during much of the century following the discovery of diamonds and gold, and the establishment of a modern, capitalist economy with almost exclusive white control.

According to Kesper (2000), while the importance of large industrial, mining and other enterprises for growth of the economy cannot be denied, there is ample evidence that the labour absorptive capacity of the small business sector is high, the average capital cost per job created is usually lower than in big business and its role in technical and other innovation is vital for many of the challenges facing South African economy.

Given South Africa's legacy of big business domination, constrained competition and unequal distribution of income and wealth, the small business sector is seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets (both internally and internationally), enhance productivity and technical change, and through all of this stimulate economic development.

Taking into account the very large micro segment of the small business sector, as well as those struggling in the survivalist activities it should be clear that the small business sector plays a crucial role in people's efforts to meet basic need and help marginal groups for example, female heads of household, disabled people and rural families, to survive during the current of fundamental structural changes where the formal economy is unable to

absorb the increasing labour supply and social support systems are grossly inadequate.

Experience has shown that in the past black people have been able to make far greater progress in the micro- and small-enterprises. Thus, the SMME sector has – all its impediments notwithstanding – proven to be a highly significant vehicle for black economic empowerment.

3.5 Size, profile and performance of South Africa's SMME economy

3.5.1 Introduction

Any policy decision concerning South African SMMEs requires accurate information about their size and structure as well as contribution of SMMEs to the economy. In particular, there is need to know the number and size of SMMEs, and where to find them. Because their needs vary strongly according to these two criteria, it is also important to know their distribution across industries. Moreover, the potential of SMMEs for economic empowerment can only be estimated with a sense of the share of previously disadvantaged individuals (PDIs) in the ownership of SMMEs. Apart from these specific questions, more general information on the share of SMMEs to the economy can enlighten macro-economic policy on the impact of their actions on the sector.

Unfortunately, accurate information is far from being available in South Africa, especially on the informal sector, which according to the available statistics, it can be estimated to represent at least two-thirds of the SMME population. Although the annual reviews of the *State of Small Business in South Africa*, published by Ntsika Enterprise Promotion Agency, represent an official source of data, they are not easily usable.

During 1995 to 1999 period, Ntsika tended to publish very comprehensive statistics based on fragmentary and sometimes outdated sources, which were

compiled with a lot of extrapolation. For example, the combined data source used for the 1997 review were the Registrar of Companies, the South African Receiver of Revenue (SAR), Unemployment Insurance Fund (UIF), National Population Census (NPC) 1996 and sectoral Censuses, as well as October Household Surveys from Statistics of South Africa (SSA), Matrix Marketing Databanks (MMD), Development Bank of Southern Africa (DBSA) employment series, the Reserve Bank of South Africa (RBSA) and other commercial research agencies (Ntsika, 1997:76). This posed several potential problems, as economic SMME databases in South Africa are prone to inconsistency as national surveys and censuses are often published with a three to four year time lag and the extrapolation assumptions may be discretionary. Because the accuracy of the statistics was often questioned, Ntsika had chosen, since 2000, to follow a more cautious line, with the result that the information stays very general and is no longer as comprehensive as it used to be.

This section aims to present an overview of available estimations on the SMME sector according to a variety of data sources. The diversity of statistics indicates just how difficult it is to undertake quantitative work on SMMEs in South Africa, and indicates the urgent need for complementary research.

3.5.2 Numbers of SMMEs in the various size category

The difficulty with regard to this study in statistical work was perhaps best demonstrated when answers to the most basic questions were required, for example, “How many SMMEs are there in South Africa?” Unfortunately, an answer to this question is not easy to obtain as Table 3.1 on the following page demonstrates by comparing several estimates made by various institutions.

Table 3.1: Different indicators for the size of the SMME sector

Source	Survivalist	Micro	Very small	Small	Medium	Large	Total
Ntsika 1999	184 400	466 100	180 000	58 900	11 322	6 017	906 739
Ntsika 2000/ Stats SA 2000	Informal 1 138 854		330 271	94 804	52 620	12 249	1 658 797
Business Partners	2.3 million		600 000		35 000	n/a	2.9 million
Management Sciences Group Survey, 1999	micro: 960 740 “informal”: 862 580		formal:445 880 (of which 357 780 private)				2.3 million
Eskom Survey, 1999	900 00+ “in home business”; total 3 million if one includes farmers					n/a	3 million
Global Entrepreneurship Monitor, SA 2001	below 0.73 and 1.15 mil.	1 709 142					between 2.44 and 2.86 mil.

Source: Compiled by Rashid Ahmed, MFRC, and Magali von Blotnitz, UCT
The correspondence between the size categories is approximate, since sources tend to use divergent definitions.

As Table 3.1 shows, there is a considerable potential of error, especially in the survivalist and micro categories (informal sector). Considering that even Ntsika has drastically revised its estimation from 0.9 to 1.6 million between 1999 and 2000, it can probably be surmised that Ntsika’s 1999 estimations were somewhat “out of picture”. Accordingly, it can probably be said that there are between 1.6 and 3 million SMMEs in South Africa.

It is particularly noteworthy that the two “official sources” (Ntsika and Stats SA) suggest lower totals than private research groups. There may have been an under-estimation of the informal sector by Stats SA and Ntsika, due to the strong reliance of their figures on various industrial censuses, which are not likely to capture informal business very accurately. Estimates of the informal sector mainly derived from employment data contained in the October Household Survey; indicate that there is a potential for error in extrapolating enterprise figures from employment figures.

It seems, private investigations on the contrary, were generally centred on the actual question, i.e. the existence of enterprises. So although they may not have had the statistical power of Stats SA (in terms of sample size), their data may have been closer to reality. For example, the Global Entrepreneurship Monitor 2001 (conducted by the Graduate School of Business of the

University of Cape Town) found out that the “multiple ownership of business” was a frequent phenomenon (for example, almost 54% of established business owners have started at least one other firm before). This may explain why there may be more enterprises than there are self-employed. What this suggests is that the number of firms is likely to be higher than 1.6 million.

A data and methodology problem is encountered in the consideration of size categories. Although the Small Business Act has provided an official definition of four size categories (micro, very small, small and medium), this is not followed by the official state agencies (especially Ntsika) in that they either add new categories (“survivalist category”) in 1995-1999 or ignore some (“very small category,” Stats SA, Ntsika 2000), without explanations. Private studies are probably even less disciplined as far as their definition of size categories is concerned, also combining a legal criterion (formality) with a size criterion (micro-enterprises), which makes comparisons rather hazardous.

It must be emphasised however, that the weight of the smallest size categories (micro-enterprises) is overwhelming. Although their contribution to the GDP is minor, they represent between 1.2 and 2.8 million businesses, i.e. between 69% and 80% of all SMMEs.

In terms of dynamic evolution of the size classes, it is almost impossible to make accurate comments. While previous Ntsika publications may have suggested a decrease in the proportion of survivalist business (from 23% to 20%) and a significant increase in the micro- and very small category (from a combined 67% to 71%) between 1995 to 1997, the Management Services Group sees an increase in all categories, but mainly in the smallest informal size class (as well as in the public service) between 1998 and 1999.

3.5.3 Sectoral structure of South Africa’s SMMEs

The only sources giving comprehensive information on the number of firms by sector are the data published by Ntsika (1997, 1999 and 2000) for the year

1995, 1997, and 1999. This is problematic, since Ntsika may have overlooked a number of enterprises, which may or may not be concentrated in a few sectors.

A summary of statistics is represented below.

3.5.3.1 Current sectoral profile

Table 3.2 shows a static picture of the SMME population by sectors for the five year period (1995 to 2000).

Because of the statistical weakness of the estimates presented, these figures should be seen as providing an order of magnitude, rather than very precise indications. Thus, the comparison between three years may not be very reliable.

Nevertheless, interesting findings emerge from these estimations. It is not surprising that the sectors of mining, and quarrying, and electricity and water supply are almost irrelevant to the SMME economy. More interesting is the distribution between primary, secondary and tertiary sectors.

Table 3.2: Ntsika statistics on the sectoral distribution of South Africa's enterprises

	1995	1996	2000
1. Agriculture, Forestry etc	92 300 11.0%	98 060 10.8%	204 429 12.6%
3. Manufacturing	113 555 13.6%	106 019 11.75%	163 343 10.0%
5. Construction	79 974 9.6%	88 516 9.8%	147 830 9.1%
6. Trade; repairs; hotels and restaurants	351 183 42.0%	365 980 40.4%	699 106 43.0%
7. Transport, storage, communication	50 007 6.0%	58 796 6.5%	85 360 5.2%
8. Financial and business services	65 700 7.9%	77 826 8.6%	111 996 6.9%
9. Social and personal services	80 400 9.6%	107 013 11.8%	179 837 11.1%
	836 850	906 600	1 626 459

Source: Own calculations based on Ntsika 1997, 1999 and 2000.

It is important to note in Table 3.2 that the 2000 estimations follow a different methodology than the previous years, and may not fully be comparable. The statistics include large enterprises because it was not possible to isolate them in the 2000 figures. However large enterprises have barely any impact on the overall sectoral distribution. The figures do not add up to 100% because some sectors which are less relevant for SMMEs, as well as “other activities not adequately defined” have been left out of this table.

Table 3.3 reveals two interesting findings. First, a pronounced majority of the smallest of South Africa's enterprises, which come mostly from the informal sector, are active in the tertiary sector, especially in trade. This is not surprising, as it is well known that primary and secondary activities require an amount of capital (land for the former machinery and equipment for the latter), which is often not affordable to “emerging” enterprises.

However, the difference between the 1995 to 1997 estimations and the 2000 estimations are striking; the 2000 estimations (which capture almost twice as many informal businesses as the previous ones) seem to have identified a

much higher proportion of those firms in the primary sector than the previous studies. This may be due to an effective change in land ownership or to a better count of emergent farmers in the previous homelands and other rural areas.

Table 3.3: Primary, secondary and tertiary economy depending on enterprise size

	Among informal/survivalist-micro business			Among large enterprises			Among all enterprises		
	1995	1997	2000	1995	1997	2000	1995	1997	2000
Primary	6.4%	8.4%	13.7%	24.6%	25.3%	n/a	10.8%	10.8%	12.6%
Secondary	22.7%	21.6%	20.7%	34.8%	32.2%	n/a	23.6%	21.9%	19.4%
Tertiary	70.6%	70%	63.%	40.6%	42.6%	n/a	65.4%	67.2%	66.2%

Source: Own calculations based on Ntsika 1997, 1999 and 2000.

Surprisingly, the 2000 estimation also suggest that secondary activities such as manufacturing and construction are even more dominant in the informal economy. Again, it is difficult to separate the dynamic effects (decrease of the secondary sector within the last decade) from the impact of the change of methodology.

3.5.3.2 Sectoral dynamics

As mentioned before, any accurate comments on the sectoral evolution of the SMME population made on the basis of Ntsika is perilous, given that margin of error suggested by the gaps between 1997 and 2000.

More limited studies are probably helpful in examining the dynamics of the various sectors. In particular, GEM (2001) gives indications on the sectors in which start-ups were created in 2000 - 2001 and the sectors where new firms

were present. A comparison of these figures with the overall distribution of enterprises as suggested by Stats SA 2000 may indicate dynamic sectors.

The difficulty with this approach is that a sector with a high proportion of “start-ups and new firms” can be either new developing or characterised by a very high firm turnover, i.e. there are many births and many deaths within each year. Despite its caveats, a look at the registration and deregistration statistics of the registrar of companies can help support the interpretation of GEM’s results.

The statistics, presented in Tables 3.4 and 3.5, enable the building of qualified presumptions on the following questions: which sectors witnessed the most enterprise creation in the periods under consideration and in which sectors does entrepreneurship appear to be sustainable.

- **Sectors with high company creations in the last 5-10 years**

According to both sources, two sectors emerge as having had a strong creation activity, namely financial and business services and trade/hotels and restaurants. This is not surprising as these are known to be popular start-up activities. In the former case, though, this dynamic creation activity seems to be compensated by a fairly high “attrition rate”, almost 11% of new registration in 1999.

The manufacturing sector is fairly dynamic, as GEM results suggest (high share among new firms in particular). Nevertheless, according to registration statistics, the sector’s creation activity is rather “average” relative to its size in the formal economy. What is more, the sector appears to have the highest attrition (11.3%).

- **Sectors with high company creation 2000**

Looking at the creations in 2000, the above-mentioned three sectors remain significant. In addition, the sector of “social and personal services” emerges both from the Registrar’s data as a sector where creation accelerated in 2000.

- **Contradictory results**

For three sectors, the two sources apparently yield contrary results. Apart from possible weaknesses, other explanations are also sought for this discrepancy.

- **Construction**

The Registrar of companies suggests that in the last 10 years to 2000, the construction sector has had the second-most vibrant registration activity, albeit with a slight slow-down in 1999, while the GEM findings suggest that there were rather few new firms in that sector. While its “attrition profile” is average (9.7%), it is very dynamic among private companies (46.3%). This could possibly be attributed to a discrepancy between the formal and informal sector, a high “infant mortality” rate leading to a much smaller number of living young companies than were created, and/or the re-registration of proprietary companies (Ptys) as close corporations (CCs), and the phenomenon of dormant companies.

- **Transport and communication**

This sector consists of among others, activities such as “telecommunications” or tour operators/travel agencies”, which are known to be popular start-up activities – and also activities such as taxi driving. While GEM found a very high share of statistics of start-ups - though not of new firms in that sector – the registration activity seems to have slightly slowed down in 1999 -2000, especially for CCs.

This may arise from a difference in the delimitation of the sectors or the fact that while the communication and tourism sectors are beginning to be saturated, a high infant mortality is perceived. This may have reduced the attractiveness of the sector for start-ups.

- **Agriculture, fishing and hunting**

The primary sector shows an intriguing pattern when comparing registration in 2000 to the registration activity in 1990-99. Undoubtedly, there has been a great acceleration in the registrations of CCs in 1999-2000. However, GEM does not corroborate this, as they found very few new firms in that sector. The hypothesis of an “old sector” is also confirmed by the low rate of attrition. It is difficult to correctly interpret these results without a study of the structural changes in agriculture as a whole. This would require knowing what proportion of agricultural businesses is registered as CCs or private companies. In any case, the land reform process seems to be slowly generating some emerging farming businesses.

Table 3.4: Sectoral distribution of start-ups and new firms compared to the total distribution of South Africa's enterprises

	GEM 2001 Start-ups	New firms	Ntsika 2000 Total
Agriculture, hunting, forestry and Building	1.38%	2.6%	12.6%
Manufacturing	14.3%	19.1%	10.0%
Construction (Including mining and quarrying)	3.7%	5.0%	9.1%
Trade repairs; repairs; hotels; and restaurants	46.8%	54.3%	43.0%
Of which wholesale, incl. fuel and vehicles	6.0%	6.5%	
Of which retail, repair, hotels & restaurants	40.8%	47.9%	
Transport, storage and communication	9.8%	1.7%	5.2%
Financial and business services	10.4%	13.1%	6.9%
Community, social and personal services	13.6%	4.2%	11.1%
	100%	100%	100%

Source: Own calculations based on Gem 2001, Ntsika 2000

Table 3.5: Registration and de-registrations of CC's and Pty's by sector (1990-2000)

	1990-1999		1999			2000	
	Registrat- lons	Registró formal	Registr- tion	Dereg.	%.	Registr- tion	2000/ 1990-99
Agriculture/ primary sector	14 988	38.8%	3 542	237	6.7%	3 775	25.2%
Manufacturing	43 013	111.6%	6 824	768	11.3%	7 357	17.1%
Construction	46 212	170.4%	6 983	680	9.7%	7 572	16.4%
Trade; repairs; hotel and restaurants	206 437	156.8%	35 047	3 377	9.6%	40 603	19.7%
Transport, storage & communication	21 632	54.2%	2 961	271	9.2%	3 237	15.0%
Financial & Bus. Serv. Social & personal services	247 525	365.5%	37 374	4 061	10.9%	40 721	16.5%
	27 552	147.6%	4 813	394	8.2%	4 813	20.1%
Totals	610 404	147.6%	98 041	9 846	10.0%	109 359	17.9%

Source: Own calculations based on Registrar of companies, as quoted by Ntsika, 1999 - 2000

3.5.4 Ethnic structure of South Africa's SMMEs

Given South Africa's specific history of apartheid, which meant the exclusion of the majority of potential entrepreneurs from proper education and access to property and/or financial resources, it is important to know to what extent and in what forms Previously Disadvantaged Individuals (PDIs) are able to take their part in business.

3.5.4.1 "Black business"

The following statistics could be used: Ntsika estimated the share of PDI ownership at 50% in 1997; GEM suggests that in 2001, 76% of entrepreneurs are black, coloured or Indian. While it is plausible that there has been an increase in the share of PDIs with regard to this statistics, most of the difference is, however, believed to stem from Ntsika's under-estimation of the informal sector.

The share of "non-white" is noticeably higher in the informal sector firms than in the formal sector. The World Bank study on formal SMMEs in the Johannesburg area illustrates the very small significance of PDIs in the formal economy.

Table 3.6: PDI share according to various studies

	Survivalist	Very small	Small	Total
Ntsika 1997				
Number of PDI owned firms	434 428	15 875	16 625	466 928
PDI share within size category	65.9%	15.8%	35.9%	57.9%
GEM 2001	Survivalist		Declared firms	
Number of white owned firms	28 525		392 220	420 745
Number of Indian owned firms	4 989		90 650	95 639
Number of coloured owned firms	42 633		186 958	229 290
Number of black owned firms	653 405		1 039 615	1 693 020
Total number of PDI-owned firms	701 027		1316 922	2 017 949
PDI-share within category	96.1%		77.1%	82.7%
Chandra 1999 (formal and urban)	< 20 employees		20-49 employees	
Number of PDI-owned firms	110		35	
PDI share within category	18.5%		18%	

3.5.4.2 Racial discrimination by sector

Taking a look at the main sectors, it appears that the share of PDIs is higher in transport and communication, mining and quarrying and construction and trade (Ntsika) as well as community services (GEM, 2001). In agriculture and financial and business, the share is lower.

3.5.4.3 Cross-racial partnerships

The social economic context of PDIs, in particular the lack of funds to start business on their own, as well as the rise of the so called “affirmative procurement” (preference given by government or large corporations to black-owned firms in their tendering activities), have led to an increase of cross-racial partnerships in the establishment of firms.

Table 3.7: Racial distribution of firm ownership by sector

SIC Codes	NTSIKA 1997		GEM 2001				
	White	PDI	White	Black	Coloured	Indian	PDI
1. Agriculture, hunting, forestry fishing	39 500 57.5%	29 235 42.5%	11972 45.8%	14170 54.2%	0 0%	0 0%	14 170 54.2%
2. Mining, Quarrying	2 895 29.0%	7 090 71.0%					
3. Manufacturing	35 962 41.2%	51 280 58.8%	42 607 19.0%	131 305 58.6%	37 793 19.9%	12436 5.5%	181 534 81.0%
4. Electricity, gas water supply	4 998 58.3%	3 570 41.7%					
5. Construction	24 808 30.1%	57 720 69.9%	30 283 43.4%	14 170 20.3%	25 339 36.3%	0 0%	39 508 56.6%
6. Trade; repairs; hotels and restaurants	107 106 35.1%	98 330 64.9%	121 484 15.2%	524 274 65.8%	101 139 12.7%	49 743 6.2%	675 157 84.8%
7. Transport, storage and communication	9 973 21.4%	36 688 78.6%	30 283 24.0%	83 128 65.9%	12 669 10.0%	0 0%	95 797 76.0%
8. Financial, insurance, real estates business services	56 525 73.2%	20 725 26.8%	91 201 57.8%	41 564 26.3%	12 669 8.0%	12 4336 7.9%	66 669 42.2%
9. Community, social and personal services	48 381 46.7%	55 190 53.3%	23 945 12.43%	137 917 71.3%	25 339 13.1%	6 218 3.2%	169 474 87.6%
	338 981 42.1%	66 928 57.9%	351 774 22.1%	946 527 59.4%	214 948 13.5%	80 833 5.1%	1 242 308 77.9%

3.5.5 Geographical location of South Africa's SMMEs

Owing to poor infrastructure in rural areas (including banking infrastructure), it is important to take consideration of the location of the enterprises. Furthermore, an interesting question is the extent to which the potential for SMMEs in the rural areas is fully exploited.

3.5.5.1 Rural and urban SMMEs

As per Table 3.8 shows, Ntsika estimations (until 1999) seem to have grossly under-estimated the number of enterprises in the most rural provinces, especially the Eastern Cape, Limpopo Province and Mpumalanga. In these provinces, SMMEs are – even more often than in urban areas – of an informal and survivalist nature.

Table 3.8: Distribution of SMMEs according to location

	Ntsika 1997				Ntsika 2000
	Survivalist & Micro	Very small & Small	Medium	Total SMMEs	Total SMMEs
<i>Mainly urban provinces:</i>	415,800	175,400	8,770	599,970	944,034
In %	63.9%	73.5%	77.5%	66.6%	57.9%
<i>Mainly rural provinces)</i>	234,900	63,400	2,552	300,752	685,622
In %	36.1%	26.5%	22.5%	33.4%	42.1%
Total number of enterprises	466 100	180 000	11, 322	900,722	1,629,656

GEM's results (Table 3.9), on the other hand, suggest a much lower prominence of rural business, although in the survivalist economy almost a third of businesses come from rural areas.

Table 3.9: Distribution of SMMEs according to location

	Survivalist		Formal and semi-formal		Total	
Metro	320,309	47.7%	1,081,043	64.8%	1,401,352	59.9%
Small Town	148,310	22.1%	251,509	15.1%	399,819	17.1%
Rural	203,575	30.3%	335,898	20.1%	539,473	23.0%
Total	672,194		1,668,450		2,340,644	

Source: GEM 2001 combined with OHS.

It is also important to note that it would seem that small enterprises are at a disadvantage in small towns, relative to rural areas.

3.5.5.2 Evidence of untapped potential in rural areas

From these diverge sources; it is difficult to establish precisely the number of SMMEs in rural areas. GEM suggests another approach to the conundrum, which is the comparison of existing entrepreneurs with the potential for further business creations.

One limitation of the GEM methodology is that the business creation potential is self-assessed, i.e. respondents are asked whether they believe that there are opportunities and that they would have the skills necessary to start a business. However, the results are intriguing, and suggestive of a large untapped business potential in rural areas – especially among black people.

Table 3.9 shows that among urban and white and Indian populations, there is little or no potential for more entrepreneurship opportunity; the figures even suggest a negative untapped potential among the whites, presumably because many entrepreneurs realize *a posteriori* that either they do not have the skills, or the market potential is insufficient.

Table 3.10 Untapped potential of “opportunity entrepreneurship”

	White	Indian	Coloured	Black	Small			Total
					Metro	Town	Rural	
Potential opportunity entrepreneurs	7.0%	6.2%	8.1%	5.8%	6.3%	5.4%	6.0%	6.1%
Actual opportunity Entrepreneurs	8.1%	6.2%	6.1%	2.6%	6.3%	3.8%	0.7%	3.7%
Untapped potential	-1.1%	0.0%	2.0%	3.2%	0.0%	1.6%	5.3%	2.4%
No of adults	-38,350	0	49,364	657,139	0	87,008	593,420	665,490

Source: GEM 2001 combined with OHS data.

On the other hand, it seems that, with the appropriate support (including finance, infrastructure and mentoring), there could be a considerable increase in entrepreneurship in rural areas and among coloured and black people. This

suggests that government policy should endeavour to stimulate small business activity among those population groups.

The figures in Table 3.9 have two limitations, though. First, the “actual opportunity index” of 0.7% for rural areas does not mean that there are a few entrepreneurs among rural populations. Rather, GEM indicates that 1.8% of the rural adult population is involved in entrepreneurial activities and 2.9% own established businesses. However these rural business people are mostly characterized as “necessity entrepreneurs”. The scarce job opportunities in rural areas possibly distort the distribution between “necessity” and “opportunity entrepreneurs” leading to an exaggeration of the “untapped potential”.

The second caveat is that the “potential opportunity entrepreneurs” are self-assessed. It is possible that, with their lack of exposure and business experience, rural and black South Africans over-estimate both opportunities present on the market, and their own ability to start a business.

3.5.6 SMMEs’ contribution to the economy

Although statistics about the weight of SMMEs in the economy are frequent and popular, giving reliable and precise estimation is difficult. Once more, the reason is the lack of statistics about the informal sector, which considerably affects the economy. Therefore, again, the approach in this section will be to present multiple sources and estimations and discuss the differences.

3.5.6.1 SMMEs’ contribution to employment

Several technical difficulties arise when comparing the figures below. The definition of “employed” may vary, depending on whether or not they include domestic workers, public sector employment and “self-employed”. The largest disturbing factor, though, is the estimation of the “informal sector”.

Table 3.11: Contribution to Employment by firm size – overview

	Survivalist & Micro	Very Small	Small	Medium	Large	Total
Ntsika 1995 In %	13.66%	13,35%	19.89%	13.77%		100.0%
No of Jobs	901 550	880 000	1 3 13 000	909.100		6 600 000
Ntsika 1997 (1999, p. 35) In %	13.79%	14.44%	16.57%	12.30%		100.0%
No of Jobs	1 033 000	1 068 300	1 225 000	909. 820		7 397 020
Ntsika, 1997 (199, p 41) In %	Informal: 12.8%	"Formal including public sector" 87.2%				100.0%
No of jobs	1 174 000	7 972 000				9 146 000
Abedian, 1997 In %	Informal: 13.0%	"formal SMEs" 38.8%		34.4%		100.0%
No of jobs	1 052 000	3 135 000		3 097 000		7 284 000
Ntsika 2000 & Stats SA 2000 In %	Informal: 26.1%	"micro informal" 12.8%		33.6%		100.0%
No of jobs	2 705 000	1 332 003		3 488 653		10 369 000

Sources: Ntsika, 1997, 1998 and 1999 editions (combined data were used);
Abedian, 2001, based on CSS (1998), Employment and Unemployment in South Africa
Ntsika 200, combined with OHS 2000

Comment on the informal sector

In all developing countries, the so called informal sector (consisting of survivalist and micro-enterprise) functions largely as an employment cushion for those with limited skills and young job seekers. Accordingly, the number of micro-enterprise activities typically rises during economic decline.

Nevertheless, assessing the scale and performance of the informal sector, which by definition, comprises statistically unrecorded activities (since recording is typically limited to the formal sector), has been a difficult task – more so in South Africa where the black population used to be prosecuted if involved in such activities. Apart from the difficulty in researching the hidden economy, different definitions of unemployment and full/or part-time self-employment lead to divergent observations.

The 1996 Population Census estimates the number of workers employed in the informal sector to be at least 1.4 million and the total employed labour force to amount to 9.1 million (Ntsika, 1999: 35), while the distribution below

only ascribes 382 400 employees (and 650 500 self-employed) to the informal sector (see second row of Table 3.1) with formal and informal employees not exceeding 7.4 million in 1997 (Ntsika, 1999:51). It is therefore likely that this distribution underestimates the extent of informal sector employment – by perhaps as much as about 1.7 million.

Given the possible inaccuracy of the available data, the hypothesis of a numerically growing informal sector during times of economic decline can be neither contested nor totally confirmed, although its plausibility for South Africa is perhaps emphasized by the fact that it has been frequently observed in other countries.

Data by industries

According to Ntsika (2000), the sectors with the highest contribution to employment by very small (“informal micro”) and small enterprises were the service sector, with a combined 70.9% of employment in “community, social and personal services”, 59.5% in trade, repairs, hotels and restaurants”, and 44.3% in business services. Meanwhile, medium-sized enterprises were significant in agriculture (52.3% of formal employment) and manufacturing (24.6%). These figures, however, could change significantly if the informal sector were included.

Dynamic analysis: are SMEs employment generators?

From Table 3.10, it is tempting to answer the question whether South African small firms are dynamic employment generators. When comparing changes in the distribution of employment over size classes between the successive estimations, it seems that this is the case – although the doubt remains whether the increase of estimated figures comes from a better capture of the informal and smallest activities, or from real change.

Assuming that there has been an actual increase in the demand for labour, the next question is whether this is explained by the growth of individual

enterprises, or by the next formation of new businesses. Dividing the employment figures by the number of establishments can help answer that question. Due to the inconsistencies in data collection, the available data sets only allow for a tentative development of either answer, in particular with regards to informal enterprises.

Acknowledging the possible misrepresentation of actual trends by the available data and returning to the question of SMMEs as employment generators, it seems, one would assume that micro-enterprise and very small business *formations*, and not the expansion of existing SMMEs, account for the overall growth in the SMME sector.

3.5.6.2 SMMEs' contribution to the GDP

Discussing SMME contribution to the GDP is problematic, since the GDP typically records only formal activities, while most SMMEs are active in the informal sector. Therefore, in theory, two approaches are possible: either ignoring the informal sector entirely, which can only give a partial answer to the question on the economic significance of SMMEs; or attempting to quantify the value added generated by informal enterprises.

Table 3.12 suggests that Abedian has made the only attempt to qualify the contribution of the smallest, informal firms to value added. The methodology that he used was to split gross value added into compensation of employees and gross operating surplus. The first part was allocated to the various size categories according to their contribution to employment, while gross operating surplus was allocated to each type of enterprise using assumed weights. Depending on the assumptions he arrived at a combined 12-14.5% of GDP being generated by informal SMMEs.

Table 3.12: Contribution to GDP by size – overview

	Survivalist	Micro	Very Small	Small	Medium	Large	Others	Total
Ntsika, 1995								
In %				21%	12.0%	67.0%		100%
In million R				76 020	43 440	42 540		362 000
Abedian, 1997								
Scenario 1, in %	1.2%	13.25%	9.43%	17.24%	15.11%	43.73%		100%
In million R	7 622	81 572	58 061	106 153	93 076	269 312		615 796
Scenario, 2 in %	1.24%	11.00%	9.4%	14.99%	15.11%	48.23%		100%
In million R	7 622	67 721	58 061	92 302	93 076	297 015		615 797
Ntsika, 1999								
In %				25.2%	8.3%	46.3%	21.2%	100%
In million R				170 585	56 024	312 958	136 314	675 881
Ntsika 2000								
In %			5.8%	13.9%	15.1%	65.2%		100%
In million R			47 027	112 314	121 607	527 070		808 017

Sources: Ntsika, 1995: Abedian, Chapter 1, in: Policy Board for Financial Services, Access to Finance for SMMEs, 2001 Ntsika 1999, Ntsika, 2000, combined with stats SA Release P0441, 2001.

Several improvements could be undertaken to refine this approach. Assuming that compensation of employees is distributed across the size classes according to the employment weights implies that the wage per worker is constant across size classes. There is considerable evidence to suggest that this is not the case. While allocating the share of value added corresponding to compensation of employees between the size categories, it would make sense to assume different salary levels. The assumption that salary levels are homogeneous across the size categories probably led to an overestimation of the contribution of survivalist and micro-enterprises.

On the other hand, Abedian worked with Ntsika's former estimations of employment within survivalist and micro-enterprises, which (as shown in the previous section) are probably strongly underestimated. Moreover, in terms of the absolute figures, it would have been more correct to calculate the value added by informal enterprises as being "on top" of the official GDP of 615.8 billion Rand. Thus the value added by survivalist and micro-business would have been slightly higher.

Nevertheless, Abedian's estimates seem to be a good proxy of the orders of magnitude.

Data by industries

In terms of sectoral distribution, the broad lines are pretty similar to the comments made on the employment figures, with very small and small enterprises dominating in the service sector, and medium-sized enterprises strongly contributing to the agriculture and manufacturing sectors (Ntsika 1999). It should be noted that these data ignore informal contribution due to lack of data.

According to Ntsika (2000), significant differences between employment distribution and GDP appear, however, in two sectors:

- The trade and hotel/restaurants sector, where micro/very small enterprises represent 35.8% of employment but only 3.1% of value added. This suggests that the smallest supermarkets, petrol stations and restaurants operate at very low surplus levels.
- The services (especially finance and business services) sector, where large enterprises contribute to 69.3% of GDP, supposedly referring to the (relatively) high margins of South Africa's large finance institutions.

Dynamic analysis: is the share of SMMEs growing?

The data available barely enables intertemporal comparison. Indeed, both the size categories and the underlying GDP figures are inconsistent. From Ntsika's explanations it is not clearly recognizable whether the "large enterprises' GDP" includes the contribution of public and parastatal enterprises or even the government services.

3.5.6.3 SMMEs' contribution to investment

Another important dimension of the economic weight of SMMEs is their contribution to investment. While there is very little information on this

question, Abedian (1998) has attempted to qualify this figure with a very rough approach as Table 3.13 portrays.

Although this estimation would need to be refined, it is interesting in that it suggests very low investment behaviour of SMMEs compared to their share in employment and production. A reason may be difficulties experienced by these enterprises in getting access to sufficient finance to undertake investments. This certainly requires further attention.

Table 3.13: SMMEs contribution to nominal gross fixed capital formation 2000 (R million)

Sector	Assumptions		SMEs	Large Enterprise	Total
	SMEs	Large			
Agriculture	100%	0%	4 101	0	4 101
Mining	09%	91%	954	9 647	10 601
Manufacturing	40%	60%	12 202	18 304	30 506
Electricity	0%	100%	0	6 980	6 980
Construction	50%	50%	605	605	1 210
Wholesale, retail, catering and accommodation	70%	30%	6 091	2 611	8 702
Transport	20%	80%	3 870	15 480	19 350
Finance	20%	80%	6 370	25 481	31 851
Community service	100%	0%	0	17 018	17 018
Total			33 239	97 081	130 320
Percentage/ Total			25.5%	74.5%	100.00%

Source: Abedian, in: Policy Board report on Access to Finance for SMMEs

3.5.7 Statistical data on SMME – conclusions and recommendations

Any policy decision concerning SMMEs requires accurate information about the size and structure of South Africa's SMME economy. Ntsika aims to facilitate such decision-making by publishing annual reviews on the *State of Small Business in South Africa*. Nevertheless, the data presented in the

various editions of the publication can be improved to meet the requirements of policy makers for a number of reasons.

Ntsika can only encourage Statistical Agencies such as Statistics South Africa and private researchers to address the shortcomings with regard to correctness and coverage of the existing databanks, but it must request SMME data that:

- Is more detailed (both by size-class and by industry instead of sectors).
- Relies on more than just a single data source.
- Reflects changes over time by maintaining the same definitions.

3.5.7.1 Directions for data collection

Improvements to data collection need to be considered in the following areas:

Better coverage of the smaller sized, and in particular, micro sized establishments

The currently reported low contribution of micro-enterprises to total employment contradicts anecdotal evidence and is probably not an accurate reflection of reality. Given the complexity of the task, particularly on the informal sector, it is recommended to proceed with limited-scope samples and case studies rather than using a census-like methodology, which is likely to be too “massive” to capture the subtleties of the informal sector. Some initiatives such as the World Bank Firm Study on the Johannesburg area are likely to provide a number of new insights in this regard, but a similar job would be needed in rural areas. Stats SA’s established series of Labour Market Surveys could also be considered in this regard.

Standardisation of data collection procedures

This particularly applies to sampling methods and definitions, to allow for comparisons between data sources and various years.

3.5.7.2 Directions for data presentation

In certain cases, it is likely that the data is correctly collected but not appropriately presented. It is strongly recommended that Ntsika devote extreme attention to the following issues:

Continuity

Even if improvements of the previous years' methods and results are welcome, they should be presented in such a way that comparison across the years is possible.

Precision with regard to industry

Each of the nine main sectors consists of very diverse activities. According to Ntsika manufacturing alone comprises about 75 industries. While presenting detailed statistics would be too unwieldy, certain industries would need to be singled out, for example manufacturing.

Precision with regard to size: If, for a particular reason, the official size categories provided by the Small Business Act cannot be used, the underlying definitions should be explained.

Disclosure of method and reference population: Tables and graphs should indicate clearly the population they refer to (e.g. whether it is only the formal sector, or formal and informal). The primary sources and the approach used for the data offered need to be explained as well.

3.5.7.3 Directions for data analysis

With more detailed information on SMMEs, data analysis can take a number of additional directions, such as:

- Verification of information obtained from Stats SA with household/labour market and entrepreneur surveys (and vice versa): Recent empirical work such as the 1999 World Bank Survey in the greater Johannesburg and the National Enterprise Survey are first attempts to generate information for representative samples. National-wide coverage and repetition of these surveys is to be encouraged.
- Refinement of estimations on the informal sector: For example, its contribution to employment and value added, based on the newest estimations on the number of firms in the informal sector.
- Generation of data on more precise performance indicators: Apart from the (static) contribution to output and employment, SMMEs' investment behaviour, wage levels and labour productivity inform about their performance.
- Generation of time-series data: The relative growth of the SMME sector and its performance emerges over time. Indicators that require further investigation over time and by industries (and later size-class) are: ratio of employment growth in SMMEs to that of the overall economy; ratio of value added by SMMEs to the overall economy; ratio of the number of SMMEs to that of all establishments; and capital/labour ratio of SMMEs (labour intensity).

3.6 Conclusion

The previous chapter discussed the main functions of SMMEs with an emphasis on the structural features of the South African economy and its implications for SMME growth.

A theoretical consideration was also outlined as to whether SMMEs can resolve the unemployment problem and lastly the chapter attempted to give an overall view of the South Africa's SMME economy with regard to size, profile and the performance of the SMME sector.

In the following chapter, international, regional and local experiences with regard to SMME development will be discussed.

CHAPTER 4

INTERNATIONAL, REGIONAL AND LOCAL EXPERIENCES IN SMME DEVELOPMENT

4.1 SMMEs as major employment creators – evidence from industrialized countries

In many industrialized countries, 1970s and 1980s witnessed the re-emergence of the small business sector due to two major events. First, spectacular cases of large enterprises running into economic difficulties and shedding employment arose in nearly all industrialized countries, while the latter's small business sectors (or parts of it) went relatively well through the period of economic turbulences that started in the early 1970s. Second, Birch's (1979; 1987) finding that small businesses created the majority of new jobs in the United States, spread quickly around the world and provoked an upsurge in research on employment shifts towards smaller businesses.

The Organization of Economic Co-operation and Development (OECD) countries which accounts for over 75% of the world output, concluded in 1985 that, in several of its member states, a tendency towards the concentration of workers in small businesses could be found, even after accounting for shifts in industrial structure or sectoral composition (OECD, 1985). Reviewing data on employment shares by enterprise size for nine industrialized countries, Loveman and Sengenberger (1990:8) confirm that,

“[...] despite significant cross-national differences in the size distribution and despite methodological caveats, the employment share of small enterprises has reversed a downward trend that had prevailed for many decades and risen significantly [...]. Taken together, the case studies present a convincing case for a shift in employment to smaller units of production”.

According to Harrison (1994), it is important to guard against rushing into premature and overly general conclusions as to the economic implication of the shift toward smaller units. Job generation studies show that the employment dynamic accompanying *new* business formations and business *closures* is very important to net employment contribution of smaller businesses (Becattini, 1990; Koshiro, 1990; Mead, 1999). Many of the recent firm births in industrialized countries may have been induced by poor economic conditions in general and by high unemployment in particular. Those undertaken as “last-ditch” attempts to provide livelihood to the founder may rest on especially shaky ground and their failure rate might therefore be expected to be abnormally high as either good times draw the entrepreneur back into dependent employment or bad times topple the weak business (Sengenberger *et al.*, 1990; OECD, 1993).

Nevertheless, it has now been acknowledged that a large majority of business units in industrialized countries are small, and even a conservative review of the job generation literature suggests that small businesses account for at least a proportional share of employment creation. The net new jobs created in small businesses, however, result from a very dynamic process of expansion and contraction within the small business castor. While some small businesses start and remain small throughout their existence, others experience stages of growth, and senescent businesses even decline (Timmons, 1994). Large employment gains occur seemingly only in a few small businesses (Sengenberger *et al.*, 1990; Qualman, 1998; Mead, 1999). Research by the European Commission has shown that only enterprises characterized as fast growing contribute some 50% of net job creation (Papoutsis, 1996).

4.2 SMMEs as major employment creators - the experience in African countries

In Africa as well as in other less developed countries, SMMEs (and micro enterprises in particular which constitute their majority) have received mounting attention because of their labour absorptive capacity in times of both

shrinking public sector and private formal economy, and increasing numbers of new labour entrants. With the shift of industrial policy away from import substations and of trade policy towards liberalization, SMMEs are moreover expected to respond flexibly and thus withstand global competition (Hirst and Zeitlin, 1992; Bambara, 1995; Kalinsky, 1997; Schmitz, 1997). While the Latin American experience of both single and especially clustered SMEs confirms the dynamism associated with SMEs (Cortes *et al.*, 1987; Rabellotti, 1999; Schmitz, 1999), there has been little systematic evidence on the incidence micro-enterprise “graduation” or growth into larger ones in Africa (Mead and Liedholm, 1998; Mead, 1999). Indeed, one-person operations constitute the majority of small scale industry in Africa, and only about 1% succeeds in graduating to an intermediate-size (Mead, 1995; Dia, 1996; McPherson, 1996; Ferrand, 1997; Manu, 1999). It is argued that latest technologies are not yet available, but instead technology which has already been commercialized by foreign companies is implemented. Moreover, product specification is, in most cases, not a strategic answer to segmented markets, but lack of resources (Pedersen *et al.*, 1994; Amsden, 1997). Virtually all SMMEs operate in conditions of excess supply of relatively unskilled and unorganized labour, which allows them to transmit the burden of unstable markets on their employees and to base competition on squeezing labour costs rather than innovation or technological upgrading (Storper, 1991; Schmitz, 1995; McComick, 1999). Unlike in South Korea where large businesses function as catalysts of growth to their subcontractors, corporate subcontracting to small and mostly “informal” businesses in Africa is more than often a means to reduce costs by exploiting labour-surplus conditions and circumventing regulations and trade union organizations (Pedersen and McCormick, 1996). Clusters of sector-specific businesses exist in Africa, but their growth experiences vary and differ markedly from other developing countries cases, like the successful Sinos Valley shoe cluster in Brazil and the surgical instruments cluster in Sialkot, Pakistan, or from the “model” industrial districts of Italy (Dawson, 1992; Rasmussen, 1992; Sverrisson, 1992; Maldonado, 1993; Nadvi, 1994; 1997; Schmitz, 1993; 1995; Yankson, 1996; Advani, 1997; McCormick *et al.*, 1997; McCormick, 1999). Indeed, strong social ties and networking, reported to be essential for the success of industrial districts in

Europe, have ambiguous effects on firm growth in Africa: While being supportive amongst the Igbo in Nigeria, research in Kenya suggest that the successful African entrepreneur has loosened his networks based on kingship and social ties in general (Brautigam, 1997; Ferrand, 1997; McCormick *et al.*, 1997). Furthermore, formal institutions in Africa face crises of legitimacy and enforcement by not being rooted in local culture and therefore are far from conducive to enterprise growth (Steel, 1995; Dia, 1996).

The above suggests that models of competitions and growth trajectories of SMMEs vary across continents and countries (Khoza, 1993; Humphrey & Schmitz 1995; Amsden, 1997; Gordon, 1997; McCormick 1999). Research findings on SMMEs throughout Africa are diverse, albeit they show widely that it cannot be enterprise size as such which determines a firm's growth potential for success and failure of SMMEs to co-exist and instead point to the role of the entrepreneur (Sengenberger *et al.*, 1990; Späth, 1994; King and McGrath, 1999). The predominance of SMMEs in the industrial tissue, both in terms of numbers and employment opportunities generated, demonstrates that SMMEs form an important part of African economies and have found their own ways to deal with market instability and uncertainty. Nevertheless, the critical underlying issues of the viability of these small firms, and the sustainability and quality of the employment generated by them remain still unclear (Späth, 1994; Dia 1996; McCormick *et al.*, 1997).

4.3 Employment creation through SMMEs – South Africa's debate

4.3.1 Government's perspective: SMMEs as a vehicle to tackle the problem of unemployment

Since the elections of April 1994, the issue of black economic empowerment and a more equal income distribution have been placed high on the agenda of the government of South Africa (Rogerson and Rogerson, 1995). Nevertheless, the need to take the South African economy onto "a higher road", i.e. a diversified economy in which productivity and international competitiveness are enhanced, wage-levels are raised, investment is

stimulated and entrepreneurship flourishes, is recognized as a condition to address these issues successfully (RSA, 1994; 1995). In the 1995 White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, the government assigns the SMME sector a key role in South Africa's socio-economic transition (RSA, 1995:10). In particular, SMMEs are seen as a vehicle to:

- Address the problem of high unemployment levels in South Africa as they have a high labour-absorptive capacity.
- Activate domestic competition by creating market niches in which they grow until they identify a new niche as a response to demand changes and to be internationally competitive because of their flexibility.
- Redress the inequalities from the apartheid period – in terms of patterns of economic ownership and restricted career opportunities for black employees.
- Contribute to black economic empowerment in that the majority of SMMEs is reported to be initiated, owned or controlled by those members of society who were discriminated against in South Africa's past.
- Play a crucial role in peoples' efforts to meet basic needs in the absence of social support systems during restructuring processes – which refers in particular to South Africa's micro-enterprise segment and especially survivalist activities characterized by low entry barriers for inexperienced job seekers.

