

UNIVERSITY OF THE WESTERN CAPE

School of Government

TITLE

**Small, Medium and Micro Enterprise Development challenges
in a post apartheid South Africa: Lessons learnt**

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DECLARATION

I, **Tandi Mahambehlala**, a student at the University of the Western Cape solemnly declare that this thesis and the work presented in it are my own and has been generated by me as a result of my own original research. Where I have quoted from the work of others, the reference is highlighted and sources are acknowledge accordingly. With the exception of the aforementioned, this thesis is my own work in its entirety. None of this work has been published before submission. This thesis, whether partially or in full, has not been previously submitted to any other recognised education institution for another qualification.

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DEDICATION

I wish to dedicate this work to my sons, Luyolo and Tebogo Mahambehala. I hope through this, they will realise the importance of education and academic development for a greater future and since the existence of evolution throughout the world, education has been a fundamental pillar of strength at all material times.



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ABSTRACT

A problem of the South African economy is the pervasive unemployment in particular amongst the black population. Double-digit unemployment figures had become the norm within post - apartheid South Africa. The newly elected government in 1994 identified the informal sector as a strategic growth area. The SMME sector was seen as unexplored and a potential conduit and possible answer to create employment opportunities and address the unemployment crisis. The question that guided the research was *What are the challenges faced by the SMME sector, in particular black SMMEs, in becoming a sustainable and financially viable business?* The study was qualitative in nature and the case methodology was used for this research. The key findings were that, there is an over - reliance on the business owner that in many instances, has very little business experience. Furthermore ,that government support programmes are not well known amongst the SMMEs. The major recommendations are that Government must provide the support to the SMME sector to become sustainable and contribute to employment creation. Government must explore the possibility of financially supporting the SMMEs. Lastly, that Government must review the regulatory and policy framework to reduce and create an enabling environment for SMMEs to grow and become lucrative.

CHAPTER ONE

1. INTRODUCTION AND BACKGROUND TO THE STUDY

The newly elected democratic government of South Africa in 1994 inherited an economic system that was designed to advance the economic interest of the white minority whilst enslaving the black majority in poverty and unemployment. The democratic government promulgated several policies aimed at transforming the economy and undoing the past racial economic injustice. The White Paper on SMME development of 1995 in particular focused on the SMME sector as a critical contributor to employment creation and poverty reduction.

The research focused on the challenges that SMMEs are confronted with in becoming a financially sustainable going concern. The first part of the research provides the background to the study and the research question posed to guide the study. Thereafter the theoretical framework and the research methodology of the study is explained. The chapter concludes with the findings and the recommendation stemming therefrom.

1.1 Background to the study

A systematic problem of the South African economy is the pervasive unemployment in particular amongst the black population. The 27,5%, double-digit unemployment figures had become the norm within post apartheid South Africa. The unemployed, impoverished and poor are placing pressure on the ANC led government to design policies and programmes interventions to change their socio-economic situation. Ramukumba (2014) states that approximately 25% of the population is jobless and the number increased to approximately 40% if one includes those who have given up looking for work.

The formal sector, traditionally, is seen as the main instrument for employment creation but is not growing at a sufficient rate to absorb the increasing number of unemployed in order to make a meaningful change. During the apartheid years, very few formal black businesses were established. In the main this was as a result of a plethora of legislation aimed at suppressing any meaningful economic development amongst black South Africans. This resulted in a number of informal businesses commonly known as 'spaza shops'. According to Wikipedia, a spaza shop is an informal convenience business in South Africa, usually run from home.

These businesses, in the main, are mostly survivalist with low turnover and profit margin. The black-owned business during the apartheid era did not have permanency mostly because of oppressive legislation prohibiting black South Africans from land ownership. According to Boddy-Evans (2018), the Land Act of 1913 legally prohibits any black South African to own or rent land outside designated areas. These designated areas were mostly in underdeveloped rural areas and not in the urban areas. This resulted in the black small businesses not having business premises to ensure a long-term sustainable financial growth strategy. These informal businesses become the mainstay of providing income for a vast majority of the unemployed. This sector though was unorganized and struggled to move beyond the survivalist mode.