4.3.2 Government initiative: Supply-side policy to promote SMMEs

The South African government suggests that the SMME sector – with the help of the government support – is capable of fulfilling these objectives and has introduced a number of supply-side measures to promote the formerly

neglected sector (RSA, 1995:10). The overall objective is “to create an enabling environment” and “to level the playing fields” in terms of national, regional and local policy frameworks for SMME development. More particularly, policy measures are aimed at:

- Addressing the obstacles and constraints that SMMEs face to promote (faster) growth.
- Enhancing their capacity to comply with the challenges of globalization and an internationally competitive economy.
- Strengthening their cohesion to increase the leverage of policy measures.

The mechanisms used for small business support involve institutional and regulatory reforms. Ntsika enterprise Promotion Agency and Khula Finance Limited had been established to act as intermediaries to address SMME constraints such as access to finance and information. The DTI itself administers programmes aimed at increasing SMME competitiveness such as co-financing the acquisition of new technology, for example. Regulatory reforms include, for example, the procurement reform with an affirmative of small, medium and micro enterprises participation programme (RSA, 1997).

Nevertheless, so far, no clear differentiation between promoting dynamic firms on the one hand and survivalist activities on the other – which would rather be the focus of welfare than industrial policies – has been made. There are also indications that – in launching the implementation of several programmes – the South African government severely underestimated the problems of establishing a whole set of new support institutions, the capacity of these institutions to deliver, and the capacity of the existing NGO network in South Africa to become involved in the highly ambitious set of programmes that were to be implemented (Hirsch and Hannival, 1998; Rogerson, 1998; Bloch and Kesper, 2000).

4.4 Conclusion

This chapter outlined international, regional and local experiences with regard to SMME development with a major emphasis on SMMEs as major employment creators.

In the following chapter, the South African government's National Strategy for the development and promotion for the small business sector will be discussed; emphasizing on its evolution and the development of its institutional framework.

CHAPTER 5

SOUTH AFRICA'S STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF THE SMME SECTOR

5.1 The evolution of the SMME policy framework

During apartheid, South Africa's SMME economy was either largely neglected by policy makers or, in case of black-owned enterprises, actively discouraged by repressive measures. In line with the political disinterest, small enterprises were wiped off the research agenda of most business schools and university commerce departments.

The establishment of the Small Business Development Corporation (SBDC) in the early 1980s was the first government initiative to support small firms, but only in the late 1980's did a racially unbiased political interest in the development of the small business sector in South Africa begin to take root. The political shift provoked an upsurge of literature on small businesses, in particular black-run micro-enterprises. Most surveys of the early 1990s focused on black-run micro enterprises and used cross-section surveys to identify their constraints. Nevertheless, the notion that it is the larger SMMEs that are more likely to contribute to employment creation and economic growth, gave impetus to a renewed (largely industry-specific) focus on established, albeit white-owned, SMEs in South Africa (Bloch and Kesper, 2000).

In months following the first South Africa's democratic elections in 1994, academics, politicians, small business agency representatives and foreign specialists started analyzing the problems affecting the small-enterprise sector, a few of which included the abolition of regulatory obstacles and lack of access to finance, infrastructure, advice and markets. In the time leading up

to the elections, position papers were circulated, workshops held and visits made to other countries.

Against this background, the Government of National Unity placed the reform of small-business support high on its agenda with the Reconstruction and Development Programme (RDP). By mid 1994, the then, Minister of Trade and Industry, Mr. Trevor Manuel, had appointed a special advisor for small business support and promised to have a government position paper prepared as early as possible.

Based on this work and contributions from many organizations, a discussion paper was released at the end of September 1994. This paper was widely discussed all over the country. Many organizations sent in comments and proposed amendments. This feedback led to substantial revisions and additions, which culminated in the White Paper on National Strategy for the development and promotion of the small business sector in South Africa, presented to cabinet and parliament. Simultaneously to the drafting of the White Paper, preparations were in progress for the President's Conference on Small Business, which was held in the last week of March 1995. From the outset, the directive of the conference was to heighten public awareness about the plight of small, medium and micro enterprises.

In the months following the White Paper, the newly established Center for Small-Business Promotion (CSBP) within the Department of Trade and Industry embarked on a vigorous campaign to determine delivery mechanisms to support the small, medium and micro-enterprise sector.

In May 1995, the Center for Small Business Promotion commenced with drafting the National Small-Business Enabling Act, as an instrument block to underpin government's commitment and strategy to facilitate a more enabling environment for small businesses in South Africa.

As its name indicates, the Act was to create a positive, enabling environment for emerging and expanding small, medium and micro-enterprises (SMMEs),

with particular emphasis on the impediments faced by black entrepreneurs and others disadvantaged in the past.

This 1995 White Paper on National Strategy for the development and promotion of small business in South Africa had been the first major effort by the South African government to design a policy framework particularly targeting the entire spectrum of the small enterprise sector.

The overall objective of the Strategy was to create an enabling environment for SMME growth in the country as a way of addressing basic inequalities in the economy. The mechanism for small business support outlined in the White Paper became constitutional through the National Small Business Act, which also provides the first comprehensive definition of SMMEs. The Act legalized the establishment of new institutions, affirmative procurement reform and the formation of an advisory board to review SMMEs' legal and regulatory environment.

In an attempt to overcome the historical definition of small enterprises as formal (which was due to apartheid white-owned only) and informal (mostly owned by blacks), the post-apartheid government put forward the first national and most comprehensive definition of SMMEs, which is manifested in the National Small Business Act.

The following characteristics of the four categories should help to justify particular policy stances outlined in the White Paper.

Survivalist enterprises

These are activities by people unable to find a paid job or to get into an economic sector of their choice. Income generated from these activities usually will fall short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises. Support

strategies should primarily help these people – a large percentage of whom are women – to get out of this sector. Given the large number of people involved in survivalist activities, this constitutes a vast challenge, which has to be tackled within the broader context of the Reconstruction and Development Programme (RDP).

Micro-enterprises

These are small businesses, often involving only the owner, some family member(s) and at least one or two paid employees. They usually lack “formality” in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support.

Small enterprises

These constitute the bulk of the established businesses, with employment ranging between 5 and about 50. The enterprise will usually be owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various sectors like retailing, manufacturing, professional services and construction.

Medium enterprises

These constitute a category difficult to demarcate vis-à-vis the “small” and “big” business categories. It is still viewed as basically owner/manager controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R15 million are often seen as the upper limit. In terms of this study we

are concerned with medium-sized enterprises which face obstacles and constraints which can not be solved through normal market forces and private-sector action.

It follows from these distinctions and it is a fundamental principle of the government's SMME support strategy that the problems of each of these four categories need somewhat different policy stance.

Equally important for small business support in South Africa is the recognition of the particular problems and needs of enterprises initiated, owned or controlled by those who are disenfranchised and/or otherwise discriminated against in the past. Aside from the racial dimension, i.e. enterprises owned and controlled by black South Africans, reference should also be made to women and all other disadvantaged and marginalized groups, including those in remote rural areas as well as disabled, elderly people and the youth. Such enterprises are found in all four of the above categories.

Since publicly funded support for small enterprises should only be granted to those really needing it, the government created the mechanism to identify types of enterprises based on sectoral, size and developmental criteria.

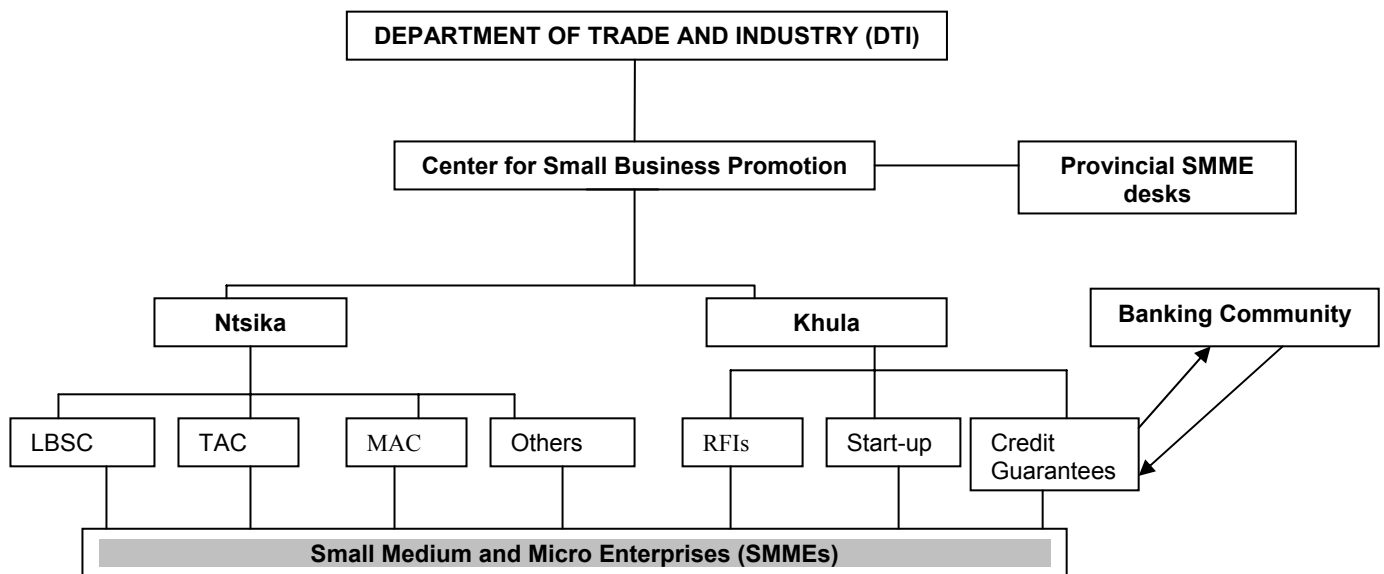
5.2 The development of institutions to facilitate SMME growth

In response to the challenges set out in the White Paper, the Centre for Small Business Promotion (CSBP) of the DTI and the National Small Business Council (NSBC), as well as Ntsika Promotion Agency (in short Ntsika or NEPA) and Khula Enterprise Finance Limited were established to drive the National Small Business Strategy. While the NSBC had the task of "democratizing" the issue of small business development (although it was closed in 1997 due to allegations of misuse of funds) and the CSBP was mandated to "coordinate, monitor and evaluate the implementation of the government's Strategy", Ntsika and Khula are expected to build the technical and financial capacity of non-financial and financial retail services providers (RSA (1995), Ntsika (1997), DTI (1998) and Hirsch and Hanival (1998)). The

DTI, together with the Industrial Development Corporation (IDC), have introduced a number of specific programmes aimed at increasing the competitiveness of the formal SMME manufacturers. From interviews conducted, there are, however, indicators that, despite their good intentions, these policy measures suffer from sub-optimal implementation due to a general distrust of external agencies by SMMEs on the one hand, and the incapacity of support institutions to persuasively raise awareness about their existence and effectiveness on the other.

The institutional framework i.e. the SMME support network developed under the National Small Business Act for the development and promotion of SMMEs is as shown in figure 5.1.

Figure 5.1: Institutional framework structure of the South African’s National Strategy for the development and promotion of the SMME sector



5.2.1 Department of Trade and Industry and its related institutions

A number of DTI Incentive Schemes were designed exclusively for (registered) SMME industrialists and include the following:

- **Standard Leased Factory Building Scheme**

This scheme is of the Industrial Development Corporation (IDC), which makes general purpose factory buildings available for lease to SMEs.

- **Small/Medium Manufacturing Development Programme (SMEDP)**

This consists of a tax-exempt establishment grant as a percentage of the investment for the first two years and a Skills Support Programme (SSP) if the business has an approved training programme as outlined in the 1998 Skills Development Act.

- **Economic Empowerment Scheme**

This is for the expansion or establishment project of previously disadvantaged Individual (PDI) SMME entrepreneurs to which the IDC contributes the majority of capital outlay.

- **Venture Capital Schemes**

In this scheme the IDC co-finances viable product ventures.

- **Normal Finance Scheme**

This scheme provides for low-interest IDC-administered finance during expansion.

- **Import Finance Scheme**

This scheme provides credit and guarantee facilities for importing capital goods and services.

- **Short-Term Export Finance Guarantee Facility**

This facility is through which the Credit Guarantee Insurance Corporation (CGIC) can provide pre- and post-shipment export finance guarantee.

- **Export Marketing and Investment Assistance Scheme (EMIA)**

This scheme provides funding of primary market research, outward selling and inward buying trade missions and assistance to take part in exhibitions. Moreover, Ntsika has established the European Union Trade and Investment Programme under the auspices of the DTI to enable SMMEs through technical assistance to become exporters.

5.2.1.1 Center for Small Business Promotion

The Center for Small Business Promotions was conceived as the central policy-making, coordinating, and performance-monitoring group of the government's National Strategy. Specifically, the White Paper states the following:

“Within the national government the DTI is the coordinating body for all policies related to the small business sector and for all SMME-supported programmes directly or indirectly assisted by the government, it is also responsible for the coordination of small business strategies pursued by the provincial government within the national policy framework”.

The White Paper states that *“a Chief Directorate for Small Business will be responsible for all matters related to the government's support for small, medium, micro and emergent enterprises”*. Thus, the White paper gives the CSBP a large measure of authority to lead the entire government's programme related to the National Strategy.

5.2.1.2 Ntsika Enterprise Promotion Agency

Under the National Strategy, Ntsika was given the mandate to provide a wide range of non-financial services to local service delivery groups on a “wholesale” basis, meaning delivery of resources to local providers that work directly with SMMEs. These services include institution building of these organizations, training programmes for entrepreneurs, mentoring of individual firms, marketing and procurement advice, technology assistance, among others. Given the sheer range of these activities, it is clear that Ntsika’s mandate is critical to the success of the government’s National Strategy.

Ntsika has the following institutional framework:

- **Market access and business division**

This division runs the Tender Advice Centers (TACs), the Business Opportunities National Initiative and the International Competitiveness programme. The Tender Advice Centers have constituted the most promising element to using public procurement to assist small business with entering in new markets. Indeed, it is through the procurement system that Ntsika can link its activities with the many government departments able to offer market opportunities to small business and ultimately create new jobs.

- **Targeted assistance division**

This division is responsible for working with previously disadvantaged sectors, primarily women, youth, disabled people and the rural population. Targeted assistance has a clear social and development focus by working with those elements of the population who are least easily served. The division is clearly focused on objectives of assisting the Previously Disadvantaged Individuals (PDIs) category, particularly rural women, and addressing the issues of disempowerment of these groups. The programme is also one that reaches deeper into the rural areas than other Ntsika-sponsored initiatives. Its

objectives are clearly social and development, with limited impact on larger scale job creation.

- **Management and entrepreneur development division**

This division runs the following programmes:

- Training and Organizational Capacity Building.
- SMME Contracted Training Programme.
- Development/Sourcing of Training Materials.

- **Technology division**

The division runs the Technopreneur and Manufacturing Advisory Centers (MACs). The Technopreneur programme has the most clearly integrated operation with complementary programs and institutions outside Ntsika, and provides the greatest amount of follow through with individual companies through the incubator and cocoon programmes. The two existing Manufacturing Advisory Centers similarly focus on a more integrated assistance to companies than is typical in other Ntsika operations.

The focus of the division tends to be on small to medium size firms where job creation potential is greater.

- **Business development division**

This division manages:

- Services Provider Development Programme.
- Services Provider Network Development Programme.

- Empretec Program.
- Local Business Service Center (LBSC) Programme.
- **Policy, research and information division**

The division runs:

- National Small Business Data Programme.
- Programme Development and Implementation Support.
- National Small Business Research Programme.
- National Small Business Regulatory Review.

This division is intended to be the policy arm for Ntsika, which was initially conceived as the policy center for the National Strategy.

5.2.1.3 Khula Enterprise Finance Limited

Khula Enterprise Finance Limited was mandated to undertake an ambitious task for the country, namely, improving access to finance for the country's large SMMEs sector, with special emphasis on its previously disadvantaged population. Khula's mission is a critical composition of the National Strategy's long-term success.

Since its establishment in 1996, a number of loan schemes to increase access to finance SMMEs through Retail Financial Institutions (RFIs), which are SMME departments for commercial banks or accredited NGOs were introduced. RFIs apply their own minimum lending criteria (the most basic is provision of a business plan) as the responsibility of risk assessment lies entirely with the RFIs. This might explain why only four out of every 300

applications had been granted a loan (Khula Website report for 1999). The schemes currently existent can be grouped as follows:

- **Business Loan Schemes**

Loans to the value of R1 million to R100 million are forwarded to RFIs to capacitate them or increase their willingness to provide loans to SMMEs.

- **Guarantee schemes**

Guarantees are underwritten by Khula to reduce the risk of lending to SMME without sufficient collateral. The Emerging Entrepreneur Scheme, for example, targets existing SMMEs which need up to R75 000 of which Khula guarantees up to 80%, while the maximum amount covered by Khula under the Standard Scheme is R600 000. A special product called “Siza Bantu” was introduced in 1999 for micro-loans up to R10 000, which are 95% guaranteed by Khula. “Khula Start” is a progressive loan guarantee scheme targeting an enterprise venture of groups in peri-urban or rural areas of up to ten individuals. Initially, between R300 to R600 are lent monthly and repayable in four months. After the successful completion of this phase, larger loans with longer repayment periods are granted.

- **Equity funds**

Through the Internet-based Emerging Enterprise Zone (EEZ) as part of the Johannesburg Securities Exchange (JSE), SMMEs are expected to gain access to equity funding (up to R250 000, constituting less than 45% of total equity and to be re-capitalised within five years) from private investors with whom Khula might partner. This scheme has seen four (out of 36) successful applications. Unclear business plans or problems to determine the willingness or ability to repay have been two of the reasons for rejection (Khula Annual Website Report for 2002) while only a minority of SMMEs has access to the internet (Ntsika, 2002:10).

In addition, Khula Institutional Support Services Limited offers seed loans to organizations that aim to become RFIs. Khula also runs a capacity building programme for existing RFI staff.

Khula's Institutional Support Services (ISS) division was established in 1997 as a section 21 company to assist in capacity building for the RFIs. The ISS was a direct response to the lack of institutional infrastructure within the RFI network to conduct onward lending to SMMEs using Khula capital. A range of needs was identified in the early years of Khula which are to be addressed by ISS, namely, strategy, and board development, loan officer training, management information systems, accounting and auditing, legal issues, and human resources. The ISS delivers these activities directly to the RFIs by contracting with consultants to undertake specific assignments.

5.2.1.4 Provincial SMME desks

The provincial SMME desks were established to ensure provincial representation of SMME interests as well as to contribute to the implementation of the government's National Strategy. Their main task is to link national or sectoral programmes with local or regional implementation bodies and to establish a comprehensive SMME database on which national policy changes can be based. Nevertheless, the capacity of these Desks varies. In 1997, Mpumalanga's SMME desk had established SMME database and synergistic network of SMME service of SMME providers, while the Northwest SMME desk had undertaken no such action (Rogerson, 1997). In 2000, only two of the nine provinces organized annual Service Provider Forums (Block and Daze, 2000).

Besides these SMME-specific institutions and programmes, the (formal) SMME economy is surrounded by a rich body of sector and industry-specific institutions (Dune, 1998; Kaplinsky and Morris, 1999 and Bloch and Kesper 2000).

5.3 Conclusion

This chapter outlined the government institutional framework of the National Strategy for the development and promotion of the small business sector in this country, with a specific emphasis on the institutions created within that framework.

The following chapter will tend to discuss the South Africa's mining industry focusing on its general overview.

CHAPTER 6

SOUTH AFRICA'S MINING INDUSTRY OVERVIEW

6.1 Introduction

For more than a century, South Africa's mining industry, largely supported by gold, diamond, coal and platinum production, has made an important contribution to the national economy (Department of Mineral and Energy: South Africa's Mineral Industry Review, 2004/2005). It has provided the impetus for the development of an extensive and efficient physical infrastructure and has contributed greatly to the establishment of the country's secondary industries.

According to the same review the South African mining industry is a well-established and resourceful sector of the economy, and has a high degree of technical expertise and the ability to mobilize capital for new development. Mining is South Africa's largest industry sector, followed by manufacturing. Other sectors, which contribute significantly to the country's economy, are oil and gas, chemicals, agriculture and tourism. The clothing and textiles, financial services and banking sectors have also had significant growth in recent years.

South Africa is a leading world supplier of a range of minerals and mineral products of consistently high quality. According to South Africa's Mining Industry Review (2004/2005), in 2004, some 59 different minerals were produced from 993 mines and quarries, of which 49 produced gold, 28 platinum-group minerals (PGMs), 64 produced coal and 145 produced diamonds. Mineral commodities were exported to 82 countries.

6.2 Structure of the South African mining industry

Democratic change in South Africa during the 1990s resulted in the endorsement of the principles of private enterprise within a free-market system, offering equal opportunities for all the people. The State's influence within the mineral industry was confined to orderly regulation and the encouragement of equal opportunities for all citizens.

Discriminatory policies excluded a large sector of the population from fully participating in the South African mining industry during the pre-1994 period, before democracy was realised. The new Minerals and Petroleum Resources Development Act, which came into effect on 1st May 2004, legislates the official policy concerning the exploitation of the country's minerals. The Act addresses many issues, including the following:

- Transformation of the minerals and mining industry in South Africa.
- Promotion of equitable access to South Africa's mineral resources.
- Promotion of investment in exploration, mining and mineral beneficiation.
- Social-economic development of South Africa.
- Environmental sustainability of the mining industry.

Previously in South Africa, mineral rights were owned either by the State or the private sector. This dual ownership system represented an entry barrier to potential new investors. Government's objective is for all mineral rights to be invested in the State within the next five years, with due regard to constitutional ownership rights and security of tenure.

6.2.1 The private sector

Corporate restructuring of the South African mining industry, which has been in progress for over a decade, continued throughout 2004. Mining houses were transformed into focused mining companies by shedding their non-core industrial holdings. The transformation included the consolidation of ownership through minority buy-outs, the transfer of primary listings (and corporate head-offices) offshore, as well as the purchase of South African mining assets by foreign companies.

As the South African mining industry is still controlled predominantly by white males, emphasis is being placed on stimulating black and women economic empowerment in the industry. Several black-owned firms are now beginning to play an important role in the industry. Mining has thus become a focus of the Reconstruction and Development Programme in terms of entrepreneurial development, black economic empowerment and stimulating employment and growth.

The broad-based social-economical empowerment Charter for the South African mining industry was promulgated in May 2004. The Charter calls for Historically Disadvantaged South Africans (HDSAs) to control 15% of mines within five years, rising to 26% within ten years. The mining empowerment Charter stresses commitment to pursue a shared vision of a global competitive mining industry that draws on the human and financial resources of all South Africa's people, and offers real benefits to all South Africans. The goal of the Charter is to create an industry that will reflect the government's promise of non-racial South Africa.

In order to give effect to the provisions contained in the Broad-Based Socio-Economic Empowerment Charter for the mining and mineral's industry, a scorecard was released. The score card is designed to facilitate the application of the Charter in terms of the Minerals and Petroleum Resources Development Act requirements for the conversion of all the "old order rights"

into “new order rights” within a five year conversion window period, but recognizing the full 10-year period.

During 2004, the Department of Minerals and Energy drafted proposals for a Precious Metals and Diamond General Amendment Bill with the intention to improve access to rough diamonds and precious metals for the purpose of local mineral beneficiation or value adding.

6.2.1.1 Black economic empowerment mining companies

The first notable activity in the operating and developing black economic empowerment mining companies in South Africa was when African Rainbow Minerals (ARM) acquired several shafts from AngloGold’s Vaal Reefs Mine in 2001. ARM also jointly developed a platinum mine with Anglo Platinum, as well as entering into a joint venture with Harmony Gold to exploit several Free State assets acquired from AngloGold.

Black economic empowerment (BEE) mining deals worth about R6.5 billion were concluded in 2004 and new giants such as African Rainbow Minerals and Mvelaphanda Resources are shaping the new South African mining landscape. Most of the BEE deals are taking a form of mergers and acquisitions. Prominent deals in 2004 include the purchase of 18 percent of Lonplats by Incwala Resources amounting to R3 187 billion, the JCI unbundling totaling R1 840 billion and the R1 276 billion merger of Pelawan Investments and Anooraq Resources Corporation.

Other black economic empowerment mining companies’ initiatives include the following:

- The empowerment mining company Khumo Bathong Holdings closed a deal with Durban Roodepoort Deep, South Africa’s fourth largest gold producer. Khumo Bathong also closed a deal with Durban Deep’s Crown Gold Recoveries operations.

- Mvelaphanda Resources closed a deal with De Beers. The two companies are jointly searching for new kimberlites, or primary sources of diamond. The joint venture will focus on the Limpopo and Mpumalanga provinces, an area for which De Beers already has a considerable database.
- Mmakau mining is also a black empowerment mining company with interests in platinum.
- Eyesizwe coal formed a joint venture with AngloCoal, creating a new black empowerment company producing 18 million tons of coal per year.
- The DeBeers diamond company has several outsourcing and joint venture operations with black economic empowerment companies.
- Harmony Gold and a black-owned mining company, African Vanguard Resources concluded a deal for Gold explorations and mining.
- Angloplatinum nominated a consortium headed by the black empowerment group, New Mining Corporation (NMC), as its partner in a R1.7 billion Der Brochen platinum project. The mine is expected to produce an average of 160 000 ounces a year between 2005 and 2012.
- AngloCoal has identified a number of coal reserves, which are suitable for black economic empowerment (BEE) mining ventures and is also in the process of reviewing its total Base Metals and Industrial Minerals Rights Database with a view of releasing certain rights suitable for BEE mining ventures.

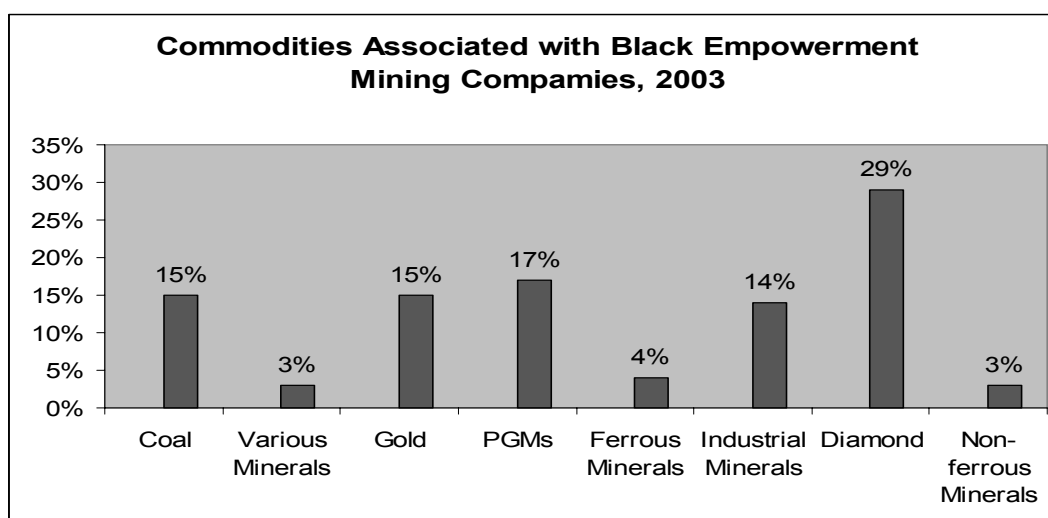
Numerous smaller groups and companies also carry out mining and beneficiation activities. Not only do they contribute towards the creation of employment opportunities, but they also exploit the relatively smaller mineral deposits which may not be considered economically attractive to the larger groups. The National Small-scale mining development framework established

in 1999 is contributing to the development of the junior mining sector. The unique mechanism of the framework was designed to assist first-time entrepreneurs in overcoming the many obstacles faced by small-scale miners. Many co-operative organisations protect and serve the interests of the smaller groups and independent operators, or specific sectors of the industry. These include the aluminium Federation of South Africa, the South African Copper Development Association, the Ferro-Alloy Producers Association, the Engineering Industries Federation of South Africa, the Southern Africa Stainless Steel Development Association and the Aggregate and Sand Association of South Africa.

According to the Department of Minerals and Energy, the database of black empowerment companies reached 72 in number by 2000 but its current official database (2004) has 44 black empowerment companies. These 44 black economic empowerment mining companies are the sample of the second phase of this study.

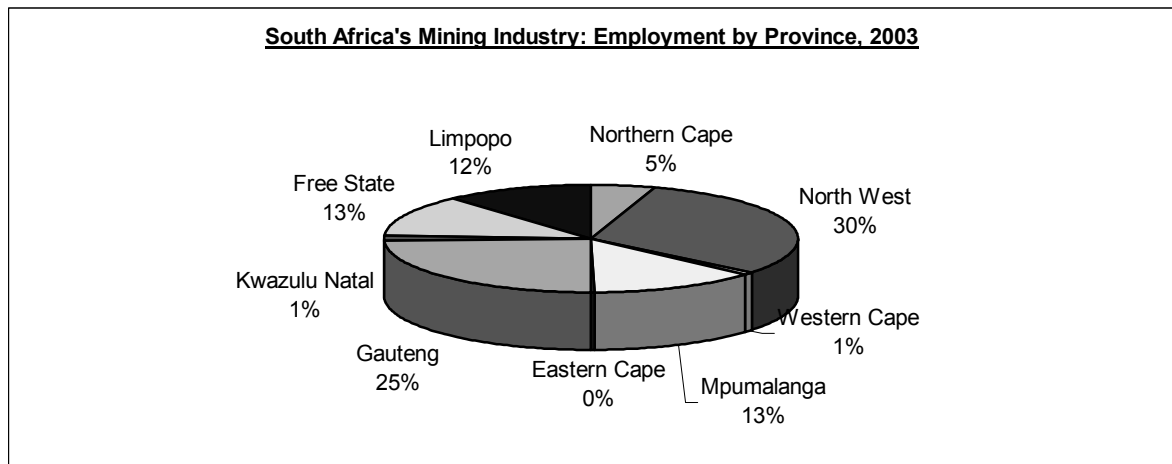
These black empowerment mining companies are actively involved in a number of mineral commodities and their geographic distribution covers the entire country as figures 6.1 and 6.2 depict:

Figure 6.1: Commodities associated with small black economic empowerment mining companies, 2003.



Source: Department of Minerals and Energy: South Africa's Mineral Industry (2002/2003): Director Mineral Economics, Pretoria.

Figure 6.2: Geographical distribution of small black economic empowerment mining companies, 2003.



Source: Department of Minerals and Energy: South Africa's Mineral Industry (2002/2003): Directorate: Mineral Economics, Pretoria.

6.2.1.2 Chamber of mines

The Chamber of Mines of South Africa is a voluntary, private sector employer's organization founded in 1889 – three years after gold was discovered on the Witwatersrand. The Chamber is an association of mining companies and mines operating in gold, coal, diamond, platinum, lead, iron ore, manganese, antimony, zinc and copper mining sectors. According to the Department of Minerals and Energy (2003), in recent years the Chamber's role and functions have undergone a substantial change in view of the developments unfolding in the external environment (macro environment). Today the Chamber acts as the principal advocate of the major policy positions endorsed by mining employers. The Chamber represents the formalised views of its membership to various organs of South Africa's national and provincial governments, and to other relevant policy-making and opinion-forming entities, both in and outside the country.

6.2.1.3 South African Mining Development Association

The South African Mining Development Association (SAMDA) is a new organization established with a vision to be a vehicle for the development of a vibrant and sustainable junior mining sector.

6.2.2 The government

The State's involvement in the mineral industry is of a complementary and supportive nature, and seeks to provide and maintain:

- A legal and fiscal environment which will allow unimpeded exploration for, as well as mining, beneficiation and marketing of the country's minerals.
- An efficient physical infrastructure including road, rail, air, and harbour facilities, communications and health services, and the supply of electricity and water.

The Department of Minerals and Energy (DME) is responsible for the administration of the Minerals and Energy Act, 28 of 2002, which came in effect on 1st May 2004. This Act replaces the Minerals Act, 50 of 1991 and regulates the prospecting for, and optimal exploitation and utilization of minerals. It also provides for safety and health in the mining industry; and controls the rehabilitation of land disturbed by exploration and mining. The Act created associated institutions which are responsible for the administration of the mining laws and for promoting the development of the industry. The following divisions of the Department of Minerals and Energy and the associated institutions are responsible for the administration of the mining laws and for promoting the development of the industry.

The office of Director General, the permanent head of the Department of Minerals and Energy, is located in Pretoria. The Mine Health and Safety Inspectorate of the Department ensures the safe mining of minerals, under

health working conditions and is represented by Principal Inspectors. The Energy branch promotes the optimum utilization of energy resources. The Minerals Development Branch (MDB) promotes the orderly and optimal mining utilization of mineral resources and is represented in the provinces by Regional Directors. The MDB consists of a Mineral Resources Management Chief Directorate to control mineral resources management, a Mineral Development and Administrative Chief Directorate to direct and administer regional offices on economic growth and development and a Mineral Policy Investment Directorate to promote minerals development and advise on trends in the mining industry. The Directorate Mineral Economics promotes mineral exploitation and beneficiation in South Africa and collects, classifies and analyses mineral data in order to advise both Government and private sector on matters related to local and international mineral-economic developments. The Directorate also disseminates mineral-related information through publications and by participating in local and international conferences.

The Council for Geoscience undertakes geological mapping and carries out studies relevant to the identification, nature, extent and genesis of ore deposits and also maintains a national database of the country's geoscientific data and information.

Mintek's aim is to enable the minerals industry to operate more effectively by developing and making available the most appropriate and cost-effective technology. It is engaged in the full spectrum of minerals research, from the mineralogical examination of ore to the development of extraction and refining technologies, the manufacturing of end products, and the feasibility and economic studies. Much of this work is carried out in close liaison with the minerals and metallurgical industries, both locally and internationally.

South Africa's Nuclear Energy Corporation (NECSA) undertakes and promotes research and development in the field of nuclear energy and radiation sciences and technology in order to process source material, special

nuclear material; and restricted material; and to co-operate with persons in these fields.

The Council for Scientific and Industrial Research (CSIR) conducts, *inter alia*, research related to specific minerals, brownfields minerals exploration, air quality, water pollution and purification, and mining and mineral processing. The CSIR's division of Mining Technology serves primarily, the local gold and coal-mining industries, but increasingly also other mining sectors and international markets. Major research activity is concerned with solving the most crucial problems that impact on profitability in the mining industry. Services range from fundamental research, technology development and general advice and assistance, and cover the areas of improving the underground environment, strata control, reducing the hazardous conditions associated with rock pressure in the mining operations and developing new or improved mining systems and equipment.

Most of South Africa's institutions of higher education also undertake mineral and/or mining research and are responsible for the training of professional and technical personnel required by the mineral industry.

6.3 South Africa's mining industry strengths

According to the Department of Minerals and Energy (2004), South Africa's mineral wealth is found in the diverse geological formations, some of which are unique and extensive by world standards. Some of them include the following:

- The best known geological formation is the unique and wide-spread Witwatersrand basin, hosting a considerable portion of the world's gold reserves, as well as those of uranium, silver, pyrite, and osimiridium and yields some 98 percent of South Africa's gold output.
- The Transvaal Supergroup contains resources of manganese and iron ore.

- The Bushveld complex, also a uniquely important geological formation, contains more than half of the world's chrome ore and platinum-group metals (PGMs). Additionally, the complex hosts ores of vanadium, iron, titanium, copper, nickel and fluorspar.
- The coal and anthracite beds of the Karoo basins in Mpumalanga, KwazuluNatal and Limpopo.
- The Phalaborwa Igneous Complex, which hosts extensive deposits of copper, phosphate, titanium, iron, vermiculite and zirconium ores.
- Diamond (kimberlitic, alluvial and marine) deposits and heavy mineral and occurrences containing titanium minerals, iron and zircon.
- Heavy mineral sand occurrences containing titanium minerals, iron and zircon.
- Large deposits of lead/zinc ores with associated copper and silver in the Northern Cape.

According to the South African Mining Industry Review (2004/2005), South Africa holds the world's largest reserves of ore of platinum-group metals (87.7 percent), manganese (some 80 percent of the total world reserves), chromium (72.4 percent), gold (40.1 percent) and alumino silicates (37.4 percent). It is also prominent in terms of titanium, vanadium, zirconium, vermiculite and fluorspar.

As a result of its large reserve base, South Africa is a mineral producer of note: for alumino-silicates, chrome ore, ferro-chrome, PGMs, vanadium and vermiculite, the country is not only the leading world supplier, but contributes in excess of 30 percent of the world's total of these commodities. South Africa is also the foremost world producer of gold of which its contribution is almost

16 percent. For many other commodities, namely zirconium, titanium, antimony, manganese and ferro-manganese, it is one of the world's leading suppliers.

The domestic market for most of the mineral commodities produced in South Africa is relatively small. Hence, South Africa's mineral industry is export orientated. According to Department of Minerals and Energy (2004), it contributes 95.0 percent of world vermiculite exports, for vanadium 71.3 percent, for alumino-silicates 45.9 percent, for ferro-chromium 49.5 percent, for ferro-manganese and manganese ore 24.2 percent and 21 percent respectively. In terms of the most of these commodities, as well as for gold, zirconium and antimony, it is the world's largest exporter. Other commodities include coal and titanium minerals.

6.4 Minerals exploration

Although the existence of large reserves of a variety of minerals has been proven in South Africa, the country cannot be considered over-explored. According to the Department of Minerals and Energy (2004), experts in this field generally agree that there is considerable potential for the discovery of other world-class deposits in areas, which have not yet been exhaustively explored. According to this general belief there is still ample potential for exploration programmes in certain areas.

Expenditure on exploration is subject to many decision variables, tied to ongoing results and business, economic and political factors and therefore, may vary considerably from the projected investments. Exploration success in South Africa has encountered substantial investment in key primary minerals such as gold, platinum, diamonds, heavy minerals and base metals. Several major South African companies have also adopted aggressive exploration strategies beyond the borders of the country. This strategy has resulted in a far-reaching internalization exercise that has changed the structure of these companies.

Although exploration has been increasing since 2002, South Africa is losing out in the race for international exploration dollars. By contrast Australia and Canada continue to attract new investment in exploration. According to the Department of Minerals and Energy (2004), a total amount of R5 736 million was spent on exploration in South Africa between 1998 and 2003. Of this amount, R769 million was laid out in 2001, R670 in 2002 and R1 201 million in 2003.

The Limpopo, Northern Cape, Gauteng, Northwest and Mpumalanga provinces figured prominently in terms of exploration. Most of the exploration activities took place in the Bushveld Complex. The northern limb of the complex has become the focus of recent exploration activities by both junior and senior companies, domestic and international.

Exploration for diamonds in South Africa continues to draw worldwide attention. According to the Department of Minerals and Energy (2004), South Africa's major diamond companies spent a total amount of R534 million on diamond exploration between 1998 and 2003. Six kimberlites, which account for over 80 percent of De Beers' and Debswana's diamond production (equivalent to 30% of world output by value), were discovered in the past by De Beers' in-house exploration teams in South Africa and Botswana.

6.5 Communication, infrastructure and labour

The South Africa's communication system is well developed with 5.1 million installed telephones and 4.3 million installed exchange lines. The network is almost entirely digitized with digital microwave and fibre optic serving as the main transmission media.

The country's transport infrastructure is highly developed with extensive road and rail networks. And for many years, has also been utilized by other countries in Southern Africa, to as far as the Democratic Republic of Congo. According to the Department of Minerals and Energy (2004), the national and provincial road network consists of 63 027 km of paved and 471 104 km

unpaved roads. The rail nexus extends over more than 30 000 kilometers. This includes dedicated railway lines; one of them for iron ore from Sishen, in the Northern Cape, to Saldanha Bay on the east coast, and another for transporting coal from the coal fields of Mpumalanga to the port of Richards Bay on the east coast. Of the five major ports through which most of South Africa's minerals are shipped, the largest are Richards Bay (capacity 81.0 Mt, mainly for coal and other minerals), Saldanha Bay (30.9 Mt, chiefly for iron ore) and Durban (29.7Mt, mainly for liquids, containers and break bulk cargoes).

Electric power is largely generated by the country's giant electricity utility, Eskom, and according to the Department of Minerals and Energy (2004), it is among the cheapest available anywhere in the world. This low electricity cost has been instrumental in the establishment of sizeable ferro-alloys, stainless steel and aluminium beneficiation industries, and has also contributed to the economic exploration of the country's deep gold reserves.

Most importantly, the country enjoys political stability and has a fundamentally sound economy compared to most African countries. Its banking and finance infrastructure is excellent, on par with those in most developed and developing countries, which assist global trade through a network of international links.

South Africa has a sizeable labour pool, although to a large extent unskilled. The government is, therefore, actively pursuing a higher level of education, training and productivity in the nation. The labour force, whilst unionised, welcomes the inflow of foreign investment.

According to the Department of Minerals and Energy, the implementation of the new minerals policy, it is envisaged, will lead to increased investment in South Africa's mineral industry, by ensuring a competitive business environment and the lowering of barrier to entry. This, and the creation of a national mineral promotion system ("one-stop shop), furthermore, will stimulate small-scale mining and job creation. Other measure proposes to

intensify mineral beneficiation. The whole of the subcontinent will also benefit from anticipated improved regional co-operation.

6.6 The industry's role in the national economy

According to the Department of Minerals and Energy (2005), in 2004, mining contributed US\$13.5 billion or 7.1 percent to gross value added. This contribution increased by R2.93 billion from that of the previous year. The contribution as a percentage of the total has ranged from between 6,5 in 1997 and 8.7 in 2002 over the last decade, largely due to the growth experienced in the secondary and tertiary sectors of the economy and the contraction in the gold mining industry. However, if one should add the Gross value added contribution of processed minerals (presently included in the manufacturing sector's figures) to that of mining and quarrying, the impact on the national accounts will be significantly higher. During 2004, mining and quarrying contributed 9.9 percent to Total Fixed Capital Formation. This sum of R22.3 billion is equal to 25.6 percent of the sector's gross value-added contribution.

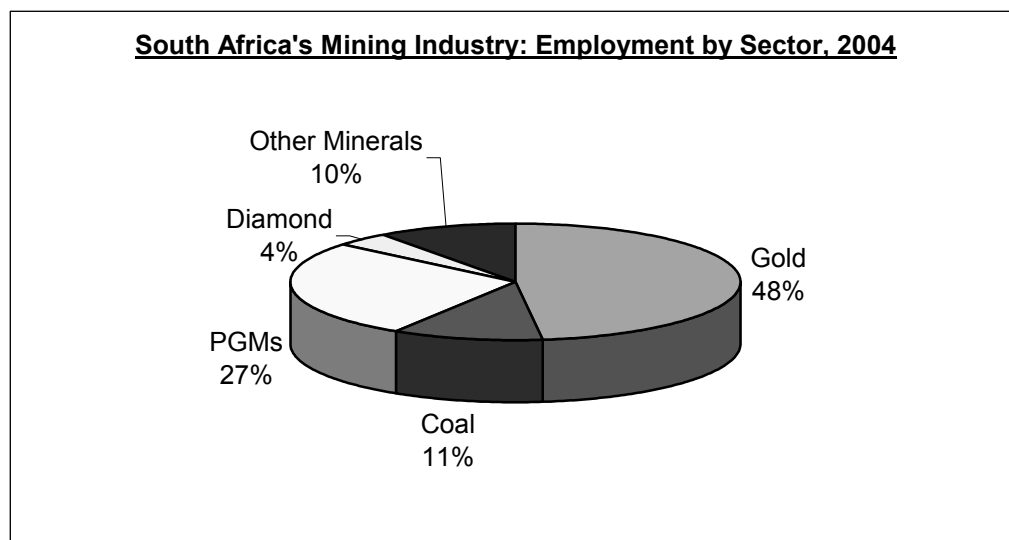
Sales of primary mineral products accounted for 34.3 percent of South Africa's total export revenue during 2004, while gold's contribution decreased further to 10.9 percent. The declining trend over the last two decades in both these indicators was the result of the contraction in the gold mining industry, increased local beneficiation and relatively weak commodity prices across the board. The inclusion of various processed mineral products, such as ferro-alloys, aluminium and carbon and stainless steel, raised the contribution of the minerals sector to above 40 percent.

During 2004, the mining industry employed 2.9 percent of South Africa's economically active population or some 5.4 percent of all workers in the non-agricultural formal sectors of the economy. The average number of workers employed in the mining industry increased by 16 139, or 3.7 percent, from 434 859 in 2003. A total of 147 125 mineworkers lost their jobs over the ten-year period from 1995 to 2004 as a result of, among others, the shrinking gold sector and improvements in productivity of the domestic mineral industry.

Nevertheless, taking into account the multiplying effect with regard to the supply and consuming industries, as well as the related dependants, many millions of people still rely on the mining industry for their livelihood. Wage income amounted to R33.1 in 2004, or 27.0 percent of total mining revenue, an increase in nominal terms of 9,8 percent when compared with 2003. The average annual income per worker was R74 958 in 2004, registering an increase in real rand terms in excess of 4.4 percent year-on-year.

As figure 6.3 depicts, the gold mining sector, despite its declining economic contribution, was the largest employer with some 48 percent of the total mining industry's labour force. The PGMs industry employed 27 percent, with coal industry in third place with 11 percent.

Figure 6.3: South Africa's mining industry: Employment by Sector, 2004.



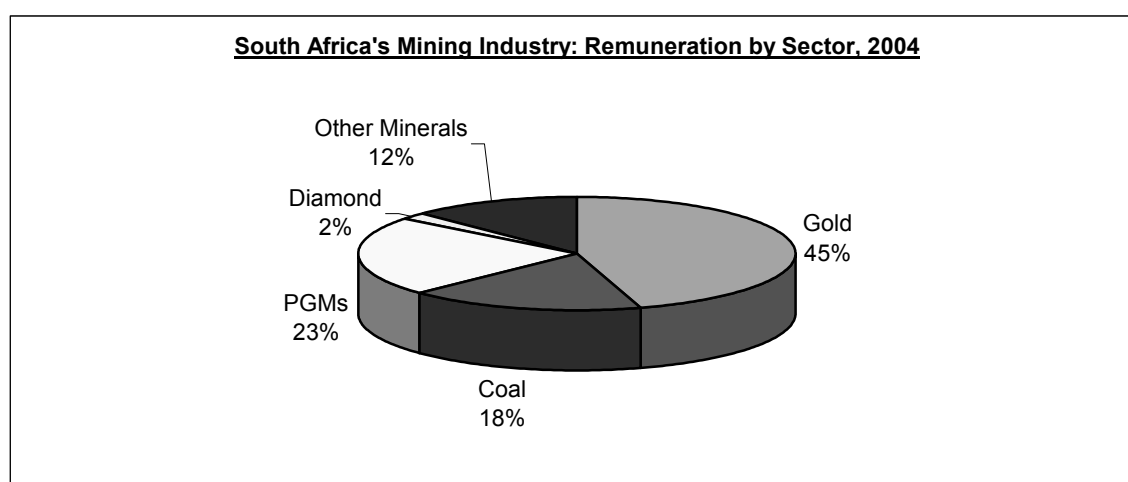
Source: Department of Minerals and Energy: South Africa's Mineral Industry (2004/2005): Directorate: Mineral Economics, Pretoria.

The employment crisis caused by the low gold price resulted in the inception of the Gold Crisis Committee (GCC) during 1998. Through a concerted effort, actual retrenchment by gold mines has been kept down to below 12 000 in 2004. The mining Summit, an initiative born out of the GCC and hosted by the Department of Minerals and Energy in early 2000, had as its main objective to

address key issues critical to the survival of the industry, among them being labour concerns.

According to the Department of Minerals and Energy (2004), the gold industry was responsible for some 45 percent of the total remuneration and the PGMs industry for 23 percent as figure 6.4 on the following page depicts.

Figure 6.4: South Africa's Mining Industry: Remuneration by Sector, 2004.



Source: Department of Minerals and Energy: South Africa's Mineral Industry (2004/2005): Directorate: Mineral Economics, Pretoria.

The higher degree of mechanization in the coal sector is reflected by its contribution of 11 percent in terms of the labour force, but 18 percent in terms of remuneration.

6.7 Mineral production and sales in 2004

Most of the world's economy entered a period of subdued growth in 2001 and 2002; however some economies, most notably that of China, continued to grow strongly and increased their demand for commodities. As the United States and, to a lesser extent, the rest of the world entered a period of strong economic growth in 2003 and 2004, the demand for commodities outstripped supply and as a result commodity prices began to increase sharply. According to the Department of Minerals and Energy (2004), it seems unlikely that world

commodity prices will be sustained at these levels indefinitely because the present high prices substantially exceed the cost of production.

Both demand for minerals and prices showed positive movement from the low levels experienced during 2003. Despite the large increase in gold and platinum prices and moderate increases in those of most other mineral commodities, the strong rand/dollar exchange rate, resulted in only a moderate increase in South African sales revenue in rand terms during 2004.

South Africa's total primary mineral sales revenue increased by 6.5 percent from R117.6 billion in 2003 to R125.2 billion in 2004. When the total sales and total export sales are expressed in US dollars, the annual changes reflect increase of 26.0 percent (from US\$15.4 billion to US\$19.4 billion), and 20.9 percent (from US\$11,5 billion to US\$13,9 billion) respectively. The moderate increase in revenue in rand terms was due to the strengthening value of the rand, which achieved an average of R6.4499 in 2004, compared with R7.5647 in 2003. The major foreign revenue earners in 2004 were platinum-group metals (33.0 percent), followed by gold (32.4 percent) and coal (16 percent).

Domestic mineral sales proceeds increased in rand terms by 15.1 percent, and 32.7 percent in dollar terms. Improvements in local sales income were recorded for all the minerals that make a meaningful contribution to the total. Coal remained the major local income earner, accounting for 38.2 percent of total domestic sales, followed by metallic commodities with 31.2 percent and miscellaneous mineral commodities with 16.5 percent. Industrial commodities accounted for 14.1 percent.

Of South Africa's nine provinces, North West, Mpumalanga, Limpopo, and Northern Cape contributed the bulk of the total mineral revenue, together generating 87.1 percent of the total primary mineral sales income. The same five provinces accounted for 89.6 percent of export revenue, while Mpumalanga, North West and Limpopo accounted for 67.2 percent of local sales earnings in 2004. North West is mainly dependent on PGMs as the major contributor towards minerals revenue, Gauteng on gold, Mpumalanga

on coal and the Limpopo on diamonds, copper and coal. The economies of North- West, Limpopo, the Northern Cape and Mpumalanga are particularly dependent on the contributions from their respective mining industries

6.8 Minerals beneficiation

Beneficiation or value-added processing involves the transformation of primary material (produced by mining and extraction process), to a more finished product, which has a higher export sales value. Beneficiation involves a range of different activities including large-scale, capital-intensive activities such as smelting, and sophisticated refining plants as well as labour-intensive activities, such as craft jewellery and metal fabrication. Each successive level of processing permits the product to be sold at a higher price than the previous product or original raw material and adds value at each stage.

Beneficiation is a process that starts at the rock-face where the ore is liberated. This process can have many varied steps along the way, but the ultimate aim is to add value to the product, implying financial value, so as to get the greatest possible benefit out of the initial advantage of having the mineral.

The concept of beneficiation is old in South Africa, but it took major steps forward during 1990s. The key has been to envisage South Africa as a base for adding value to raw material input from anywhere in the world, not only from domestic resources.

The government is committed to the promotion of beneficiation and, the Mineral and Petroleum Resource Development Act includes provisions that will ensure that the Minister promotes the establishment of secondary and tertiary mineral-based industries, aimed at adding maximum value to mineral raw materials, where economically justifiable.

According to the Department of Minerals and Energy (2004), export revenue comprised 76.0 percent of total sales in 2002; it improved by 3.8 percent

compared to 2001, from R18.2 billion. However, when expressed in dollar terms, it showed a decrease of 15.3 percent, from \$2.6 billion in 2000 to \$2.2 billion in 2002. Substantially lower dollar prices for most commodities were only partly offset by higher export sales volumes. The biggest contribution to export sales were chromium alloys (25.0 percent), aluminium (30.0 percent) and manganese alloys (12.3 percent).

The value of local sales of processed mineral products rose to 29.5 percent, from R4.4 billion in 2000 to R5.7 billion in 2001. Aluminium, with a 50.3 percent contribution, was the major revenue earner in 2001, with phosphoric acid and zinc metal contributing substantially as well (South Africa's Mineral Review: 2004/2005). And according to the same review, the provinces, KwazuluNatal and Mpumalanga, contributed 74.5 percent of the total processed minerals sales revenue in 2002.

Aluminium and titanium slag dominate the KwazuluNatal contribution, whilst nearly two-thirds of Mpumalanga's total sales were derived from chromium alloys. These two provinces dominated export and local sales revenues as well, with respective combined contributions of 76.7 and 67.5 percent. No beneficiation of the selected minerals occurred in the Eastern Cape, the Northern Cape, and the Free State. Several minor commodities such as cobalt, antimony, arsenic and semi-precious stones are omitted from the analysis. Most of these commodities are beneficiated to a considerable degree, some entirely.

6.9 South Africa's imports of minerals products

As a result of its vast mineral resource base, South Africa is, to a large degree, self-sufficient with respect to the supply of minerals. However, some minerals and mineral products need to be imported due to an insufficiency of local resources or the fact that deposits in South Africa are not economically viable; another factor is that certain specialized grades and products are not produced in South Africa. According to the Department of Minerals and

Energy (2004), the value of the more significant imports during 2002 increased by 7.2 percent to R12.8 billion.

6.10 Forecast of minerals exports for 2004 to 2009

South Africa's mining industry is primarily export driven, with 71.6 and 74.8 percent of primary and processed mineral sales during 2004 respectively, destined for world markets. Therefore, it is pertinent to estimate future earnings from mineral exports. Since gold, coal, the platinum-group metals and diamond together contribute about 90 percent of total primary mineral export revenue, forecasts in respect of these commodities are the most critical.

For the purpose of forecasting South Africa's mineral export revenue from 2005 to 2009, the Department of Minerals and Energy assumed that the major economies of the world would enjoy sustainable expansion over the medium term, providing a stable base for the smaller economies to achieve relatively high growth. This should filter through to mineral commodity markets, with volumes increasing moderately and significant price increase from 2004 to 2005. In 2006 and 2007 prices may again come under pressure as production of minerals is likely to start outpacing consumption.

Based on these broad assumptions, as well as a detailed analysis of the supply and demand for each of the significant commodities, the value of South Africa's export of primary minerals according to the Department of Minerals and Energy, is forecast to increase by 6.8 percent per annum, which compounded from US\$13 607 million in 2004 will reach US\$19 965 million in 2009. The sectors with the highest expected growth rate are coal (11.4 percent), gold (8.8 percent) and ferrous (7.4 percent).

Export Earnings from gold are expected to decrease from US\$4 494 million in 2004 to US\$4 250 in 2006 as a result of continued drop in output, despite higher US dollar price. A rise in US dollar price should see the export revenue grow to US\$7 455 million by 2009, despite a possible decline in gold

production. The export of revenue from gold is forecast to increase by 8.8 percent per annum.

South Africa's export earnings of platinum group metals (PGMs) are expected to increase from US\$4 578 million in 2004 to US\$5 429 million in 2005, as a result of continued rise in output as well as higher US dollar prices of the constituent metals. Export revenue is forecast to decrease to US\$4 622 million in 2007 due to lower platinum price, despite higher production, before climbing to US\$5 735 in 2009 on the back of the rising platinum price. The weighted average price for the basket of PGMs is expected to average US\$644 per ozt in 2005.

The export value of coal is expected to increase by 41.3 percent, to US\$3 169 million in 2005 from the US\$2 243 million recorded in 2004. Export revenue for coal is likely to show an increase of 11.4 percent per annum rising from US\$2 243 million in 2004 to US\$4 280 million in 2009. Europe and the Middle East are still South Africa's major customers and coal demand is rising in those regions. Furthermore, this increase in forecast export volumes is influenced mainly by the increase number of exporting mines created as a result of the implementation of the Mineral and Petroleum Resources Development Act (MPRDA) and the willingness on the bigger coal mining companies to allow economic empowerment companies to mine coal blocks wits in their mining concession areas.

Export earnings for ferrous minerals (US\$751 million in 2004) are foreseen to rise by 3.8 percent annually. By 2009 the value is expected to be almost US\$939 million. The sector's share of total primary mineral export earnings is expected to almost remain constant from 5.5 percent in 2004 to 4.7 percent in 2009.

Primary nonferrous mineral export revenue is expected to increase from US\$355 million in 2004 to US\$373 million in 2005. Export income is also anticipated to increase to US\$386 million in 2009, reflecting a compound growth rate of 1.4 percent per annum.

The forecast for primary industrial minerals export earnings indicates a possible increase of 1.8 percent from US\$163 million in 2004 to US\$166 million in 2005. The export revenue of these minerals is anticipated to increase by 3.1 percent per annum, to US\$196 million over the five-year period to 2009.

The contribution of processed mineral products to foreign exchange earnings is expected to grow to a rate of 4.8 percent per annum, from US\$4 349 million in 2004 to US\$5 748 million in 2009, compared with a 6.8 percent per annum increase for primary minerals. The ratio of primary to processed minerals is foreseen to increase from 3.1 percent to 3.5 percent over the forecast period.

6.11 Regional co-operation - SADC

On 17th August 1992, the Declaration and Treaty establishing the Southern African Development Community (SADC), was signed at the Summit of Head of States of Governments, in Windhoek, Namibia. This declaration and Treaty replaced those regarding the South African Development Coordination Conferences established on 1 April 1980, following the Lusaka Declaration.

Today, the SADC comprises of the following member states: Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Seychelles, Tanzania, Zambia and Zimbabwe.

The Treaty establishing the SADC was designed to lead to higher levels of co-operation and integration in the region. Member States pledged commitment to pursue common approaches and policies and also effective participation by the people of the region and their institutions in the formulation and execution of policies, strategies and programmes. The SADC vision for mining is hence in harmony with the overall objectives of the Community, which include “to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa and support the socially disadvantaged through regional integration”. Another of the objectives

of the SADC is support for small scale mining which has been recognized by nearly all the countries in the region as a means of alleviating poverty and empowering local communities. A number of support programmes have been established in various member States, ranging from provision of loans and grants, to equipment and plant hire schemes and making provisions that will enhance and support small scale activities.

The SADC Mining Sector Programme of Action is subdivided into six sub-sectors, namely Information, Geology, Mining, Marketing, Mineral processing, Environment and Human Development.

During the last decade, a number of countries made efforts to reform their mineral policies and regulatory environment, aimed at encouraging private sector participation, attracting new capital investment, technology and skills and stimulating exploration.

Mining continues to be the major foreign exchange earner in most of the economies of the SADC region. According to the Department of Minerals and Energy, the mining sector in the region contributes approximately 10 percent of the Gross Domestic Product while accounting for 60 percent of foreign exchange earnings. The major minerals supplied to the World markets by the SADC include asbestos, chrome ore, coal, cobalt, copper, diamonds, gold, nickel, the platinum group metals, lead and zinc.

Mine development in the region has primarily been focused on gold, diamonds, PGMs and base metals. There is still great scope for more investment in these sectors, and others.

During 2001, the total expenditure on exploration programmes in the SADC region was approximately US\$100 million (South Africa's Mineral Industry Review: 2002/2003). Exploration Programmes continued to be carried out by companies in almost all member states.

According to the Department of Minerals and Energy (2004), during 2002, the total labour force in the SADC industry stood at 1 535 642, compared with the 2000 figure of 1 978 845. The decrease in employment was largely due to rationalization of the workforce after privatization of previously state-owned mining companies, and declining world demand for production of minerals like asbestos.

6.12 Conclusion

This chapter discussed the overview of the mining industry in South Africa, where the structure and the economic contribution of the industry was outlined. The chapter also discussed the small-scale mining as a sector and the government's commitment to develop that particular sector.

The following chapter will discuss the type of this study, specifically how the data was collected and analyzed.

CHAPTER 7

TYPE OF STUDY

7.1 Introduction

This study is qualitative and as such, it is based on meanings expressed through words where results were collected in non-standardized data which required to be classified into categories and the analysis was done through the use of conceptualization. A key distinction is drawn between qualitative and quantitative research (Bryman, 1998; Easterby-Smith et al., 1991). However, attempts to define the distinctiveness of qualitative research, and therefore the way in which it can be distinguished from quantitative research can be problematic (Silverman, 1993). Nevertheless, through the data produced by this study, significant distinctions from those of quantitative work, for example, meanings derived from numbers, were drawn and these distinctions were helpful in terms of understanding what was necessary in order to be able to analyze the qualitative data of the study meaningfully.

7.2 Qualitative data of the study

While 'number depends on meaning' (Dey, 1993: 28) it is not always the case that meaning is dependent on number. Dey, (1993: 28) points out that: 'The more ambiguous and elastic our concepts, the less possible it is to quantify our data in a meaningful way'. Qualitative data are associated with such concepts and are characterized by their richness and fullness based on an opportunity to explore a subject in a real manner as is possible (Robson, 1993). A contrast can thus be drawn between the 'thin' abstraction or description which results from quantitative data collection and the 'thick' or 'thorough' abstraction or description associated with qualitative data (Dey, 1993; Robson, 1993).

The nature of qualitative data in this study therefore had implications for both its collection and analysis. To be able to capture the richness and fullness associated with the data, it was not collected in a standardized way, like that of quantitative data. During analysis, however, the non-standardized and complex nature of the data collected was classified in categories before it could be meaningfully analyzed; otherwise the most that resulted was an impressionistic view of what it meant. While it was possible to make some use of diagrams and statistics, such as the frequency of occurrence of some categories of data, the way the collected qualitative data was analyzed was through the creation of a conceptual framework.

7.3 Qualitative data analysis of the study

The approach adopted in this study involved disaggregating the mass of the qualitative data which was collected into meaningful and related parts or *categories*. This allowed the systematic arrangement and rigorous analysis of these data. Adopting this approach essentially meant transforming the nature of the data which was collected in order to allow the following:

- Comprehending and managing the collected data.
- Merging related data drawn from different transcripts and notes.
- Identifying key themes and patterns from it for further exploration.
- Testing propositions and hypotheses based on these apparent patterns or relationships.
- Drawing and verifying conclusions.

This process involved the following activities:

Categorization

This first activity involved classifying the data into meaningful *categories* which were derived from the data. These categories were in effect labels which were used to rearrange the data. The categories provided an emergent structure which was relevant to the study to analyze the data further.

The identification of these categories was guided by the purpose of the study, as expressed through the research questions and objectives. As Dey (1993), puts it: 'categories must have two aspects, an internal aspect – they must be meaningful in relation to the data – and an external aspect – they must be meaningful in relation to the other categories', the devised categories were part of a coherent set so as to provide a well structured, analytical framework to pursue the analysis.

'Unitizing' data

The next activity of the analytical process was to attach relevant 'bits' and 'chunks' of the data in units of data to the appropriate category or categories which were devised. A unit of data was a number of words, a sentence, a number of sentences, a complete paragraph or some other chunk of textual data which fits the category.

Recognizing relationships and developing categories

This activity involved generating categories and reorganizing the data according to them. This analysis continued as key themes and patterns or relationships were searched in the rearranged data.

Testing propositions/assumptions

When patterns were revealed and relationships recognized within the data between categories, propositions were tested. The appearance of an *apparent* relationship or connection between categories needed to be tested in order to be able to conclude that there is an *actual* relationship.

7.4 The interactive nature of the study process

The course of events during the study demonstrated that data collection, data analysis and the development and verification of relationships and conclusions are very much an interrelated and interactive set of processes.

The interactive nature of data collection and analysis enabled the recognition of important themes, patterns and relationships as data was collected. As a result recategorizing existing data to see if these themes, patterns and relationship are present in the cases where data was already collected, as well as adjusting future data collection approach.

The concurrent process of data collection and analysis also had implications for the way in which time was managed and organization of data and related documentation. It was necessary to arrange interviews with enough time between to allow sufficient time to write up or type a transcript, or set of notes, and to analyze this before proceeding to the next data collection session.

7.5 Conclusion

This chapter outlined the type of the study and the implications of its data collection and analysis. Unlike the quantitative study the analysis of this study is based on conceptualization.

In the following chapter the study's problem statement, objectives and hypotheses/propositions will be discussed.

CHAPTER 8

PROBLEM STATEMENT, RESEARCH OBJECTIVES AND PROPOSITIONS

“The known is finite, the unknown infinite; intellectually we stand upon an islet in the midst of an illimitable of inexplicability. Our business....is to reclaim a little more land”, Huxley as quoted by Dane (1990:61).

8.1 Introduction

The literature review from chapters 3 to 5 determined, in general, that SMME sector development is very important both from an economic point of view as well as from a business management perspective, in particular, is an important element in addressing the social ills and the legacy of apartheid in this country. A major conclusion emanated from this review is that the SMME sector is an important contributor to a country's economy and that it can indeed, with support policies; contribute to job creation and economic growth.

From a South African context, SMMEs have, at least in theory, the potential to generate employment and upgrade human capital by absorbing the abundant pool of unskilled labour, which they can possibly employ and upgrade. The question is whether a more robust SMME growth strategy in South Africa will indeed generate employment by absorbing the unskilled labour force and provide a “skills upgrading process”.

South Africa's experience is very unique and even though the government may learn from other countries both internationally and regionally, the success of South African mechanisms is limited by historical neglect of education and training to those who contribute most in the small business sector (i.e. blacks). Therefore the key challenge in the South African context is identifying the best policy levers available to government, given the problem of inequality and the

overall thrust of an economic reform strategy comprising fiscal prudence, trade liberalization and deregulation of various economic sectors.

8.2 Problem statement

In chapters 2 to 5 some of the existing literature on SMMEs was scrutinized (including the historical background of South Africa) to determine the dynamics and the current structure of the SMME sector with regard to its fitness in the overall macro-economic framework of the country and the country's economic growth. It has been found out that no literature or research reports exist that provide any concrete evidence to quantify the extent the SMME sector has contributed to the economic growth of the country through job creation and poverty alleviation as a result of the government's National Strategy and whether the government's mechanism and programmes to achieve that, has created an enabling environment for the SMME sector growth.

The current literature and statistics with regard to the structure of the small business sector is inconclusive (Kesper, 2000). There is a lot of conflicting assessment between different agencies' statistics including that of Ntsika. In addition, no text books or any concrete research study was found (both from the private and public sectors) which analyzed the impact of the government's National Strategy for the development and promotion of the small business sector in South Africa. This thesis will therefore serve as a seminal first step in evaluating the impact the National Strategy (designed in 1995) has had on the SMME sector i.e. whether it has indeed created an enabling environment for the small business sector to achieve its objectives of job creation and economic growth.

The dearth to the unemployment crisis in South Africa is continuously posing major challenges to the South African government in both social (crime) and economic (income generation) circles. On the global arena South Africa is also faced with challenges of re-integration into the world markets, while at the same time positioning itself to realize the importance of addressing the local

challenges. The international and local challenges, one would assume, will pose conflicting strategic priorities within the government's overall macro-economic strategy which are aimed at addressing both the local and international challenges.

It is a result of such challenges that forced the government to move quickly to launch the new and untried National Strategy for the development of small business sector in the country. The National Strategy was structured to forge a wide range of participants in both the private and public sectors hoping it would address the local challenges (job creation, poverty alleviation and economic growth) while also being globally competitive at the same time.

The government's initiative could, one would also assume, face enormous difficulties and pains to achieve its objectives because of the country's apartheid legacy which has created South Africa's dearth of entrepreneurial tradition and culture, lack of business skills and finance most especially among the targeted group (blacks). These factors may mean that progress to the attainment of the objectives of the government's initiative would face tremendous difficulties.

Since it is believed that job creation does not exist in the entire small medium and micro enterprises (SMMEs) but mainly in small medium enterprises (SMEs), the small-scale mining sector specifically black economic empowerment (BEE) companies was chosen to compare the findings of the National Strategy's impact by an evaluation of the instructional framework and other related institutions to the extent the small-scale mining sector has benefited from the government's National Strategy and whether the Strategy has indeed created an enabling environment for that particular sector.

The small black economic empowerment mining database from the Department of Minerals and Energy is usually not updated and that created problems when conducting the interviews within that sector. Most of the companies in the current database no more exist and a lot have changed locations and hence their contact particulars.

8.3 Objectives of the study

The main objective of this study is to evaluate the impact of South Africa's National Strategy for the development and promotion of the small business sector in general and specifically on the small black economic empowerment mining companies. This objective is summarised into the following focus areas:

- Analysis of the institutional framework created within the government's National Strategy spearheaded by the Department of Trade and Industry.
- Analysis of the effectiveness of the government's National Strategy through the service providers (both financial and non-financial) created under the National Strategy and some small businesses.
- Analysis of some governmental departments and some business institutions not incorporated within the government's National Strategy's framework but having SMME developmental programs themselves.
- A primary investigation of some parastatal organizations and provincial SMME desks.
- A study of the impact of the government's National Strategy through a structured questionnaire on the small black economic empowerment mining companies.

Against this background, the objectives of this study are twofold: the provision of a more comprehensive understanding of the structure of the government's National Strategy's framework and the challenges at stake if any, in order to highlight them thus far and specifically whether the National Strategy has had any significant positive impact on the small-scale mining sector. This, it is assumed, will give a general picture as to whether the government's National

Strategy for the development and promotion of small business in South Africa has indeed created an enabling environment for the sector.

In detail the study will attempt to:

Revisit the rationale of the SMME policies

While there is a general consensus on the importance of SMMEs in South Africa, their economic rationale to date has not been well argued nor rigorously investigated. In particular, there is a lack of clarity on how the SMME sector fit within the industrial policy framework with regard to the objectives of government (RSA, 1995:10).

Propose some goals for the policy

According to Rogerson (1997) optimizing the SMMEs' contribution to employment and economic development could be translated into the following broad objectives:

- Raising the rate of formation of new SMMEs with growth potential since these SMMEs will contribute to investment, employment and income generation.
- Encouraging new SMMEs arising from a previously disadvantaged background, since these start-ups can contribute to redistribution of economic ownership and income, as well as a more participatory economy.
- Increasing the rate of graduation of micro-enterprises into the SME categories, since only then will the legacy of apartheid be overcome.
- Raising performance of existing SMMEs with a view to increasing both their competitiveness and their ability to fulfil a role in society.

- Decreasing the undesirable mortality rate of SMMEs that could be viable undertakings.

Main areas of intervention required

Achieving these broad objectives typically requires policies, which will focus on:

- Increasing the supply of the entrepreneurial talent and opening opportunities.
- Providing support to existing SMMEs – micro-enterprises in particular – at no higher than its social opportunity costs.
- Providing incentives for formalization of enterprises, including cultural bridging.
- Assisting SMMEs (where necessary) to use the resources as efficiently as possible.

Within the context of the overall macro-economic performance, the ideal policy package for SMME support in South Africa should allow this sector to maximise its contribution to the economy's overall performance in terms of growth, employment and income distribution (RSA, 1995). This is likely to involve making more resources available to the sector as well as raising the efficiency with which it uses the resources already available.

Evaluation of policies to date

With policy initiatives already under way, the study aims to disentangle the reasons for the SMME sector growth (low or high), and why it has made or not made a more significant contribution to employment and overall economic

growth in South Africa. By doing so, the study aims to assist the government's National Strategy framework in reconsidering its policy as an integral part of its industrial development strategies.

The impact of the National Strategy in the small black economic empowerment mining companies

Apart from interviews with the institutions created under the government's National Strategy, service providers (financial and non-financial), other institutions not created under the National Strategy but involved in SMME programmes and other secondary data in relation to the SMME sector, the study will attempt to investigate the National Strategy's impact on the small black economic empowerment mining companies.

8.4 Research propositions

In this section a number of research propositions that aim to address the research problem and research objectives will be discussed.

The use of research propositions and research hypotheses in a study need some clarification. Dilton, Madden & Firtle (1994:417) and MacDaniel & Gates (199:514) argue that a hypothesis is an assumption or guess that the researcher makes about some characteristic of the sample population.

Willemse (1990:131) defines a hypothesis as an assumption to be tested with the objective of making statistical decision based on a scientific procedure. It is an attempt to determine when it would be reasonable to conclude, from an analysis of a sample, that the entire population possesses a certain property.

Cooper and Schindler (1998:131) argue that the immediate purpose of exploration (research) is usually to develop hypotheses or questions for further research. They (1998:48) also state that research literature disagrees about the meaning of the terms proposition and hypothesis. Their definition of a proposition is that it is a statement about concepts that may be judged true

or false if it refers to observable phenomena. When a proposition is formulated for empirical testing, they refer to it as a hypothesis.

The research propositions of the study were formulated in such a way that may allow limited statistical analysis and will be judged according to the definition of Cooper & Schindler (1998:131) that a proposition is a statement about concepts that may be judged true or false if it refers to observable phenomena. The propositions will be accepted if they can be judged to be true or rejected if they can be judged to be false.

In the first phase of the study the propositions formulated can be summarized as follows:

8.4.1 Testing the effectiveness of the institutions created within the government's National Strategy

The institutional framework of the government's National Strategy consists of the Centre for the Small Business Promotion (CSBP), Ntsika Enterprise Promotion Agency (NEPA) and Khula Enterprise Promotion Agency (KHULA) which all fall under the jurisdiction of the Department of Trade and Industry.

The research propositions in this section will cover these three institutions i.e. CSBP, NEPA and KHULA incorporated in the institutional framework of the government's National Strategy for the development and promotion of SMMEs.

The propositions only apply to the research subjects, namely directors and/or heads of different departments within these institutions who manage these departments. These research propositions were formulated to test their opinion on the successes or failures with regard to achieving their mandates as stipulated in the White Paper on National Strategy for the development and promotion of small business in South Africa (Notice No. 213 of 1995). Evaluating the institutional framework of the government's National Strategy entailed a descriptive analysis in each of the three institutions.

Three research propositions in this section were formulated as follows:

Proposition One: The Centre for Small Business Promotion as a policy centre and custodian of the South African National Strategy for the development and promotion of the SMME sector has coordinated all institutions incorporated in the institutional framework of the National Strategy effectively.

The response to this statement will be tested by analyzing the following issues within the CSBP (a detailed analysis is given in Chapter 10):

- The CSBP's mission and objectives.
- The CSBP's structure and its activities.
- Performance activities of the CSBP.

Proposition Two: Ntsika Enterprise Promotion Agency has provided its wide range of non-financial services to local service delivery groups successfully thereby meeting the objectives of the government's National Strategy.

The response to this statement will be tested by analyzing the following issues within Ntsika (a detailed analysis is given in Chapter 10):

- Analysis of Ntsika's mission and objectives.
- Analysis of the institutional framework of Ntsika.
- Analysis of Ntsika's success in meeting its programme objectives.

- Analysis of Ntsika's monitoring and evaluation process.

Proposition Three: Khula has improved access to finance for the country's SMME sector with special emphasis on the previously disadvantaged population as mandated by the government's National Strategy successfully.

The response to this statement will be tested by analyzing the following issues within Khula (a detailed analysis is given in Chapter 10):

- Analysis of Khula's missions and objectives.
- Analysis of Khula's programmes and their performance.

8.4.2 Testing the effectiveness of the government's National Strategy

The propositions to test the effectiveness of the government's National Strategy applied to the research subjects, namely directors and/or owners of those institutions which provide financial and non-financial services on a retail basis on behalf of Khula and Ntsika respectively and the owners of small medium and micro enterprises (refer to appendices two, three and four).

Three research propositions were formulated as follows:

Proposition Four: Khula's financial service providers have provided their finance services to SMMEs effectively.

The response to this statement will be tested by analyzing the following issues from Khula's financial service providers (a detailed analysis is given in Chapter 10):

- Their sizes of loans to SMMEs.
- The assistance that borrowers (i.e. SMMEs) of funds receive from them to develop business plans, identify market opportunities, and prepare loan applications.
- Their ultimately usage of borrowed used.
- Their level of communication with Khula.
- Their level of interaction with Ntsika or Ntsika's non-financial service providers.
- Whether they provide mentoring, monitoring and evaluation, or aftercare to their recipients.

Proposition Five: Ntsika's non-financial service providers have provided their services to the SMME sector effectively.

The response to this statement will be tested by analyzing the following issues from Ntsika's non-financial service providers (a detailed analysis is given in Chapter 10):

- Their level of coordination and communication with Ntsika.
- Their linkages with Khula's financial service providers.
- Their monitoring and evaluation of clients.
- Whether they have training for the service provider management.
- Their tracking results of assistance.

- Their sectoral approach.

Proposition Six: The sourcing of both financial and non-financial services by SMMES through the institutional framework of the National Strategy was effective.

The response to this statement will be tested by analyzing the following issues from SMMES (a detailed analysis is given in Chapter 10):

- Whether they consider themselves as a small, medium or micro enterprise.
- Type of assistance they were receiving.
- Processes they encounter when obtaining assistance.
- The use of their assistance.
- The impact the assistance has had on their businesses.
- Their additional needs.

8.4.3 Testing of other institutions influencing small business development

These propositions applied to the research subjects, namely heads of other government's departments (refer to appendices five and six) other than those within the Department of Trade and Industry and managing directors and/or heads of departments of other business organizations – only the National African Federated Chamber of Commerce (NAFCOC) and the South African Chamber of Business (SACOB) were interviewed.

The research propositions were formulated as follows:

Proposition Seven: There is awareness within government departments of the government's National Strategy for the development and promotion of SMMEs.

Proposition Eight: There is awareness within business organizations of the government's National Strategy for the development and promotion of SMMEs.

Proposition Nine: There is collaboration between government's department and other business organizations with the institutions created under the government's National Strategy.

The responses to these statements will be tested by analyzing the contribution, current views and future roles of those government's departments and other business organizations outside government with regard to the following (a detailed analysis is given in Chapter 10):

- Awareness and understanding of the National Strategy and its institutions and programmes within other government departments.
- Assessments of the SMME support policies and programmes of these organizations and departments.
- Relationship between the National Strategy's programmes and those of other government's departments and other business organizations.

8.4.4 Testing of parastatal organizations and provincial SMME desks

The propositions to test the parastatals and the provincial SMME desks applied to the research subjects, namely managing directors of those

parastatals (refer to appendix seven) and provincial heads of the provincial SMME desks (refer to appendix eight).

The research proposition with regard to parastatal organizations was formulated as follows:

Proposition Ten: Parastatals are aware of the government's National Strategy for the development and promotion of SMMEs and are satisfied with the way the National Strategy has contributed to their own SMME initiatives.

The response to this statement will be tested by analyzing the following from the parastatals (a detailed analysis is given in Chapter 10):

- Level of awareness of the SMME strategy by the parastatal community with regard to:
 - Their view on the National Strategy on a long term basis.
 - Their knowledge of the National Strategy.
 - Their view on the government's efforts with regard to the implementation of the National Strategy.
- The expectation these parastatals have of the SMME strategy with regard to:
 - Their view of the National Strategy with regard to their own SMME initiatives.
 - Their view with regard to the National Strategy with regard to market and training opportunities to assist SMMEs.

The research proposition with regard to provincial SMME desks was formulated as follows:

Proposition Eleven: Provincial SMME desks are effectively and directly involved in the government's National Strategy's activities.

The response to this statement will be tested by analyzing the following from the provincial SMME desks (a detailed analysis is given in Chapter 10):

- Their direct involvement in the National Strategy's activities with regard to the following:
 - As to whether they are being briefed by the DTI on the National Strategy's activities.
 - Their involvement in other various ministerial committees.
 - Their significant input into local SMME strategies and programmes.
 - Their representation of CSBP at the provincial level.

8.4.5 Testing of small black economic empowerment mining companies

The assessment of small black economic empowerment mining companies with regard to the government's National Strategy comprised the second phase of the study and like in the first phase, the propositions of this phase will be judged according to the definition of Cooper & Schindler (1998:131) that a proposition is a statement about concepts that may be judged true or false if it refers to observable phenomena. The propositions will be accepted if they can be judged to be true or rejected if they can be judged to be false.

The propositions with regard to the small black economic empowerment mining companies apply to the research subjects, namely owners of the small black economic empowerment mining companies and the evaluation entailed a descriptive statistical analysis of information supplied by the owners of small mines through a structured questionnaire (refer to appendix one for the questionnaire used in this study and appendix nine for the list of owners of small mining operations interviewed).

The propositions in this phase of the study can be summarized as follows:

Proposition One: Small black economic empowerment mine owners know some programmes including the government's National Strategy for the development and promotion of Small Businesses.

The response to this statement will be tested by questions 1 to 3 of the questionnaire and its analysis will be based on their knowledge of any government programs or NGOs active in the development of small businesses including the government's National Strategy.

Proposition Two: Small black economic empowerment mine owners know how the government's National Strategy go about its business, how to get access to it and they have had contact with the institutions formulated within the National Strategy's institutional framework.

The response to this statement will be tested by questions 4 to 7 of the questionnaire and its analysis will be based on their knowledge on the way the government's National Strategy goes about its business and how they would gain access to it, and if at all they have had any contact with any of the institutions created within the institutional framework of the National Strategy.

Proposition Three: Small black economic empowerment mine owners have been very satisfied with the way the government has implemented its National Strategy for the development and promotion of small businesses.

The response to this statement will be tested by questions 8 to 9 of the questionnaire and its analysis will be based on their satisfaction with the way the government has implemented its National Strategy for the development and promotion of small businesses.

Proposition Four: The government's National Strategy has created opportunities i.e. an enabling environment for the small mining sector which in turn has minimized their weaknesses and barriers for growth thereby enhancing their meaningful participation in South Africa's mining industry.

The response to this statement will be tested by questions 10 to 14 of the questionnaire and its analysis will be based on the way the government's National Strategy has created opportunities for the small-scale mining companies and help minimize their weakness and barriers to entry in the mining industry.

Proposition Five: Small black economic empowerment mine owners have had formal training and do not require any formal training in most business disciplines.

The response to this statement will be tested by questions 15 to 17 of the questionnaire and its analysis will be based on the way the government's National Strategy has provided training opportunities to small black economic mine owners with regard to their business operations.

Proposition Six: Small black economic empowerment mine owners think that the government has succeeded in the provision of necessary support for their businesses.

The response to this statement will be tested by questions 18 to 19 of the questionnaire and its analysis will be based on the way small miners feel the government has succeeded in the provision of the necessary support for their businesses.

Proposition Seven: Most small miners opened their businesses after 1994 and that there has been significant growth in their businesses with regard to the number of employees and their annual turnover.

The response to this statement will be tested by questions 20 to 24 of the questionnaire and its analysis will be based on the way their businesses have grown with regard to the number of employees and their turnover.

The twenty four questions were formulated to test the propositions of the second phase of the study and the analysis of these propositions will lead to a conclusion on whether the government's National Strategy for the development and promotion of SMMEs has created an enabling environment for the small black economic empowerment mining companies sector since the government's National Strategy's inception in 1995.

8.5 Conclusion

This chapter stated that the main objective of the study is to evaluate whether the South Africa's National Strategy for the development and promotion of the SMME sector has created an enabling environment for the sector.

A number of research propositions were formulated to cover the main areas in the study. These research propositions also provide the basis for testing the

impact the government's National Strategy has had thus far on the small business sector.

In the next Chapter the research methodology will be outlined and discussed.

CHAPTER 9

RESEARCH METHODOLOGY

“People don’t usually do research the way people who write books about research say that people do research,” Bacharach (1981) as quoted by Dane (1990:201)

9.1 Introduction

As the government’s National Strategy for the development and promotion of the SMME sector has been in operation since 1995, it is assumed that the National Strategy should at least by now have achieved its objectives of job creation and growth of the small business sector. Formal and intensive research with regard to assessing the impact of the government’s National Strategy was not found. Therefore, as an initial step in advancing such a research the author has undertaken, as the major focus of the study, an attitudinal survey of the drivers within the institutional framework of the government’s National Strategy including service providers and recipients in the first phase of the study.

Realizing that many other government and non-governmental agencies in South Africa also play critical roles in the provision of services to the SMME sector, the study also examined the activities and impacts of several other institutions to determine how their programmes can be integrated into the larger National Strategy.

At the heart of the investigation in phase one was a series of interviews (through telephone, faxes, emails and personal contact) in the four provinces (Gauteng, Mpumalanga, North-West and Limpopo) that were carefully planned to bring a representative cross-section of local service providers,

other institutions working with the small business sector and finally in phase two, owners of small black economic empowerment mining companies.

The study has made strong effort to reflect the consensus of these role players, based on the information and views given. Therefore, it should be emphasized that the observations and conclusions, and to a large extent the recommendations themselves, are the result of the views of the role players during the study. The study has attempted to reflect these views and judgments.

The theoretical base for this study has been built up in such a way as to investigate and analyse the extent to which the South African government's National Strategy for the development and promotion of the SMME sector has created an enabling environment for the sector so far.

The evaluation, firstly, used the White Paper and some literature on SMME which was found as a point of departure and then began its in depth analysis by interviewing key members of the CSBP, Ntsika, and Khula to review each of the objectives, the programmes formed in response to these objectives, the monitoring impacts of these programmes, and the manner in which these impacts have been measured.

This phase of the study encountered a few challenges, for example, measuring the impacts of the National Strategy's programmes on the target population is an inexact science, and a challenge that seemed difficult to address because of the lack of solid information from the institutions studied – understandable given broad mandates of these institutions and in other instances the information was regarded as highly confidential by the institutions until they were convinced that the information was required for research purposes only – made it difficult during the study. Institutions seemed to have used varied formulas to estimate job impacts, for example based on their interventions. For this reason it was difficult to verify or refute these estimates that were built on the preliminary data collected.

This phase also wanted to evaluate the efficiency of “the utilization of resources allocated”. This was done mostly on general sense, in that a detail financial analysis, tracing expenditure programme by programme and region by region could not easily be accessible.

The second phase of the study was to assess the government’s National Strategy’s impact on the small black economic empowerment mining companies as a sector within the broader SMME sector. The population in the second phase of the study (44 companies) comprised of the small black economic empowerment mining companies in South Africa. The attitudinal study with regard to the population (small black empowerment mining companies) had been chosen in order to sustain mainly whether the owners of these companies are aware of the government’s National Strategy and how, if at all, it has helped them in their business operations.

9.2 Research design

The research design of this thesis is of an exploratory nature. Cooper & Schindler (1998:134) mention that “exploratory research is (unfortunately) linked to old biases about qualitative research, namely subjectiveness, non-representativeness and non-systematic design. A wiser view is that exploration saves time and money (in future) and should not be slighted because exploratory (research) covers areas that may be so new or so vague that a researcher needs to do an exploration just to learn something about the dilemma at hand”.

Cooper and Schindler (1998:131) also state that “exploratory studies tend towards loose structures with the objective of discovering future research tasks”. MacDaniel & Gates (1999:63) mention that exploratory research is usually small-scale research undertaken to define the exact nature of the problem to gain a better understanding of the environment within which the problem occurred.

In previous chapters it has been argued that the South Africa's National Strategy for the development and promotion of the SMME sector has not been extensively researched to determine its impact on the SMME sector. In the literature review chapters the argument of a number of authors led to the conclusion that the government's National Strategy's research is still in its infancy. These views and a lack of a research report on the South African National Strategy leads therefore to the assumption that relatively little about the government's National Strategy's impact is known. The main aim of the study is therefore to analyze the impact of the South Africa's National Strategy for the development and promotion of the SMME sector and as to whether it has indeed created an enabling environment for the small business sector.

The research process consisted two distinctive phases that aim to identify and determine as to whether, since its inception in 1995, the government's National Strategy has created an enabling environment for the SMME sector in this country.

The first phase of the study comprised the following steps:

9.2.1 Assessment of the effectiveness of the institutions created within the government's National Strategy

The three major institutions which constitute the institutional framework of the National Strategy (falling under the jurisdiction of the DTI) were targeted for interviews. The assessment of the effectiveness of the institutions created within the National Strategy was done by surveying the chosen research subjects on their opinion with regard to their success or failures in achieving their mandates as stipulated by the White Paper on National Strategy for the development and promotion of small businesses.

In each of the three institutions the following analyses were conducted:

9.2.1.1 Centre for the Small Business Promotion

- Analysis of the mission and objective of the Centre for Small Business Promotion.
- Analysis of the structure and activities of the CSBP.
- Performance activities.

The above-mentioned issues were analyzed by firstly identifying the responsibility of the CSBP as stated in the White Paper on National Strategy for the development and promotion of small businesses, which clearly stipulates that the CSBP is a “steward” or a “champion” of the government’s National Strategy.

The White Paper on the National Strategy for the development and promotion of small businesses clearly states that the Centre for Small Business Promotion will undertake the following:

- Being responsible for all matters related to the government’s support for small, medium, micro and emergent enterprises.
- Being responsible for the monitoring of the co-operation between different government departments in matters relating to small business support.
- Maintaining of strict control over organizations receiving or channeling public sector funds for small business support.

The above mentioned issues created the following operational objectives for the Centre for Small Business Promotion which the study had to analyze:

- The championing of the SMME sector in South African economic development, for example, creating awareness of SMME issues.
- The implementation of critical SMME programmes, for example, improving SMME's access to services
- The monitoring and evaluation of progress and problems, for example, identifying gaps and areas not adequately served within the context of the government's National Strategy.

The CSBP resources including personnel were evaluated to assess as to whether they would enable the CSBP to accomplish its operational objectives effectively in an effort for it to achieve its main objectives as stipulated in the White Paper.

9.2.1.2 Ntsika Enterprise Promotion Agency

- Analysis of Ntsika's mission and objectives.
- Analysis of the institutional framework of Ntsika.
- Analysis of Ntsika's success in meeting its programme objectives.
- Analysis of Ntsika's monitoring and evaluation process.

To analyze the abovementioned Ntsika's issues, Ntsika's programmes on meeting the objectives of the government's National Strategy were evaluated. The White Paper states a number of objectives of the National Strategy including the creation of an enabling environment for small enterprises.