The newly elected government in 1994 identified the informal sector as a strategic growth area. The SMME sector was seen as unexplored and a potential conduit and possible answer to create employment opportunities and address the unemployment crisis. Ramukumba (2014) agrees with the aforementioned and postulates that the SMME's role is extremely important because they have the potential to improve income distribution, create new employment opportunities and reduce poverty. The SMME's role

if Ramukumba's view holds true cannot be under estimate and could play an important role in transforming the economic reality of South Africa. Government similarly realised the importance of the SMME sector and restructured its administration and established the Department of Small Business Development with the responsibility to grow this sector amongst the black community.

A heightening awareness on part of government was evident post 1994 to address problems confronting the economy and to reverse the unemployment rate through a radical policy shift. The small, medium and micro enterprises (SMMEs) were identified as a key driver of economic growth and job creation. During the State of the Nation Address (2016), the South African President stated that SMMEs must be 'empowered to accelerate growth'. This is a powerful statement, recognising the importance of the SMME sector as a catalyst in undoing the economic effects from the apartheid government. Similarly, acknowledging that the SMME sector is confronted with challenges that hinders the growth and its ability to play a central role in achieving government objective of employment creation and poverty reduction and, ultimately ,a better life for all.

According to Minister Zulu (2014), the Ministry for Small Business Development was established as part of the government's commitment to place the economy and job creation at centre stage. Government is convinced that through this intervention, economic opportunities will be unlocked and facilitate the achievement of inclusive economic growth and sustainable employment, particularly for women, youth and people with disabilities. Minister Zulu (2014) stated that a mind shift from a nation of job seekers to a nation of job creators is needed. The achievement of the aforementioned requires more and more people adopting an entrepreneurial mind

set and starting their own business.

The SMME sectors are the key to future economic growth and transforming the socio-economic reality of the poor. A growing and flourishing SMME sector has the potential to create much-needed employment and improving the living conditions of many people. Many countries and multinational agencies promote SMMEs as a vehicle to stimulate the economy and create employment opportunities.

1.2 Problem Statement

After 1994 government promulgated several policies and interventions aimed at stimulating the local SMMEs. The objective was to grow the SMME sector and, in the process, stimulate the local economy and create much-needed employment. Unemployment is rife amongst the black economy and the growth of SMMEs operating within marginalised communities is, therefore critical. The contrary seems to happen and the local black SMME sector, instead of growing, was declining. The SMME sector in the disadvantaged areas is being displaced by growing foreign SMMEs. According to Charman, Petersen and Piper (2012), foreign traders over time displaced the local traders. As case in point is the low-income community of Delft. In late 2010 this particular sub-area contained 30 spaza shops. The South Africans owned 17 (57%) of these spaza shops and foreign nationals 13 (47%), according to Business Tech survey. It also points out that by July 2012 there was a 22% decrease in the total number of spaza businesses operating in the sub-area (dropping from 30 to 23) but a 31% growth in foreign ownership (from 13 to 18). Foreign national spaza shops appear to be successful compared to the ones owned by South African citizens. Many of the foreign

shops appeared to have positioned their business to compete directly with established South African businesses.

According to Charman et al (2012) most of informal business owners have no business management skills to run their businesses. They operate under bad conditions and the turnover of their business is far too little to become financially successful. Most of the businesses are survivalist and operate mostly to provide a daily subsistence and not necessarily for long-term growth and sustainability.

The Minister of Small Business Development, Minister Zulu, maintains the view that a successful SMME sector holds the answer to employment creation and poverty reduction. Furthermore, if employees are being trained and upskilled, the company profits should increase, consumer spending will be accelerated and the economy will improve.

The objective of SMME development is to contribute to changing the inherent racially socio-economic situation and serve as an incubator for the growth of black business. The SMME sector holds the potential to reduce unemployment and improving the economic situation of black South Africans. Government introduced a policy regime to facilitate the growth of the SMME sector particular amongst the disadvantaged communities but this seems not to be the situation. Irrespective of the changes in policy and regulatory environment ,black-owned SMMEs are finding it difficult to become a financial sustainable business able to provide meaningful employment. According to the Bureau for Economic Research (2016) ,most of the SMMEs operating in the formal sector is white-owned, whilst those that operate in the informal sector is mostly black operated and survivalist. Olawale and Garwe (2010) states that approximately 75% of SMMEs in South Africa failed to become a sustainable business. Given the SMME

sector failure rate, it is therefore, failing in contributing to the overarching objective of employment creation and poverty alleviation. It is important to understand what the contributing factors are that lead to the SMME failure rate and ,ultimately, its inability to contribute to employment contribution and poverty alleviation.

1.3 RESEARCH QUESTION

What are the challenges faced by the black SMMEs sector, from becoming a sustainable and financially viable business.

1.4 RESEARCH OBJECTIVES

- To draw a common understanding of what the challenges are that prevent SMME to become successful
- To determine the role government plays in SMME development.
- To present the data collected and based thereon to present the findings.
- To make recommendation to assist SMME development in disadvantaged communities.



1.5 SIGNIFICANCE OF THE STUDY

This study is important ,given the high unemployment rate within South Africa. It will bring an understanding of what the challenges are that the SMME sector in the disadvantaged communities are confronted with, in order to become financially sustainable. Importantly, the findings will contribute to informing government what policy interventions strategies to develop and assist the SMME sector to become sustainable. Lastly ,the findings of the study will contribute to policy formulation to create an enabling environment for SMMEs to flourish.

1.6 LITERATURE STUDY – UNDERSTANDING THE SMME CHALLENGES

The Reconstruction and Development Plan (RDP) first drew the attention in 1994 to the importance of the SMME sector and read 'A particular weakness of the economy, aggravated by racist and sexist policies, is the inability to maintain a dynamic small-scale and micro enterprise sector'. Smaller firms, especially if owned by black people, can rarely develop productive linkages with the large-scale sector. Most people in the informal sector lack productive and managerial skills plus access to business sites, capital and markets.

The White Paper on National Strategy on the Development and Promotion of Small Business in South Africa (1995) built on the RDP and drew attention to the inherent unemployment and the role of the SMME sector. The white paper states that, since the elections of April 1994 the issues of economic empowerment and growth have been placed high on the agenda of the Government of National Unity of South Africa. With millions of South Africans unemployed and underemployed, the government has no option but to give its full attention to the fundamental task of job creation, and generating sustainable and equitable growth. Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. The importance therefore, of the SMME sector was recognised as early as 1994.

The National Small Business Act of 1996 provided the legislative framework for the development of the SMME sector and the goal, in essence, was 'To provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency; and to provide guidelines for organs of state in order to promote

small business in the Republic; and to provide for matters incidental thereto’.

The Broad-Based Black Empowerment Act (BEE) of 2004 gives effect to the Constitution that the economic power must be shared by the people of the country. To that end ,the Act objectives are stated clearly in the preamble:

- Under apartheid race was used to control access to South Africa’s productive resources and access to skills;
- South Africa’s economy still excludes the vast majority of its people from ownership of productive assets and the possession of advanced skills;
- South Africa’s economy performs below its potential because of the low level of income earned and generated by the majority of its people;
- Unless further steps are taken to increase the effective participation of the majority of South Africans in the economy, the stability and prosperity of the economy in the future may be undermined to the detriment of all South Africans, irrespective of race;
- Promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people in the economy and promote a higher growth rate, increased employment and more equitable income distribution; and
- Establish a national policy on broad-based black economic empowerment so as to promote the economic unity of the nation, protect the common market, and promote equal opportunity and equal access to government services.

The BEE Act of 2004 directly and indirectly refers to the SMME sector as an instrument to transform the economy of the country. Given the realisation of the importance by the South African government of the SMME sector and the policy and legislative framework

to guide the development of the sector, black SMMEs, in particular, are struggling to become a going concern.