Interpreting the government's National Strategy's requirements, the study identified the following programmatic activities with regard to Ntsika's mandate:

- Providing access to information and advice.
- Providing access to marketing and procurement.
- Training in entrepreneurship, skills and management.
- Providing access to appropriate technology.
- Capacity-building and institutional strengthening.

These programmatic activities were evaluated to assess as to whether, in Ntsika's current state with regard to its resources, Ntsika can effectively carry out these activities more efficiently in order to achieve the government's National Strategy's objectives.

9.2.1.3 Khula Enterprise Finance Limited

- Analysis of Khula's missions and objectives.

According to the White Paper on National Strategy for the development and promotion of small Business in South Africa, Khula's missions and objectives can be broken down into the following:

- Increasing the level of banking lending to SMMEs.
- Improving the outreach of alternative financial institutions, particularly in un-served rural areas.
- Providing start-up and small scale equity products.
- Expanding the number of SMMEs with external equity participation.

These missions and objectives create both external and internal operational objectives for Khula, which can be summarized as follows:

External

- Facilitating the mobilization and flow of resources (both public and private) for SMME development.
- Increasing awareness of Khula.
- Promoting a favourable legislative environment.
- Cooperating closely with “sister organizations, such as Ntsika, LBSCs and provincial SMME desks.

Internal

- Maintaining a skilled, effective, and motivated professional staff.
- Maintaining Khula as a lean organization.
- Meeting the expectations of shareholders as defined in the mission statement.
- Effectively managing business risks of the organization.

These external and internal operational objectives were evaluated in relation to Khula’s current state with regard to its resources to effectively carry out these activities more efficiently for it to achieve the government’s National Strategy’s objectives.

- Analysis of Khula’s programmes and their performance.

In order to do this analysis the following were evaluated:

- Khula's management philosophy.
- Structure of Khula's operations.
- Khula's marketing communications strategy.
- Khula's monitoring, evaluation and reporting systems.
- Khula's corporate governance.
- Khula's human, financial and internal management.

These were evaluated in relation to Khula's current state in meeting its programmes and rate of performance in executing these programmes.

9.2.2 Assessment of the effectiveness of the government's National Strategy

This component of the study was an assessment of the effectiveness of the government's National Strategy whose key components was an in-depth evaluation (through telephone, faxes, emails and personal contacts) of the perceived impacts of the government's National Strategy with relation to its stated objectives of employment creation, income generation and economic growth.

It was decided during the study that a structured process of meetings or interviews with service providers and recipients of those services be conducted. A month long preparation was undertaken to ensure that a representative sample could be reached through face-to-face meetings or telephonic as well as email interviews and faxes.

Interviews were conducted with service providers (both financial and non-financial) and small businesses, carefully selected to provide a good cross-

section of opinion. This was done in the following four provinces: Gauteng, North-west, Limpopo, and Mpumalanga. These areas were chosen simply because the author is conducting his business operations in these provinces.

This part of the study focused on the services provided by these organizations and the perceptions of these organizations of how successful these services are meeting the objectives of their mandates. In the case of SMMEs that have received these services, the study sought to understand what types of assistance were received from the service providers, how that assistance benefited their businesses, and what other types of assistance would be useful. Both providers and recipients were asked to detail their perceptions to change and improve the government's National Strategy's approach to developing small business and creating jobs.

In the course of these investigations emphasis was put on the financial service providers (i.e. Khula's RFIs), non-financial service providers (i.e. Ntsika's service providers) and SMMEs. The several key issues the study sought to identify were:

From Khula's ***financial service providers***, the investigation sought out to investigate the following:

- Size of loans (micro, small, medium).
- Assistance that borrowers received from these groups to develop business plans, identify market opportunities, and prepare loan applications.
- How borrowed funds were ultimately used.
- Level of communication with Khula.
- Level of interaction with Ntsika or non-financial service providers.

- Who funds the service provider.
- Whether or not the service provider provides mentoring, monitoring and evaluation, or aftercare to the recipients.

From Ntsika's ***non-financial service providers***, the investigation sought out to investigate the following:

- The level of coordination and communication with Ntsika.
- Linkages with other programmes, i.e. financial providers.
- Monitoring and evaluation of clients.
- Distribution of assistance.
- Training conducted for the service provider management.
- Tracking results of assistance.
- Sectoral approach.

From ***SMMEs***, the investigation sought out to investigate the following:

- Types of firms receiving assistance.
- Assistance they are receiving.
- Processes for obtaining assistance.
- Use of assistance.
- Impact the assistance has had on their businesses.

- Their additional needs.

9.2.3 Assessment of other institutions influencing small business development.

The assessment of other institutions influencing small business focused on government departments other than those groups affiliated with the Department of Trade and Industry as well as organizations outside government, specifically business organizations, SMME development practitioner bodies and institutes. The focus was on assessing the views of these different actors, and their current and future roles, with regard to the government's National Strategy.

This part of the investigation was divided into four key components:

- Awareness and understanding of the government's National Strategy and its institutions and programmes by these institutions.
- Assessment of the SMME support policies and programmes of these organizations and departments.
- Relationship between the programmes of these institutions (and delivery institutions, where applicable) and those falling under the government's National Strategy.
- These institutions' overall assessment of the strengths and weaknesses of the government's National Strategy and their recommended changes.

A series of in-depth interviews was undertaken with senior personnel within each organization. Interviewed were directors and/or heads within government departments and senior officers within business organizations. Although most of those targeted for participation in the study did participate, a considerably

large number failed to do so. These were either not able to accommodate the study due to other commitments or declined participation mainly due to their lack of information on the government's National Strategy and its operations.

9.2.4 Assessment of the role of parastatal enterprises and provincial SMME desks

9.2.4.1 Parastatal organizations

In conducting this part of the study, parastatal enterprises as shown in appendix seven were targeted.

More than 50% of the institutions targeted were interviewed. The study focused on how these institutions have participated in the government's National Strategy and how their involvement has intensified the objectives of the National Strategy.

Interviews with these institutions highlighted the following aspects in relation to the government National Strategy:

- Level of awareness the parastatal community has with regard to the National Strategy.
 - Their view on the government's National Strategy on a long term basis.
 - Their knowledge of the government's National Strategy.
 - Their view on the government's efforts with regard to the implementation of the National Strategy.
- The expectation these parastatals have of the SMME strategy.

- Their view of the government's National Strategy with regard to their own SMME initiatives.
- Their view with regard to the government's National Strategy with regard to market and training opportunities to assist SMMEs.

9.2.4.2 Provincial SMME desks

The provincial SMME desks as indicated in appendix eight were interviewed. The role of the provincial SMME desks is to co-ordinate the government's National Strategy's initiatives at a provincial and local level. The study covered the following scope in conducting its evaluation of the SMME programmes in their provinces:

- The responsibility they have in the coordination of the SMME Strategy in the provincial and local levels.
- Their influence to create laws that will impact SMMEs at the levels where provincial governments have authority.
- Their interaction with the CSBP, Ntsika and Khula on how the government's National Strategy is coordinated as well as the relevant policies.

The direct involvement of SMME desks in the government's National Strategy's activities can be described as follows:

- In most instances they attend meetings at the DTI to be briefed on Strategy activities.
- The provincial SMME desks also get involved through various ministerial committees.

- There is insufficient evidence to suggest that the provincial SMME desks provide any significant input into local strategies and programmes.
- They represent the interest of the CSBP at the local level. This is made difficult by the fact that the Strategy's institutions do not usually liaise with them directly. Their constituencies get confused about the role of these institutions that are operating on the ground.

9.2.5 Small black economic empowerment mining companies

The second phase of the study specifically targeted the small black economic empowerment mining companies as per the sample shown in appendix nine. The analysis in this phase of the study was done through a structured questionnaire (refer to appendix one). The assessment tried to verify as to whether the small black economic empowerment mining companies are aware of the government's National Strategy for the development and promotion of the SMME sector and if so, how it has assisted them in their business operations. This, it is believed, will test the two main objectives of the National Strategy of job creation and economic growth of the SMME sector. These objectives are also the objectives of the study from which the study is built i.e. whether the government's National Strategy has indeed created an enabling environment for their small-scale mining companies to achieve the government's National Strategy's objectives.

9.2.5.1 Assessment of the small black economic empowerment mining companies

The assessment of the small black economic empowerment mining companies was done through a random sample of twenty-two (22) small miners (refer to appendix nine) out of a population of forty-four (44) small miners. The database of the entire population of the small black economic empowerment mining companies was provided by the Department of Minerals and Energy in Pretoria.

Although the sample was selected randomly acceptability and availability of the respondent affected the selection of the sample size itself.

The questionnaire tested the respondents on the following issues:

- The small miners' knowledge of any programs including the government's National Strategy for the development and promotion of Small Business.
- The small miner's knowledge of how the government's National Strategy go about its business, how to get access to it and whether they have had any contact with the institutions formulated within its framework.
- The small miners' satisfaction with the way the government has implemented its National Strategy for the development and promotion of small businesses.
- In the small miners' opinion, whether the government's National Strategy has created opportunities for them which in turn have minimized their weaknesses and barriers for growth thereby enhancing their strengths.
- Whether the small miners have had formal business training and do not require any further formal training in most business disciplines.
- Whether the small miners think the government has succeeded in the provision of necessary support for their business.
- As to whether the small miners' businesses have had any significant growth to the number of employees and their annual turnover since they started their operations.

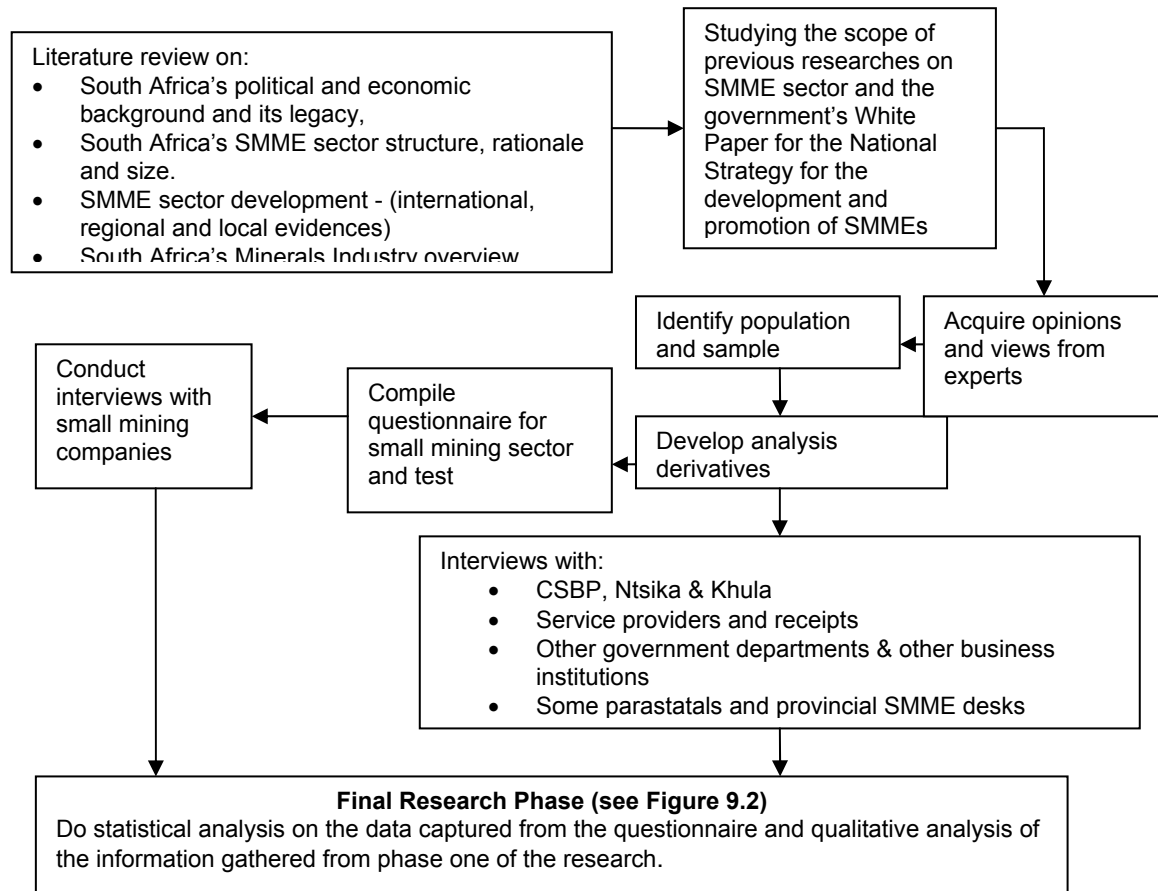
9.3 Scope of the study

The research process covered a range of stages as illustrated in figure 9.1 and can be summarized as follows:

- First – A comprehensive overview of the South Africa's political and economic background and its legacy, in particular the impact that legacy have had on entrepreneurship in South Africa. This literature review was conducted to generate important theoretical constructs with regard to what the legacy of South Africa's political and economical background could have on entrepreneurship in the country. The South Africa's SMME sector review with regard to its structure, rationale and size was conducted in an effort to determine the current state of the of the SMME sector and challenges if any. International, regional and local experiences with regard to the development of the small business sector were also reviewed.

The South African mining industry's overview was conducted because phase two of the study focused to evaluate how the government's National Strategy has benefited the small mining companies. This was viewed to be a testing platform on the findings of phase one of the study.

Figure 9.1: Scope of the research process



The literature review of SMMEs in South Africa assisted in the study to give a broader overview of the SMME sector in this country. This was conducted to make comparisons internationally and regionally to assess how the issues of SMMEs are handled.

- Second – The review of some SMMEs studies (for example. Anna Kesper’s study (2000): *“Failing or not aiming to grow? Manufacturing SMMEs and their contribution to Employment growth in South Africa”*. The White Paper on the National Strategy for the development and promotion of small businesses in South Africa also helped to form the academic and theoretical base of the study.

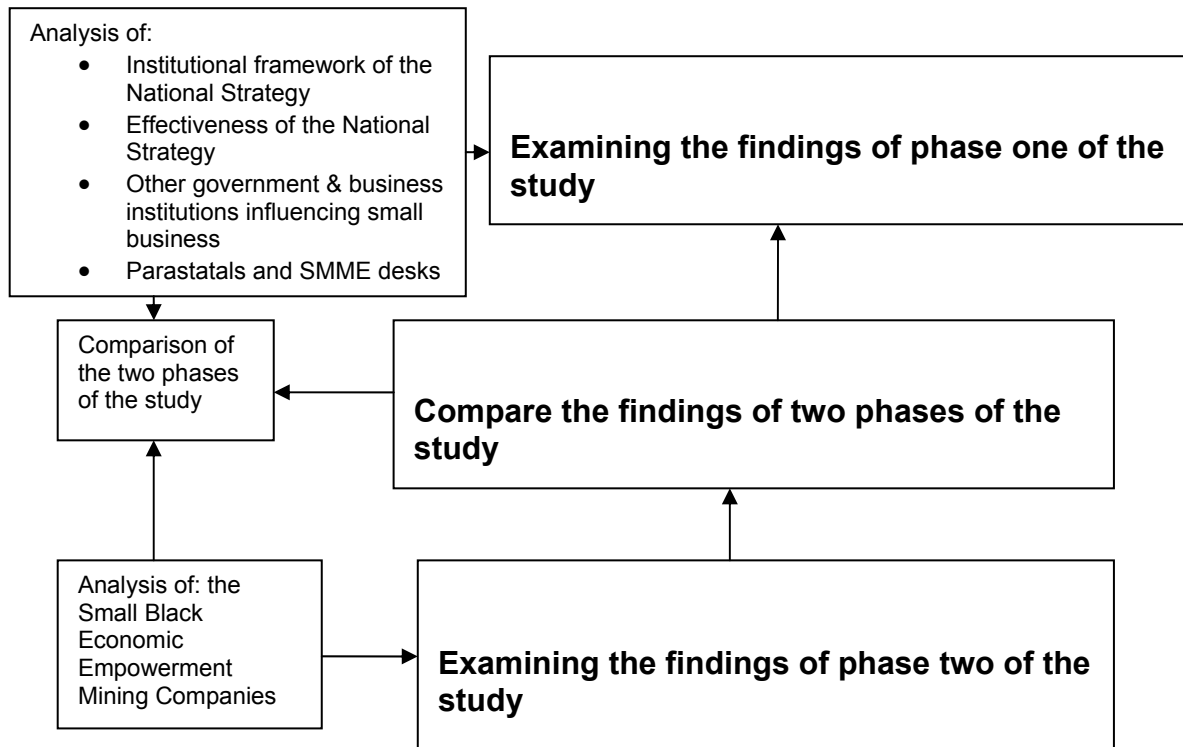
The previous research approaches and the White Paper on National Strategy for the development and promotion of small businesses in South

Africa were used to formulate constructs and statements to be included in the research instruments including the questionnaire.

- Third - The opinions of a number of experts in the field were sought (for example, Professor Peter Karungu of Wits University) to generate relevant ideas and focus on the research approach.
- Fourth – The small black economic empowerment companies who are involved in the small scale mining activities were selected as a sample population.
- Fifth – Theoretical constructs views and input from the White Paper and experts were formulated to create statements.
- Sixth – A structured questionnaire (that evaluates the importance of statements i.e. has the government's National Strategy created an enabling environment for the small black empowerment mining companies) was compiled and tested on some individuals who are involved in the small mining activities and had indicated their willingness to participate in the study.
- Seventh – One of the research instruments (phase one) was done through personal interviews. This focused on the government' National Strategy's institutional framework etc as illustrated in figure 9.1
- Finally – In the last phase a statistical analysis on the questionnaire responses of the small black economic empowerment companies and a qualitative analysis of the information gathered from the first phase was done.

The last step in figure 9.1 refers to a final research phase that is illustrated in figure 9.2.

Figure 9.2: Final research framework followed in this study



It is summarized that the two phases of the study could test the effectiveness of the government’s National Strategy and understand how it has benefited the SMME sector and whether it has indeed created an enabling environment for small enterprises. In the next section the research design of the two phases of the study will be discussed.

9.4 Research methodology of the first phase of the study

Phase one of the study started with the evaluation of the key objectives, the institutional framework created by the Strategy (i.e. CSBP, Ntsika and Khula) and the programmes created by these institutions. The White Paper on the National Strategy for the development and promotion of small business in South Africa formed the basis of this evaluation.

Secondly the study structured its investigation by focusing on the services providers by these organizations (i.e. Ntsika’s non-financial providers and Khula’s financial providers) and the perceptions of these organizations of how

these services are meeting the objectives of their mandates. In the case of the SMMEs that have received these services, the study sought to understand what types of assistance were received from the service providers, how that assistance benefited their businesses and what other type of assistance would be useful. Both providers and recipients were asked in detail their perceptions of successes and failures, and finally requested to make several recommendations on the ways to change and improve the government's National Strategy's approach to developing and promoting small businesses and create jobs.

A key component of this evaluation was an in-depth field investigation of the following four provinces: Gauteng, Limpopo, North-west and Mpumalanga of the perceived impacts of the government's National Strategy on the development and promotion of small businesses.

A complaint overheard during the study when conducting this analysis was that the headquarters organizations (namely the CSBP, Ntsika and Khula) have little familiarity with what is actually happening on the ground in the regions. According to these critics, their preoccupation with institutional and programmatic issues and their lack of realistic monitoring systems have created a major breach between them and their retail services providers and ultimately the recipients of the assistance. It was then decided in this analysis to seek assistance from the provincial desk officers where some providers and some recipients were identified where a structured process of meeting with them was done. This was mainly done through the face-to-face medium.

Thirdly the study focused on other departments other than those groups affiliated with the Department of Trade and Industry, as well as organizations outside government, specifically business organizations (for example NAFCO). The focus was on the view of these actors and their current and future roles, with regard to the government's National Strategy. The investigation was divided into four key components:

- 1) Awareness and understanding of the National Strategy and its institutions and programmes.
- 2) Assessment of the SMME support policies and programmes of these organizations.
- 3) Relationship between the programmes of these groups and those falling under the National Strategy.
- 4) These institutions' overall assessment of the strength and weaknesses of the National Strategy and their recommended changes.

Finally, the study focused on the role of parastatals and provincial SMME desks in the government's National Strategy.

9.4.1 Objectives

The main objective of the first phase was to evaluate the impact of the South Africa's National Strategy for the development and promotion of the small business sector. Main focus areas can be summarized as follows:

- Analysis of the institutional framework created within the government's National Strategy spearheaded by the Department of Trade and Industry.
- Analysis of the effectiveness of the National Strategy by interviewing both financial and non-financial and the recipients of those services i.e. SMMEs.
- Analysis of other government departments which are not affiliated to the institutional framework of the National Strategy and other business organizations who have their own development initiatives.

- A primary investigation of some parastatal organizations and some provincial SMME desks.

Against this background, the objectives of this study are twofold: the provision of a more comprehensive understanding of the structure of the National Strategy's framework and the challenges at stake if any in order to highlight them; and an explanation of its impact on small business thus far.

In detail the study will attempt to:

Revisit the rationale of the SMME policies

While there is a general consensus on the importance of the SMMEs in South Africa, their economic rationale to date has not been well argued nor rigorously investigated. In particular, there is a lack of clarity on how the SMME sector fit within the industrial policy framework with regard to the objectives of government (RSA, 1995:10).

Propose some goals for the policy

According to Rogerson (1997) optimizing the SMMEs' contribution to employment and economic development could be translated into the following broad objectives:

- Raising the rate of formation of new SMMEs with growth potential since these SMMEs will contribute to investment, employment and income generation.
- Encouraging new SMMEs arising from previously disadvantaged background, since these start-ups can contribute to redistribution of economic ownership and income, as well as a more participatory economy.

- Increasing the rate of graduation of micro-enterprises into the SME categories, since only then the legacy of apartheid will be overcome.
- Raising performance of existing SMMEs with a view to increasing both their competitiveness and their ability to fulfil a role in society.
- Decreasing the undesirable mortality rate of SMMEs that could be viable undertakings.

Main areas of intervention required

Achieving these broad objectives typically requires policies, which focus on:

- Increasing the supply of the entrepreneurial talent and opening opportunities.
- Providing support to existing SMMEs – micro-enterprises in particular – at no higher than its social opportunity costs.
- Providing incentives for formalization of enterprises, including cultural bridging.
- Assisting SMMEs (where necessary) to use the resources as efficiently as possible.

Within the context of the overall macro-economic performance, the ideal policy package for SMME support in South Africa should allow this sector to maximise its contribution to the economy's overall performance in terms of growth, employment and income distribution (RSA, 1995). This is likely to involve making more resources available to the sector as well as raising the efficiency with which it uses the resources already available.

Evaluation of policies to date

With policy initiatives already under way, the study aims to disentangle the reasons for SMME sector growth (low or high), and why it has or has not made a more significant contribution to employment and overall economic growth in South Africa. By doing so, the study aims to assist the government's National Strategy framework in reconsidering its policy as an integral part of its industrial development strategies.

9.4.2 Population and sample

For conceptualization purposes all South African organizations (both public and private) that have programmes for the development of the SMME sector should be regarded as part of the population to be surveyed. For convenience purposes, though, it was decided that it would be too costly, time-consuming and impractically possible to conduct interviews with all organizations having programmes for SMME development (ranging from public, private, NGOs, parastatals, donors etc) and it was subsequently decided to interview the following:

9.4.2.1 Center for Small Business Promotion

In conjunction with the White Paper on National Strategy for the development and promotion of small business in South Africa (Government Gazette, Vol. 357, No. 16317: Notice No. 213 of 1995) and the director of the CSBP directorate in Pretoria the evaluations were conducted.

Principal areas of evaluation were:

- Analysis of Mission and Objective of the Center for Small Business Promotion.
- Analysis of the Structure and Activities of the CSBP.

- Performance activities.

9.4.2.2 Ntsika

In conjunction with the White Paper on National Strategy for the development and promotion of small business in South Africa and the Chief Executive and some staff members of Ntsika the evaluation was conducted. The evaluation focused on the following areas:

- Analysis of Ntsika's Mission and Objectives.
- Analysis of the Institutional Framework of Ntsika.
- Analysis of Ntsika's success in meeting its programme objectives.
- Analysis of Ntsika's Monitoring and Evaluation process.

9.4.2.3 Khula

In conjunction with the White Paper on National Strategy for the development and promotion of small business in South Africa and the Chief Executive and some staff members of Khula the evaluation was conducted. The evaluation focused on the following areas:

- Analysis of Khula's Missions and Objectives.
- Analysis of Khula's Programmes and their Performance.

9.4.2.4 Financial service providers

In each of the provinces targeted for the study three RFIs of Khula were interviewed. The evaluation focused on the following principal area:

- Size of loans (micro, small, medium).
- Assistance that borrowers received from these groups to develop business plans, identify market opportunities, and prepare loan applications.
- How borrowed funds were ultimately used.
- Level of communication with Khula.
- Level of interaction with Ntsika or non-financial service providers.
- Who funds the service provider.
- Whether or not Ntsika's service providers provide mentoring, monitoring and evaluation, or aftercare.

9.4.2.5 Non-financial service providers

In each of the provinces targeted for the study three of Ntsika's non-financial providers were interviewed. The evaluation focused on the following principal area:

- The level of coordination and communication with Ntsika.
- Linkages with other programmes, i.e. financial providers.
- Monitoring and evaluation of client.
- Distribution of assistance.
- Training conducted for the service provider management.

- Tracking results of assistance.
- Sectoral approach.

9.4.2.6 Small, medium and micro enterprises

In each of the provinces targeted for the study three Small medium and micro enterprises (SMMEs) were interviewed. The evaluation focused on the following principal area:

- Types of firms receiving assistance.
- Assistance they are receiving.
- Processes for obtaining assistance.
- Use of assistance.
- Impact the assistance has had on their business.
- Their additional needs.

9.4.2.7 Other institutions influencing small business development

In conducting the study the evaluation targeted the following:

- National African Federated Chamber of Commerce (NAFCOC) and South African Chamber of Business (SACOB) as these have closer interaction with small enterprises.
- Four provincial finance ministries, one in each of the targeted provinces were interviewed. These ministries co-ordinate the implementation of their provincial financial strategy (refer to appendix five).

- Four ministries of provincial developments, one in each province, were targeted. Public Works departments as coordinators and the implementers of provincial and local infrastructure were targeted (refer to appendix six).

9.4.2.8 Parastatal organizations

In conducting the study more than fifty percent of the parastatal institutions were interviewed. The study focused on how these institutions have participated in the government's National Strategy and how their involvement can be intensified in future.

9.4.2.9 Provincial SMME desks

In each of the four provinces where the study was conducted the provincial SMM desks were interviewed.

The respondents in the first phase of the sample were deemed to be adequate to serve as the population for this study. The respondents would be representative of senior decision making individuals of top management of the organizations. It was assumed that these individuals would be a genuine representation of the population and that their opinions, views and practices would be a fair reflection of their opinions.

9.4.3 Information required

The evaluation endeavoured to capture the opinions and perceptions of the respondents on the importance of the government's National Strategy's objectives, the importance of leveraging different marketing communication variables of the National Strategy and the importance of its current level of specific developmental and promotional initiatives.

9.4.4 Sampling

The exploratory nature of this study and the decision to conduct a census in the entire population led to the assumption that extensive statistical analysis would not be possible. The use of a convenience census survey can be perceived as a severe limitation because of the ostensible lack of reliability.

Those people who were interviewed would be regarded as a sample as referred to in the discussion on the formulation of research hypotheses and propositions.

The evaluation of the institutions created under the institutional framework of the government's National Strategy entailed interviewing the entire population as they are only three institutions (i.e. Centre for Small Business Promotion, Ntsika and Khula).

Evaluation of the effectiveness of the government's National Strategy entailed interviewing three of Ntsika's non-financial service providers, three of Khula's financial service providers and three financial service recipients and three non-financial recipients in each of the targeted provinces i.e. Gauteng, Limpopo, North West and Mpumalanga.

The evaluation of governments department not incorporated in the institutional framework of the National Strategy entailed interviewing of the provincial economic department and provincial Public Works department in the targeted provinces i.e. Gauteng, Limpopo, North West and Mpumalanga. Evaluation of those business organizations outside government but having their own SMME development initiatives entailed interviews with the National African Federated Chamber of Commerce and South African Chamber of Business only.

The evaluation with the parastatals entailed interviewing the eight parastatal organizations as shown in appendix seven i.e. South African Bureau of Standards, Land Bank, Development Bank of Southern Africa, Transnet, Telkom, Eskom, Sasol and Iscor. Evaluation with regard to the provincial

SMME desks was only done with the four provincial SMME desks in the four provinces the study targeted.

9.5 Research methodology of the second phase of the study

Phase two of the study did an evaluation in the small black economic empowerment mining companies through a structured questionnaire. The structured questionnaire was formulated to evaluate issues which laid the foundations of testing the following hypotheses:

- Small black economic empowerment mine owners know of some programmes including the government's National Strategy for the development and promotion of Small Business.
- Small black economic empowerment mine owners know how the government's National Strategy go about its business, how to get access to it and they have had contact with the institutions formulated within its framework.
- Small black economic empowerment mine owners have been very satisfied with the way the government has implemented the National Strategy.
- The National Strategy has created opportunities for the small mining sector which in turn has minimized their weaknesses and barriers for growth in the mining sector for small black economic empowerment miners.
- The small black economic empowerment miners have had formal business training and do not require formal training in most business disciplines.
- The small black economic empowerment miners think the government has succeeded in provision of necessary support for their business.

- Most small miners opened their businesses after 1994 and there has not been any significant growth in their businesses with regard to the number of employees and their annual turnover.

9.5.1 Objectives

The main objectives of the second phase was to evaluate the impact the government's South Africa's National Strategy for the development and promotion of the small business sector has had so far on small-scale mining companies. The findings of the second phase were intended to assess the hypotheses of the second phase and compare the findings of phase one as to whether similarities exist.

9.5.2 Population and sample

For conceptualization purposes all small black economic empowerment companies should be regarded as part of the population to be surveyed (forty-four in number). For convenience purposes though, it was decided that it would be too costly, time-consuming and impractical to conduct interviews with all small miners as per the database provided by the Department of Minerals and Energy, as a result, interviewing all small-scale miners as per DME's database would virtually be very impractical.

It was subsequently decided to interview 22 scale-miners only as choosing them mainly depended on their availability and the willingness to participate in the study.

9.5.3 Information required

The information required is best illustrated in the seven propositions of the second phase and can be summarized as follows:

- Whether the small black economic company owners know of any programs including the government's National Strategy for the development and promotion of Small Business.
- Whether the small black economic empowerment mining owners know how the government's National Strategy go about its business, how it can be accessed and whether they have had any contact with the institutions created under the National Strategy.
- Whether small black economic mine owners have been very satisfied with the way the government has implemented the National Strategy.
- Whether the National Strategy has created opportunities for the small black miners which in turn have minimized their weaknesses and barriers for growth, thereby enhancing their strengths.
- Whether the small black mine owners have had any formal business training and if they also require any formal training with regard to their businesses.
- Whether the small black miners think the government has succeeded in the provision of necessary support for their businesses.
- Whether there has been any significant growth to their businesses since they started to operate as a result of the government's National Strategy's support initiatives.

9.6 Conclusion

In this chapter the research methodology was discussed, where the scope of the study was emphasized.

In the following chapter the research results will be discussed and qualitatively analyzed.

CHAPTER 10

RESEARCH RESULTS AND ANALYSIS

10.1 Introduction

In the previous chapter the research methodology was outlined and discussed. Particular emphasis was placed on outlining how the responses from the two phases of the study were analyzed to test the government's National Strategy's contribution to creating an enabling environment for the SMME sector.

In this chapter results and analyses of the two phases of the study will be outlined.

10.2 Research framework.

The literature review in this study led to the propositions as discussed in chapter eight. In this chapter the findings of the study i.e. the contents of responses of respondents in both phases of the study will be analyzed to determine as to whether the government's National Strategy for the development and promotion of the small business sector has or has not created an enabling environment for that sector in this country.

10.3 Research findings of the first phase of the study

10.3.1 Centre for Small Business Promotion

10.3.1.1 Analysis of mission and objectives of the CSBP

The government's National Strategy envisioned an integrated national approach to stimulate the development of the small business sector. Although composed of many different stakeholders with distinct objectives and work

agendas, the DTI, through its designated Centre for Small Business Promotion, was to take responsibility for the stewardship of the National Strategy.

The White Paper noted that the Chief Director for Small Business was, *“to be responsible for all matters related to the government’s support for small, medium, micro and emergent enterprises”*. In addition, the White Paper noted, *“cooperation between different government departments in matters relating to small business support will be monitored by the DTI”*. The White Paper continued that the *“DTI will maintain strict control over organizations receiving or channeling public sector funds for small business support”*.

The stated goals of the CSBP were two-fold; first to create an enabling environment for the growth and expansion of SMMEs and second, to develop and support institutions involved in delivering support services to SMMEs, including provincial and local authorities. As a result of these goals, the Centre has adapted three overriding operational objectives for itself:

To champion the SMME sector in South African economic development, by:

- Improving policy and legislation.
- Supporting institutions involved in SMME development.
- Lobbying for small business interests.
- Influencing public and private institutions to become involved with SMMEs.
- Creating awareness of SMME issues.

To implement critical programmes, including:

- Improving access to services.
- Undertaking needs assessment for developing sectoral strategies.
- Improving legislation affecting SMMEs.

To monitor and evaluate progress and problems, including:

- Informing decision makers of outcomes and results.
- Measuring impacts of the government's National Strategy on the target population.
- Identifying gaps and areas not adequately served.
- Establishing priorities.
- Measuring achievements against established benchmarks.
- Implementing budgetary planning and control systems.

Despite the breadth of these responsibilities, the CSBP has been granted a small staff and rely heavily on close cooperation with various groups. The intention was to avoid bureaucratization of the small business programmes by keeping most of the government functions in semi-autonomous organizations specialized in service delivery and keeping government departments out of direct involvement with SMMEs. The Centre's role was to be that of a central policy developer, coordinator, and evaluator but not a direct provider of services.

The resulting structure and activity was to lead to a chain of command beginning with the CSBP working directly with implementing (wholesale) agencies, such as Khula and Ntsika that would in turn provide services to delivery agencies such as NGOs, banks and private groups, who as “service retailers” would have direct interface with the end users, the SMMEs themselves.

10.3.1.2 Analysis of the structure and activities of the CSBP

With its lean staff, the CSBP is organized into three functions: policy research and legislation, programme management and administration, and finance and administration. This structure was established as a means to reach the objectives noted above. Since then, CSBP’s functions have been consolidated under two directors, one overseeing programme management and administration and the second dealing with policy regulatory review.

Programme management and administration division

The programme and administration division has divided its activities into the following three categories:

- **Market access and linkages**

Market access and linkages has four sub-components, two of a policy and coordination nature, and two of nonfunctional service character. The policy and coordinating projects deal with investigating franchising regulations to be proposed, as well as with institutional governance of Ntsika. On the other side of the service delivery, the division has been heavily involved in developing the Business Referral and Information Network (BRAIN) designed to deliver business information services more effectively.

- **Access to finance**

Access to finance involves three areas at various stages of development: firstly, institutional governance of Khula, secondly, efforts to work with Business Partners by selling off debentured properties and thirdly, policy work on micro finance.

- **Information and communications**

Information and communication is largely an internal support function for the CSBP.

Policy and Regulatory Review

Policy and regulatory review is the second directorate of the CSBP, focusing on two areas:

- Regulatory review of laws and regulations impacting on the SMME sector, also being coordinated with Ntsika's policy and research division.
- Development of a new monitoring and evaluation system designed to review the activities of both Ntsika and Khula.

10.3.1.3 Analysis of the performance of CSBP's activities

In view of the analysis, the mix of services (such as the BRAIN project and projects in government procurement) with policy coordination, and programme monitoring runs counter to the intended role assigned the CSBP in the government's National Strategy. In effect, it mirrors so much of the confusion and lack of definition that characterizes the activities of many of the organizations created under the National Strategy. There is little doubt that the CSBP is intended to be the policy and coordination centre for the National Strategy and remove itself from day-to-day service delivery.

To date, the Centre has been able to undertake only a few of its prescribed activities. As noted to the CSBP's operational objectives, there are a series of responsibilities which the Centre was intended to undertake. First, the CSBP was to play a role of "champion" of the SMME sector, but also by lobbying for small business interests, influencing public and private institutions to support the sector, and creating public awareness of SMME issues, namely a forceful communication strategy.

Communication strategy

This mandate clearly requires a pro-active communication strategy for the Centre to champion the SMME sector. However, to date this remains largely a dormant function. With the exception of speeches made by government leaders about the importance of the SMME sector, there is very little effort to advance the awareness of the public in general, and business groups in particular, of the opportunities of working with and promoting the SMME sector.

Throughout the study, it was noted that there is lack of awareness in the field of the government's National Strategy and the government's efforts to promote the SMME sector. Furthermore, the communications strategies of both Ntsika and Khula are aimed more towards the developed sectors of the economy (for example, their reliance on very professional, attractive English-language brochures) than for the less-developed sectors that are supposed to be targeted. Furthermore, the targets of the marketing programme are often unclear, as with Khula's poor efforts to market to the banking community.

Consistently, there has been confusion about the roles of government, Khula, and Ntsika, with the common perception that Khula and Ntsika were retailers of finance and services. Local bank branches themselves have little understanding of the services available to the small and medium-sized business community that would improve their ability to lend to small entrepreneurs.

It is clearly the responsibility of the CSBP to launch national communication initiatives in conjunction with these other institutions. To date, no coordinating committee has been established. A committee to formulate a communication strategy that is based on target audiences using the appropriate media needs to be formed to reach these groups.

The CBSP should be the nerve of this communication strategy, with Khula and Ntsika focusing on their specific markets. However these messages need to be coordinated by the CSBP to avoid confusion that currently exists.

Monitoring and Evaluation (M&E)

One of the overriding operational objectives of the CSBP is to monitor and evaluate progress and problems of the government's National Strategy. Several components were part of this objective, as noted, including measuring achievements against established benchmarks, identifying gaps in areas not adequately served, measuring impacts of the National Strategy on the target population, and budgetary planning and control systems. Of these various tasks envisioned for the M&E function, only the budgetary planning and control functions have actually been performed.

Until recently, the CSBP did not have a dedicated function to undertake this task. With its recent reorganization, the CSBP has just appointed a full-time position to oversee the monitoring and evaluation of results coming from Ntsika and Khula. This is meant to lead to a more complete capturing of data from these groups than has been done in the past. To date, the Centre has not fully performed this role, except on an ad hoc basis, or as part of the activity reports demanded before future budgetary requests are approved.

10.3.1.4 Related observations and findings

While the White Paper envisions that the CSBP should not be a large bureaucracy, the current level of the CSBP's resources and personnel are so

restricted that the Centre's mission can not be performed. The Centre has in effect been reduced to a budgetary watchdog for the organizations that depend on it. Outside political intervention has further eroded the role that the CSBP was intended to perform.

The CSBP was meant to be the policy centre of the entire National Strategy. It was meant to undertake the necessary policy analyses and coordinate all departments of government involved in the SMME sector. Currently, the Centre does not perform these missions effectively.

Rather than concentrating on its policy and coordination role, the Centre has become involved in services delivery projects, much as Khula and Ntsika do. For example, its current projects in business information and referral (BRAIN) and its project in government procurement belong in service delivery organizations, not in policy and coordination units.

10.3.1.5 The research proposition with regard to the CSBP

The research proposition with regard to the CSBP was formulated to test the responses given by the research subject in order to determine how effective the Centre is achieving its mandate with regard to the development and promotion of the small business sector as stipulated in the White Paper on National Strategy for the development and promotion of small businesses in South Africa.

The analysis and the related observation of the CSBP will be used to evaluate the following proposition:

Proposition One: The Centre for Small Business Promotion (CSBP) as a policy centre and custodian of the South African National Strategy for the development and promotion of the SMME sector has coordinated all institutions incorporated in the institutional framework of the National Strategy effectively.

10.3.1.6 Study findings with regard to the CSBP

The study has revealed that the CSBP's current level of resources and personnel are so restricted that the Centre's mission can not be performed effectively. The Centre has also in effect been reduced to a budgetary watchdog for the organizations that depend on it and political intervention has further eroded the role it was intended for.

The study also revealed that despite the CSBP being the centre of the entire National Strategy as it was meant to undertake the necessary policy analyses and coordinate all departments of government involved in the SMME sector it is currently not performing these missions effectively.

The study has further revealed that rather than the CSBP concentrating on its policy and coordination role, it has become involved in services delivery projects, much as Khula and Ntsika do, for example, its current projects in business information and referral (BRAIN) and its project in government procurement which is supposed to belong to service delivery organizations.

Proposition test

The proposition that the Centre for Small Business Promotion as a policy centre and custodian of the South African National Strategy for the development and promotion of the SMME sector has coordinated all institutions incorporated in the institutional framework of the National Strategy effectively (**Proposition One**), **is rejected** because the findings confirm that the CSBP as a policy centre and custodian for the National Strategy for the development and promotion of the small business sector has not managed to coordinate all departments of government involved in the SMME sector effectively.

10.3.2 Ntsika Enterprise Promotion Agency

10.3.2.1 Analysis of Ntsika's objectives and mission

The study determined the extent to which Ntsika has focused its programmes on meeting the objectives of the government's National Strategy.

The White Paper states that the government's National Strategy's objectives are:

- Creating an enabling environment for small enterprises.
- Facilitating greater equalization of income, wealth and earnings opportunities.
- Addressing the legacy of apartheid-based disempowerment of black businesses.
- Supporting the advancement of women in all business sectors.
- Creating long-term jobs.
- Stimulating sector-focused economic growth.
- Strengthening cohesion between small enterprises.
- Leveling the playing fields between bigger and small businesses as well as between rural and urban businesses.
- Preparing small businesses to comply with the changing of an internationally competitive economy.

Interpreting the government's National Strategy's requirements, Ntsika's charter directed it into the following programmatic activities:

- Creating an enabling legal framework.
- Streamlining regulatory conditions.
- Providing access to information and advice.
- Providing access to marketing and procurement.
- Training in entrepreneurship, skills and management.
- Providing access to appropriate technology.
- Encouraging joint ventures.
- Capacity-building and institutional strengthening.

In its extensive interviewing with Ntsika, the study confirmed that Ntsika has emphasized, and worked diligently, to address virtually all of these objectives. Indeed, it is also a concern that meeting all these objectives has led to a plethora of activities that have been difficult to integrate and coordinate.

In pursuit of these objectives, Ntsika's programming has become oriented largely towards the micro/survivalist sector. In its effort to promote empowerment of the previously disadvantaged, enhance the equalization of income, promote women in all business sectors, and work with rural businesses has produced a clear bias toward the smallest component of the SMME sector. The largest portion of Ntsika's budgetary allocation is directed towards these groups.

Nsika has also addressed the issue of job creation through its programmes offering tender advice and technological counseling. These activities have been oriented more toward the small and medium sector where job creation potential appears greatest. Notably absent among the objectives, however, has been a strong focus and strengthening of the cohesion among small businesses.

10.3.2.2 Analysis of the structure of Ntsika

Ntsika has been organized into divisions that focus on the different elements outlined in the government's National Strategy. The functional divisions that work on SMME development are:

Market access and business linkage division

This division runs the Tender Advice Centres (TACs), the Business Opportunities National Initiatives (BONIs) and the international competitive programme for SMMEs. The Tender Advice Centres have constituted the most promising element of this programme in view of the government's overall commitments to using public procurement to assist small businesses enter new markets. It is through the procurement system that Ntsika can link its activities with the many government departments able to offer market opportunities to small businesses and ultimately create new jobs. It is also one of the areas where Ntsika can begin to measure progress by tracking the success rate of companies that receive government tenders.

Targeted assistance division

This division is responsible for working with previously disadvantaged sectors, primarily women, youth, disabled people and the rural population.

Targeted assistance has a clear social and development focus by working with those elements of the population who are least easily served. The division is clearly focused on the objectives of assisting the Previously

Disadvantaged Individuals (PDIs) category, particularly rural women, and addressing the issue of disempowerment of these groups. The programme is also one that reaches deeper into rural areas than other Ntsika-sponsored initiatives. Its objectives are clearly social and developmental, with limited impact on larger scale job creation. As a result, it is particularly difficult to measure progress in this sector beyond calculating the number of individuals assisted.

Management and entrepreneur development division

The division runs the following programmes: Training and organizational capacity building, SMME contracted training programme, and Development/Sourcing of training materials. Entrepreneurial training constitutes an important, but also one of the most controversial of Ntsika's programmes. Its broad, largely unfocused, scope can lead to criticisms that it is a "one-shot" programme with little follow-up or repeat training available to trainees. The fact that it is only rarely focused on a specific market opportunity makes it unclear what its impact has been.

Finally its only real measurement of success is the number of people trained. Pressure on the division to show results lead to emphasis on these quantitative measures. In the field, the pressure on funded training groups to reach high qualitative targets is roundly criticized as short sighted, emphasizing numbers at the expense of quality. This also discourages repeat or more diversified, in-depth training of potentially promising entrepreneurs.

Technology division

This division runs the Technopreneur and Manufacturing Advisory Centres (TMAC). The Technopreneur programme has the most clearly integrated operation with complementary programmes and institutions outside Ntsika and provides the greatest amount of follow-through with individual companies through the incubator and cocoon programmes. The existing Manufacturing

Advisory Centres similarly focus on a more integrated assistance to companies than is typical in other Ntsika's operations.

The focus of the division tends to be on small to medium size firms where job creation potential is greater. The work of this division lends itself to more effective monitoring insofar as the numbers of participants are fewer.

Business development services division

This division manages the Service Provider Development programme, Service Provider Network Development programme, Empretec programme and the Local Business Services Centre (LBSC) programme. Operations of this division are among the most controversial in that the division makes costly decisions in its selection and institution building of Local Business Services Centres. The choice and location of these groups is frequently debated when the division rejects candidates that seek LBSC status and therefore Ntsika funding.

Policy, research and information division

This division runs the National small business data programme, Programme development and implementation support, National small business research programme and the National small business regulatory review. It is intended to be the policy arm of Ntsika. It is an open question, however, whether this activity should be in Ntsika, which is a provider of services, or in the CSBP, which was conceived as the policy centre of the government's National Strategy.

10.3.2.3 Ntsika's success in meeting its programme objectives

Ntsika's programs had very mixed results because of the skewed focus of most of its programmes. Without focus, it is difficult to measure results that are relevant to the objectives of the National Strategy. The organization has achieved some general success in improving "access" to services by type of

activity, but Ntsika has also not succeeded at many levels due to a variety of circumstances, for example, poor communication (both internal and external), difficult and poorly defined tasks, and definition of success.

One of Ntsika's problems, the study noted, has been the problem associated with assessing the successes and failures of non-financial assistance. While Khula has also had a difficult job in providing financial assistance to the SMME sector, quantifying the results of its work is more straightforward. Ntsika seems to provide quantitative information on how many people they and their retail institutions have trained, counseled, mentored, etc., but it is difficult to translate this information into meaningful results, like jobs created. The study also found out that non-financial assistance works much more slowly than financial assistance, and that the benefits are less tangible and harder to translate into actual impacts. Although Ntsika is often criticized in the field, it became clear during the study that the organization has done variable work in several areas, most notably tender advice, technology assistance, and several targeted assistance areas. It has not, however, done a good job in marketing itself and letting other organizations know about the successes it has had.

Ntsika is also starting to realize the importance of Ntsika's service providers working more closely with Khula's Retail Financial Intermediaries (RFIs). Local service providers understand that in order for both financial and non-financial service providers to be successful they need to work together. Financial and non-financial services need to be more linked to make certain that entrepreneurs can make a success of their new ventures.

Both Ntsika and Khula still struggle and suffer over the concept of wholesaling. During the study almost everyone interviewed expressed concerns about what exactly wholesaling is and how the SMME sector understands it. Many of Ntsika's programmes incorporate some retailing activities, as well as its mandated wholesaling activities. It seems that many of these retail activities were simply undertaken initially because there was no

viable retail alternative. However, increasingly, it appears that Ntsika (and even Khula) sees itself as retailing services directly to SMMEs.

Creating an enabling legal framework

Ntsika's Policy and Information division is the only division involved with the legal framework for SMMEs. The Policy, Research and Information (PRI) has been the major contributor to the small business regulatory review of the SMME environment being directed by the CSBP. The study investigated the following areas of regulatory reform:

- Finance – regulatory environment.
- Taxation – tax laws, VAT, customs.
- Labour – legislation on firing, etc.
- Business trade – commercial law and practices.
- Property and land ownership – land laws for small farmers.
- By-laws and regulations – provincial and local laws which prevent much activity.
- Procurement – tender legislation to simplify very complicated procedures.
- Women in rural development.

Access to information and advice

Access to information and advice has been universally acknowledged as vital to the development of the SMME sector and, as such, is one of Ntsika's main responsibilities. This element is probably the one Ntsika has focused on most

heavily. A number of Ntsika's programmes deliver services in these areas, including Market Access & Business Linkages, Targeted Assistance, Management and Entrepreneur Development, Technology and Business Development Services and Policy, Research and Information.

- **Market Access & Business Linkage**

This programme has substantially increased its service, particularly by expanding the number of Tender Advice Centres (TACs). The goal of the Tender Advice Centres is to capacitate SMME service providers to provide tender support to the local SMME sector. The TACs assist in the training of SMMEs tendering procedures and in completion of tender documents.

SMME access to markets is a key for the sector. During the study, complaints were raised about access to both government and private sector tendering by the SMME sector. There seems to be a need for a large number of tender advice centres to make an impact on SMME development and job creation. Ntsika seems to still be undecided as to whether the TACs should give tendering advice to large numbers of SMMEs or to work much more intensively on one-to-one with a smaller number of SMMEs to ensure their success.

The study found out that the TAC programme does not utilize enough existing service providers who are active in the area of government and private tendering. There are several non-Ntsika affiliated organizations that are successfully providing tender advice, which could reasonably be integrated into the TAC network.

In principal, it is easier to monitor results of the TACs than the results of other Ntsika activities. However, the study noted that Ntsika does not currently monitor its success rate, claiming that it is costly to track so many groups that have expressed interest in responding to tenders.

The TAC programme has the potential to improve access to information and advice. The program is well conceived, but the TAC strategy needs to be thought through more carefully (for example, large number of SMMEs with less in-depth advice versus smaller number of SMMEs with more direct counseling).

- **Targeted assistance**

Ntsika's targeted assistance works to provide support particularly for women, youth, the disabled and the rural population. This division has a traditional focus on the survivalist and micro sector, although it has recently made some inroads to the small/medium sector. The division gives support to LBSCs and other providers to offer targeted assistance to the abovementioned groups. It has been reasonably successful in choosing quality service providers with which to work because, for the most part, it chooses established and experienced providers. Since these groups are targeted and sector-specific, it automatically narrows down the number of service providers already working in this sector.

- **Management and entrepreneur development**

This programme is involved in the information and advice component of Ntsika's charter, along with the LBSCs and the TACs. The division runs Ntsika's mentoring programme. Ntsika is working with some provincial SMME desk officers to train them in the selection of mentors, such as retired executives, to provide mentoring assistance. These mentors are expected to fill a void by providing the in-depth information and advice to SMMEs.

- **Technology**

While the Technology division of Ntsika is involved in other elements of the National Strategy, both the Technopreneur and Manufacturing Advisory Centre (MAC) programme provide information and advice to the SMME

sector. The MAC seems to be struggling to find its niche, in particular defining its target group and how it wants to provide assistance, but its mandate is clearly to provide advice to small and medium manufacturing firms.

- **Business development services**

Ntsika's Business development services division runs the LBSC accreditation and development programme. The key element of the LBSC program is disseminating information and advice to the SMME sector.

Most LBSCs provide advice, especially counseling and after-care services to the SMME sector. These services vary from providing information to retrenched workers on how to open their own businesses to trying to foster some SMME-big business linkages. During the study it was found out that one of the most crucial and often overlooked services to SMMEs is aftercare.

- **Policy, research and information**

The Policy, research and information division is intended to run the National small business data programmes, the Programme development and implementation support, the National small business research programme, and the National business regulatory review.

PRI has been the major contributor to the small business regulatory review, identifying regulatory impediments and legislative constraints to SMME development. PRI claims it is working with the provincial SMME desk officers, but during the course of the study some provincial desk officers, denied being consulted.

The division investigates issues such as finance, taxation, and procurement. The results of this work are intended to be coordinated by the CSBP, which has the lead responsibility for reviewing the regulatory environment for SMMEs.

Access to marketing and procurement

The study found out that access to markets and assistance in tendering and procurement are some of the most critical areas in SMME development. Ntsika departments deal with marketing and procurement in different ways.

- **Market access and business linkages**

The Market Access and Business Linkage division is responsible for the Tender Advice Centre, which are working to provide SMMEs easier access to procurement contracts. The Tender Advice Centres work closely with SMMEs to counsel them on tendering and help them complete tender documents. Some TACs also provide marketing assistance to help them determine where best to sell their products.

- **Targeted assistance**

The Targeted Assistance division's service providers provide some marketing advice to SMMEs associated with women, rural, youth and disabled. The service providers, many of which are LBSCs, conduct market research for the SMMEs in order to provide them with information on the best ways and locations to sell their goods, and even which goods are more likely to sell than others. The division has been very active with this programme in the youth sector.

- **Management and entrepreneur development**

Much of the Management and Entrepreneur Development division's work focuses on training, which indirectly incorporates marketing and procurement, although so far most of the training that has occurred for entrepreneurs is still generic.

- **Technology**

The Technology division is responsible for the Manufacturing Advisory Centers, which incorporate marketing and procurement into the overall services that it offers. Both marketing and procurement are critical to the success of small/medium manufacturing firms, and the MACs try to provide this support.

- **Business development services**

The business development services of Ntsika provide marketing support through its LBSC program. Many LBSCs noted that the marketing services they provide to the SMMEs constitute their most valuable interventions. LBSC managers said that many of the SMMEs with whom they work produce quality goods or services, but do not know how or where to sell them, and have neither time nor resources to conduct market research because of the daily pressures of managing their small businesses.

Training in technical, management and financial skills

Ntsika is tasked with improving skills of SMME managers with regard to technical, management and financial skills. This is a large task that several of Ntsika's divisions are responsible for.

- **Targeted assistance**

The Targeted Assistance division works with service providers who provide access to technical, management and financial skills to the targeted groups: women, youth, rural, and disabled. Each of these skills is different, depending on the targeted groups, and the division works closely with service providers that offer these services.

- **Management and entrepreneur development**

The Management and Entrepreneur Development division, along with Business Development Services division, is primarily responsible for developing technical, management and financial skills. The MED division provides capacity building and training of trainers to service providers who then pass these skills along to SMMEs. The division has also worked with universities but has encountered problems in making a success of this collaboration. MED started out with generic training courses, but has increasingly diversified the level and specific nature of the training.

The MED division is working now to create partnership with other organizations to provide more capacity building to existing service providers, and to tackle the problem of what to do when there are no service providers in the area that expresses a need.

- **Technology**

The Technology division is responsible for the LBSC programme, which provides a wide variety of training and other services to SMMEs. LBSCs provide training, counseling, mentoring and other services to SMMEs in the areas of technical, management and financial skills.

- **Business to appropriate technology**

The BDS division is responsible for the LBSC programme, which provides a wide variety of training and other services to SMMEs. LBSCs provide training, counseling, mentoring and other services to SMMEs in the areas of technical, management and financial skills.

Access to appropriate technology

The *Technology* division is most responsible for improving access to appropriate technology in the SMME sector. In cooperation with Technikons, the Technoprenuer program provides access and training on appropriate technology to SMMEs. The MAC program also works to provide information, access and education to technology for SMMEs involved in the manufacturing sector.

- **Targeted assistance**

The division provides some technology improvement and information in some of its programs, especially its product improvement projects and its small-scale food processing projects.

Encouraging joint ventures

The only activity that Nsika has that encourages international activity is through the Market Access & Business Linkage division. This division has a project with the European Union providing international exposure to SMMEs that are involved in exporting, or who are poised to export.

Capacity-building and institutional strengthening

Ntsika is responsible for building capacity and strengthening non-financial service providers. Almost all of Ntsika's divisions are involved in this to some degree.

- **Market access and business linkages**

The Marketing Access & Business Linkage division is responsible for the Tender Advice Program. This division provides support to service providers who are involved in the procurement process. The division provides capacity

building and institutional strengthening to ensure that quality services are delivered to SMMEs who seek advice relating to procurement and tendering.

- **Targeted assistance**

The targeted Assistance division provides capacity-building and institutional strengthening to the Manufacturing Advisory Centers. This assistance will increase as the number of MACs increase.

- **Management and entrepreneur development**

The MED division provides capacity building in the form of training of trainers and training for counselors.

- **Technology**

The Technology division provides the capacity building and institutional strengthening to the manufacturing Advisory Centres. The assistance will increase as the number of MAC's increase.

- **Business development services**

The BDS division provides capacity-building and institutional strengthening to all LBSCs. The division supports training of trainers and counselors.

10.3.2.4 Ntsika's monitoring and evaluation

As noted by the study, monitoring of actual impacts of non-financial services is exceedingly difficult for Ntsika. It has developed indicators as to the number of jobs that have likely been created and businesses established as a result of the number of individuals trained and/or assisted in its programmes. For example, during the 2002/2003 budget year, Ntsika claims that 37,630 individuals were assisted. From this number, Ntsika estimates that 3,640 jobs

were created as a direct result of Ntsika activities, while over 67,000 were created indirectly as a result of Ntsika's activities. It also claims that upwards to 900 new businesses were established as a result of their interventions.

Ntsika's numbers are difficult to verify since they rely on reporting from the service organizations that are under pressure to show Ntsika that they are achieving the desired results. There is a constant debate whether these are new jobs created as such, or rather livelihoods sustained at the survivalist level. In view of the fact that 70% of Ntsika's assistance is directed towards the micro/survivalist sector, there is strong reason to believe that most assistance has the impact of providing sustenance to the poorest elements of the population.

Ntsika tries to monitor its impacts through its network of assisted groups using several quantitative indicators, according to the reporting entity:

- By service provider:
 - Number of people trained.
 - Number of people "generally assisted".
 - Number of organizations supported.
 - Number of organizations "generally assisted".

- By SMMEs themselves:
 - Number of businesses established.
 - Number of businesses counseled.
 - Number of businesses "generally" assisted.

- Number of people trained.
- Number of people “generally” assisted.

10.3.2.5 Related observations and findings

Under the National strategy for SMME development and promotion, Ntsika Enterprise Promotion Agency was given the mandate to provide a wide range of non-financial services to local service delivery groups on a “wholesale” basis, meaning delivery of resources to local providers that work directly with SMMEs. These services include institution building of these organizations, training programmes for entrepreneurs, mentoring of individual firms, marketing and procurement advice, technology assistance, among others. Given the sheer range of these activities, it is clear that Ntsika’s mandate is critical to the success of the government’s National Strategy.

Ntsika’s task has been a daunting one, one conducted without the benefit of a clear focus or prioritization from the National Strategy or from other government bodies. It was established as a quasi-independent organization under the terms of the National Small Business Act of 1996, outside of normal government bureaucracies, so as to be able to focus exclusively on the delivery of services. It has struggled to succeed at the tasks laid out for it, but has had mixed results.

The mixed record is due to several factors. First, it is an institution operating without the benefit of clear working precedents; therefore it had to develop its own internal procedures from the beginning. Second, there has been little consensus within the organization itself on its priorities and also very little assistance from the designated policy group within the DTI, the Centre for Small Business Promotion. Third, there are serious internal contradictions within the National Strategy itself, which have limited Ntsika’s potential.

In short, Ntsika has tried to be all things to all people, launching a flurry of programmes with little connection among them, weak follow-through, little leveraging of existing public and private initiatives, little coordination with provincial authorities, and virtually no coordination with its sister institution, Khula.

During the study, it was noted that there is a general view in the provinces that Ntsika has become wasteful bureaucracy in its own right, and in many areas out of touch with the SMME community.

Despite several successful programmes, Ntsika is generally perceived in the field to be a scattered, unfocussed, and inefficiently managed institution. The study leads to concur with this perception, even accepting that Ntsika's mandate is probably too ambitious and not clearly focused.

The study noted that many of the difficulties in Ntsika's performance relate to the breadth of its mandate, which charges it with undertaking distinctly difficult tasks as the following issues indicate:

- Ntsika's mandate requires the organization to be responsible for the entire gamut of non-financial services, but does not prioritize these according to sector or type of enterprise. Therefore, Ntsika is condemned to manage a very scattered portfolio of projects. Under the best of circumstances, therefore, Ntsika is criticized for not providing enough or of the right quality.
- Ntsika was founded as a "wholesale" institution intended to provide resources to local "retail" service providers. However, several of Ntsika's divisions are involved with retail services because of internal confusion over the organization's role as well as outside pressures from the government and SMMEs to make services available quickly. This has often forced Ntsika to play a role which it was not intended to undertake, namely, dealing directly with the SMME community. Its communications

policy has intensified this confusion by giving the SMME community the impression that Ntsika is a retail service delivery body.

- Ntsika was founded as an organization to support services providers in their effort to assist local SMMEs. These retail service providers are supposed to be self sustaining, even though they are delivering services to the poorest groups of the economy who, by and large, cannot pay for the full cost of the services they receive. This sets up the local service providers for failure unless they have other sources of revenue to cross-subsidize these services.

The study also noted the following as Ntsika's performance short falls:

- **Measuring results**

Part of Ntsika's mission is to track the results of its programmes. However, measuring the quality of its results in the SMME sector is inherently difficult. Trying to measure job creation, for example, from training and mentoring services is an exceedingly difficult task. The organization has not been given sufficient funds to do so, and even with these resources, methodologies are controversial and expensive to implement. Ntsika's current system principally tracks quantitative results, namely, how many people have been trained, as opposed to a combination of quantity and quality that would indicate how people benefited from Ntsika-funded services they received.

- **Sector focus and orientation**

Most of Ntsika's activities concentrate on the micro and survivalist sectors, not on the small and medium sectors. Assistance to the micro-survivalist is, by its very nature, developmental and social in orientation, a sector where the job creation potential, in terms of expanding the firms' workforce, is more limited than small and medium size firms. As such, Ntsika is evolved into playing more of a developmental role, requiring subsidization of its target population,

than a business development role, in which service providers are capable of becoming financially self-sustaining.

- **Information dissemination/communication strategies**

Much of Ntsika's information and marketing is inappropriate and ineffective for the population it is serving, i.e., the micro/survivalist sector. Significant funds are spent on sophisticated English-language brochures and presentation, ill-adapted for Ntsika's target population. Very little research has been undertaken on how to reach these populations most effectively. For example, the medium of radio, especially effective with the rural population, has been underutilized, and use of established local groups for dissemination information has rarely been explored. Ntsika's approach is also misleading, leaving the impression that it is a retail provider.

- **Working with existing service providers**

Many high-quality non-financial service providers have been ignored by Ntsika. Some of them do not want to be affiliated because of what they claim are Ntsika's centralized, prescriptive processes. Others, however, provide high-quality services and have long-standing relationships with local population, making them ideal delivery agents. In many cases, Ntsika chooses not to use such groups, creating instead new, or using inexperienced NGOs at substantially higher cost than working with existing organizations.

- **Cooperation with Khula in the field**

Most of Ntsika's managers admit that they do not have contact with Khula. This lack of interaction starts at the very top and continues down the management chain. In the field, there is rarely cooperation between Khula's RFIs and Ntsika's LBSCs, even when operating in the same geographical area with the same category of SMMEs

- **Cooperation with provincial SMME desks**

Ntsika seldom works closely with provincial authorities. This lack of cooperation has led closely to serious alienation between the provinces and Ntsika, leading to wasteful duplication and lack of constructive feedback from provinces.

10.3.2.6 Research proposition with regard to Ntsika

The research proposition with regard to the Ntsika was formulated to test the responses given by the research subject in order to determine how effective Ntsika is achieving its mandate with regard to the development and promotion of the Small Business sector as stipulated in the White Paper on National Strategy for the development and promotion of small business in South Africa.

The analysis and the related observation of Ntsika will be used to evaluate the following proposition:

Proposition Two: Ntsika Enterprise Promotion Agency has provided its wide range of non-financial services to local service delivery groups successfully thereby meeting the objectives of the government's National Strategy.

10.3.2.7 Study findings with regard to Ntsika

The study found out that, Ntsika has tried to be all things to all people, launching a flurry of programmes with little connection among them, weak follow-through, little leveraging of existing public and private initiatives, little coordination with provincial authorities, and virtually no coordination with its sister institution, Khula.

The study also noted that there is a general view in the provinces that Ntsika has become wasteful bureaucracy in its own right, and in many areas out of

touch with the SMME community. It is also generally perceived in the field to be a scattered, unfocussed, and inefficiently managed institution. The study leads to concur with this perception, that Ntsika's mandate is probably too ambitious and not clearly focused.

The study further noted the following difficulties in Ntsika's performance with regard to its breadth of its mandate:

Whereas Ntsika's mandate requires the organization to be responsible for the entire gamut of non-financial services, less is done to prioritize these according to sector or type of enterprise as a result of this Ntsika is not providing enough or of the right quality.

Whereas Ntsika was founded as a "wholesale" institution intended to provide resources to local "retail" service providers, several of Ntsika's divisions are involved with retail services because of internal confusion over the organization's role as well as outside pressures from the government and SMMEs to make services available quickly. This has often forced Ntsika to play a role which it was not intended to undertake, namely, dealing directly with the SMME community and its communications policy has intensified this confusion by giving the SMME community the impression that Ntsika is a retail service delivery body.

The study had also noted the following issues which Ntsika has fallen short of:

Measuring results.

Ntsika's current measuring of results system principally tracks quantitative results, as opposed to a combination of quantity and quality that would indicate how people benefited from Ntsika-funded services they receive.

Sector focus and orientation

Most of Ntsika's activities concentrate on the micro and survivalist sectors, not on the small and medium sectors. Assistance to the micro-survivalist is, by its very nature, developmental and social in orientation, a sector where the job creation potential, in terms of expanding the firms' workforce, is more limited than small and medium size firms. As such, Ntsika is evolved into playing more of a developmental role, requiring subsidization of its target population, than a business development role, in which service providers are capable of becoming financially self-sustaining.

Information dissemination/communication strategies

Much of Ntsika's information and marketing is inappropriate and ineffective for the population it is serving, i.e., the micro/survivalist sector. Significant funds are spent on sophisticated English-language brochures and presentation, ill-adapted for Ntsika's target population. Very little research has been undertaken on how to reach these populations most effectively. For example, the medium of radio, especially effective with the rural population, has been underutilized, and use of established local groups for dissemination information has rarely been explored. Ntsika's approach is also misleading, leaving the impression that it is a retail provider.

Working with existing service providers

Many high-quality non-financial service providers have been ignored by Ntsika. Some of them do not want to be affiliated because of what they claim are Ntsika's centralized, prescriptive processes. Others, however, provide high-quality services and have long-standing relationships with local population, making them ideal delivery agents. In many cases, Ntsika chooses not to use such groups, creating instead new, or using inexperienced, NGOs at substantially higher cost than working with existing organizations.

Cooperation with Khula in the field

Most of Ntsika's managers admit that they do not have contact with Khula. This lack of interaction starts at the very top and continues down the management chain. In the field, there is rarely cooperation between Khula's RFIs and Ntsika's LBSCs, even when operating in the same geographical area with the same category of SMMEs

Cooperation with provincial SMME desks

Ntsika seldom works closely with provincial SMME desks desks. This lack of cooperation has led closely to serious alienation between the provinces and Ntsika, leading to wasteful duplication and lack of constructive feedback from provinces.

Proposition test

The proposition that Ntsika Enterprise Promotion Agency has provided its wide range of non-financial services to local service delivery groups successfully thereby meeting the objectives of the government's National Strategy (**Proposition Two**), is **rejected** because the findings confirm that Ntsika Enterprise Promotion Agency has not provided its wide range of non-financial services to local service delivery groups effectively.

10.3.3 Khula Enterprise Finance Limited

Khula Enterprise Finance Limited was mandated to undertake an ambitious task for the country, namely, improving access to finance for the country's large SMMEs sector, with special emphasis on its previously disadvantaged population. Khula's mission is a critical composition of the National Strategy's long-term success.

Since its establishment in 1996, a number of loan schemes to increase access to finance SMMEs through Retail Financial Institutions (RFIs), which

are SMME departments for commercial banks or accredited NGOs, have been initiated. RFIs apply their own minimum lending criteria (the most basic is the provision of a business plan) as the responsibility of risk assessment lies entirely with the RFIs. This might explain why only four of every 300 applications had been granted a loan in 2003 (Khula Website report for 2003).

10.3.3.1 Analysis of Khula's mission and objectives

Statement of objectives

In its Corporate Plan and Business Strategy, Khula articulates its (1) “overriding” objective, (2) its “four main objectives”, and (3) its “general external and internal objectives”. These statements of purpose are critical in judging its overriding objective of providing “increased and affordable access to finance” for SMMEs. The overriding objective reflects the White Paper’s requirement that the National Strategy should improve access to finance.

Khula’s overriding objective can be broken down into four components which include the following:

- Increasing the level of banking lending to SMMEs.
- Improving the outreach of alternative financial institutions, particularly in un-served rural areas.
- Providing start-up and small scale equity products.
- Expanding the number of SMMEs with external equity participation.

As operational objectives, Khula has positioned both an external and an internal goal, summarized as follows:

External

- Facilitating the mobilization and flow of resources (both public and private) for SMME development.
- Increasing awareness of Khula.
- Promoting a favourable legislative environment.
- Cooperating closely with “sister organizations, such as Ntsika, LBSCs and provincial SMME desks.

Internal

- Maintaining a skilled, effective, and motivated professional staff.
- Maintaining Khula as a lean organization.
- Meeting the expectations of shareholders as defined in the mission statement.
- Effectively managing business risks of the organization.

Realism of the objectives

Khula has established itself as a self-sustaining institution designed to make business credit more accessible to the SMME sector. As a statement of purpose, Khula’s objectives closely reflect the role envisioned for it in the White Paper.

While these objectives are consistent with the intent of the White Paper, the reality of the small business lending, whether in South Africa or any other developing country, makes Khula’s objectives difficult to attain. In the view of

the study Khula will continue to find itself falling short of these objectives on several counts irrespective of how well it organizes its effort. The lack of differentiation among the various components of the SMME sector forces Khula to adhere to objectives that might well be realistic for one segment of the SMME, but not for others. Khula is forced to live with this conflict, presented to it in its charter, of satisfying the needs of two distinct sectors, one that is “commercial” and another that is “developmental”.

On one hand, Khula’s mandate is to stimulate and promote bank lending to the small business sector (as distinguished from the micro-survivalist category) by offering guarantees of up to 80% of the loan amount. By nature, banks are commercially disinclined to lend to this sector for several reasons. First, there is more money to be made elsewhere. Second, the sector by definition is high risk because small business management is typically inexperienced and unable to formulate sound business plans, and adequate asset collateral is difficult for these firms to produce. Third, transactions cost for such small loans is excessively high for banks to sustain in their increasingly competitive environment.

On the other hand, with respect to the micro-survivalist enterprises that Khula services mainly through Retail Financial Intermediaries, Khula requires these institutions to be self sustaining while their clients are largely unbankable. Khula’s charter effectively prohibits it from working in a “development” mode in which it would bear a far higher level of risk of loan non-repayment.

Khula supports and promotes financial intermediaries that are expected to be financially self-sustaining while lending to essentially “unbankable” borrowers. The objective of developing lending processes of this nature has been the break out of the traditional cycle of dependency and loan non-payment that has characterized much of the “development-oriented” lending in the small business sector. The expectations that most RFIs are able to operate according to strict banking principles and services, these special target groups, remains a difficult goal.

In short, in its charter, Khula has been given objectives that will be difficult to obtain even under the most favourable circumstances. There is a permanent tension between its goals of assisting a development sector of the economy and its requirement to be financially self-sufficient.

10.3.3.2 Analysis of Khula programmes and their performance

Khula's management philosophy

From its inception, Khula has strived towards the creation of a lean, well-disciplined organization that reflects the best practices of a commercial finance institution. Its philosophy has been to distance itself from the development finance organizations of the previous government that engaged in concessional lending to disadvantaged groups. These institutions, perceived largely as welfare-oriented non-governmental organizations with very low repayment rates, were seen as the model not to be replicated. Therefore, a key objective of the National Strategy has been to break out of the tradition of financial dependency that characterized small business support in the past.

Structure of Khula's operations

To meet its objectives, Khula has created three functional divisions to undertake its programmes:

- **Loan division**

In practice, the most active component of Khula's operations is the loan division with the responsibility of lending to Retail Finance Intermediaries for forward lending to the Strategy's target population. The RFIs are principally responsible for lending to micro/survivalist enterprises. To put these groups on a more business-like basis, Khula has established conditions for them before it will lend between R1 million to R100 million. For RFIs that have limited

experience, Khula typically restricts its business loans to less than R10 million.

Apart from business loans, Khula also provides seed loans to new RFIs of between R50 000 to R20 million to assist the start-up of new RFIs. These loans revert to grants if the RFI can meet Khula's performance targets. Finally, grants are provided to these groups for capacity building.

Lending through the RFIs has been intended to serve the previously disadvantaged population, namely blacks, women, youth, the disabled, and the rural areas in general.

The RFI system has been plagued by problems relating to the inexperience of their management, problem in management and financial control, and inability or refusal to comply with their agreement with Khula. Khula has strict criteria for the candidate RFIs to satisfy before they can be approved. For many RFIs, these criteria are too prescriptive and ultimately unrealistic, reflecting the basic problems faced by Khula. RFIs are expected to be self-sufficient by lending to the unbankable.

Nevertheless several RFIs have been able to claim good performance, usually due to their managerial and financial competence, but also the result of being focused on a specific sector or community. This latter factor has been critical, in that the RFI has a good knowledge of its borrowers and their sector, making monitoring more effective. Furthermore, the successful RFIs have been steadily shifting their loan portfolio into larger, more formal, more sustainable enterprises.

The mandate of the Loan division is to expand substantially the loan portfolio in terms of the number of SMME borrowers as well as loan amounts. Despite its difficulty in identifying qualified RFIs, developing their internal capacity, and maintaining acceptance levels of risk, Khula seeks to continue an expansion of its RFIs network. One path being followed is to attempt to engage more private sector financial groups that do not have the same capacity building

needs, to become part of Khula's network of financial providers. Khula's reliance heretofore on Section 21 companies is causing it, in its own view, to fall short of its goals of both broader outreach and acceptable risk.

The largest RFIs tend to be those that make the smallest loans (between R300-R600) since these loans are exempt from the Usury Act and therefore can carry higher interest rates. By contrast, loans between R50 000 to R100 000, which usually would be directed towards more formal enterprises with a specific market opportunity, are the least frequent. It is therefore assumed that most lending goes to sustaining people's livelihood rather than creating new jobs and little assistance is available to assisting in the conversion from survivalist mode to an enterprise activity.

- **Credit guarantee division**

The Credit Guarantee programme is the centrepiece of Khula's efforts to bring the commercial banking sector into SMME lending. The underlying concept of Khula was for it to act as a leverage agent, encouraging and enabling the banking sector to participate more actively in SMME finance. Khula has based its marketing programme on the argument that it is assisting the banks to increase their market share.

Khula took the credit guarantee from the former Small Business Development Corporation (now Business Partners). Even though Khula is a quasi-government organization, it decided to register under the Insurance Act for two reasons: First, to give credibility to Khula in the market place, and second, to permit Khula adequate protection for itself. However inasmuch as the Insurance Act strictly regulates credit guarantees, as a means to protect both guarantor and consumers, Khula felt the need to closely control its guarantees with the banks.

The Credit Guarantee programme has been disappointing for several reasons. Apart from the all-important market factors that have dissuaded most banks from actively participating in small business lending, Khula's own

surveillance requirements imposed on the distribution of the guarantees have been restricted by the banks as undue interference in how they make their loans. The process associated with the granting of credit guarantee has been seen by the banks as excessively bureaucratic, involving double approvals, both by the banks as well as by Khula.

Based on the study, however, it appears that banks are still fundamentally reluctant to lend to the SMME sector. This factor has serious implications for Khula's ultimate success in its mission. It is the banking sector that is the principal lender to small and medium business (as opposed to the micro/survivalist sector). Inasmuch as job creation potential is greatest in this category of enterprises, the banks' unwillingness to lend to these firms seriously compromises the National Strategy.

Banks have been slow to use Khula guarantees for a variety of reasons. Apart from the higher risk factors and high transactions costs associated with small scale lending, South Africa's banks themselves are undergoing fundamental restructuring to improve their competitiveness. Relationship banking through branches is being rapidly de-emphasized as banks centralize their operations in head office, computerized operations and standardized procedures. A new inflexibility in the lending process is the result. Furthermore, since security-based lending, as opposed to cash-flow lending, is the norm, small firms, even though submitting excellent business plans with good market prospects, are often disqualified due to their inability to produce adequate assets for security.

Apart from these factors, Khula has been slow, if not inactive, in developing a strong marketing and communication programme aimed at the banking sector. Very few banks concerted efforts have been undertaken to make Khula guarantees known to banks. Khula has not been effective in identifying its real market for the guarantees, which is the banking sector, not the enterprises themselves. Khula has marketed itself in a generic way to the public without focus on those groups that will determine the success of the credit guarantee programmes.

- **Institutional support services (ISS) division**

This division provides support to the Loan and Credit Guarantee divisions. This is in an effort for Khula to effectively deliver credit to SMMEs.

The ISS was established as a direct response to the lack of institutional infrastructure within the RFI network to conduct onward lending to SMMEs using Khula capital.

The ISS by contracting consultants delivers the following services to the RFIs: Strategy and board development; Loan officer training; Management information systems; Accounting and auditing; Legal issues and Human resources.

In addition, given the lack of RFIs, ISS created the KhulaStart programme designed to help new RFI organizations establish operations in order to begin to develop their lending activities. KhulaStart therefore helps with the essential set up costs needed to launch operations.

Khula's marketing communications strategy

Reference is frequently made among stakeholders that Khula's reputation varies widely from being totally invisible and unknown to being understood as retail source of finance. Khula's lack of marketing strategy of any form, other than sophisticated brochures and logos, makes this criticism warranted. Even among the staff of Khula, their failure to clarify to the SMME community what it does is widely recognized.

Making Khula known to the SMME community as a source of small business finance creates two problems. First, it misleads borrowers into thinking that they must deal directly with Khula. Second, it has the perverse effect of transmitting the idea to borrowers that Khula is a "government lender", which within the micro/survivalist sector often implies softer conditions and even tolerance of non-payment.

Khula should have two targets for its communication policy. First, the commercial banking system, in particular their branch network in the fields, needs to be persuaded to work with Khula credit guarantees. Second, Khula needs to market its RFIs, not itself, to the local SMME communities, so that serious borrowers will work directly with these groups. It would appear self-defeating for Khula to create widespread public image of itself.

Monitoring, evaluation and reporting

Unlike Ntsika, Khula faces a simpler task in monitoring its lending results. Tracking credit guarantees and activities with RFIs is a straightforward task. Indeed, the statistics show whether Khula is reaching its target population as a wholesaler.

Problems remain however with reporting from many of the RFIs which do not have solid systems in place. It is difficult for Khula to gauge the effects of lending by the RFIs themselves as the financial retailers. What is known is that the overwhelming percentage of their lending is to survivalist enterprises, particularly women. The extent to which such lending is used for productive purposes as opposed to personal consumption is difficult, if not impossible to track effectively.

Tracking the impacts of lending from banks using Khula credit guarantees is less difficult to undertake. Business plans are submitted with specific market objectives. Since Khula as a wholesaler is one step removed from these firms, it is difficult for Khula to track what the employment impacts of these loans might have been. Estimates are made, however, based on established ratios of funding to economic activity.

Khula's corporate governance

Khula has played a relatively passive governance role, limiting its attention primarily to its statutory commitments in terms of overseeing the financial

results of Khula's operations. Khula seems to be composed of individuals with only limited experience in either banking or SMME affairs, which has restricted the extent to which it has been able to oversee Khula's management of the results of its operations.

Human, financial and internal management

Khula's management has taken the pride in structuring and operating a lean organization, much in line with well-managed commercial banking institutions. However the internal co-ordination among divisions needs work. There appears to be inadequate co-ordination among divisions. The study noted a frequent lack of familiarity within divisions about what other divisions are doing.

Similarly, co-ordination with the CSBP and Ntsika was seen to be minimal. The study revealed strong complaints that Khula officials made little efforts to keep provincial desks informed, much less seek advice or cooperation in local activities. It also seems that Khula does not have specific assignments to maintain contact with the provinces.

10.3.3.3 Related observations and findings

Khula's potential for success has been compromised by several internal contradictions in the mission and structure of the organization, each of which limits Khula's ability to reach its stated goals.

Contradictions in Khula' mission

Khula contradictions with regard to its mission can be explained by the following facts:

- While Khula's mission is to facilitate the flow of credit to the high risk small business sector, it is simultaneously expected to operate according to

conservative banking principles, maintain high loan recovery rates, and achieve a favourable return on equity.

- The success of Khula's credit guarantee program depends almost entirely on the commercial banking sector's willingness to lend to small, previously disadvantaged businesses, which banks are, by nature, generally disinclined to do.
- Khula loan programme encourages its Retail Financial Intermediaries to lend to "unbankable" micro-enterprises while simultaneously remaining financially self-sustaining.
- Khula was conceived as a "wholesale" institution, yet is under constant pressure to act and market itself as a retail organization that offers financial services to businesses.

Findings and observations on Khula's performance

The following findings and observations were noted during the study:

- Khula seems to have fallen short of its long-term job creation objectives of providing broader access to finance for those companies most likely to stimulate job creation in South Africa, namely the "small" business category (as opposed to the "micro-survivalist" category).
- Khula's activities are disproportionately concentrated in the micro-survivalist sector through its Retail Intermediaries.
- In practice, Khula's credit guarantee programme has benefited white, male-owned businesses.

- Within the small and medium business sector, Khula is heavily dependent on commercial banks, yet it has not developed effective mechanisms for bringing the banking sector into small business lending as a partner.
- To date Khula has not yet launched an effective marketing programme, its communications with the commercial banking system and the public at large have been passive.
- Khula relies heavily on Section 21 (non-profit) companies as its financial service providers that typically have neither banking nor business experience.
- Many of Khula's RFI's are unsustainable. To reach viability these groups need to achieve huge volumes of lending turnover, targets that are beyond the reach of most of these Section 21 companies.
- Operationally, Khula's management has been more focused on financial results than development impacts of its lending operations. It remains a conservative, rules driven organization. It has mainly focused on its financial performance rather than long-terms results for the SMME sector.
- Khula has virtually no cooperation with Ntsika in offering services to SMME borrowers, neither at the headquarters nor field programmes.

10.3.3.4 Research proposition with regard to Khula

The research proposition with regard to Khula was formulated to test the responses given by the research subjects in order to determine how effective Khula is achieving its mandate with regard to the development and promotion of the small business sector as stipulated in the White Paper on National Strategy for the development and promotion of small business in South Africa.

The analysis and the related observation of Khula will be used to evaluate the following proposition:

Proposition Three: Khula has improved access to finance for the country's SMME sector with special emphasis on the previously disadvantaged population as mandated by the government's National Strategy successfully.

10.3.3.5 Study findings with regard to Khula

The study found out that whereas Khula's mission is a critical component of the government's National Strategy's long term success, its potential for success has been compromised by several internal contradictions in the mission and structure of the organization, each of which limits Khula's ability to reach its stated goals as the following issues demonstrate:

- While Khula's mission is to facilitate the flow of credit to the high risk small business sector, it is simultaneously expected to operate according to conservative banking principles, maintain high loan recovery rates, and achieve a favourable return on equity.
- The success of Khula's credit guarantee program depends almost entirely on the commercial banking sector's willingness to lend to small, previously disadvantaged businesses, which banks are, by nature, generally disinclined to do.
- Khula loan programme encourages its Retail Financial Intermediaries to lend to "unbankable" micro-enterprises while simultaneously remaining financially self-sustaining.

- Khula was conceived as a “wholesale” institution, yet is under constant pressure to act and market itself as a retail organization that offers financial services to businesses.

With regard to Khula’s performance the study found out the following:

- Khula has fallen short of its long-term job creation objectives of providing broader access to finance for those companies most likely to stimulate job creation in South Africa, namely the “small” business category (as opposed to the “micro-survivalist” category).
- Khula’s activities are disproportionately concentrated in the micro-survivalist sector through its Retail Financial Intermediaries.
- Within the small and medium business sector, Khula is heavily dependent on commercial banks, yet it has not developed effective mechanisms for bringing the banking sector into small business lending as a partner.
- To date Khula has not yet launched an effective marketing programme, its communications with the commercial banking system and the public at large have been passive.
- Khula relies heavily on Section 21 (non-profit) companies as its financial service providers that typically have neither banking nor business experience.
- Operationally, Khula’s management has been more focused on financial results than development impacts of its lending operations. It remains a conservative, rules driven organization. It has mainly focused on its financial performance rather than long-terms results for the SMME sector.
- Khula has virtually no cooperation with Ntsika in offering services to SMME borrowers, neither at the headquarters nor field programmes.

Proposition test

The proposition that Khula has improved access to finance for the country's SMME sector with special emphasis on the previously disadvantaged population as mandated by the government's National Strategy successfully **(Proposition Three)** is **rejected** because the findings confirm that with Khula's many technical and structural contradictions, Khula has not been able to effectively improve access to finance the country's SMME sector.

10.3.4 Analysis of the effectiveness of the National Strategy

A complaint overheard during this study was that the headquarters organizations (namely the CSBP, Ntsika and Khula) have little familiarity with what is actually happening on the ground in the regions. According to these critics, their preoccupation with institutional and programmatic issues and their lack of realistic monitoring systems have created a major disconnect between them and their retail services providers and ultimately the recipients of the assistance.

The study was structured in such a way that the analysis should focus on the services provided by both financial and non-financial service provider organizations and the perceptions of how successful these services are in meeting the objectives of their mandates. In the case of the SMMEs that have received their services, the study sought to understand what types of assistance were received from the service providers, how the assistance benefited their businesses, and what other types of assistance would be useful. Both providers and recipients were asked in detail their perception of successes and failures, and finally to make several recommendations on ways to change and improve the National Strategy's approach to promoting small business and creating jobs.

Based on the results of this study, the study identified several successes and failures of the National Strategy as perceived by those service providers and SMMEs surveyed in the four provinces.

10.3.4.1 Summary of the findings

The findings of the study could be summarized as follows:

Success factors in service delivery

The study revealed a number of success factors that have been experienced by service providers since the National Strategy was implemented. These success factors could be summarized as follows:

- **Clear focus on markets and goals**

Most of the service providers said that the focusing on identifiable targets and business goals are essential for successful intervention with SMMEs.

- **Information sharing**

Most service providers believe that when they communicate with other providers (e.g. non-financial and financial), they all benefit and create a more integrated community of services.

- **Combining financial and non-financial services**

Almost all service providers indicate that SMMEs are more likely to be successful when access to finance is combined with appropriate non-financial support.

- **Capacity building/training**

Most service providers agree that specific, targeted capacity building and training are essential for SMME development. The service providers also agree that if the services are generic and not specifically tailored to the targeted group, the activities will not be successful.

- **Aftercare services**

The service providers indicated that aftercare services are essential components of SMME services for ensuring that services are having the required effect.

- **Community participation**

Most service providers said that one of the key components to successful training or financial services is community participation. When the community knows about, and has invested in the services provided, assistance to the SMMEs is much more likely to be successful.

- **Skills transfer**

The service providers indicated that the services they provided are most successful when combined with skills transfers to SMMEs.

- **Response to market demand**

The service providers said their training is most successful when it is in response to what the market demands, i.e. what the SMMEs are looking for and need, as opposed to generic training.

Problems and failures in service delivery

The study also revealed a number of problems and failures that have been experienced by service providers since the National Strategy was implemented. These problems and failures could be summarized as follows:

- **Generic training**

Most service providers claim that there is too much training for training's sake. They argue that training needs to be specific and targeted to be successful, and that it has to incorporate business training, not just skills training.

- **Lack of awareness about Ntsika**

Most service providers find that Ntsika has ineffective communication strategies with all levels in the provinces (SMME desks, service providers and SMMEs). They indicated that most of the marketing material and educational materials are in English, not in local languages, and poorly adapted to the realities of most local, especially rural, SMMEs, therefore missing their target market.

- **Provincial government input**

Most services providers and SMMEs only approach the government when they have a problem, for example, when they need money. The service providers indicated that they need to establish better communication with provincial government officials, especially the SMME desks.

- **Cost recovery and sustainability**

The service providers expressed their frustrations at having to focus so heavily on cost recovery and sustainability in their organizations when they

are dealing with a population that is largely a welfare sector, with a “hand-out” mentality towards services, i.e. they do not expect to have to pay for services.

- **Centralization of Khula and Ntsika**

The service providers feel that both Khula and Ntsika could be much more effective if they were physically located in the provinces at the local level, adapting their programmes to local circumstances. Most service providers suggested that Khula and Ntsika should have provincial offices.

- **Khula and Ntsika do not cover operational expenses**

The service providers expressed frustration at having to target their services to the poorest of the poor (as indicated by Khula and Ntsika) while neither organization provides funding for operational expenses so that the service providers might retain the most qualified staff. Further more, Ntsika uses a “claim back” reimbursement system for programme costs, requiring the providers to finance the services upfront and then seek reimbursement from Ntsika, often with three months delay.

- **Restrictions and constraints on loan amounts to SMMEs**

The service providers said that there is not enough access to finance for SMMEs through RFIs, and even when SMMEs are successful in getting loans, the loans are often not adequate for borrowing firms to make a success of their projects.