The Deputy Minister of Finance (March 2014), in discussing the Role and Importance of SMMEs in the South African Economy and Potential Benefits to the Region and to Africa, stated that it is common cause that Small and Medium Enterprises (SMEs) have the potential to grow the economy, create jobs and broaden the tax base. Therefore, SMEs play a crucial role in reducing unemployment, inequality and poverty levels – thus also reducing people’s reliance on government social security grants. It is, therefore ,a common understanding that SMMEs could change the unemployment landscape and directly contribute to poverty reduction and improving the economic situation of the poor and marginalised.

Minister Zulu reiterated this policy objective in her budget vote (2015/16) in the national assembly. The minister stated, twenty years since our freedom, the participation of black people in the country’s economy still leaves much to be desired. Radical economic transformation is about turning this ugly picture on its head. We must intensify our efforts aimed at broadening participation in the mainstream of the economy.

Nieman (2006) provides the following reasons why SMMEs are an important sector:

- Its ability to create and provide employment.
- It creates competitive markets.
- SMMEs adapt quicker to a changing economic environment.
- Use of local-labour and resources, in other words ,contribute to the local economy.
- Provides opportunities for young and aspiring entrepreneurs r those who are unemployed, under-employed or retrenched.

1.7 RESEARCH METHODOLOGY

1.7.1 Research design

The qualitative research methodology was used to investigate the research question. The methodology allows the researcher to interview and get an insider's perspective of the research problem. According to Sarantakos (2000), qualitative research is aimed at exploring social relations and describes reality as experience by the respondents.

Data collection

The population of study was the SMME sector within Khayelitsha. Purposive sampling (Mouton, 1996) was used to determine the sample from which the data was collected. The determination of the sample was similarly informed by the criteria that the SMME sampled must be from various sectors. Furthermore, the sample include start-ups and others operating for a number of years. The reason therefor was to ensure that the data collected could contribute to the validity of the findings.

The SMME owners were interviewed to solicit their perspective on what the challenges are that hinders them in becoming a successful small business. The research instrument used was a questionnaire. The questionnaire contained both closed and open-ended questions. Triangulation was used to ensure the objectivity and reliability of the data collection and subsequent findings. In this regard, policy documents were consulted and various other reference sources used during the data collection process.

1.7.2 Delimitation of the study

The study focused on SMMEs within the Khayelitsha suburb of the City of Cape Town. The SMMEs are black-owned and operated in the historical disadvantaged area.

1.8 CHAPTER OUTLINE

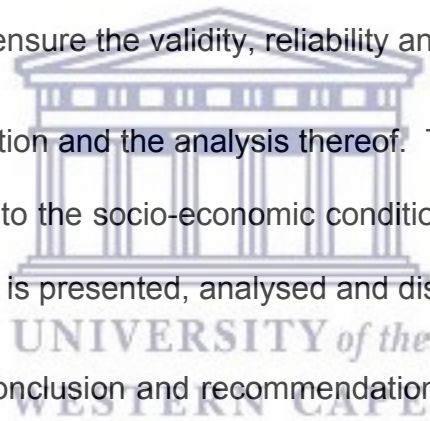
Chapter One provides the background and problem statement. The research question and research objective that guides the research is explained. A preliminary literature study and research method to operationalise the study is provided.

Chapter Two provides an analysis of the relevant literature regarding SMMEs. This is followed by a discussion of the policy and regulatory framework within which SMMEs function.

Chapter Three is the discussion of the research design and methodology used to research the phenomenon. An in-depth discussion is presented regarding the data collection process and how to ensure the validity, reliability and objectivity of the findings.

Chapter Four is the data collection and the analysis thereof. The explanation of the case study with particular reference to the socio-economic conditions and its demographics is presented. The data collection is presented, analysed and discussed in the chapter.

Chapter Five is the findings, conclusion and recommendation. This chapter commences with a restatement of the research question. It presents the findings and the recommendation .



CHAPTER TWO: THEORETICAL FRAMEWORK, POLICY AND REGULATORY ENVIRONMENT

2.1 INTRODUCTION

The importance of the small business sector cannot be underestimated and could play a meaningful role in reducing unemployment amongst the disadvantaged communities. However, for the small business sector to make a meaningful contribution to the economy it needs to be supported towards sustainability. This is going to require a concerted effort, both from government and the formal private sector. The first part of the chapter is a discussion of the literature on SMMEs. This is followed by the policy and regulatory framework guiding SMMEs.