- **Khula credit scheme does not work**

The banks do not want to lend to SMMEs, especially black SMMEs. The banks often use Khula loan guarantees for loans that would qualify regardless of the guarantees.

- **Banks do not know Khula**

Regional bank employees usually claim they do not know about the Khula guarantee scheme, or say have heard of it but it is not in place in their region.

- **Funding/financing “gap”**

Most service providers said that while there are RFIs to conduct micro lending and the banks to conduct lending for larger, even medium size businesses, there is a significant “gap” between the two. Small businesses, those needing between R30 000 and R200 000 are too big for Khula RFIs, yet too small for the banks. Frequently these small to medium businesses are the ones that have the greatest potential for job creation.

- **SMMEs are too small to qualify under DTI’s definition of “trade and industry”**

Even though DTI is the department tasked with assisting SMMEs, most SMMEs are still too small to benefit from many other DTI’s programmes, and get ignored by most of the groups within DTI.

- **Lack of business marketing strategies**

Most SMMEs are too small and too busy trying to survive to develop a clear marketing strategy for themselves. This is also true of service providers. Service providers try to be all things to all people, instead of trying to focus and be very successful in certain things.

- **Lack of role for provincial SMME desks**

The service providers feel that they do not get enough support from the provincial SMME desks, and that neither the service providers nor the SMME desks themselves know exactly what the SMME desks’ mandate is.

- **Lack of political voice for the SMME community**

Even before the NSBC and its structures, the PSBCs, folded, the services providers felt that they did not do their job well. They did not feel that it was a voice for them or that it represented small business issues effectively.

- **Culture of non-payment**

Most service providers agree that there is a definite culture of non-payment among poor people in South Africa. People being trained do not understand why they should pay for training services.

- **Lax financial controls for financial service providers**

Some of the financial providers were critical of Ntsika's funding. They want funding for their operational costs, with increased, appropriate monitoring, as well as more timely distribution of funds. The service providers said Ntsika funds take months to reach them.

Ntsika and Khula related issues

An analysis of Ntsika and Khula issues was a major part of this investigation as they are institutions directly involved in the National Strategy. The critical issues identified by the study in the two institutions are as follows:

Issues with regard to Ntsika

With regard to Ntsika, the study noted the following issues:

- **No sustainability of financial support**

The service providers were critical of Ntsika's funding. They want funding for their operational costs, with increased, appropriate monitoring, as well as more timely distribution of funds. The service providers said Ntsika's funds take months to reach them.

- **Cover operational costs**

Most service providers would like Ntsika to cover at least some of their operational costs so the service providers can focus more on delivering services to their target markets.

- **Changes to contractual requirements**

The service providers would like Ntsika to relax or change their contractual requirements for training and counseling because they are too constraining. They would like Ntsika to take into account repeat training and counseling sessions where a trainee is receiving more advanced services, instead of just first time visits.

- **Aftercare training should be established**

Both the financial and non-financial service providers agree that aftercare is a very important part of their services, yet Ntsika does not provide for this. Aftercare is one of the best ways to avoid defaulting on loans and to get the most out of previous training.

- **Satellite offices need to be established**

Ntsika is in a great rush to set up as many LBSCs as possible, yet for each LBSC accredited there is limited kilometer radius than can be serviced. The service providers would like to expand their kilometer radius or perhaps set up

satellite offices in locations where there is need for services, but perhaps not need for a full LBSC.

Issues with regard to Khula

With regard to Khula, the study noted the following issues:

- **Better financing options for small to medium businesses**

The service providers feel that while there is reasonable coverage for those who need micro loans, there is limited coverage for small to medium businesses. The service providers cite the need to fill that gap since these businesses are mostly the greatest job creators.

- **Should improve accreditation process**

The service providers find the Khula accreditation process time consuming and cumbersome, noting that there are long delays before decisions can be made.

- **Broaden lending scope to RFIs**

The service providers, especially the RFIs, feel that their ability to provide loans is stymied by Khula's strict procedures.

10.3.4.2 Research propositions with regard to the effectiveness of the government's National Strategy

The research propositions with regard to the effectiveness of the government's National Strategy were formulated to test the responses given by the research subjects in order to determine how effective the National Strategy is with regard to service delivery.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition Four: Khula's financial service providers have provided their finance services to SMMEs effectively.

Proposition Five: Ntsika's non-financial service providers have provided their services to the SMME sector effectively.

Proposition Six: The sourcing of both financial and non-financial services by SMMES through the institutional framework of the government's National Strategy was effective.

10.3.4.3 Study findings with regard to the effectiveness of the government's National Strategy

The study found out that whereas there have been some success factors with regard to service delivery there also has been a great deal of problems and failures with regard to service provision as the following issues demonstrate:

- Much of the training is just for training's sake and that it is not targeted to specific needs for example incorporation of business training, not just skills training.
- Ntsika has ineffective communication strategies with all levels in the provinces (SMME desks, service providers and SMMEs) as most of the marketing material and educational materials are in English, not in local languages, and poorly adapted to the realities of most local, especially rural, SMMEs, therefore missing their target market.
- Services providers and SMMEs only approach the government when they have a problem, for example, when they need money. The study further

established that there is no better communication with provincial government officials, especially the SMME desks.

- Service providers are frustrated at having to focus so heavily on cost recovery and sustainability in their organizations when they are dealing with a population that is largely a welfare sector, with a “hand-out” mentality towards services, i.e. they do not expect to have to pay for services.
- Both Khula and Ntsika could be much more effective if they were physically located in the provinces at the local level, adapting their programmes to local circumstances.
- Services are targeted to the poorest of the poor, as indicated by Khula and Ntsika, while neither organization provides funding for operational expenses so that the service providers might retain the most qualified staff. Further more, Ntsika uses a “claim back” reimbursement system for programme costs, requiring the providers to finance the services upfront and then seek reimbursement from Ntsika, often with three months delay.
- There is not enough access to finance for SMMEs through RFIs, and even when SMMEs are successful in getting loans, the loans are often not adequate for borrowing firms to make a success of their projects.
- The banks do not want to lend to SMMEs, especially black SMMEs. The banks often use Khula loan guarantees for loans that would qualify regardless of the guarantees.
- Regional bank employees usually claim they do not know about the Khula guarantee scheme, or say have heard of it but it is not in place in their region.
- While there are RFIs to conduct micro lending and the banks to conduct lending for larger, even medium size businesses, there is a significant

“gap” between the two. Small businesses, those needing between R30 000 and R200 000 are too big for Khula RFIs, yet too small for the banks. Frequently these small to medium businesses are the ones that have the greatest potential for job creation.

- Even though DTI is the department tasked with assisting SMMEs, most SMMEs are still too small to benefit from many other DTI’s programmes, and get ignored by most of the groups within DTI.
- Most SMMEs are too small and too busy trying to survive to develop a clear marketing strategy for themselves. This is also true of service providers. Service providers try to be all things to all people, instead of trying to focus and be very successful in certain things.
- Service providers do not get enough support from the provincial SMME desks, and that neither the service providers nor the SMME desks themselves know exactly what the SMME desks’ mandate is.
- There is no political voice for the SMME community.
- There is a definite culture of non-payment among poor people in South Africa. People being trained do not understand why they should pay for training services.
- Ntsika takes a long time to pay for the service providers’ operational costs.

The study found the following issues which strongly came against Ntsika and Khula:

- Ntsika need to relax or change their contractual requirements for training and counseling because they are too constraining and it needs to take into account repeat training and counseling sessions where a trainee is receiving more advanced services, instead of just first time visits.

- Ntsika does not provide for after care service, yet it is one of the best ways to avoid defaulting on loans and to get the most out of previous training.
- While there is reasonable coverage for those who need micro loans, there is limited coverage for small to medium businesses. This gap needs to be filled as these businesses are mostly the greatest job creators.
- The Khula accreditation process is time consuming and cumbersome, and that there are long delays before decisions can be made.
- The ability of Khula's RFIs to provide loans is stymied by Khula's strict procedures.

Propositions test

The propositions with regard to the effectiveness of the National Strategy (**Propositions Four, Five and Six**) are **rejected** because according to the findings of the study, there was a great deal of problems and failures which confirms that both financial and non-financial service provision to SMMEs has not been effective.

10.3.5 Analysis of other institutions influencing small business development

10.3.5.1 Overall findings

A clear understanding of the contribution of the government's National Strategy in facilitating the development of South African SMMEs emerges when the Strategy is followed through its process of evolution. This can be seen in three inter-linked phases:

Pre-conceptualization phase

The study revealed that the strengths of the National Strategy diminished as it progressed through the three phases. The pre-conceptualization phase received considerable praise from a wide range of actors, who commended it mainly for its inclusivity. During this phase, there seemed to be a remarkable openness to ideas and input and considerable international input was sought and integrated into the strategy. This phase had a clear focal point in terms of leadership and guidance by the Department of Trade and Industry. Because of the involvement of the President as champion of the Strategy, the profile of the SMME sector was considerably raised nationally, inside and outside government. Thus, considerable goodwill towards, and level of interest in, SMME development was generated.

The stakeholder consultation process and assessment of the state of SMME development greatly assisted in providing a thorough understanding of the needs of SMMEs and shortfalls in service delivery. This provided a good basis to formulate a thorough and sufficiently grounded National Strategy and to develop a comprehensive support service mix.

Conceptualization and design phase

The study illustrated that there was a general agreement that the Strategy was a reasonable policy framework for the development of SMME. Based on a reasonably complete understanding of the needs of SMMEs and shortfalls in service delivery, the Strategy developed a comprehensive support service mix while emphasizing the importance of ensuring easy access by SMMEs to a range of services. Crucially, the Strategy clearly acknowledged that to achieve desirable results, government cannot be expected to do this alone.

The study also determined that there is a need for full involvement and participation by a wide range of actors including the business sector. The latter would play a critical role in key areas of support provision to SMMEs – facilitating access to markets and technology transfer. The Strategy also

acknowledges that for its long-term success in terms of facilitating the development of small business and entrepreneurship per se, there is a need to go beyond merely focusing on support provision to SMMEs, important though this is. To complement this focus and to lay the foundation for long-term success, a need exist to move towards “mainstreaming” enterprise development by integrating it into the country’s education system. Lastly, the Strategy also emphasizes the importance of government action to create an enterprise-friendly environment with minimum impediments to business formation, survival and growth.

However, without downplaying the importance of the above factors and, based on the strengths of the Strategy itself, certain weaknesses began to emerge during the conceptualization and design of the Strategy. Key among these was the focus on developing new institutions. While the rationale behind this approach may be clear and easy to understand, being the need to better co-ordinate and channel SMME support activities, its result was to marginalize already existing organizations, some of which were doing some good work in terms of providing services to SMMEs. In time, these organizations were to be starved of resources that they previously depended on to continue their activities as these were now channeled to government’s created institutions.

The task of setting up new institutions also proved long and complex, thus delaying the actual operation of these institutions. During this process there was considerable loss of momentum and goodwill among various actors. When the institutions had finally reached a stage where they actually began operations, problems were encountered with initial approaches, for instance the accreditation of LBSCs.

A further conceptual and design complication was the fact that Khula and Ntsika were given the wholesaler rather than the retailer status. This meant that although they bore full responsibility for facilitating access to all support services envisaged under the Strategy, they were one level removed from the SMMEs and therefore had limited direct interaction with them. They

depended on the capacity and the quality of a range of intermediaries to be able to deliver their services.

Implementation and management phase

As is commonly the case with similar large-scale interventions, this is where most problems in the entire National Strategy process have been experienced. At the highest level, that is, within government, there no longer exists a clear champion and focal point for the coordination of the Strategy. This task seems to have been left entirely to Khula and Ntsika, a situation that is found by many as inappropriate. As a result, although many government departments have initiated their own SMME programmes, there is little evidence of efforts to co-ordinate and integrate these. In fact, almost all departments interviewed singled lack of co-ordination as the most critical problem in the management of the Strategy. This opens up scope for duplication of programmes and activities and therefore wastage of resources.

While some departments have initiated collaborative mechanisms with Khula and Ntsika in the implementation of their programmes, some point out that they find the institutional set-up confusing and are therefore reluctant to work through government created institutions. One department, for instance, which is a key player of SMME development, said that it finds it unacceptable that it has to deal with extra-governmental institutions and insists on working with DTI. Another department has decided not to work through Khula but to deal directly with an RFI because Khula is “confusing”. These factors emphasize the importance of a clear initiative within government to foster good inter-departmental communication and understanding of government institutions, something that many departments currently see as lacking. They say they are not informed of developments in the implementation of the Strategy.

At the institutional level there are further difficulties. First of all, Khula and Ntsika are not communicating and collaborating as effectively as they should. Some have questioned the very physical separation, in location terms, between Khula and Ntsika, and argue that that these institutions should exist

side-by-side in order to strengthen communication and collaboration. Operationally, the institutions are seen not to have done enough to draw in the business sector in the delivery of their services, but to have relied too heavily on NGOs, many of which lack capacity and a business-like approach to SMME development.

Also, given their reliance on intermediaries for the delivery of their services, Ntsika and Khula have ran into other difficulties, at least in the early days of their operations, and, to some extent, up to now. Given that many of these intermediaries had either been disillusioned by the lengthy processes of establishing Ntsika and Khula, which kept them unclear for a long time as to what their extent future role would be, and that some had, in the meantime, experienced declines in capacity, Khula and Ntsika embarked with a few good institutions and a number of weak ones. This meant that a lot of focus had to go to developing new institutions and building the capacity of existing ones, rather than going straight to services delivery. This has caused further delays in service delivery.

Also, it had been noted by the study, that because of pressure to deliver and perhaps also lack of experience on the part of Khula and Ntsika, some of the initial capacity building programmes of these institutions were ill-conceived and therefore had a number of weaknesses which will take time to iron out. Khula's institutional support programme, for instance, is seen to have been a major failure, as evidenced by Khula's inability to spend most of its money allocated for this task. Some questioned whether this activity and its resources should not be transferred to other institutions outside Khula which have more experience in and are dedicated to undertaking this kind of activity.

There is a good deal of interest and varying levels of involvement in SMME development among business organizations and other actors. Firstly, a major, traditionally corporate-based business organization, has credited the Strategy with enabling the organization to develop a high degree of "sensitivity" towards SMMEs. Furthermore, some of its local affiliates have either started LBSCs or become LBSCs themselves. This is a new development within that

organization, which bears witness to the effect the Strategy had had on its thinking.

The major black business organization, the National Federated Chamber of Commerce (NAFCOC) is involved to a more or lesser degree in some activities under the National Strategy and it agrees that there is more involvement from the business sector. However there is a feeling that not enough is done by Ntsika and Khula, or even by government, to proactively draw in the business sector. For instance, the South African Chamber of Business (SACOB) pointed out that although it once took the initiative to invite Khula and Ntsika to make presentations on their programmes, there has been no subsequent follow-up on this contact on the part of either of the institutions.

Business organizations hold divergent views on one key aspect of the Strategy – the need to strengthen the voice of small business. Although there is unanimous agreement that small business needs to be represented better in policy-making, there are differences of opinion on how this should come by. One view holds that there was no need to come up with a new institution - the now defunct National Small Business Council (NSBC) – in order to do this. According to this view, the NSBC was an unnecessary institutional duplication, which led to the marginalization of existing small business representative bodies. This view cautions very strongly against any attempts to set up bodies such as the NSBC in future. Instead, efforts should be directed towards strengthening already existing bodies so that they can better represent small business.

Another view hails the establishment of the NSBC and attributes this to government's commitment to the elevation of small business and its interests. According to this view, the demise of the NSBC was a major loss to small business. An urgent need therefore exists, it is believed, to put something else in the place of the NSBC, charged with the same task as the NSBC that is, strengthening the voice of small business in the policy making. It is not clear where existing representative bodies feature within this frame of thinking.

10.3.5.2 Awareness of the government's National Strategy and its institutions

Awareness within government departments

Almost all government departments that were contacted during the study are aware of the National Strategy, as embodied in the SMME White Paper, and have sufficient understanding of its objective of fostering the country's small, medium and micro enterprises. The objective of the Strategy has been captured by various departments in the following terms:

- The creation of an enabling environment for small business to grow.
- To address the imbalances of the past by giving priority to small business development and creation.
- To capacitate small business and provide them with opportunities, which they never had before, by way of giving them access to training and finance.
- To provide holistic support to emerging SMMEs by way of providing financial and non-financial services to SMMEs.
- To transform small business into the driving force for job creation.
- The objective is to develop the SMME sector in South Africa with particular emphasis on assisting the previously disadvantaged groups.
- The objective is to enhance the competitiveness of SMMEs and to provide accessible advisory and training services on a cost-effective and sustainable basis.

These formulations indicate a generally good grasp of the essence of the National Strategy and its objectives by various government departments. In addition the departments reflect an adequate understanding of the nature (wholesale) and the level of operation (intermediate) of the key SMME support institutions falling under the national strategy – Khula and Ntsika. Departments also view the strategy as a good policy framework, which lays sufficient basis for the development of SMMEs.

This understanding of the National Strategy was gained in two different ways and times. Some departments became aware of the strategy during the very early days of its formulation when the Ministry of Trade and Industry led an extensive process of consulting with various stakeholders as a means of making the process as inclusive as possible. Various departments were involved in these consultations, hence many of them consider this inclusivity as one of the hallmarks of the National Strategy. Other departments came into contact with Khula and Ntsika in the course of implementing their own (departmental) SMME Support programmes. This led to an awareness of the National Strategy and its institutions.

Awareness within business organizations

The general awareness of the National Strategy and its institutions is even stronger among some business organizations. Virtually all organizations interviewed pre-date the National Strategy and its institutions in terms of existence and activities in the SMME support field. Many of these were involved in one way or the other in the processes of formulating the National Strategy – submitting input/position papers, participating in task teams and attending a series of workshops and the two Presidential conferences on small business. Generally, the Strategy is viewed as comprehensive, although some have pointed to some perceived weaknesses and inconsistencies within the Strategy.

10.3.5.3 Perceived strengths and weaknesses of the government's National Strategy and its institutions

Perceived strengths

Three aspects stand out as being the hallmarks of the National Strategy. The first of these is historical and relates to the comprehensive stakeholder consultation approach that was followed in the formulation of the Strategy. Most respondents view this as having been exemplary, ensuring that as wide a range of views as possible was taken into account in seeking to understand the challenge of SMME development in the country and formulating an appropriate strategy. Largely because of this approach, many describe the National Strategy as a good policy framework.

The second is the role played by the Strategy, both historically and at present, in elevating the profile and status of SMMEs as an important component of the economic development of the country. This moved the country from a situation where there was no unified policy on SMME development, which resulted in the implementation of ad hoc initiatives by various actors, to one where there is a comprehensive policy framework setting the vision and institutional infrastructure for SMME development. This had the effect of focusing attention on SMME and enterprise development within government and society as a whole.

To a certain degree, therefore, the current range of SMME initiatives within various government departments could be associated, even if remotely, with new awareness. There is a wide view that the National Strategy played an important role in this regard. The most direct acknowledgement that “the development of the strategy itself and focus on small business at government level did contribute to an increased sensitivity on the part of the South African Chamber of Business (SACOB) in its representational role to small business issues”.

Thirdly, although there is a certain degree of difference of opinion on this aspect, there is a view that the Strategy, being a result of widespread consultation and multi-stakeholder input, generally reflects a reasonable understanding of the problems and constraints facing SMMEs. As such, the Strategy is “grounded” in the operational realities of SMMEs. The support requirements of SMMEs as elaborated in the Strategy and the proposed support mix to meet these requirements reflects this understanding.

Perceived weaknesses

While the pre-conceptualization phase of the Strategy is seen as having played a critical role in mobilizing a wide range of SMME development stakeholders to participate in the formulation and implementation of the Strategy, most of its perceived weaknesses relate to its conceptualization, implementation and management.

The first of these has a historical basis and relates to the establishment of support institutions under the strategy. There is widespread view that the establishment of the National Small Business Council, Khula and Ntsika led to unnecessary duplication at institutional level. What should have happened, instead, was to strengthen existing institutions that were already involved in SMME development rather than “re-inventing the wheel” by setting up new institutions.

Some argue that the establishment of Khula and Ntsika and the fact that these institutions have grown into very large entities has had a displacement effect in as far as certain previously existing institutions are concerned. This is so because most of the resources for SMME development that were in the past channeled to previously existing institutions are now channeled to Khula and Ntsika, thus denying other institutions access to necessary resources and therefore weakening their capacity to service the SMMEs.

Secondly, the wholesale nature of Khula and Ntsika means that they are not able to deliver services directly to SMMEs. There are two problems in this

regard. Many of the retail institutions that Ntsika and Khula rely on for delivery of services are weak in terms of capacity. For instance, some view Local Business Service Centers as weak institutions staffed by people with insufficient knowledge of and experience in the SMME sector.

Designing these institutions as wholesalers was based on an erroneous assumption that there was sufficient capacity within existing institutions to deliver services to SMMEs. The reality identified through the study, however, shows otherwise. The second problem is that confusion is caused among SMMEs on whom to actually approach for services. SMMEs hear about Ntsika and Khula and approach these institutions for services only to be turned away and sent to some other organizations that they may not know of. The quality of service that they receive from retail institutions depends on the capacity and quality of the institutions themselves, which is limited in many cases.

Thirdly, the co-ordination of the Strategy within and outside of government is weak. There is limited, if any, communication of the Strategy. As a result, various government departments develop and embark on their SMME support programmes with little knowledge of what is currently happening within the National Strategy framework. This raises prospects for duplication of initiatives leading to wastage of resources and minimization of opportunities for integrating and leveraging various departments' initiatives and resources.

The Department of Trade and Industry (DTI), which bears the responsibility for co-ordinating initiatives around SMME development is not seen as being successful in playing this crucial role. One department has complained that when it approached DTI on SMME matters, they get referred to Ntsika and Khula, which causes problems because they know little about these institutions. This department says it prefers to work directly with other departments rather than with institutions based outside of governments. Another department has suggested that DTI should implement the National Strategy itself through an internal directorate.

Outside government, Ntsika and Khula are criticized for failing to work closely with each other. This has led to some even questioning the rationale behind physically separating the two institutions in locational terms. Some observers, the study found, have argued that the two institutions should be compelled by government to work together in order to provide a “one-stop” service facility to SMMEs.

Fourthly, the marketing of Khula and Ntsika and their services to SMME development stakeholders and SMMEs themselves, in particular, is considered poor. As a result, SMMEs do not know who to approach for services. The exact role of Ntsika and Khula is therefore not generally understood at SMME level. The problem of poor marketing and publicity is also attributed to the strategy itself. There is a strong view that the National Strategy needs to be aggressively promoted to various SMME development stakeholders and SMMEs themselves. This would help communicate the roles of various players both within and outside government.

The study also found out that the Strategy has been criticized by some departments and private bodies for failing to integrate all economic sectors into a single SMME support plan. One sector that has been singled out as a clear case is agriculture. The Department of Agriculture, the South African Agricultural Union and the National African Farmer’s union is unanimous in pointing out that the Strategy has failed to address the needs of emerging farmers.

At programme level, government departments have indicated a much lesser understanding of the developments and the current situation with regard to the implementation of the Strategy. This indicates that the initial momentum and level of interest and engagement that characterized the strategy formulation process was lost during the implementation process. Perhaps partly as a result of this, many departments run their own SMME programmes entirely on their own with little, if any, effort to integrate efforts with the DTI’s SMME support institutions. Also, most departments indicated that they were not

aware of any actual programmes emanating from the National Strategy and run under the auspices of the national SMME support institutions.

Given this situation, government departments have generally limited their assessment of the National Strategy to comment on its formulation and co-ordination within government. Thus, most of the comment on the appropriateness and efficacy of the Strategy and its institutions at programme level has come from organizations outside of government.

Business federations view national strategy-driven SMME support programmes as relevant to the needs of SMMEs. However, there is a view that in terms of outreach to SMMEs in general, current programmes still fall short, as the current focus on the part of both Ntsika and Khula is perceived to be on micro-enterprises, which means that the upper echelon of SMMEs are not effectively serviced. Moreover, the prospects for success and participation of other players could have been improved if there was a clear plan on how the objectives of the National Strategy were to be accomplished in the short, medium and long term. The absence of such a plan makes it difficult to determine exactly how the various programmes implemented by Ntsika and Khula fit together.

Ntsika's programmes are seen as too generic and inflexible in terms of accommodating the specific needs of SMMEs in various localities and stages of development. As such, these programmes have been characterized by some as not being sufficiently client-focused and demand-driven. There is need for strategies and programmes that are "opportunity focused" based on a thorough understanding of opportunities within various economic sectors.

Given the perceived weaknesses at programme level, a view has been expressed that the National Strategy has fallen short of its objectives in addressing the needs of SMMEs. Reasons for this are seen to include:

- A lack of recognition of the scale and intensity of support required by small businesses which result in resources being devoted to projects that are insufficient to ensure success.
- An excessively centralized and bureaucratic approach towards the management of projects and the development process.
- The adoption of projects that are not sufficiently targeted and which seek to achieve too wide an array of objectives, some of which may be in conflict with one another.

There has, however been a contrasting view in this regard, which attributes success to Khula in establishing Retail Financial Institutions (RFIs), providing a credit guarantee scheme and initiating a mentorship scheme for small entrepreneurs who have received financial support from retail institutions. Ntsika's own achievement is seen in the area of accrediting a number of community-based organizations at Local Business Service Centers however, the effect of these perceived successes on SMMEs themselves has not yet been determined.

10.3.5.4 Effects of the government's National Strategy on the operations of these organizations

Surprisingly, although various departments have initiated and run SMME support programmes initiated after the National Strategy came into being, the majority of them do not acknowledge any role for the National Strategy in inspiring these programmes. The only exception here is the Department of Public Works, which acknowledges that the National Strategy inspired the department's Programme "to a small extent" by enabling a greater level of awareness of SMME support needs.

Perhaps less surprisingly, given their existence prior to the formulation of the Strategy, none of the organizations outside the government attributes any role

to the National Strategy in inspiring their SMME programmes. One exception in this regard is a corporate sector group, the Corporate SMME Development Forum (CSDF), which says it came into existence for the sake of pursuing the aims and objectives of the National Strategy. Thus, the Forum acknowledges a direct role of the Strategy in inspiring its creation.

However, while the majority of organizations do not give strong credit to the National Strategy in terms of inspiring their own programmes, all of them view their programmes as fully complementary to those of the Strategy and its institutions. Moreover, there are indications that some National Strategy-driven programmes for instance, NAFCOOC, has established a Tender Advice Centre (TAC), modeled on Ntsika's Tender Advice Centre programme. Some of the local Chambers affiliated to NIC and SACOB have been accredited at Local Business Service Centers (LBSCs).

Based on this reality, these organizations have argued that there is a need to ensure greater collaboration between themselves and the National Strategy institutions to more closely align and integrate their programmes and activities in order to achieve greater impact. Collaboration is relatively weak at this stage.

10.3.5.5 Collaboration with the National Strategy institutions

The extent to which departments involve the SMME support institutions in their work varies from one department to the other. The department of the Minerals and Energy for example, has pioneered a programme to support the development of small-scale mining enterprises (the sector which will be studied in the second phase of this study). This facilitates the formulation and implementation of the programme, the department has established a National Steering Committee (NSC) of service providers, including Ntsika and Khula, to support the development and implementation of its programme on small-scale mining enterprise support and promotion. According to the department, Khula and Ntsika are playing a crucial role in this initiative, with the former handling the financial aspects whilst the latter advises the committee on small

enterprise development issues. At this stage, the department expresses satisfaction with the role played by each of the service providers represented in the NSC, including Khula and Ntsika.

The Department of Public Works, which runs, among others, the Contractor Entrepreneurship Training (CET), has involved Ntsika in its Training and Advisory Focus Group which co-ordinates the development of the CET programme. According to the department, the involvement of Ntsika in the Focus Group has been useful in terms of keeping group members informed about pertinent development in the implementation of the National Strategy.

On the other hand, the Department of Arts, Culture, Science and Technology has complained that Ntsika and Khula has done very little to help SMMEs within cultural industries, with the exception of crafts. Similarly, the department of Environmental Affairs and Tourism says it is easier to deal with retail financial institutions rather than Khula, which associates with longdrawn-out processes which delay implementation. For this reason the department is negotiating with Get Ahead (GA), a retail financial institution, in terms of which the department will provide funding to GA which will in turn provide loans to SMMEs in the tourism industry.

Within the organizations outside government, collaboration with Ntsika and Khula ranges from very limited to extensive. The Alliance of Micro-enterprise Development Practitioners, a national body representing about several organizations in the SMME development field, for instance reports virtually no collaboration of any kind between itself and both Khula and Ntsika. In fact, the organization reports very little success in its various attempts to link up with and collaborate with these institutions.

On the other hand the National Industrial Chamber and the South African Chamber of Business (SACOB) have had closer interaction with Ntsika in particular. Some of the former organization's satellite offices have been accredited by Ntsika as Local Business Service Centers and have been receiving funds to render Ntsika-sponsored services to SMMEs. Some of

SACOB's-affiliated local Chambers of commerce are either LBSCs themselves or have established LBSCs in conjunction with other organizations at regional or local level. Chambers also participate in the boards of Directors of Regional Manufacturing Advisory Centers, and Ntsika programmes.

10.3.5.6 Research propositions with regard to other institutions influencing small business development

The research propositions with regard to other government departments other than those affiliated with the Department of Trade and Industry, as well as other organizations outside government, specifically business organizations were formulated to test the responses given by the research subjects in order to assess their views and their current and future roles with regard to the National Strategy.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition Seven: There is awareness within government departments of the National Strategy for the development and promotion of SMMEs.

Proposition Eight: There is awareness within business organizations of the National Strategy for the development and promotion of SMMEs.

Proposition Nine: There is collaboration between government's department and other business organizations with the institutions created under the National Strategy.

10.3.5.7 Study findings with regard to other institutions influencing Small Business development

With regard to government departments, the study found out that almost all government departments are aware of the National Strategy, as embodied in the SMME White Paper on National Strategy for the development and promotion of small business in South Africa, and have sufficient understanding of its objective of fostering the country's small, medium and micro enterprises. The study also found out that there is a generally good grasp of the essence of the National Strategy and its objectives by various government departments. In addition the departments reflect an adequate understanding of the nature and the level of operation of the key SMME support institutions falling under the government's National Strategy i.e. Khula and Ntsika.

The study further found that this understanding of the National Strategy was gained in two different ways and times. Some departments became aware of the Strategy during the very early days of its formulation when the Ministry of Trade and Industry led an extensive process of consulting with various stakeholders as a means of making the process as inclusive as possible while others came into contact with Khula and Ntsika in the course of implementing their own (departmental) SMME support programmes.

With regard to business organizations, there is a general awareness of the National Strategy and its institutions which is even stronger among some business organizations. Virtually the organizations interviewed pre-date the National Strategy and its institutions in terms of existence and activities in the SMME support field. Many of these were involved in one way or the other in the processes of formulating the National Strategy – submitting input to the position papers of the National Strategy, participating in task teams and attending a series of workshops and the two Presidential conferences on small business. Generally, the Strategy is viewed as comprehensive, although some perceived weaknesses and inconsistencies within the Strategy have been pointed out.

With regard to the collaboration with the institutions created under the National Strategy, government departments' involvement of the SMME support institutions in their work varies from one department to the other whilst business organizations' collaboration with institutions created under the National Strategy ranges from very limited to extensive.

Propositions test

The propositions with regard to the awareness and collaboration with governments' departments and other business organizations with institutions created under the National Strategy (**Proposition Seven, Eight and Nine**) are **accepted** because, according to the findings, there seems to be a great awareness from both the government departments and business organizations of the institutions created under the government's National Strategy. The study also revealed that there seems to be collaboration (though differing) between the governments' departments including the business organization with the institutions created under the National Strategy.

10.3.6 Analysis on the role of parastatal enterprises and provincial SMME desks on the National Strategy

Parastatal enterprises

Parastatals impact the government's National Strategy for small businesses in the following ways:

- Parastatals have developed programmes through their tender boards and other means to procure services from SMMEs. This is the principal means by which they impact on small business throughout the country.

- Some parastatals offer services that SMMEs use in their business processes. For example, parastatals offer training to SMMEs in order to build technical competence and skills in the SMMEs e.g. the South African Bureau of Standards (SABS) offer training to SMMEs on welding.
- Some parastatals offer training programmes to SMMEs on skills that will help them to effectively deliver services for which they have been contracted to supply, e.g. Transnet offers training to SMMEs who have been contracted to provide garments to them.
- Parastatals are also involved in the Strategy through their participation in other general business forums that address SMME issues, e.g. the NAFCOG, of which parastatals are members.

The direct involvement of parastatals with the institutions and programmes expressly established by the government's National Strategy can be described as follows:

- They interface with Ntsika services for information on foreign contacts when they go on trade missions overseas.
- They run SMME programs for which they require input from Ntsika and sometimes from Khula.
- The mandate of most parastatals, as government-related institutions, requires them to engage SMMEs in their day-to-day business activities. This has resulted in them setting up units to work with SMMEs.

In order to link the parastatals more close to the government's National Strategy, the parastatals, suggest that the following activities should be undertaken:

- A forum for the exchange of information on SMME Strategy programmes and other relevant aspects.
- Regular access to a CSBP representative that could provide them with information on how to work with SMMEs.
- Participation by Strategy institutions (e.g. Ntsika and Khula) in the parastatal SMME programmes.

10.3.6.1 Observations on parastatal enterprises

Interviews with the parastatals highlighted the following aspects in relation to the government's National Strategy:

Level of awareness of the government's National Strategy by the parastatal community can be described as follows:

- They view the Strategy as a long-term effort by the government to create jobs and alleviate poverty.
- Their knowledge of the Strategy is derived mainly from press articles.
- The Strategy is the government's attempt to include previously disadvantaged people in the economic growth process.

Parastatals have the following expectations of the government's National Strategy:

- The Strategy should guide their own initiatives that relate to SMME's by providing information and expertise.

- The Strategy, through its institutions and other infrastructure, should identify market and training opportunities to the SMME sector that emanate from the parastatal community.
- The Strategy should conduct research that will be used as inputs in the development of other parastatal programmes to assist SMMEs.

The study found that parastatals have experienced the government's National Strategy in the following different ways:

- The Strategy has not provided them with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels to support their needs.
- They have used Ntsika services to support their programmes, however they have not used Khula services. They have rather referred people to Khula directly.
- The Strategy's institutions have not been proactive in contacting and relating to the Parastatal organizations.

The lack of coordination of the Strategy has resulted in the parastatal community running their own SMME programmes:

- Parastatals run similar programmes, which should have been coordinated to eliminate duplication, e.g. the Land Bank runs a Step-up loan program that addresses agricultural sector needs, which could have been run through Khula.

- SMMEs working with parastatals have missed the opportunity for accessing Khula financial products because of lack of contact between Khula and parastatals.

Parastatals suggested the following initiatives to integrate them more effectively in the government's National Strategy:

- The Strategy institutions should provide information for parastatals to use in their procurement and other SMME programmes.
- Closer co-operation with the institutions that implement the Strategy in order to foster the alignment of programmes and a common understanding.
- The Strategy institutions through their own representatives should actively involve themselves in Parastatal SMME programmes.
- The Strategy institutions should create an information exchange to share experiences and opportunities.
- The Strategy institutions should develop products that will support the Parastatal procurement initiatives that support SMMEs.

Provincial SMME desks

The role of provincial SMME desks is to co-ordinate the National Strategy's initiatives at both provincial and local levels. The study covered the following scope in conducting the evaluation of the SMME programme in the provinces:

The provincial SMME desks are involved in the SMME strategy in the following ways:

- Provincial SMME desks are responsible for the co-ordination of the SMME strategy in the provincial and local levels.
- These provincial SMME desks also influence and create laws that will impact SMMEs at the levels where provincial governments have authority.
- The provincial SMME desks are intended to interact with the CSBP on how the Strategy is co-ordinated and the relevant policies are implemented.
- Provincial SMME desks also run local and provincial SMME programmes of their own. These programmes are mostly focused on meeting local needs that have been met by the Strategy's programmes.

The direct involvement of the provincial SMME desks in the government's National Strategy activities can be described as follows:

- In most instances they attend meetings at DTI to be briefed on the Strategy activities
- The provincial SMME desks also get involved through various committees.
- There is insufficient evidence to suggest that they provide any significant input into local strategies and programmes.
- They represent the interest of the CSBP at the local level. This is made difficult by the fact that the Strategy's institutions do not usually liaise with them directly. Their constituencies get confused about the role of these institutions that are operating on the ground.

In order to link the provincial SMME desks more closely to the government's National Strategy, the following are suggested:

- CSBP should provide information to these desks on SMME activities emanating from DTI. They would in turn utilize the information for developing their own programmes.
- The provincial SMME desks should be given the opportunity and authority to develop their own strategies and products that would suit local conditions. This will bridge the gap created by the lack of understanding by national institutions of local SMME issues and needs.
- The provinces where the interviews were conducted do not possess the requisite skills and expertise on some of the SMME development issues. They would need access to expertise from CSBP and other groups to assist them with their planning and related activities.
- The role and status of co-ordination of the SMME Strategy should be elevated to work across all the other government departments on matters related to the Strategy.
- The provincial SMME desks, together with the provincial development corporations, should be reconfigured to support the creation of a unified provincial and local SMME Strategy.

10.3.6.2 Observations on provincial SMME desks

The interviews in the four provincial SMME desks (Mpumalanga, Limpopo, Gauteng and North-West) highlighted the following:

The SMME desks have the following expectations of the SMME strategy:

- The government's National Strategy should be customized to suit local conditions e.g. in the agricultural Mpumalanga, the Khula finance products should be oriented towards agricultural businesses.
- The government's National Strategy should empower the provincial authorities to make decisions based on their unique local conditions.
- The government's National Strategy should provide guidelines to the provincial institutions on policies and strategies for SMME development.
- The government's National Strategy should be based on a higher level of risk taking if it is going to engage enterprises that are considered "non-bankable" by the banking sector.
- When products or services are being developed for SMMEs by the various strategy institutions, they should take cognizance of local conditions.

The study found that provincial SMME desks experience the SMME strategy in the following different ways:

- The government's National Strategy has not provided them with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels of support of their needs.
- They have used Ntsika services to support their programmes; however, they have not made extensive use of Khula services. They have rather referred people to Khula on their own.

- The government's National Strategy's institutions have not been proactive in contacting and relating to the various provincial desks.
- They believe that they have been instructed by DTI to work directly with various programmes from Khula or Ntsika.

The government's National Strategy has resulted in the provincial SMME desks and local government structures running their own SMME programmes, e.g.:

- Limpopo province has created a NGO to co-ordinate a LBSC that will incubate SMMEs.
- Mpumalanga is running the SMME programmes through its local metro structures.

Provincial SMME desks have suggested the following initiatives in order to involve them in the government's National Strategy

- CSBP should provide access to the information for the provincial authorities to use in their local SMME programmes.
- The provincial structure would like to be involved in research that is conducted on SMMEs at the local level. This would provide them with access to research funding from CSBP.
- The authorities see the need for creating an enabling SMME legislative environment that will encourage or support private sector involvement in the government's National Strategy.
- There is need for a reconfiguration of the provincial development corporations to support provincial SMME strategy development.

- The provincial or local strategy should be moved to the premier's office to send a message of its importance and urgency to achieve results.

10.3.6.3 Research propositions with regard to parastatal enterprises and provincial SMME desks

The research propositions with regard to the parastatal enterprises and the provincial SMME desks were formulated to test the responses given by the research subjects in order to assess their role in the government's National Strategy.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition Ten: Parastatals are aware of the government's National Strategy for the development and promotion of SMMEs and are satisfied with the way the National Strategy has contributed to their own SMME initiatives.

Proposition Eleven: Provincial SMME desks are effectively and directly involved in the government's National Strategy's activities.

10.3.6.4 Study findings with regard to parastatal organizations and provincial SMME desks

With regard to parastatal organizations, the study found the following:

- The government's National Strategy, through its institutions and other infrastructure, should identify market and training opportunities to the SMME sector that emanate from the parastatal community.

- The government's National Strategy has not provided them with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels to support their needs.
- The government's National Strategy's institutions have not been proactive in contacting and relating to the parastatals.
- Parastatals run similar programmes, which should have been coordinated to eliminate duplication, e.g. the Land Bank runs a Step-up loan program that addresses agricultural sector needs, which could have been run through Khula.
- SMMEs working with parastatals have missed the opportunity for accessing Khula financial products because of lack of contact between Khula and parastatals.
- The government's National Strategy's institutions should provide information for parastatals to use in their procurement and other SMME programmes.
- There is no closer co-operation with the institutions that implement the government's National Strategy in order to foster programme alignment and a common understanding.

With regard to the provincial SMME desks, the study found the following:

- The government's National Strategy is not customized to suit local conditions and conditions.
- The government National Strategy does not empower the provincial SMMEs desks to make decisions based on their unique local conditions.

- The government's National Strategy does not provide guidelines to them on policies and strategies for SMME development.
- The government's National Strategy is not based on a higher level of risk taking to engage enterprises that are considered "non-bankable" by the banking sector.
- Products and or services do not take cognizance of local conditions when being developed for SMMEs.
- The government's National Strategy has not provided the provincial SMME desks with clear guidelines on how to design and implement their own SMME programmes.
- They have found that CSBP is not suitably staffed to be able to provide the required levels of support of their needs.
- The government's National Strategy institutions have not been proactive in contacting and relating to the various provincial desks.

Propositions test

The propositions with regard to the role of the parastatal enterprises and provincial SMME desks in the National Strategy (**Proposition Ten and Eleven**) are **rejected** because according to the findings of the study, parastatals are not satisfied with the way the government's National Strategy has contributed to their own SMME initiatives and provincial SMME desks are not effectively and directly involved in the National Strategy's activities.

10.4 Study of the small black economic empowerment mining companies

This study constituted phase two of the study and embarked on the evaluation of the awareness of the small black economic empowerment mining companies with regard to the government's National Strategy for the development and promotion of the SMME sector and as to whether the National Strategy has created an enabling environment for their businesses to succeed thereby contributing to the National Strategy's objectives of job creation and economic growth.

10.4.1 Study findings with regard to small black economic empowerment mining companies

The findings of this phase of the study are as follows:

- Fifty nine percent (59%) of the small black economic empowerment miners know of some programmes including the government's National Strategy for the development and promotion of Small Businesses. The remaining forty one percent (41%) though involved in the small scale mining operations have no idea of any programmes including the government's National Strategy for the development and promotion of Small Businesses.
- Out of the fifty nine percent of the respondents who know of some programs including the National Strategy, seventy percent did not know how the National Strategy go about its business and how to get access to it. They have had no contact at all with any of the institutions formulated within the framework of the National Strategy. The remaining thirty percent of those who knew the Strategy had a general idea of how the Strategy goes about its business, in fact only about fifteen percent knew precisely how the Strategy conducts its business and have at least been in contact with either Khula or Ntsika.

- With regard to the miners' satisfaction with the way the government has implemented the Strategy, eleven percent of the respondents who knew of the National Strategy were fairly dissatisfied with the way the government has implemented the National Strategy. A further eleven percent was very satisfied and the remaining seventy eight percent were fairly satisfied.

These findings could be interpreted as follows: Since only fifteen percent knew precisely how the National Strategy goes about its business, it is no surprise that the majority of the respondents could be unknowingly referring to the way the Department of Minerals and Energy is supporting them through the department's Broad Based Socio-Economic Empowerment (BBSEE) policy aimed at assisting small black economic empowerment mining companies to actively be involved in the South African mining industrial sector which is dominated by big companies predominately "white-owned".

- Almost all the respondents who knew National Strategy for the development of small businesses feel that the Strategy has created opportunities for them. This could partly be for the reason already mentioned above i.e. the DME's initiative with regard to the BBSEE policy. Lack of finance and competition, especially from the big players in the mining industry, were major weaknesses and threats mentioned by the respondents.
- With regard to training and training needs the study revealed that seventy three percent of the mine owners have not had any formal training in most business and management business disciplines. The need for business training with regard to the mine owners is huge; almost every one mentioned the need for formal business training to run their businesses successfully.

- With regard to whether the government has provided necessary support for their businesses successfully, the findings of the study could be summarized as in Table 10.1:

Table 10.1: Opinion on government’s provision of the necessary support for small business on a point 1 to 10 scale

Scale	Frequency	Percentage	Weight
1	4	18	0.18
2	3	14	0.28
3	3	14	0.42
4	6	27	1.08
5	3	14	0.70
6	0	0	0.00
7	0	0	0.00
8	1	4	0.32
9	0	0	0.00
10	2	9	0.90
	22	100	3.88

Referring to Table 10.1, it can clearly be concluded that the government has not done enough in the provision of the necessary support for the small business sector as the score of just below 4 by the respondents portrays, where a 1 indicated the lowest score and a 10 the highest score.

- With regard to when the miner owners started their businesses, the study showed that twenty five percent of the miners started their businesses between 1999 and 2000, ten percent started between 1994 and 1996, sixteen percent started in 1995, six percent started in 2001 and eight percent started in 2002. The study also noted that on average these small mining companies employ four people on a full time bases and eight people a part-time base. The study finally concluded that the small black economic empowerment companies average their annual turnover between three million to four million.