2.2 Theoretical framework: Conceptualising SMMEs

The world during the 1990s saw a remarkable shift in emphasis on the role of small business development with in overall economic development strategies. According to Steel (1993), small-scale enterprises were defended based on social reasons as a panacea for the unskilled, surplus labour in existence in developing countries. It provided income-earning opportunities for the informal sector. As such, it was perceived as a marginal sector and integrating this sector into mainstream economic activity was considered unimportant. However, more recently the realisation is that small-scale enterprises have a valid claim to greater importance and strategies have been developed world-wide to expand and ensure sustainability of this sector.

Lekhanya (2015) draws attention to the challenges that the SMME sector is confronted with and mentioned that the marketing of SMMEs is a concern. He similarly acknowledges that SMME marketing is dependent on finance and managerial skills.

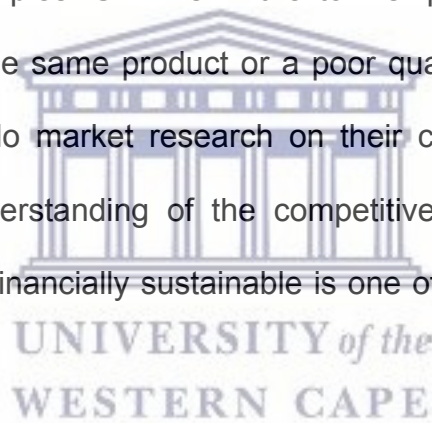
Ramukumba (2014), in his discussion on the SMME sector, says that it is plagued by several challenges resulting in the bankruptcy of many businesses. These challenges are:

- A lack of management skills
- Inability to access finance and obtaining credit
- Access to markets and developing relationship with customers
- Appropriate technology and low production capacity
- A quality product
- Support for the role that they play in the economy
- Access to markets
- Networks

Ramukumba (2014) highlighted the lack of management skills as an important systemic factor that characterises the SMME sector. Managerial skills such as planning, organising, budgeting, performance management are important ingredients for organisational success. The saying is that a lack of planning is planning for failure. Many SMMEs had started off without any business plan. In other words, the SMMEs started operating having no vision or plan on how it intended growing or how to deal with any eventuality. Ramukumba (2014), furthermore, states that access to markets is another challenge. Many of the SMMEs have a product to sell but lack the ability to access the market. A case in point is the SMME that is manufacturing burglar bars and steel gates. The SMME has the manufacturing ability and produces good quality burglar bars and steel gates but lacks the know-how on accessing the market. His products are normally sold to the local neighbourhood and his marketing is done by word of mouth. In this particular instance, the small business's chance for survival is very slim. Modern marketing techniques such as the use of the internet or social media are not the norm.

The business owner's inability to market his product and grow the business income directly impacts on his ability to purchase stock or vehicles to transport his product. The business is, therefore, confronted with multiple inter-related challenges that if not addressed would lead to the demise of the business.

Brink and Cant (2003) similarly highlighted the problems experienced by small businesses. According to them, the failure rate of SMMEs is between 70-80%. This means in simplistic terms that 8 of 10 small businesses are doomed for failure. According to them, often the ideas are good and the people behind them are passionate but they do not have any idea of how to run a business and have no underlying appreciation of business principles. SMMEs in the townships are confronted with low demand and over supply of the same product or a poor quality product. This is mainly because they very seldom do market research on their customer's needs and their competitors. The lack of understanding of the competitive environment and how to respond thereto and become financially sustainable is one of the main reasons for their demise.