10.4.2 Research propositions with regard to small black economic empowerment mining companies

The research propositions with regard to the small black economic empowerment mining companies were formulated to test the responses given by the research subjects in order to assess as to whether the government's National Strategy for the development and promotion of the small business sector has created an enabling environment for that particular sector.

The responses of the research subjects will be used to evaluate the following propositions:

Proposition One: Small black economic empowerment mine owners know some programmes including the government's National Strategy for the development and promotion of Small Business.

Proposition Two: Small black economic empowerment mine owners know how the government's National Strategy go about its business, how to get access to it and they have had contact with the institutions formulated within its framework.

Proposition Three: Small black economic empowerment mine owners have been very satisfied with the way the government has implemented the National Strategy.

Proposition Four: The National Strategy has created opportunities for the small mining sector which in turn has minimized their weaknesses and barriers for growth thereby enhancing their strengths.

Proposition Five: Small black economic empowerment mine owners have had formal training and do not require any formal training in most business disciplines.

Proposition Six: Small black economic empowerment mine owners think that the government has succeeded in the provision of necessary support for their businesses.

Proposition Seven: Most small miners opened their businesses after 1994 and that there has been significant growth in their businesses with regard to the number of employees and their annual turnover.

10.4.3 Testing the propositions of the study with regard to small black economic empowerment mining companies

The study on the small black economic empowerment mining companies found the following:

- Fifty nine percent (59%) of the small black economic empowerment miners know of some programmes including the government's National Strategy for the development and promotion of Small Businesses. The remaining forty one percent (41%) though involved in the small scale mining have no idea of any programmes including the government's National Strategy for the development and promotion of Small Businesses.

According to this finding, **the proposition (Proposition One)** that small black economic miners know some programmes including the government's National Strategy for the development and promotion of Small Business is **rejected**.

- Out of the fifty nine percent of the respondents who know of some programs including the National Strategy, seventy percent did not know how the National Strategy go about its business and how to get access to it. They have had no contact at all with any of the institutions formulated within the framework of the National Strategy. The remaining thirty percent of those who knew the Strategy had a general idea of how the Strategy goes about its business, in fact only about fifteen percent knew precisely how the Strategy conducts its business and have at least been in contact with either Khula or Ntsika.

According to this finding, **the proposition (Proposition Two)** that small black economic miners know how the National Strategy goes about its business and how to get access to it and that they had contact with all the institutions formulated within the framework of the government's National Strategy is **rejected**.

- With regard to the miners' satisfaction with the way the government has implemented the Strategy, eleven percent of the respondents who knew of the National Strategy were fairly dissatisfied with the way the government has implemented the National Strategy. A further eleven percent was very satisfied and the remaining seventy eight percent were fairly satisfied.

According to this finding, **the proposition (Proposition Three)** that small black economic miners have been very satisfied with the way the government has implemented the National Strategy is **rejected**.

- Almost all the respondents who knew National Strategy for the development of small businesses feel that the Strategy has created opportunities for them.

According to this finding, **the proposition (Proposition Four)** that the government's National Strategy has created opportunities for the small black economic empowerment miners is **accepted**.

- With regard to training and training needs the study revealed that seventy three percent of the mine owners have not had any formal training in most business and management business disciplines. The need for business training with regard to the mine owners is huge; almost every one mentioned the need for formal business training to run their businesses successfully.

According to this finding, **the proposition (Proposition Five)** that small black economic empowerment mine owners have had formal training and do not require formal training in most business disciplines is **rejected**.

- With regard to whether the government has provided necessary support for their businesses successfully, the study found out the government has not done enough (well below average) in the provision of necessary support for the small miners.

According to this finding, **the proposition (Proposition Six)** that small black economic empowerment mine owners think that the government has succeeded in the provision of necessary support for their businesses is **rejected**.

- With regard to when the small miners started their businesses, the study showed that twenty five percent of the miners started their businesses in 1999 and 2000, ten percent started in 1994 and 1996, sixteen percent started in 1995, six percent started in 2001 and eight percent started in 2002. It was also illustrated that on average these companies employ four employees on a full time bases and eight employees on a part-time bases. The study finally concluded that the small black economic empowerment companies average their annual turnover between three million to four million.

According to this finding, **the proposition (Proposition Seven)** that most miners opened their businesses after 1994 and that there has not been any significant growth in their businesses with regard to the number of employees and their annual turnover is **accepted**.

10.5 Conclusion

In this chapter the research results and findings of both phases of the study were outlined.

A summary of findings, conclusions, recommendations and suggestions for future researches on the small business sector will be discussed in the following chapter.

CHAPTER 11

CONCLUSIONS AND RECOMMENDATIONS

11.1 Introduction

In the previous chapter the research results and findings were discussed. In this final chapter of this thesis the discussions focus on the conclusions and recommendations of the investigation. Final conclusions on findings of the study will be presented. Recommendations for further research will also be suggested.

The conclusions and recommendations of the entire study could be summarized as follows:

11.2 Centre for Small Business Promotion

11.2.1 Principal conclusion

The Centre for Small Business Promotion (CSBP) was conceived as the central policy making, co-ordinating and performance monitoring group of the government's National Strategy. Specifically, the White Paper states the following:

“Within the national government the DTI is the co-ordinating body for all policies responsible for all matters related to the small business sector and for all SMME-supported programmes directly or indirectly assisted by the government. It is also responsible for the co-ordination of small business strategies pursued by the provincial government within the national policy framework”.

The White Paper states that “a *Chief Directorate for Small Business will be responsible for all matters related to the government’s support for small, medium and micro and emergent enterprises*”. Thus, the White Paper gives the CSBP a large measure of authority to lead the entire government’s programme related to the National Strategy.

A principal and critical conclusion of the study is that the CSBP as currently structured, does not come close to performing the role that was intended for it in the White Paper. In practice, it has not been accorded the stature and authority needed to co-ordinate all policies within government related to small business sector. The CSBP remains a small entity, one of many Chief Directorates in one ministry of the government. In practice, it has little leverage over other parts of the government other than requesting consultations through interdepartmental committees.

Because of the inadequate role of the CSBP, the government’s National Strategy is largely leaderless. As a result, assistance to the SMMEs sector has become increasingly scattered and disconnected, marked by duplication and lack of co-ordination. Performance standards have generally not been established and where they have been they are not effectively monitored. There is, in effect, no strong, forceful stewardship of the National Strategy at the policy or the operational level.

Even within the DTI-family of organizations, namely Ntsika and Khula, the CSBP’s authority has been severely circumscribed. While the CSBP does have the final authority through its approval of budgetary allocations, its lack of personnel and financial resources, and the political pressures to maintain existing programmes, have meant that the Centre has been able to have little impact on the organization it is intended to oversee. In practice, it essentially operates as a rubber stamp for existing operations.

11.2.2 Principal recommendations

It is critical that government fill the leadership vacuum in the National Strategy. A critical body for policy, programme coordination and performance monitoring of *all* government activities in the SMME sector is needed for the National Strategy to succeed. Consideration should be given to elevating the status of the CSBP, or creating another coordinating mechanism, so as to ensure that it is recognized as such within all government departments.

Adequate resources should be accorded to the Centre to perform its functions as a policy and co-ordinating unit for the national government as well as with provincial governments. Qualified personnel should be assigned to full-time co-ordination of programmes with other ministries, provincial governments, and non-governmental organizations.

The Centre should redefine its role as focused strictly on policy research, co-ordination, and the monitoring and evaluation of results. It should exit from its current service delivery activities and assign these to organizations such as Ntsika, and other government departments, as appropriate.

Conversely, the policy and research functions that are currently being performed by Ntsika are misplaced in a service delivery institution and should be commissioned into the Centre.

The Centre should have professionals to liaise full time with Khula and Ntsika so as to ensure proper communication, co-ordination, and monitoring and evaluation. These individuals should also serve as policy advisors to these organizations and be in frequent working contact with all programmes and division heads. Similarly, others should be contracted to work with other SMME sectors in the same manner.

The Centre should be required to produce an annual report on the state of the National SMME Development Strategy, demonstrating progress that has been made at all levels of government.

The Centre should interact more directly with the governing boards of groups like Ntsika and Khula to ensure that the boards are fully informed of government policies, enabling them to play a more effective governance role.

11.3 Ntsika Enterprise Promotion Agency

11.3.1 Principal conclusion

Under the government's National Strategy for SMME development and promotion, Ntsika Enterprise Promotion Agency was given the mandate to provide a wide range of non-financial services to local service delivery groups on a "wholesale" basis, meaning delivery of resources to local providers that work directly with SMMEs. These services include institution building of these organizations, training programmes for entrepreneurs, mentoring of individual firms, marketing and procurement advice, technological assistance, among others. Given the sheer range of these activities, it is clear that Ntsika's mandate is critical to the success of the government's National Strategy.

Ntsika's task has been a daunting one, one conducted without the benefit of a clear focus of prioritization from the National Strategy or from government bodies. It was established as a quasi-independent organization under the National Small Business Act of 1996, outside of normal government bureaucracies, so as to be able to focus exclusively on the delivery of services. It has struggled to succeed at the tasks laid out for it, but has had mixed results.

This mixed record is due to several factors. First, it is an institution without the benefit of clear working precedents. It has had to develop its own internal procedures from the beginning. Second, there has been little consensus within the organization itself on its priorities and also very little assistance from the designated policy group within the DTI, the Center for Small Business Promotion. Third, there has been rapid turnover of personnel and internal dissention over the direction and management of the organization as well as

serious lack of direction from its own board. Fourth, there are serious internal contradictions within the National Strategy itself, which has limited Ntsika's potential.

In short, Ntsika has tried to be all things to all people, launching a flurry of programmes with little connection among them, weak follow-through, little leveraging of existing public and private initiatives, little co-ordination with provincial authorities, and virtually no co-ordination with its sister institution, Khula.

During the study, it was noted that the general view is that Ntsika has become a wasteful bureaucracy in its own right, and in many areas out of touch with the SMME community. Its board has taken a largely passive role in questioning the direction of the organization and has little familiarity with the actual results of Ntsika's operations. For its part, the CSBP, because of its own limitations has played the role of budget watchdog, leading to serious dissention and even animosity between the two groups.

Despite several successful programmes (such as Tender Advice Centers and its technology programmes), Ntsika is generally perceived to be a scattered, unfocussed, and inefficiently managed institution. The study leads it to concur with this perception, even accepting that Ntsika's mandate is probably too ambitious and not clearly focused.

11.3.2 Principal recommendations

Based on the findings of the study Ntsika's recommendations could be summarized as follows:

Ntsika's mandate

With regard to Ntsika's mandate, the following issues need to be considered:

- Ntsika should revisit its original mandate and restructure several of its programmes.
- Decentralization of its operations, and substantially lower budgetary allocations to headquarters-based programmes.
- Resident representatives should be established in each province to work closely with local groups, provincial authorities, and Khula's RFIs.
- De-emphasis on launching its own "retailing" of services.
- Substantially greater co-operation with existing regional and local service groups, both NGO and private profitable (Pty) groups.
- Linkages with Khula to service SMMEs in the field.
- Formal co-operation with provincial small business desks in the design and delivery of services in each province.

Composition of Ntsika programmes

Regarding the composition of Ntsika's programmes, the following issues need to be considered:

- There needs to be consensus and formal recognition among stakeholders on whether Ntsika should be more selective in its targeted assistance (more in-depth assistance with follow-up and mentoring) or whether Ntsika should continue to provide generic services to a large cross-section of SMMEs.
- Before creating new service delivery groups, Ntsika should first focus on supporting existing institutions in the regions with established delivery systems.

- Recognizing regional and sectoral differences, Ntsika should be less prescriptive/standardized in its assistance programmes, and support the direction of successful local service providers that have first hand knowledge of what services local SMMEs need.
- Ntsika must work much more closely with Khula so that SMMEs can receive the combined benefits of financial and non-financial support. Ntsika and Khula (with their LBSCs and RFIs) should be required to work more closely together in the regions, in some cases sharing common office space in the provinces. Serious consideration should be given to putting Ntsika and Khula headquarters under the same roof as well as to foster much closer co-operation.

Governance and management of Ntsika

With regard to governance and management of Ntsika, the following need to be considered:

- The Minister needs to appoint a more activist board, composed of individuals with business experience and with direct experience with SMMEs.
- The board of Ntsika needs to ensure that Ntsika's management is highly experienced in running complex organizations and programmes and make sure it hires competent divisional managers, many with business as opposed to academic or NGO backgrounds, who have demonstrated experience in small business issues.

11.4 Khula Enterprise Finance Limited

11.4.1 Principal conclusion

Khula Enterprise Finance Limited was mandated to undertake an ambitious task for the country, namely improving access to finance for the country's large SMME sector, with special emphasis on its previously disadvantaged population. Khula's mission is a critical component of the National Strategy's long-term success. However, Khula's potential for success has been compromised by several internal contradictions in the mission and structure of the organization, each of which limits Khula's ability to reach its stated goals.

Khula's contradictions with regard to its mission can be summarized as follows:

- While Khula's mission is to facilitate the flow of credit to the high risk small business sector, it is simultaneously expected to operate according to conservative banking principles, maintain high loan recovery rates, and achieve a favourable return on equity.
- The success of Khula's credit guarantee programme depends almost entirely on the commercial banking sector's willingness to lend to small, previously disadvantaged businesses, which banks are by nature, generally disinclined to do.
- Khula's loan programme encourages its Retail Financial Intermediaries (RFIs) to lend to "unbankable" micro-enterprises while simultaneously remaining financially self-sustaining.
- Khula was conceived as a "wholesale" institution, yet it is under constant pressure to act and market itself as a retail organization that offers financial services directly to businesses.

11.4.2 Principal recommendations

Khula needs to segment its market both strategically and operationally, making a clear distinction between purely commercial lending, oriented towards small and medium enterprise, and development-oriented lending for micro-survivalist enterprises requiring higher risk tolerance.

A major effort should be undertaken to work with the banking sector through mechanisms or institutions other than credit guarantees. Khula should take the lead in rallying the banking community to undertake joint efforts and develop lending mechanisms involving shared risk to support access to credit, particularly by the small business category.

Khula's charter should be altered so as to tolerate greater risk taking and lower loan repayment targets, permitting Khula to sustain a greater level of risk to meet its stated goals.

Khula should remain a "wholesale" organization, focusing its marketing programme at the banking community on behalf of its RFI network, as opposed to marketing to the general public.

Khula should work increasingly with profitable (Pty) groups that are already experienced and competent to undertake lending operations, as opposed to NGOs that do not possess the requisite skills and experience, or mentality.

Khula and the banking sector should jointly participate in and finance mentoring services for small business borrowers.

Mentoring should be attached to LBSCs or other service providers to assist potential borrowers with all necessary business plans and loan application preparations, complying with bank criteria, to be submitted to the banks. Application would be submitted to banks with 80% guarantees, whereupon the banks would undertake due diligence only.

Khula's monitoring and evaluation should be focused not only on financial results but also on lending results and impacts.

Khula and Ntsika need to operate together at the local level and at headquarters; strict separation of the two organizations is self-defeating for both. While they should obviously not be merged, they would benefit from being physically housed under the same roof.

11.5 Effectiveness of the National Strategy

11.5.1 Principal conclusion

Based on the results of the study with regard to the effectiveness of the National Strategy, the study clearly identified several successes and failures of the National Strategy as perceived by those service providers and small businesses surveyed. The study has also outlined issues emanating from Khula and Ntsika as already discussed.

11.5.2 Principal recommendation

Given the changes in the environment in the last ten years the following recommendations according to the findings of study need to be considered:

Ntsika and Khula must work more closely with the provincial SMME desks

Both Khula and Ntsika have limited contact with people in the provinces. The SMME desks are a key component to the development of SMMEs because they are more knowledgeable about local conditions and markets.

There must be increased communication between service providers

Service providers often do not communicate with other service providers on the most basic issues, leading them to miss many obvious synergies. Most of

the service providers surveyed indicated that they see the possibility of working together in the future on activities, like combining training and financing.

Better linkages between financial and non-financial service providers are crucial

If financial and non-financial services are not closely co-ordinated, many benefits are lost. It is extremely beneficial to combine financial and non-financial services – to conduct training and mentoring before and after an SMME owner receives a loan to make sure that the best and most appropriate use of the borrowed funds are made.

There must be changes in the banking laws

Changes in the banking laws need to occur to facilitate the banks to be more “SMME friendly” and willing to deal with the sector.

Provincial monitoring of Khula and Ntsika programmes is essential

Khula and Ntsika do not have a complete idea of what is happening on the ground. The quality of the training should be taken into account, as well as people who receive a second or third round of training on more advanced subjects.

Change in criteria for funding for service providers is necessary

Presently, a service provider must have been in business for a stipulated amount of time in order to be accredited by Ntsika. Service providers find it difficult to survive without Ntsika funding for very long. Also, those that are affiliated with other organizations are ineligible for Ntsika certification because of that affiliation.

Funding of some service providers' operating expenses must be provided

Service providers are trying to work with a very poor sector of the population that does not have resources to pay for services. Therefore these service providers have a difficult time sustaining themselves. They need Khula and Ntsika to fund some of their operating expenses in recognition of the realities of the population they are serving.

National voice for small business needed

There is a need for a voice for small business at the national level. The study pointed out that even while the NSBC was in operation, it did not represent effective representation. Similarly, there are doubts that NAFCOOC is able or motivated to represent the issues facing small business in this country.

11.6 Other institutions influencing Small Business development

11.6.1 Principal conclusion

All government, business organizations and other SMME development practitioner bodies who participated in this component of the study are aware of the National Strategy and the majority of them consider it a reasonable policy framework.

The pre-conceptualization phase of the National Strategy formulation process is commended for having played a key role in mobilizing a wide range of SMME stakeholders behind the Strategy and securing their early buy-in by giving them an opportunity to make input into the Strategy.

However, weaknesses in the National Strategy began to emerge as the process progressed from initial consultations to the actual design of the Strategy and its institutions to its implementation and management. These relate to the establishment of new institutions instead of utilizing existing ones,

perceived lack of a clear plan of action and focus on the part of Khula and Ntsika, poor overall communication around the Strategy, and lack of collaboration among various players.

Despite this lack of clarity and, in some cases disagreement on certain aspects of the Strategy, however, various government departments and organizations outside government have initiated and implemented their own SMME development programmes. Some of these are implemented in collaboration with Khula and Ntsika, albeit on a less than desired scale.

There is a need for the review and re-focusing of the Strategy and its objectives and redirecting of the operations of the National Strategy institutions. A need to broaden the outreach of current programmes to accommodate small and medium enterprises has been pointed out. There is a view that programmes currently reach micro-enterprises only to the exclusion of the rest.

11.6.2 Principal recommendations

There is a need to formulate inter-departmental mechanisms to facilitate co-ordination of departmental SMME programmes and the overall implementation of the SMME strategy.

The role of the DTI itself with regard to the co-ordination of the Strategy needs to be clarified and DTI needs to be more actively involved in monitoring the implementation of the Strategy.

The marketing and communication of the Strategy both within and outside of government needs to be considerably improved.

The focus of the two national support institutions needs to be reviewed and more narrowly defined. These organizations may need to be streamlined and reduced in size in order to be more focused. There is also need to foster

closer co-operation between the institutions. Duplication of programmes – such as a Mentorship Programme – and services should be eliminated.

SMME support institutions need to develop and implement mechanisms to interact and collaborate with existing institutions, especially business representatives' bodies which have a direct interest in the effective delivery of support services to SMMEs, especially their members.

The government's National Strategy needs to be reintegrated into the overall macro economic policy of the government (GEAR). SMME development should also be integrated into and clearly articulated in all local economic development initiatives. It is necessary to strike a careful balance between redistributive objectives and growth and efficiency objectives. The current focus on micro-enterprises is seen as addressing only redistributive objectives to the exclusion of growth and efficiency ones. It is proposed that the latter objectives can be more effectively addressed through a stronger focus on small and medium size enterprises, which do not feature strongly in current programmes.

In future the focus should be more on strengthening and working through existing institutions of various types than creating new ones.

Programmes should be tailored as much as possible to the needs of SMMEs in specific locations rather than generic and inflexible. Programmes should be based on clear understanding of sectoral opportunities and prospects and a thorough analysis of the support needs of SMMEs in various sectors of the economy.

The National Strategy should be reviewed regularly. Firm targets should be set and progress around these should be documented and communicated widely.

11.7 Parastatal Enterprises and provincial SMME desks

11.7.1 Principal conclusion on parastatal enterprises

Based on the interviews conducted on parastatal enterprises and its findings, the study has come up with the following conclusions:

- Parastatal's involvement in the National Strategy is primarily through procurement services.
- There is a need to create a method of sharing and providing information to parastatals by CSBP and its supporting institutions. A closer relationship between the Strategy's institutions and the parastatals is essential in order to maximize opportunities that are created through procurement and other parastatal programmes.

11.7.2 Principal conclusion on provincial SMME desks

Based on the interviews conducted with provincial SMME desks and its findings, the study has come up with the following conclusions:

- The level of awareness of the National Strategy and its implications is insufficient in order for these structures to effectively implement it at provincial level.
- Provincial structures are limited by their inability to get services and information from the core Strategy institutions.
- The current provincial development corporations are not well suited to implement the Strategy in their regions.
- The implementation structures need to report directly to the premier.

- There should be more information sharing to assist the provincial structures in implementing the Strategy at the provincial level.
- The National SMME Strategy should be revived to emphasize the unique local conditions for SMME development.

11.7.3 Principal recommendation on the parastatal enterprises

The study of parastatals has resulted in the following recommendations:

An information network that will assist parastatals on all matters that would be relevant to their mandates as well as assist SMME development

- A web site with information on matters that relate to the SMME Strategy needs to be instituted. This information should serve as a resource for their own research on SMME matters.
- An information exchange forum where the Para-statals could share experiences on working with SMMEs.
- An exchange of information with the CSBP to discuss constraints that the CSBP or other institutions could help to resolve.

Provision of expert information about SMME support opportunities, either through a DTI representative, other SMME institutions, or through access to recommended specialists.

- Provision of information on financing of SMMEs from Khula and Ntsika institutions.

- Some programmes require that they should liaise with other government departments on matters related to SMMEs. A DTI or relevant institution should provide them with relevant information.

A relationship between parastatals, CBSP and other relevant institutions should be developed. This will facilitate the involvement of the parastatals in the SMME Strategy

- A CSBP representative should be appointed to co-ordinate relationships with parastatals.
- The CSBP representative could act as a liaison between the other institutions within the SMME Strategy and the parastatals. This relationship could facilitate a better understanding of the mandate of the various institutions and how the Para-statals could contribute opportunities to the SMME sector as they arise.

Strategy institutions and the CSBP should actively participate in parastatal SMME programmes

- Their participation could link the para-statals' SMME activities to services that are offered by these institutions, such as Ntsika and Khula, e.g. access to bridging finance for SMMEs who have contracts with parastatals.
- The SMME programme seeks to identify market opportunities for SMMEs. The involvement of the Strategy's services providers would provide product development opportunities offered by the parastatal community.

11.7.4 Principal recommendation on the provincial SMME desks

The findings on the provincial SMME desks have resulted in the following recommendations:

The provincial management and co-ordination of the Strategy of the provincial level should be moved to report to the premier's office.

- The SMME desks should report to the premier's office to facilitate working across the various functions of the government that are implementing the Strategy.
- The transfer of this function to the premier's office should also indicate the seriousness of the SMME strategy.

The SMME desks and the provincial development institutions should be reconfigured into one local and provincial development service delivery corporation or agency.

- This reconfiguration would provide an opportunity to unify the Strategy. This would also eliminate duplications of programmes and resource applications.
- This consolidation of the SMME programmes would improve access to services that are offered by the national institutions, e.g. access to finance for SMMEs that have won contracts with parastatals.
- The reconfiguration would also facilitate the management of the provincial corporations. It would also facilitate access to physical resources that could be of value in the implementation of the Strategy, e.g. some provincial development corporations own infrastructure that could facilitate SMME growth.
- The CSBP should co-ordinate a forum for Parastatals with provincial SMME desks to exchange information on opportunities and constraints in the Strategy.

An information network that will provide access to information to assist provincial desks on all matters that would be relevant to their mandates and SMME related activities

- A web site with information on matters that relate to the SMME Strategy.
- Information exchange forum where provincial desks could share experiences on SMMEs with each other.
- The network should serve as a resource for their own research on SMME matters.
- Exchange information on constraints that CSBP and other institutions could address.

Provide expert information about SMME related aspects either through a DTI representative, Strategy service providers, or through access to recommended specialists.

- Provision of information on financing of SMMEs that are making use of Khula-based facilities.
- In the development of their own programmes, the provinces need advice on how best to achieve their goals, thereby needing information on these issues.

11.8 Small black economic empowerment mining companies

11.8.1 Principal conclusion

Almost half of the small black economic empowerment miners (i.e. 41%) do not know of any government programs including the National Strategy for the

development of Small Businesses. This finding negates our proposition number one that small black economic empowerment miners know of some programs including the government's National Strategy for the development and promotion of small business do not. This could directly point to the government's inability to promote the other programmes including the National Strategy to the target audience, for example the small miners.

Out of the fifty nine percent of the respondents who know of some programmes including the National Strategy, seventy percent did not know how the National Strategy goes about its business and how to get access to it. They have also had no contact at all with any of the institutions created within the framework of the National Strategy. Fifteen percent of those who know the National Strategy, a mere fifteen percent, knew precisely how the Strategy goes about its business and have been in contact with either Khula or Ntsika. This finding also sustains the claim that the government has not marketed the National Strategy to the target audience effectively i.e. there is no aggressive communication strategy.

Out of the respondents who knew the National Strategy eleven percent was fairly dissatisfied, a further eleven percent was very satisfied and the remaining seventy eight percent were fairly satisfied. The conclusion to these findings is controversial as it is not clearly known to what their satisfaction referred to between the BBSEE initiative by the Department of Minerals and Energy and the National Strategy itself. This controversy brings the conclusion that small black economic empowerment mine owners have not been very satisfied with the way the government through the Department of Trade and Industry has implemented the National Strategy specifically.

Almost all the respondents who knew National Strategy for the development of small businesses feel that the Strategy has created opportunities for them. This could partly be for the reason already mentioned above i.e. the DME's initiative with regard to the BBSEE. Lack of finance and the major competition especially from the big players in the mining industry were major weaknesses and threats mentioned by the respondents. Since it is not precisely clear as to

whether the small miners were referring to the BBSEE initiative and that finance and competition from bog players in the industry still remain an obstacle to their operation, it can be concluded that the National Strategy has not created opportunities for the small miners which in turn has minimized their weaknesses and barriers to growth in the mining industry.

Seventy three percent of the small miners have not had any formal training and they need formal training with regard to the success of their businesses. The finding clearly negates the proposition that small miners have had formal business training with regard to the success of their business ventures.

The statistical analysis and findings as to whether the government has succeeded in the provision of support for their businesses successfully shows that all small miners on average feel that the government has not provided the necessary support for their businesses. This is sustained by the average score of 4 on a 1 to 10 point scale where 1 is the lowest score and 10 the highest.

Finally, the study determined that twenty five percent of the miners started their businesses between 1999 and 2000, ten percent started in 1994 and 1996, sixteen percent started in 1995, six percent started in 2001 and eight percent started in 2002. The study also showed that on average these companies employ four employees on a full time bases and eight employees on a part-time bases. The study finally concluded that the small black economic empowerment companies average their annual turnover between three million to four million rands.

Considering the average employee and financial turnovers it clearly shows that these mines are stuck at the medium sized enterprises which clearly show that there has not been any significant growth in their business operations. From this finding, it can further be concluded that the small black economic empowerment mining companies have not sufficiently created jobs, which is the objective on the government's National Strategy.

There seems to be a very serious lack of coordination between the Department of Minerals and Energy and the Department of Trade and Industry who is the custodian of the government's National Strategy. There is indeed, one would conclude, a duplication of same tasks by the two government departments, all aimed at the same audience. This is a clear sign of lack of internal communication within government departments.

The findings of the second phase of the study clearly confirm the findings of the first phase of the study i.e. there are serious problems especially with the implementation of the National Strategy. The institutional framework of the National Strategy clearly needs to be revised (refer to the proposed institutional framework on appendix ten) and other strategic issues, for example, sector and size category (i.e. small, medium, micro) strategic orientation need to be seriously considered as all these differences create specific dynamics indifferent from each other. The "fit-all" characteristics and approach of the current government's National Strategy for the development of small, medium and micro enterprises seems not to be the right approach.

11.9 Overview conclusion of the study

11.9.1 Introduction

Ten years of SMME sector development and promotion in this country, the study has shown that South Africa's National Strategy for the development and promotion of the SMME sector has not been able to transform South Africa's SMME economy into a vibrant small business sector. This can be attributed in part to the fact that a small firm's growth depends to a large extent on the growth of the macro economy. Since macro-economic growth over the past years, has at best, been modest (though the Reserve bank has forecasted 6% economic growth, it has only averaged at 3%), it may be concluded that SMMEs have not been able to develop to their full growth potential. Nevertheless, the study clearly argues that the development and promotion of South Africa's SMME economy suffers from poor implementation of policy initiatives, which are in turn, woefully inadequate.

To date, a serious analysis of the impact of the government National Strategy on the SMME economy has been lacking, despite an abundance of policy literature of SMMEs in South Africa, which focuses on various aspects such as skills, entrepreneurship, finance and others. The problem seems to be the absence of an existing coherent framework on what all these different aspects collectively mean in the context of economic growth and the problem of unemployment. This study aimed to contribute to the building of the “bigger picture”. This concluding section simply aims to highlight – based on the findings of the study - the major gaps that still preclude making comprehensive policy recommendations, specifically in three areas: labour markets, capital markets and product markets.

All these factors are explanatory factors in the growth of SMMEs. Very little has been said about crime. Indeed, in South African context, it is one of the key factors contributing to a hostile environment of investment and SMME growth in particular.

11.9.2 SMME policies as a part of a wider framework

Important and specific though they may be, SMME growth and prosperity are clearly not “stand-alone” aims to be pursued in ignorance of the broader economic policy. In fact, it is easily understandable that SMME growth can be strongly affected by the macro-economic context. Nevertheless, it makes much sense to keep SMME policies within a separate and coherent institutional responsibility.

11.9.2.1 Macro-economic policy and its impact on SMME growth

It is generally difficult to arrive at solid conclusions about the impact of macro-economic policy on SMMEs. Globally, the relationship between SMME (or entrepreneurship) and economic growth is complex with “opportunity entrepreneurship” being stimulated by a growing economy, while “necessity entrepreneurship” is rather counter cyclical but creates very precarious

employment (Kesper, 200). Increases in the numbers of enterprises should therefore not necessarily be regarded as a positive effect on the economic context.

In South Africa, there is a lively debate on whether macro-economic policy in almost the past ten years has acted as a catalyst or deterrent to overall growth. Since the adoption of the GEAR strategy in 1996, the South African government has successfully reduced its fiscal deficit and contained inflation – albeit by means of raising the real interest rate. To what degree this hindered new investment in the SMME economy is less clear, for the following reasons:

- The impact of macro-economic policies on the private sector is often very intricate.
- Macro policies affect not just the SMME sector, but also the private sector as a whole.

Fiscal restraints, for example, appear to have an indirect impact on SMME growth by affecting levels of government expenditures on procurement and hence the demand side of SMME growth. Monetary policy has increased the cost of formal credit as a capital source for new investments. Fluctuation in the exchange rate impact negatively on SMMEs, which are highly dependent on imported input and equipment, while its depreciation was seemingly insufficient in making South African products more competitive in export markets. It is the differential impact on the spectrum of micro to medium firms and the sectors in which they operate which matters and needs to be investigated further.

This raises a whole set of questions which can only be dealt with through a comprehensive evaluation of the soundness of the SMME sector, and not just of the numbers.

11.9.3 The labour market and SMMEs

11.9.3.1 Labour regulation and employment dynamics

The promotion of SMMEs is seen as an instrument to foster the creation of employment. According to Kesper (2000), there is, however, little empirical evidence on how strong this effect might be in South Africa. Current research on SMMEs in South Africa is limited to the use of entrepreneurs' perceptions, which inevitably point to the constraining effects of labour market regulations, and in particular minimum wages. However, the study has not analytically investigated the functioning of the labour market, and this in turn impacts on growth in SMME employment.

The functioning of the labour market is likely to affect employment in SMMEs because small firms tend to be more labour intensive than their larger counterparts. Indeed, SMMEs are disproportionably found in labour-intensive industries like mining, and within a given industry they are more labour intensive than their larger counterparts. It is accordingly expected that high labour costs would deter new SMME formation and employment increases in existing firms.

As a middle-income economy country, South Africa has a largely heterogeneous labour force with a high dispersion of labour productivity (owing to a high variance in skills, which correlates with wage levels if left to the forces of the market). While the existence of a large supply of low-skilled labour should allow SMMEs to employ such labour at low wages, labour regulations may deter the skill-productivity-wage balance. There are indications that wages matter more to SMMEs than to larger firms, and that the application of too high a minimum wage makes SMMEs either exit, or become less labour intensive, i.e. to become more like larger firms. So far, however, the effect of wage levels on employment growth or decline in the SMME sector has not been rigorously analyzed and quantified.

11.9.3.2 Flexibility of labour

Another issue of concern is the flexibility of South Africa's labour force. The typical growing SMME does not expand smoothly or continuously. Instead, its employment often fluctuates, reflecting the arrival of competition into the niche it was the first to find, the resolution of internal problems or those of the SMME entrepreneur and so on. There are indications that regulations that limit the flexibility of "hiring and firing" cause some of the SMMEs that supply very volatile product markets to close down. Unfortunately, it is difficult to assess just how much merely provides a pretext for unfair dismissal. Likewise, the enforcement of basic conditions of employment such as paid maternity or sick leave especially burdens SMMEs because the monetary and labour replacement costs involved are not spread over a large enough work force.

One of the objectives of the dialogue with this respect is to clarify the difference between the area where there is a true trade-off between the welfare of existing employees and the potential to create more jobs vs. those other areas where no such trade-offs exist. This involvement of the state is to bear costs, which neither of the two parties should bear. There is a widespread tendency of the burden of labour reallocation of the firms, while at the same time avoiding a situation where the workers are forced to pick up that burden.

11.9.3.3 Future research on labour and SMMEs

In order to assess the impact of labour market dynamics and regulations on SMME growth, data on employment changes by size and sector and on wages differentials among different sizes of firms is needed to answer the following questions among others:

- Is South Africa's labour structure different from other middle-income countries, in particular with regards to self-employment in the micro-enterprise sector?

- Does measured open unemployment obscure survivalist or micro-enterprise activities?
- Are there large wage differentials between small and large firms, and are the associated wage/employment elasticities different (apart from variation across sectors?).
- To what degree does current market legislation negatively impact on actual (not planned) employment creation in SMMEs? To what extent do SMMEs (indirectly) generate employment through subcontracting as a response to labour regulation?
- What is the potential for a combined unemployment insurance retraining system that eases the burden of labour market adjustment for both the worker and the firm?

11.9.4 Capital markets and financial intermediation

11.9.4.1 Some policy framework guidelines

A major challenge facing the government is how best to use its finite resources to support SMMEs and how its overall support interfaces with access to finance and the role of private financial institutions in service provision.

At one level there are enterprises that present viability problems *per se*, and thus are a high risk. It appears that these enterprises, when they are able to borrow, are charged high interest rates by institutions to make up for the risks, but the cost of finance makes them even more vulnerable. It is argued that the support needed by these enterprises is primarily non-financial, although it makes sense to accompany, for example, marketing support by an enabling framework to accompany growth.

A major challenge is to ensure that if firms become viable entities on the (non-financial side) then the financial market should not prejudice them should they require finance. The predicament of financial intermediation only becomes a problem if there are enterprises that could make effective use of finance but cannot get it. There is a range of factors that explain the problem of financial intermediation.

First, general factors are linked with the size and risk of the firms, such as: risk ceilings of financial institutions; lack of information and credit records, making the credit assessment very difficult; high for the size of the loan. These factors are typical explanations for market failures on SMME financing.

Second, there are factors specific to previously disadvantaged communities, such as lack of valuable collateral, or the inability to provide adequate security/own contribution, as well as cultural barriers. Unfortunately, there are no known recipes for dealing with these factors. Removing interest rate ceilings to enable the development of high-risk lenders may be counter-productive if enterprises are too vulnerable to bear higher interest rates. Simplification of procedures and better control of costs are the responsibility of individual financial institutions, but pushing them into that direction raises the risk of an even more “blanket approach” and worse service quality. Subsidies are not likely to be sustainable.

11.9.4.2 Further research needs

More research is certainly needed to arrive at reasonable conclusions as to where the most pressing needs are, and how capital markets, or government intervention in the capita markets, can facilitate better access.

The central vision of a needed research output to deliver a better basis for policy-making would be a “map of demand and supply”, which would encompass the research of separate studies on a segmental approach. That project might involve the following steps:

- The identification of types of enterprises that are relevant for SME finance purposes (according to criteria of age, sector, location, size, background, growth potential), and the main types of finance to consider (equity, short-term and long-term debt, possibly asset-based vs. pure finance).
- For each type of enterprise, the identification of the average demand for various types of external capital, according to their growth potential, their current financial structure, and typical capital intensity. The desirable upgrade of a certain number of companies into the next higher category should also be considered in the model.
- Similarly, an attempt at identification and quantification of the main sources of finance on the market (including micro-lenders, buyer-advances, or supplier-credit, business angels and venture capitalists) and to break these amounts down between the types of enterprises, in order to have a first indication of where the capital supply overshoots, almost meets, or lies far behind demand.
- A critical review of the qualitative constraints facing supply and demand, i.e. the institutional and economic constraints affecting the ability of various financial institutions to operate on certain segments; and the credit worthiness and interest-bearing ability of SMMEs, per category. In addition, an attempt at providing some explanatory guidelines for these constraints (regulatory obstacles, main sources of costs and risk, and so on).

Such a “cartographic exercise” is a considerable challenge, especially for the types of finance that are very badly researched (such as trade credit and lease/installment finance) and even more for some under-researched types of enterprises (such as informal firms and rural enterprises). It probably needs to be fulfilled by the puzzle technique, i.e. investigating various samples in various settings and aggregating the various pictures obtained to a coherent representation of various (sub-) market equilibria.

Further useful research might also involve:

- A review of cultural barriers impeding the implementation of a working venture capital scheme. At present, venture capital is under-developed on the SMME segment because of both lack of interest of many venture capital firms, and lack of readiness of SMMEs. For example, entrepreneurs tend to be discouraged from when they consider the need to give up part of the control on what they consider to be their ownership. Whether these barriers are definitive or whether the strong economic case for equity may reverse the trend and increase the demand for capital should be investigated.
- An analysis of the flows of credit to SMMEs in South Africa, and the way the monetary policy has influenced such flows over the last decade.
- A more accurate analysis on South African banks' activities towards SMME including:
 - Comparison of South African bank's SMME loans (and repayment experience) with similar developing countries. Anecdotal evidence, indeed, suggests that the share of loans to SMMEs in South Africa is lower than some developing countries. This may or may not be the result of low density in the SMME sector, but to understand this better will require data from banks.
 - An investigation into the likely success of cost-reduction practices or higher competition among the banks, to encourage it to service the SMME sector better. If competition generates a shift in loan books of banks from large corporates to SMME clients, SMMEs are likely to benefit. (However certain SMMEs' dependence on larger firms, e.g. through subcontracting, may sometimes offset this effect).

- A review of the effects of bank regulation. Currently the regulatory system to which banks and other financial institutions must respond is becoming tighter, a trend which makes riskier types of business more and more capital-intensive. The need and justification of an innovative regulatory framework, which would allow “SMME banks” to function with lighter capital bases under certain conditions, should be investigated.

11.9.5 Trade and Market structures

Supply-side measures alone are not sufficient enough to make SMMEs grow if there is lack of access to potential markets. Indeed, falling demand levels are a core concern of South African SMMEs. Micro-enterprises largely complain about increased competition as a result of rising unemployment and lack of purchasing power in their immediate markets, while more established SMMEs maintain that their target markets are dominated by large firms or are shrinking. Identifying insufficient demand as a primary constraint is not surprising in South Africa where both small and large firms suffer from low aggregate demand. Nevertheless, small firms may be most prominent in sectors, industries and market segments that are more affected than those where large firms dominate.

Some sense of demand parameters may assist government in not creating overly high policy targets. More information would be needed on what SMMEs are producing and what market segments they occupy or target. One way in which the government could harness this kind of information is by linking SMME specialists to the sector directorates. Government’s ability to harness information on the SMME sector will depend less on generic SMME specialists but more on sector/economy-wide specialists with an SMME focus.

With slow economic growth, which has tampered the performance of the SMME sector, what initiatives can be taken by the DTI to boost their performance? Are there “growth pockets” in the SMME economy, where by virtue of their size and other attributes, are they able to grow even in the face

of overall stagnation? Published data, used as background by Ntsika (2001) for their *State of Small Business* report could be a useful starting point as it offers considerable sector detail in terms of manufacturing sectors over a long period, although it only offers those SMMEs that are captured by the various manufacturing census released by Stats SA. The Global Entrepreneurship Monitor (2002) report could provide additional insights to corroborate the findings of this urgently needed research.

11.10 Conclusion

The basic thrust of this conclusion section is that we are far from having sufficient knowledge of the supply and demand parameters/factors that impact on SMME growth in South Africa. This partly reflects the incomplete understanding of these issues in developing countries in general and also the short history of analysis of such issues in South Africa and major change of the context; hence the challenge since the new dispensation in 1994. What are the important priority areas where increased information for government decision-makers will be especially important if success is to be achieved in accelerating SMME growth?

South Africa's SMME sector is expected to fulfill a number of roles ranging from poverty alleviation and employment creation to international competitiveness. Not only are these very divergent policy objectives, but also the policy instruments introduced to meet these objectives can be equally different, ranging from literacy training to technological advice. Accordingly (and presumably for political reasons), determining clear priority groups is urgent, be it the targeting of more efficient promotion activities towards the more productive SMMEs, or to better assist survivalist, mainly black-run endeavours.

One of the greatest difficulties confronting policy makers is how best to develop an approach to SMMEs that achieves a sufficient degree of co-ordination between supply-side efforts and demand potential. Although there is the risk of investing resources of improving supply potential where demand

constraints are high (e.g. low growth in demand because of regional stagnation), a major question is whether supply-side incentives have frequently been ineffective because of such demand problems or whether mis-specified supply policies/deficient service delivery are the true causes of lack of success.

Ultimately, however, it is the generation of detailed information about the functioning and working of the SMME sector that determines, first and foremost, the success or failure of a redesigned SMME policy framework.

Small business performance seemingly depends not only on the removal of constraints by means of (supportive) public policies and regulations, but decisively on industrial and organizational structures, the adaptiveness of the businesses and, above all, the capabilities and aspirations of the entrepreneur.

REFERENCES:

Adams, C. (1993): *Affirmative Action in a Democratic South Africa*, First Edition, Kenwyn: Juta.

Advani, A. (1997): Industrial clusters: A support system for small and medium sized enterprises. *WB Occasional Paper 32*, Washington DC, The World Bank.

Aeroe, and Hartzernberg, T. (1994): Macro-economic Policy and the Institutional Framework for the Micro-Enterprise Development in South Africa. In *Micro-Enterprise Development in South Africa*, Hirschowitz, R., Orkin, M., Rogerson, C.M. and Smith, D. (editors), Report prepared for CASE and European Union, Johannesburg, 38-75.

Altman, M. (1994): *An Industrial Strategy for the Clothing Sector*. University of Cape Town Press, Cape Town.

Altman, M. (1996): Labour Regulation and Enterprise Strategies in the South African Clothing Industry, *Regional Studies*, 30, 387-399.

Amsden, A.H. (1997): Bringing production back in – understanding government's economic role in late industrialisation, *World Development*, 25 (4), 469-480.

Bacharach, A. J. (1990): *Research Methods*. Brooks/Cole Publishing Company, California, USA.

Bambara, A. (1995): View from the private sector. In *Agents of Change – studies on the policy environment for small enterprises in Africa*, P. English and G. Henault (editors.), Ottawa, IDRC, 8-11.

Bamberger, I. (1994): Developing competitive advantage in small and medium-sized firms. In *Product/Market Strategies of Small and Medium-sized Enterprises*, Bamberger, I. (editor), Aldershot, Avebury.

Barnes, J. (1997): *Facing up the global challenge: The state of KwaZulu Natal's automotive components industry*. CSDS Research Report 11, Centre for Social and Development Studies, University of Natal, Durban.

Becattini, G. (1990): The Marshallian industrial district as a social economic notion. In *Small Firms and Industrial Districts in Italy*, Pyke, F. (editor), London, Routledge.

Berry, A. (1994): *The role of the small and medium enterprise sector in Latin America: Implications for South Africa*. Paper presented at the 2000 TIPS Forum, September, Johannesburg.

Birch, D.L. (1979): *The job generation process*. Final report to Economic Development Administration, Cambridge, MA, MIT Program on Neighbourhood and Regional Change (mimeo).

Birch, D.L. (1987): *Job creation in America: How our Smallest companies Put the Most People to Work*, New York, The Free Press.

Bloch, R. and Daze, S. (2000): *A review of the South African Local Business Service Centre programme: Current status and future prospects*. Unpublished report prepared for the International Development Research Centre (IDRC-ROSA), Johannesburg.

Bloch, R. and Kesper, A. (2000a): *Supporting the Small and Medium Manufacturing Sector in the Western Cape*, Unpublished report for the Council for Scientific and Industrial Research, Pretoria.

Bloch, R. and Kesper, A. (2000b): *Supporting the Small and Medium Manufacturing Sector in the Highveld Production Region*, Unpublished report for the Council for Scientific and Industrial Research, Pretoria.

Boomgrad, J., Davies, S., Haggblade, S. and Mead, D.C. (1992): A Sub-sector approach to small enterprise promotion and research, *World Development* 20(2), 199-212.

Brautigam, D. (1997): Substituting for the state: Institutions and industrial development in Eastern Nigeria. *World Development* 25 (7), 1063-1080.

Browning, P. (1989): *Black Economic Empowerment*, First Edition, Parklands: Fontein.

Bryman, A. (1998): *Quantity and Quality in Social Research*, London, Unwin Hyman.

Budlender, D. and Theron, J. (1994): Micro-Enterprises and Gender. In *Micro-Enterprise Development in South Africa*, Hirschowitz, R., Orkin, M., Rogerson, C.M. and Smith, D. (editors). Report prepared for CASE and the European Union, Johannesburg, 105-129.

Budlender, D. and Theron, J. (1995): Working from home: the plight of home-based workers, *South African Labour Bulletin* 19(3), 14-19.

Bukula, S. (1997): *A review of Public Policy and the Promotion of Inter-Firm Co-operation Among Small Firms*. Report prepared for BEES Consulting Group, Johannesburg.

Bukula, S. (1999): *Report on the Support Needs of SMME Manufacturers in Gauteng*. Unpublished report for the Office of Industrial and Policy Research, Johannesburg.

Bukula, S., Memani, M. and Fakudze, N. (1998): *My Region, My Province – It's My Business: Institutional And Legal Framework For SMME Promotion In The Gauteng Province*. Unpublished report for the Gauteng Provincial Government: Directorate of Economic Empowerment, Johannesburg.

Chandra, V., Moorty, L., Nganou, J. P., Rajaratnam, B. and Schaefer, K. (2001): *Constraints to Growth and Employment in South Africa. Report #2: Evidence from the Small, Medium and Micro Enterprise Firm Survey*. Informal Discussion Paper #15. Washington DC: World Bank Southern African Department.

Clark, I., Horfmeyr, A. and Hawken, L. (1996): *MSE Horizontal Linkages Project*. Unpublished report prepared for the BEES Consulting Group, Johannesburg.

Cooper, D. R. and Schindler, P.S. (1998): *Business Research Methods*, McGraw-Hill International Editions, Sixth Edition, Boston, USA.

Cortes, M., Berry, A. and Ishaq, A. (1987): *Success in Small and Medium-Scale Enterprises – The evidence from Colombia*. New York, Oxford University Press.

Dane, F. C. (1990): *Research Methods*. Brooks/Cole Publishing Company, California, USA.

Da Silva, M. (1998): *The Rise and Fall Of An Enterprise Cluster In Africa: The Jewellery Industry In South Africa*. Paper presented at the International Graphical Union Conference on Small and Medium Sized Enterprise in a Changing World (August), Seville.

Dawson, J (1992): *The relevance of the flexible specialisation paradigm for small-scale industrial restructuring in Ghana*, IDC Bulletin 23 (3), 34-38.

DBSA (Development Bank of Southern Africa). (1993): *Employment Creation Strategies For South Africa*. Submission of Job Creation to the National Economic Forum's Short-Term Working Group, Halfway House.

Department of Trade and Industry. (1998): *Incentive Schemes*. DTI, Pretoria.

Department of Minerals and Energy. (2002/2003): *South Africa's Mineral Industry*. Directorate: Mineral Economic, Pretoria.

Dey, I. (1993): *Qualitative Data Analysis*, Third Edition, London, Routledge.

Dia, M. (1996a): *Africa's Management in the 1990s and Beyond – Reconciling Indigenous and Transplanted Institutions*, Washington DC, The World Bank.

Dillon, W.R., Madden, T.J. and Firtle, N.H. (1994): *Marketing Research in a marketing environment*. Irwin, Illinois, USA.

Dunne, N. (1999): *The Importance Of Understanding Market Demand: South Africa Furniture Manufacturers In The Global Economy*. CSDC Working Paper 22, School of Development Studies, University of Natal, Durban.

Du Toit, J. (1998): *The Structure of the South African Economy*, Second Edition, Cape Town: Southern Book Publishers.

Easterby-Smith, M., Thorpe, R. and Lowe, A. (1991): *Management Research: An Introduction*, London, Sage

Eichler, N. (1994): *Technology support for SMMEs: Suggestions for an appropriate institutional framework*. Issues in development, 6. Freidrich Ebert Stiftung, Johannesburg.

Falk, D. (1994): *Credit and Finance For Micro-Entrepreneurs*. In *Micro-Enterprises Development in South Africa*, Hirschowitz. R., Orkin M., Rogerson, C.M. and Smith, D. (editors). Report prepared for CASE and the European Union, Johannesburg, 236-266.

Ferrand, D. (1997): *Discontinuity in Development: The Case of Kenya's "missing idle"*. Paper presented at the African Business System Conference: Institutionalising Industrialisation in the Era of Economic Reform, Mombassa.

Gibb, A.A. and Scott, M. (1986): *Understanding small firm growth*. In *Small firm growth and development*, Gibb, J. Scott, M. Lewis and Faulkner, T (editors). Hampshire, Gower, 81-104.

Harrison, B. (1994): *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility*. New York, Basic Books.

Harrison, B. and Dunne, N. (1998): *KwaZulu Natal's clothing industry: The importance of firm-level and pipeline competitiveness issues*. CSDS Working Paper 14, School of Social and Development Studies, University of Natal, Durban.

Hirsch, A. and Hanival, S. (1998): *Industrial Restructuring in South Africa: The Prospective from the government*. Paper presented at the 1998 TIPS annual Forum (September), Johannesburg.

Hirschowitz, R., Acutt, J. and Koch, A. (1991): *The NTB/HSRC Investigation into Training for the Informal Sector: Main Report*. Report prepared for the Human Sciences Research Council, Pretoria.

Hirschowitz, R., Orkin, M., Rogerson, C.M. and Smith D. (1994): *Micro-Enterprise Development in South Africa*. Report prepared for CASE and the European Union (April), Johannesburg.

Hirschowitz, R., Smith, D. and Rogerson, C.M. (1994b): Fieldwork results, In *Micro-enterprise Development in South Africa*. Report prepared for CASE and the European Union, Johannesburg, 130-136.

Hirst, P. and Zeitlin, J. (1992): Flexible specialization versus post-Fordism. In *PATHWAYS TO INDUSTRIALISATION AND REGIONAL DEVELOPMENT*, M. Storper and A. J. Scott (editors), London, 70-115.

Horn, P. (1995): *Self-Employed Women's Union: Tackling the class gender intersection*. South African Labour Bulletin.

Human, L. (1993): *Affirmative Action and the Development of People*, First Edition, Kenwyn: Juta.

Humphrey, J. and Schmitz, H. (1995): Principles for promoting networks in SMEs, *UNIDO – Small and Medium Enterprise Programme, Discussion Paper 1*, Vienna, October 1995.

Huysamen, D. (1999): *Rehumanised Productivity Improvement*, First Edition, Randburg: Knowledge Resources.

Kaplan, D.E. (1994): Technology Support and SMEs: a note on the international experience and implications for design of policy in South Africa. *Issues in Development 5*, Friedrich Ebert Stiftung, Johannesburg.

Kaplinsky, R. (1997): Restructuring Firms to Cope in a Global Economy. *IDS Policy Briefing 9*(February), Institute of Development Studies, University of Sussex, Brighton.

Kaplinsky, R. and Manning, C. (1998): Concentration, Competition Policy and the Role of Small and Medium-Sized Enterprises in South Africa's Industrial Development. *The Journal of Development Studies 35*(1), 139-161.

Kaplinsky, R. and Morris, M. (1999): Trade Policy Reform and Competitive Response in KwaZulu Natal Province, South Africa. *World Development, 27* (4), 717-737.

Kesper, A. (1999a): Small Clothing Manufacturers In The Johannesburg Inner City: Facing The Global Challenge,” *Urban Forum*, 10(2), 137-164.

Kesper, A. (1999b): *Small and Medium-Sized Metalworking Companies In The Witwatersrand: Facing The Global Challenge*. Paper presented at the 1999 TIPS Annual Forum (September), Johannesburg.

Kesper, A. (2000a): *Manufacturing SMMEs in the Vaal triangle – survey results*. Report prepared for the office of the Industrial and Policy Research, May, Johannesburg.

Kesper, A. (2000b): *Making a living in the City: Small and Success of Small Enterprises In The Johannesburg Inner City*. Paper presented at the Urban Futures Conference, 10-17 July Johannesburg.

Kesper, A. (2000c): *Failing or Not Aiming to Grow? Manufacturing SMMEs and their Contribution to Employment Growth in South Africa*. Paper presented at the 200 TIPS Forum, September, Johannesburg.

Khosa, M. (1991): Capital Accumulation in the Black Taxi Industry. In *South Africa's Informal Economy*, Preston-Whyte and Rogerson, C. (editors), Cape Town, Oxford University Press, 310-325.

Khoza, R. (1993): The need for an Afro-centric Approach to Management. In *African Management*, P Christie, R. Lessem and L. Mbigi (editors), Knowledge Resources, Johannesburg.

King, K. and McGrath S. (1999): *Learning to Compete: Africa in the Era of Globalisation*. Paper presented at the “Learning to Compete” Workshop (4-6 June), Institute of Development Studies, Nairobi.

Kirsten, J. (1995): Rural Non-Farm Enterprises: A Vehicle for Rural Development in South Africa. *Agrekon*, 34, 198-204.

Koshiro. K. (1990): Japan. In *The re-emergence of small enterprises: Industrial restructuring in industrialised countries*, Sengenberger, W., Loveman, G. and Piore (editors), Geneva, International Institute of Labour Studies, 173-222.

Lall, S. (1993): What will make South Africa internationally competitive? In *South Africa and the World Economy in the 1990s*, Baker, P.H., Boraime, A. and Krafchik, W. (editors), Claremont, David Phillip, 50-70.

Levin, S. (1997b): *Runners and Laggards: An Analysis of the Factors Promoting and Constraining the Growth of Small Manufacturing Firms in the Plastics and Furniture Industries*. Policy and Research Division, Ntsika Enterprise Promotion Agency, Pretoria.

Levy, B. (1992): *How Can South Africa Manufacturing Efficiently Create Employment? An Analysis of the impact of Trade and Industrial Policy*. Informal Paper 1, Washington D. C., The World Bank.

Levy, B. (1996): *The Business Environment for Industrial Small and Medium Enterprises*. WB Discussion Paper 11, Washington D. C., The World Bank.

Liedhom, C. and Mead, D.C. (1999): *Small Enterprises and Economic Development: The dynamics of micro and small enterprises*. Routledge, London.

Loveman, G. and Sengenberger, W. (1990): Introduction – Economic and social re-organization in the small and medium-sized enterprise sector. In *The re-emergence of small enterprises: Industrial restructuring in Industrialised Countries*, Sengenberger, W., Loveman, G. and M.J. Piore (editors), Geneva, International Institute of Labour studies, 1-61.

MacDaniel and Gates, R. (1999): *Contemporary marketing Research*. Fourth Edition. South-Western College Publishing. Cincinnati, USA.

Madi, P. (1997): *Black Economic Empowerment in the New South Africa: The rights and wrongs*, First Edition, Randburg: Knowledge Resources.

Magali, M. (2003): “*Basic Conditions of Employment – Impact on SMMEs*”, in the SMME Alert, Volume 2, No. 4.

Maldonado, C. (1993): Building networks: An experiment in support to small urban producers in Benin. *International Labour Review*, 245-266.

Manning, C. and Mashingo, P. (1994): Manufacturing in South African micro-enterprises, *IDS Bulletin 25*, Institute of the Development Studies, University of Sussex, Brighton.

Manu, G. (1999): Enterprise development in Africa: Strategies for impact and growth. In *Enterprise in Africa: Between poverty and growth*, King, K. and McGrath, S. (editors), London, IT Publications, 107-120.

Mbigi, L. (1997): *Ubuntu: The African Dream in Management*, First Edition, Randburg: Knowledge Resource.

McCormick, D. (1999): African Enterprise Clusters and Industrialisation: Theory and Reality. *World Development 27* (9), 1531-1551.

McCormick, D., Kinyanjui, M.N., and Ongile, G. (1997): Growth and Barriers to Growth Among Nairobi’s Small and Medium-sized Garments Producers. *World Development 25* (7), 1095-1110.

McGrath, S. and King, K. (1999): Enterprise in Africa: new context; renewed challenges. In *Enterprises in Africa – Between Poverty and Growth*, London, IT Publications, 1-12.

McPherson, M.A. (1996): Growth of Micro and Small Enterprises in Southern Africa, *Journal of Development Economics 48*, 253-77.

Mead, D.C. (1995): *How the legal, regulatory, and tax framework affects the dynamics of enterprise growth*. In *Agents of Change – studies on policy environment for small enterprises in Africa*, English, P. and Henanult, G. (editors). Ottawa, IDR, 75-87.

Mead, D.C. (1999): MSEs tackle both poverty and growth (but in different proportions). In *Enterprises in Africa – Between Poverty and Growth*, King, K. and McGrath, S. (editors). IT Publications, London, 61-70.

Mead, D.C. and Liedholm, C. (1998): The Dynamics of Micro and Small Enterprises in Developing Countries, *World Development* 26(1), 61-74.

Mudenge, T. (1988): *A Political History Of Munhumutapa*, First Edition, Harare, Publishing House.

Mugabane, B. (1979): *The Political Economy of Race and Class in South Africa*, First Edition, New York: Monthly Review Press.

Nadvi, K. (1994): Industrial District Enterprises in Developing countries. In UNCTAD-ITD, *Technological dynamics in industrial districts: An alternative approach to industrialisation in developing countries*, Geneva, UNCTAD, 191-255.

Nadvi, K. (1997): Collective Efficiency and International Competitiveness in Pakistan. *IDS Discussion Paper 360*, Institute of Development Studies, University of Sussex, Brighton.

Nkwanazi, J. & Rall, P. (1994): “Attitudes of Employees towards Black Advancement in Selected Organizations in PWV region” *The South African Journal of Labour Relations*, Vol. 18, No. 1, March 1994.

Ntsika Enterprise Promotion Agency (1995): *The State of Small Business in South Africa*. Policy and Research Division. Pretoria.

Ntsika Enterprise Promotion Agency (1997): *The State of Small Business in South Africa*. Policy and Research Division. Pretoria.

Ntsika Enterprise Promotion Agency (1999): *The State of Small Business in South Africa*. Policy and Research Division. Pretoria.

Ntsika Enterprise Promotion Agency (2000): *National Small Business Regulatory Review*. Policy and Research Division. Pretoria.

Ntsika Enterprise Promotion Agency (2001): *The State of Small Business in South Africa*. Policy and Research Division. Pretoria.

Ntsika Enterprise Promotion Agency (2004): *The State of Small Business in South Africa*. Policy and Research Division. Pretoria.

October, L. (1996): *A study of the Cape Clothing Industry. ISP Working Paper 2, Phase 2: Sectors, Clusters and Regions*. Development Policy and Research Unit, University of Cape Town.

OECD (Organization for Economic Co-operation and Development), (1993): *Small and Medium-sized Enterprises: Technology and Competitiveness*, OECD, Paris

OECD (Organization for Economic Co-operation and Development), (1985): *Employment in small and large firms: Where have the jobs come from?* In OECD, *Employment Outlook*, Organization for Economic Co-operation and Development, Paris.

Papoutsis, C. (1996): *Promoting the development of fast-growing companies*. *Monthly Newsletter* (June), Brussels, European Commission.

Pedersen, P.O., Sverrisson, A. and van Dijk, M.P. (1994): *Flexible Specialisation: The dynamics of small-scale industries in South Africa*, IT Publication, London.

Perdersen, P.O. and McCormick, D. (1996): *Small Enterprises: Flexibility and Networking in an African Context*, Longham, London.

Preston-Whyte, E. and Rogerson, C.M. (1991): *South Africa's Informal Economy*. Oxford University Press, Cape Town.

Qualman, R. (1998) *Why do(n't) they innovate? Explaining diverse SME adjustment strategies in Africa*. Paper presented at the Seminar of the EADI Working GROUP on Industrialisation (18th /19th Sept.), The Hague.

Qunta, C. (1995): *Who is afraid of affirmative action: Survival Guide for Black Professionals*, First Edition, Cape Town: Kwela Books.

Rabellotti, R. (1999): Recovery of a Mexican Cluster: Devaluation Bonanza or Collective Efficiency, *World Development* (27 (9), 1571-1586.

Rasmussen, J. (1992): The small enterprise environment in Zimbabwe: growing in the shadow of large enterprise, *IDS Bulletin* 23(3), 21-27.

Riley, T. A. (1993): Characteristics of and Constraints Facing Black Business in South Africa: Survey Results, *Informal Discussion Paper 5*, Washington D. C., The World Bank.

Rogerson, C.M. (1991): Deregulation, Sub-contracting and the (In) Formalisation' of Small-Scale Manufacturing. In *South Africa's Informal Economy*, Preston-Whyte, E. and Rogerson, E. (editors), Cape Town, Oxford University Press, 365-385.

Rogerson, C. M. (1992): Business Organisations, industrial restructuring, flexible production: agenda for new geography. In *Geography in a changing South Africa*, Rogerson, C.M. and McCarthy (editors), Oxford University Press, Cape Town.

Rogerson, C. M. (1994): *Micro-enterprises in South Africa.* In *Micro-enterprise Development in South Africa*, Hirschowitz, R., Orkin, M., Rogerson, C. M. and Smith, D. (editors). Report prepared for CASE and the European Union, Johannesburg, 14-37.

Rogerson, C. M. (1996): Rethinking the Informal Economy of South Africa. *Development Paper 84*, Halfway House: Development Bank of South Africa.

Rogerson, C. M. (1997): *SMMEs and Poverty in South Africa*. Input report for the National Project on Poverty and Inequality, Johannesburg.

Rogerson, C. M. (1998a): The Gauteng manufacturing SMME economy: Present status and future prospects. *Paper on Education, Training and Enterprise 12*, Centre for African Studies, University of Edinburgh, Edinburgh.

Rogerson, C. M. (1998b): *In Search of an African miracle: Enterprise in Africa*. Report prepared for the Centre for Development and Enterprise, Johannesburg.

Rogerson, C. M. (1998c): *Small Enterprise Development in Post-Apartheid South Africa: Gearing up for growth and poverty alleviation?* Report prepared for the Workshop on “Successful SMEs in Africa (May) Centre for Development Studies, University of Edinburgh, Edinburgh.

Rogerson, C. M. (1999): *Successful SMMEs in South Africa: The case of clothing producers in the Witwatersrand*. Report prepared for the University of Edinburgh (January), Edinburgh.

Rogerson, C. M. and Rogerson, J.J. (1995): The decline of manufacturing in inner-city: emergent black-owned small enterprises in Johannesburg. *Urban Forum* 6(1), 17-42.

Rogerson, C. M. and Reid J. M. (1997): Towards a framework for Rural Small Business Support, *Discussion Paper*, Ntsika Promotion Agency, Pretoria.

Rogerson, C.M. and Rogerson J.M. (1995): The changing post-Apartheid city: emergent black-owned small enterprises in Johannesburg, *Urban Studies* 34(1), 85-103.

Schmitz, H. (1993): Small Shoemakers and Fordist Giants: Tale of a supercluster. *IDS Discussion Paper 331*, Institute of Development Studies, University of Sussex, Brighton.

Schmitz, H. (1995): Collective Efficiency and increasing returns. *IDS Working Paper 50*, Institute of Development Studies, University of Sussex, Brighton.

Schmitz, H. (1999): Global Competition and Local Co-operation: Success and Failure in the Sinos Valley, Brazil. *World Development* 27(9), 1627-1650. *Collective*.

Sengenberger, W., Loveman, G. and Piore, M. J. (eds): (1990): *The re-emergence of small enterprises: Industrial restructuring in industrialised countries*, Geneva, International Institute of Labour Studies.

Silverman, D. (1993): *Interpreting Qualitative Data*, London, Sage.

South Africa, Republic of (1994): *White Paper on Reconstruction and Development*. Pretoria, Government Printer.

South Africa, Republic of (1995): *National Strategy for the Development and Promotion of Small Business in South Africa*. White Paper of the Department of Trade and Industry, Pretoria, Government Printer.

South Africa, Republic of (1996): *National Small Business Act*, Pretoria, Government Printer.

South Africa, Republic of (1996): *Green Paper on Employment and Occupational Equity*, Pretoria, Government Printer.

South Africa, Republic of (1997): *Green Paper on Public Sector Procurement Reform in South Africa*. Department of Finance and Ministry of Public Works, Pretoria, Government Printer.

South Africa, Republic of (1997): *Employment Equity Bill*. Department of Labour, Pretoria, Government Printer.

Späth, B. (1994): *Implications of Industrial Districts for Upgrading Small Firms in Developing Countries: A synthesis of discussions*. In UNCTAD-IDT, *Technological dynamism in industrial districts: An alternative to approach to industrialisation in developing countries*, Geneva, UNCTAD, 287-343.

Steel, W. F. (1995): Keynote Address. In *Agents of Change: Studies on the Policy Environment for Small Enterprises in Africa*, English, P. and Henault, G. (editors), Ottawa, 11-20.

Storper, M. (1991): *Industrialisation, Economic Development and the Regional Question in the Third World*, Pion, London.

STRATOS-Group (1987): Strategic Orientations of Small and Medium Enterprise: A Summary of First Descriptive Results. *Institute Report 87.01*, European Institute for Advanced Studies in Management.

Summers, J.O. (2001): Guidelines for conducting research and publishing in marketing: From Conceptualisation through the review process. *Journal of the Academy of Marketing Science*, 29 (4), 405-425.

Sverrisson, A. (1992): Flexible specialisation and woodworking enterprise in Kenya and Zimbabwe. *IDS Bulletin* 23 (3) 28-33.

TaskGro (1993): *Policy Proposals for Small, Medium and Micro Enterprise Development*, Report prepared for the Friedrich Ebert Stiftung, Johannesburg

Timmons, J. A. (1994): *New Venture Creation: Entrepreneurship for the 21st Century*. 4th edition, Irwin.

Visser, E.J. (1999): A Comparison of Clustered and Dispersed Firms in the Small-Scale Clothing Industry in Lima. *World Development* 27(9), 1553-1570.

Wingrove, T. (1995): *Affirmative Action: a "how to" guide for Managers*, First Edition, Pretoria: Knowledge Resources.

Willemse, I. (1990): *Statistical methods and financial calculations*. Juta, Cape Town, South Africa.

Wood, A. (2000): *When and Why Does Globalisation Increase rather than Reduce Labour Market Inequalities In Developing Countries?* Paper presented at the 2000 TIPS Forum, September, Johannesburg.

Appendix One: Questionnaire

Back checked by:

Initials	Date

Edited by:

Initials	Date

Analysed by:

Initials	Date

Start Date: 2003
Survey:
Questionnaire No:

This questionnaire is the property of:

**Clement Stanley Chalera, a PhD student at the University of Pretoria
P.O. Box 12179, The Tramshed, Pretoria 0126**

Queries/Refusals:

Question Nos.

SURVEY TITLE: AN IMPACT ANALYSIS OF SOUTH AFRICA'S NATIONAL STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF SMMEs

INTRODUCTION: Good morning / afternoon my name is (Name of interviewer). I am conducting the interviews on behalf of **Clement Chalera**, a PhD student at the University of Pretoria. We are currently conducting these interviews for a PhD thesis for Clement and would greatly appreciate your views on the subject.

Who should be interviewed: OWNERS OF SMALL BLACK EMPOWERMENT MINING COMPANIES

Company Name: _____

Company Address: _____

Phone Number: _____ **Fax:** _____ **Date:** _____

Respondent Interviewed: _____

Respondent's Position: _____

Interviewer's Name: _____

I hereby certify that this is a true interview and that it is an accurate reflection of the respondent's comments.

Interviewer's Signature: _____

1. Which government programmes or NGO's do you know that are active in the development of small businesses?

.....
.....
.....
.....

2. Have you ever heard of the National Strategy for the Development and Promotion of Small Business?

Yes No.

3. IF YES – what do you know about the National Strategy – what are its aims?

.....
.....
.....
.....

4. How does it go about its business?

.....
.....
.....
.....

5. How would you gain access to the programme?

.....
.....
.....
.....

6. Have you ever had contact with any of the institutions formulated within the framework of the National Strategy

Yes No Don't know

7. IF YES - With which of the institutions have you had any contact?

.....
.....
.....
.....

8. On a scale of 1 to 5 where 1 indicates your least satisfaction and 5 your greatest satisfaction - how satisfied are you with the way government is implementing the National Strategy – on a 5-point scale of *very satisfied* to *very dissatisfied*.

- Very satisfied
- Fairly satisfied
- Neither
- Fairly dissatisfied
- Very dissatisfied

9. **IF LESS THAN VERY SATISFIED** – Why are you not more satisfied?

.....
.....
.....
.....

10. What are your particular strengths as regards your own business activities?

.....
.....
.....
.....

11. And what would you say are your weaknesses?

.....

.....

.....

.....

12. How could the National Strategy for the Development and Promotion of Small Business help overcome the weaknesses?

.....

.....

.....

.....

13. What opportunities do you have to grow your business?

.....

.....

.....

.....

14. And what are the barriers to the growth of your business?

.....

.....

.....

.....

15. In which of the following disciplines have you ever had any formal training: **(READ OUT AND RECORD BELOW)**

16. And in which of these disciplines would you like assistance? **(READ OUT AND RECORD BELOW)**

	Trained in	Required assistance
- Finance	<input type="checkbox"/>	<input type="checkbox"/>
- Production	<input type="checkbox"/>	<input type="checkbox"/>
- Administration	<input type="checkbox"/>	<input type="checkbox"/>
- Human Resources	<input type="checkbox"/>	<input type="checkbox"/>
- Sales and marketing	<input type="checkbox"/>	<input type="checkbox"/>
- Import/ Export procedures	<input type="checkbox"/>	<input type="checkbox"/>
- Promotion	<input type="checkbox"/>	<input type="checkbox"/>
- Distribution	<input type="checkbox"/>	<input type="checkbox"/>
- Any other trained in– Please state which.....		
- Any other require assistance in– Please state which.....		

17. Which training bodies/ teaching organisations have you attended?

.....

.....

.....

.....

18. Finally on a scale of 1 – 10 where 1 indicates the lowest score and 10 the highest – please score the government on its success in providing the necessary support for a small business in South Africa

Score:

19. Why have you given Government that particular score?

.....
.....
.....
.....

Demographics

Finally I would like to ask you a few questions about your company –

20. Into which of the activities on this list (**SHOW LIST OR READ OUT**) or any other does your company fall:

- Small Scale mining
 - Gold
 - Coal
 - Diamond
 - Quarry
 - PGMs
 - Ferrous Minerals
 - Non-ferrous Minerals
 - Industrial Minerals
 - Other Minerals

21. When was your company established?.....

22. How many directors/ partners/ members do you have?.....

23. How many employees do you have? Full time.....
Part time.....

24. Into which of the following turnover categories does your company fall: **(SHOW LIST OR**

READ OUT)

- Below R500 000
- R500 001 to R1 000 000
- R1 000 001 to R1 500 000
- R1 500 001 to R2 000 000
- R2 000 001 to R3 000 000
- R3 000 001 to R4 000 000
- R4 000 001 to R5 000 000
- R5 000 001 to R10 000 000
- More than R10 000 000

Appendix Two: Ntsika's non-financial service providers interviewed

<i>Service Provider</i>	<i>Contact Person</i>	<i>Province</i>	<i>Location.</i>	<i>Tel/Fax No.</i>
<i>Business Opportunity Centre</i>	<i>Noman Makgato</i>	<i>Gauteng</i>	<i>5 Khoza Street 22 Solomon Road Braamfontein Johannesburg 2000</i>	<i>Tel: (011) 839 2750 Fax: (011) 839 1897</i>
<i>Hemix Projects</i>	<i>Mr. Bongani Mhlophe</i>	<i>Gauteng</i>	<i>3rd Floor, Pretoria Trust Building 273 Paul Kruger Str. Pretoria 0001</i>	<i>Tel: (012) 323 0220 Fax: (012) 493 7156</i>
<i>Centre for Opportunity Development</i>	<i>Ms. Jan Beeton</i>	<i>Gauteng</i>	<i>PO Box 61540 Marshalltown 2017</i>	<i>Tel: (011) 832 2632 Fax: (011) 832 2637</i>
<i>Highveld Enterpreneurial Development Centre</i>	<i>Ms. Hanie De beer</i>	<i>Mpumalanga</i>	<i>HEDC Industrial Park Zuid Street Middleburg 1050</i>	<i>Tel: (017) 781 94081 Fax: (01781) 94081</i>
<i>Highveld Ridge Business Dev. Centre</i>	<i>Ms. Londani Mashila</i>	<i>Mpumalanga</i>	<i>South Wing of TLC Building Lorgi Square Secunda 2302</i>	<i>Tel: (017) 634 4339 082 356 7771 Fax: (017) 631 4005</i>
<i>Midveld Industrial Chamber Advice Centre</i>	<i>Mr. S. Skhosana</i>	<i>Mpumalanga</i>	<i>Stand No. 2994/5 Kwaggafontein C Empumalanga 0458</i>	<i>Tel: (013) 968 0737 Fax: (013) 986 0737</i>
<i>Akani Local Business Centre</i>	<i>Mr. Paul Moropane</i>	<i>Limpopo</i>	<i>Giyani Road Shirley Village 0960</i>	<i>Tel: (015) 556 3551 083 977 7867 Fax: (015) 556 3133</i>
<i>Centre for Opportunity Development</i>	<i>Mr. P Madziwo</i>	<i>Limpopo</i>	<i>Office No. 07 /5th Floor Rentmeester Bld. 58 Schoeman Str. Polokwane 0699</i>	<i>Tel: (015) 291 1509 082 495 0097 Fax: (015) 291 1518</i>
<i>Palabora Foundation</i>	<i>Ms. Joyce Makhema</i>	<i>Limpopo</i>	<i>Cnr. Calvin Ngobeni & Tambo Str. Namakakgala Plabors 1390</i>	<i>Tel: (015) 769 5000 Fax: (015) 769 5028</i>
<i>Centre for Opportunity Development</i>	<i>Mr. Themba Nkosi</i>	<i>North West</i>	<i>Potchefstroom Tech. College Cnr. Auret & Retif Str. Potchefstroom 2531</i>	<i>Tel: (018) 293 3905 Fax: (018) 293 3904</i>
<i>Enterprinuerial Support Centre</i>	<i>Mr. Itumeleng Dithloiso</i>	<i>North West</i>	<i>Montshioa Industrial Township Kgottleng Road</i>	<i>Tel: (018) 384 4148 Fax: (018) 384 4149</i>

Appendix Three: Khula's financial service providers interviewed

Service Provider	Contact Person	Province	Location.	Tel/Fax No.
Small Business Support Enterprise	Ms. Noxolo Ngwazi & Alex Quntana	Gauteng	5 Khoza Street Attiredgeville 00008	Tel: (012) 373 9574 Fax: (012) 373 9574
Amumunene Servces	Noman Makgato	Gauteng	134 Unie Avenue Lyttelton 0140	Tel: (011) 839 2750 Fax: (011) 839 1897
Shisa Business Partners Enterprise	Mr. Elvin Nel	Gauteng	PO Box 16494 Lyttelton Centurion 0147	Tel: (011) 341 0118 Fax: (011) 341 0118
Tombo Small Business Financial Services	Mr. Wish Nkosi	Mpumalanga	Block C 2467 Thuthukani Centre Nelson Mandela Drive Emelo 2351	Tel: (017) 781 94081 Fax: (01781) 94081
Hemix Projects Initiatives	Ms. Hanie De beer	Mpumalanga	HEDC Industrial Park Zuid Street Middleburg 1050	Tel: (017) 781 94081 Fax: (01781) 94081
Path Development Solutions	Ms. Londani Mashila	Mpumalanga	South Wing of TLC Building Lorgi Square Secunda 2302	Tel: (017) 634 4339 082 356 7771 Fax: (017) 631 4005
Khupuka Financial Services	Mr. P Madziwo	Limpopo	Office No. 07 5 th Floor Rentmeester Bld. 58 Schoeman Str. Polokwane 0699	Tel: (015) 291 1509 082 495 0097 Fax: (015) 291 1518
Siyenda Financial Services	Ms. Joyce Makhema	Limpopo	Cnr. Calvin Ngobeni & Tambo Str. Namakakgala Plabors 1390	Tel: (015) 769 5000 Fax: (015) 769 5028
Zenzele Enterprises	Mr. S. Preez	Limpopo	Cnr Waterval & Giyani Rd. Elim 0960	Tel: (015) 556 3207 Fax: (015) 556 3087
Kithlile Enterprinuarial Support	Mr. Itumeleng Ditlhoiso	North West	Cnr Waterval & Giyani Rd. Elim 0960	Tel: (015) 556 3207 Fax: (015) 556 3087
Isibane Resources	Mr. Aubri Moabelo	North West	Cnr Waterval & Giyani Rd. Elim 0960	Tel: (015) 556 3207 Fax: (015) 556 3087
Enterprinurial Support Centre	Mr. VJoe Fitzel	North West	Montshioa Industrial Township Kgotleng Road	Tel: (012) 256 0015 Fax: (012) 258 0001

Appendix Four: SMMEs interviewed

Service Provider	Contact Person	Province	Location.	Tel/Fax No.
<i>Tombo Metal Works</i>	<i>Mr. Liphaso Njienge</i>	<i>Gauteng</i>	<i>Site B7 Mofolo, Soweto PO Box 2130 Doornville 2926</i>	<i>Tel: (011) 484 3996 Fax: (011) 484 3943</i>
<i>Kathorus Civils</i>	<i>Mr. Litteya Mabuya</i>	<i>Gauteng</i>	<i>64 Mabusela Road Attrigville 2345 PO Box 89342 Westpark 0164</i>	<i>Tel: (011) 623 0104 Fax: (011) 623 0107</i>
<i>Khuphuka Designs</i>	<i>Mr. Jan Zondi</i>	<i>Gauteng</i>	<i>Thokoza Centre Thokoza 1421 PO Box 163 Thokoza 1421</i>	<i>Tel: (011) 864 3652 Fax: (011) 864 3415</i>
<i>Rivoni Industries</i>	<i>Ms. Hanie Mpeqeka</i>	<i>Mpumalanga</i>	<i>Community Park Chamber of Business Foundation PO Box 25567 Empumalanga 0458</i>	<i>Tel: (013) 797 1870 Fax: (013)797 1880</i>
<i>Furncol Projects Construction</i>	<i>Mr. Calvin Mashakeng</i>	<i>Mpumalanga</i>	<i>Kwagaansfontein Centre Giyani Road Kwagaansfontein Po Box 1263 Kwagaansfontein 2302</i>	<i>Tel: (013) 986 0737: Fax: (013) 986 0737</i>
<i>Kithilile Textile Suppliers</i>	<i>Ms. S. Skhosana</i>	<i>Mpumalanga</i>	<i>Somatho Complex Office No. B6 Ermelo 2351 PO Box 1353 Ermelo 2351</i>	<i>Tel: (013) 242 2050 Fax: (013)242 2050</i>
<i>Nicro Services</i>	<i>Mr. Paul Moropane</i>	<i>Limpopo</i>	<i>Lingeletu Centre Palabora 1390 PO Box 1289 Palabora 1390</i>	<i>Tel: (015) 994 4583 Fax: (015) 992 4220</i>
<i>Manguang Industries</i>	<i>Mr. Lemmy Mule</i>	<i>Limpopo</i>	<i>Hani Building First Floor Elim 0960 PO Box 1857 Elim 0960</i>	<i>Tel: (015) 761 2116 Fax: (015)960 4714</i>
<i>Altak Enterprises</i>	<i>Ms. Joyce Makhema</i>	<i>Limpopo</i>	<i>Stand Number 528 Mankweng Sovenga 0727 PO Box 971 Sovenga</i>	<i>Tel: (015) 559 9087 Fax: (015) 554 9175</i>

University of Pretoria etd – Chalera, C S (2007)

<i>Ekuseni General Dealers</i>	<i>Mr. Themba Nkosi</i>	<i>North West</i>	<i>Office 101 Safari Centre Van Velden Street Brits 0250 PO Box 58 Brits 0250</i>	<i>Tel: (012) 252 2090 Fax: (012) 252 2094</i>
<i>Thekwin Enterprises</i>	<i>Mr. Itumeleng Dithloiso</i>	<i>North West</i>	<i>Enna Murray Street New Industria Sites Eastleigh Orkney 2620 PO Box 911 Orkeney 2620</i>	<i>Tel. (018) 473 1213 Tax: (018) 473 1213</i>
<i>Kalahari Developers</i>	<i>Mr. Hunter Mabilo</i>	<i>North West</i>	<i>Protea Centre Cnr Martin & Station Rd. Mafikeng 2745 PO Box 211 Potchefstroom 2531</i>	<i>Tel: (018) 381 6531 Fax: (018) 381 6537</i>

Appendix Five: Provincial Financial and Economic Affairs departments interviewed

<i>Province</i>	<i>Head of Department Interviewed</i>	<i>Postal address</i>	<i>Tel/Cel. No.</i>	<i>Fax No.</i>
<i>Gauteng: Department of Finance and Economic Affairs</i>	<i>Ms. T Chikane</i>	<i>Private Bag X091 Marshalltown 2107 94 Main Street, 7th Floor, Marshalltown, 2001</i>	<i>(011) 355 8707</i>	<i>(011) 834 1972</i>
<i>Mpumalanga: Department of Finance, Economic Affairs and Tourism</i>	<i>Mr. J I Mabena</i>	<i>Private Bag X11215 Nelspruit 1200 Building 6, Riverside, Government Complex Nelspruit</i>	<i>(013) 766 4544</i>	<i>(013) 766 4617</i>
<i>North West: Department of Economic and Tourism</i>	<i>Ms. I Thase</i>	<i>Private Bag X90 Mmabatho 2745</i>	<i>(018) 384 1024</i>	<i>(018) 384 1026</i>
<i>Limpopo; Department of Finance</i>	<i>Mr. B. Mphahlele</i>	<i>Private Bag X9486, Polokwane, 0700 58 President Street, Polokwane</i>	<i>(015) 295 7090</i>	<i>(015) 297 0937</i>

Appendix Six: Provincial Public Works departments interviewed

Province	Head of Department Interviewed	Postal address	Tel/Cel. No.	Fax No.
<i>Gauteng: Department of Public Transport, Roads and Works</i>	<i>Ms. J van der Merwe</i>	<i>Private Bag X091 Marshalltown 2107 94 Main Street, 7th Floor, Marshalltown, 2001</i>	<i>(011) 355 8707</i>	<i>(011) 834 1972</i>
<i>Mpumalanga: Department of Public Works and Roads</i>	<i>Mr. S.J. Mabena</i>	<i>Private Bag X11302 Nelspruit 1200 Building 7, Riverside, Government Complex Neilspruit</i>	<i>(013) 766 6804</i>	<i>(013) 766 8462</i>
<i>North West: Department of Roads and Public Works</i>	<i>Ms. K L Sebego</i>	<i>Private Bag X65 Mmabatho 2735</i>	<i>(018) 387 2064</i>	<i>(018) 387 2061</i>
<i>Limpopo: Department of Public Works</i>	<i>Mr. S Phillips</i>	<i>Private Bag X9490, Polokwane, 0700 Cnr Tster and Bouberg Street, Polokwane</i>	<i>(015) 293 9043</i>	<i>(015) 293 1520</i>

Appendix Seven: Parastatal enterprises

Institution	Purpose	Interviewed
South African Bureau of Standards	To develop and monitor the implementation of standards	Yes
Land Bank	To provide finance for agricultural enterprises	Yes
Development Bank of Southern Africa	To provide infrastructural development finance	Yes
Transnet	To provide transport services	Yes
Telkom	To provide telecommunication services	Yes
Eskom	To provide electrical services	Yes
CSIR	To conduct scientific research	No
Industrial Development Corporation (IDC)	To provide finance in manufacturing sectors	No
Sasol	To provide energy resources	Yes
Iscor	Production of steel products	Yes
National Housing Finance Corporation	Provide access to finance for housing	No
Independent Development Trust	Implement government community programs	No

Appendix Eight: Provincial SMME desks

<i>Provincial SMME desk</i>	<i>Name</i>	<i>Postal address</i>	<i>Tel/Cel. No.</i>	<i>Fax No.</i>	<i>Interviewed?</i>
<i>Eastern Cape Province</i>	<i>Mr. Mcebisi Jonas/Mr. Goppie Reddy</i>	<i>Box 11197 Southernwood 5213</i>	<i>(043)7432158/0835411742</i>	<i>(043)7431157</i>	<i>No</i>
<i>Free State Province</i>	<i>Mr. Mari Tsiki</i>	<i>Box 520 Bloemfontein 9300</i>	<i>(051)4054229/0825623488</i>	<i>(051)4033424</i>	<i>No</i>
<i>Gauteng Province</i>	<i>Mr. Dann Morgan</i>	<i>Box 63203 Marshalltown 2107</i>	<i>(011)3558049/</i>	<i>(011)3558049</i>	<i>Yes</i>
<i>Kwazulu Natal Province</i>	<i>Ms. Ntokozo Majola</i>	<i>Private Bag X001 Bishopsgate 4008</i>	<i>(031)3105300/0826329876</i>	<i>(031)3105413</i>	<i>No</i>
<i>Mpumalanga Province</i>	<i>Mr. Lemmy Mduli</i>	<i>Private Bag X11215 Nelspruit 1200</i>	<i>(013)7554004</i>	<i>(018)3847479</i>	<i>Yes</i>
<i>North West Province</i>	<i>Annoinette Baepi</i>	<i>Private Bag X90 Mafikeng 2745</i>	<i>(018)3841020/0838394022</i>	<i>(053)8326805</i>	<i>Yes</i>
<i>Northern Cape Province</i>	<i>Vincent Mothibi</i>	<i>Private Bag X6108 Kimberley 8300</i>	<i>(053)8394022</i>	<i>(018)3847479</i>	<i>No</i>
<i>Limpopo Province</i>	<i>Mr. Stan Mathabatha</i>	<i>Private Bag X9484 Pietersburg 0700</i>	<i>(015)2987000</i>	<i>(015)2958750</i>	<i>Yes</i>
<i>Western Cape Province</i>	<i>Dudley Adolf</i>	<i>P o Box 979 Cape town</i>	<i>(021)4838751/0834127340</i>	<i>(021)4833483</i>	<i>No</i>

Appendix Nine: List of small black economic empowerment companies interviewed

NAME	ACTIVITY	OWNER
Mzintlava Quarry	Quarry	Ms. Agnes Mzobotshi
Mimpex Minerals	Quarry	Mr. Henry Mhlongo
Endulwin Resources	Coal	Mr. Siphon Dube
Eyesizwe Mining	Coal	Mr. Mandla Mncunu
Cloverdane Pr. Metals	Gold	Mr. Grey Thibela
Ukhozi Mining	Coal	Mr. Rudy Phillis
Kuyasa Mining	Coal	Mr. Ayanda Bam
Shisa Minerals	Coal	Mr. Solly Pillay
Vula Coal Mine	Coal	Mr. Pat Mkhize
Af-Renais Diamond	Coal	Mr. Emmanuel Nhlapo
Nhlapo Mining	Diamond	Ms. Beauty Kwena
New Ventue Mining	Gold	Mr. Victor Mojalefa
Sandland Stone Active	PGMs	Mr. Vuyo Ntshona
Umnothe we Sizwe	Various Commodities	Mr. Gopolang Makokwe
New Diamond Corporation	Granite	Mr. Aubrey Somana
Nala Mining	Diamond	Mr. Pius Mokgokong
Sebenza Mining	Diamond	Mr. Briss Mathabane
Imbani Mining	Coal	Mr. Malcom Goliath
Sedibeng Mining	Coal	Mr. Sindi Sibankulu
Tsantsabane Mining	Coal	Mr. Constance Nkosi
Lidonga Mining	Diamond	Mr. Musa Mayambo
Kwena Minerals	Iron Ore	Mr. Mr. Vuyo Vanga

Appendix Ten: Proposed structure for job creation and small business promotion