Brink and Cant (2003) in their study of SMME emphasised the following aspects that impact on the small business success:

- Financial problems and the difficulty in obtaining credit. Many of the SMMEs do not have any meaningful credit record resulting in the inability to obtain credit from a financial institution. In certain instances, the SMME approached the small micro lenders who charge them exuberant interest rates. These high costs of debt do have a negative impact on the SMME, leading to their inability to become sustainable. The suppliers are also hesitant to provide goods on credit to the small businesses due to their dismal credit record and the high risk attached

thereto. The SMME is , therefore, in a precarious position, unable to obtain credit and dependent on their business to become profitable.

- The general lack of basic financial management skills is another factor that hinders the micro businesses to move beyond the survivalist status.
- Basic bookkeeping skills are lacking ,resulting in the SMME unable to obtain a financial picture of the business. Very few business owners have any idea if their business is profitable or not.
- Another weakness is the lack of future financial planning considering that changing external environment is non-existent. The SMME energy is spent on ensuring day-to-day survival and long-term financial planning is not of importance to them.
- A key requirement for any successful business is financial planning or budgeting. The majority of the small businesses do not have any formal budget, resulting in poor cash flow management which is the mainstay of any successful business. In the case of many SMMEs, cash flow management is lacking and they have no idea of what their income and expenditure nor do they know if they are profitable or operating at a loss.
- The Bureau for Economic Research (BER)(2016) similarly expressed the view that access to finance and credit is and remains a major challenge for SMMEs. According to BER, the South African financial institutions are very conservative and are more inclined to lend to small business in their later stages of development. Meaning that SMMEs must have some track record of stability before the bank will risk providing any sort of financial support. BER (2016) indicated that lack of access to funding and poor profitability is among the chief reasons for business failure.

The main reasons why SMMEs fail to obtain finance include:

- Inadequate collateral on the part of the entrepreneur.
- A lack of credit history.
- The inability to produce an acceptable business plan.
- Poor market research.
- The absence of a viable business idea.
- The lack of vibrant markets.

The reasons cited by BER that prevents the SMMEs from being able to access finance is the same factors that SMMEs are struggling with. Many of the SMMEs started as an idea by an individual to make ends meet. Many of them used their own funds as a start up. The SMMEs do not have any meaningful collateral that could be used as security to gain finance. It is a continual struggle on the part of SMMEs to survive due to a lack of funding. The SMME does not have any credit record and therefore, is unable to acquire any products on credit or for that matter, obtain any finance based on their credit record.

Brijlal and Jere (2018) state that access to finance, markets and the heavy regulated environment are major hurdles confronting SMMEs. They further postulate that, although the SMMEs participate in the local economy, they are small players in the value chain. Many of the SMMEs depend on the business owner to develop the business plan and do the market research. In the main, this is due to a lack of financial resources to appoint people with the necessary skill set to perform these activities. In many instances, the business owner does not have the skill set to develop a business plan or has the knowledge to do market research. All these factors are systemic and part of the reasons why SMMEs are unsuccessful. Ironically these are also the criteria that the financial institutions use to determine the suitability to grant finance or not. Many of the SMMEs never ever get out of the starting blocks and remain in the survivalist mode.

Soni (2005) is of the view that the most important reasons for small business failure are the lack of business knowledge and skills, poor culture of the business and lack of available capital. According to Soni, a strategy to address access to finance could be the establishment of a special state fund for SMME development. The fund objective would be to support SMME development based on applying minimum criteria as determined by government. The challenge though with this idea is the associated risk of irrecoverable loss.

According to NEDLAC (2010) government had identified SMMEs as a key strategy to alleviate pressure on the labour market and poverty reduction. The SMME sector provides employment opportunities for women and youth but many of the SMMEs remain in the survivalist state. NEDLAC's view is similar to that of BER that many SMMEs struggle to move beyond the survivalist state with little possibility for expansion and growth. NEDLAC is of the view that many SMMEs are struggling to become sustainable and profitable. These constraints stem from the legal and regulatory environment. SMMEs must comply with the legal and regulatory environment, for example, register as tax entities and pay taxes. Many SMMEs are unfamiliar with how to complete business income taxes sometimes fail to comply. Failure to comply, results in penalties, which they can hardly afford.

The lack of competitiveness is also mentioned as a factor. The SMME sector is unable to hold its own within a competitive market. Competition means having a product that attracts clients, or that the price is affordable. These basic requirements in becoming competitive, are absent and result in financial bankruptcy. The case in point was the displacement of the local SMME with foreign traders in Delft community, in that particular instance the foreign traders had been doing a market analysis. Their analysis depicted the local SMME sector as being unorganised and lacking the fundamental

business skills to be successful. The foreign trader's strategies were to organise themselves, market their business and introduce lower prices. The local SMME's reaction was to rely on the customer's loyalty instead of realising that they needed to reduce their prices in order to compete. Not having that understanding resulted in their customers migrating to where the product was cheaper. The loss of customers directly translated in a loss of income and ultimately closure. As NEDLAC pointed out, the ability to compete with product quality and price are important factors that attract customers and ensure profitability of the business. The opposite seems to hold true within the SMME sector.

Kumah (2014) states that the South African economy needs radical transformation, requiring an inclusive growth that is sustainable and equitable. According to Kumah, SMME development must be at the centre of this transformation because their impact can be massive. Kumah states that because of the importance of SMMEs in transforming the economy, small business must be seen as big business in South Africa. SMME development, as pointed out by Kumah and others, remain key to addressing the challenges of unemployment, inequality and poverty reduction. Although this realisation exists SMMEs are struggling to grow at the rate envisaged by government. To the contrary, many SMMEs are trapped in the survivalist mode. Kumah (2014) identified a number of factors faced by SMMEs that resulted in the high failure rate:

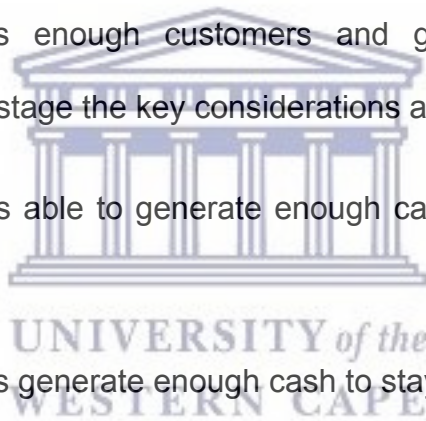
- Limited access to finance
- Limited market access
- Poor business skills and networks
- Insufficient research and development
- Limited engagement in the private sector

Kumah states that other reasons also cause the demise of SMMEs which relates to poor product quality. Many established businesses want to partner with SMMEs but the quality of the product remains a major disincentive to do so. The established businesses primarily wants to protect their brand and therefore, will only partner with an SMME whose product will enhance their brand. In the case of many SMMEs, the product they offer reflects poor quality and workmanship. The SMMEs do not realise that once your brand had been painted in a negative manner it becomes difficult to sell your product to established businesses.

Many SMMEs similarly suffer the fate of an inability to meet product deadlines. In those instances, the formal sector had entered into an agreement with the SMME on product delivery dates it was not met. The inability on part of the SMME to meet the delivery deadlines resulted in reputational damage and the formal sector not willing to do business again with the SMME. The inability of the SMME to meet the deadline could be traced back to management skills, staff and logistics management. Many of the SMMEs are suffering from resource constraints and therefore, unable to employ staff with the necessary skill set to improve quality whilst simultaneously maintaining productivity. In many instances, the SMME owner is the proverbial 'Jack of all trades' and is instrumental in all the production facets of the product. This inability to afford skilled staff has wider implications for the business and, as pointed out above, results in the inability to meet delivery dates.

According to Neil and Lewis (1983), small businesses vary in size and capacity to grow. Small businesses go through five growth stages and could become stuck in any of these stages. These stages are:

- Stage 1 –the existence stage where the main challenge is to obtain customers and delivering the product contracted for. The business during this phase is confronted with the challenge of securing enough start up capital, securing customers and delivering the product to become a viable entity. The business, during this phase is usually a simple organisational structure. The owner does everything and direct supervision is the preferred method. During this stage the strategy is to keep the business afloat. During this stage, the business also struggles to establish product quality and a strong enough customer base.
- Stage 2 – survival stage is when the business had demonstrated that it is a workable entity. It has enough customers and generally provides product satisfaction. During this stage the key considerations are financial such as:
 - If the business is able to generate enough cash to break even or cover operational costs.
 - Can the business generate enough cash to stay afloat and expand?



The organisation is owner-managed with a small staff complement. All decision-making is still centralised and vested with the owner.

- Stage 3 - success stage is where the business is confronted with the question of expanding or not. During this stage the owner starts to decentralise some of the responsibilities. In other words, the business is stable and less dependent on the owner. The customer base has grown and the product line has become known and acceptable.

- Stage 4 - take off stage is where the business is growing and the owner is confronted with how to finance the growth. The organisational structure has become more complex and displays the following characteristics :

-The formalisation increases, meaning more formal rules and responsibility.

-A movement from centralization to decentralization in decision- making.

A key question is how to finance the growth and the importance of operational and strategic planning is recognised. During this stage ,the business could either fail or then revert to retrenchment or other strategies to ensure the continual existence.

- Stage 5 - is known as the resource maturity stage. The business during this stage objective is to manage the growth of the business. During this phase, management decision-making is decentralised. Staff is adequately experienced and the systems are well developed. The owner and the business function apart, financially and operationally. Reaching this stage means that, the business has become a going concern. It has financial resources; well - equipped staff and a product that the market wants.

Using the five-stage approach as explained by Neil and Lewis (1983), it seems that many of the SMMEs are stuck in stage one(existence) and stage two(survivalist) . The challenges facing the SMME sector is to advance to the final stage in order to become financially viable and a going concern.

2.3 SMME Regulatory and Policy Framework

It is commonly argued that a well-ordered and productive economy needs regulation. In relation to governance – and the management of economies in particular – this means establishing acceptable procedures for interaction, and to incentivise what is desirable and penalise what is the undesirable. A regulatory system has to be understood from the point of view of what it hopes to accomplish. The Policy and regulation objective must be to develop an enabling environment for SMMEs to grow and become a going concern and contribute to economic growth and development of South Africa.

It is a known fact that unemployment is a big problem confronting South Africa, with an official unemployment rate of 25%, but with around 40% or so of the workforce out of work, even if they are not definition ally “unemployed” .This means that a large part of the country’s population is essentially excluded from meaningful participation in society and opportunities for mobility. The majority of the unemployed is dependent on the state through the grant system for their survival. It is therefore, important that employment is created and the SMME sector holds that potential.

If unemployment is to be reined in, it will be via the growth and expansion of existing businesses, and the emergence of new ones. the country must look to the small business sector which is acknowledged domestically and worldwide as the main generator of jobs. The policy and regulatory environment must therefore aid instead of assist SMME success. Rankin (2006) stated that Regulation without intention is meaningless, and cannot be described as anything but a deadweight on society.

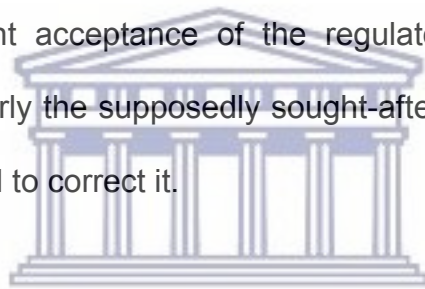
Small enterprise development has been a stated goal of economic policy since 1994 (it actually predates democracy and was identified as a vital goal in the 1980s). The RDP White Paper, for example, stressed the need for the small business sector to expand, to take advantage of opportunities, and in turn, to generate others. It suggested a suite of supportive interventions on the part of government to achieve this.

The Diagnostic Overview, produced as a prelude to the National Development Plan 2030 by the National Planning Commission under minister Trevor Manuel, commented: 'It is worth making special mention of the limited expansion of small and medium-scale enterprises'. In successful economies, it is in these firms where most job creation takes place. South Africa has not yet been successful in laying the ground for faster small, medium and micro enterprise (SMME) entry and expansion (NDP). So is the importance of a corresponding enabling environment becoming non-negotiable.

Special concerns relate to an onerous regulatory environment, limited access to finance and working capital, and concentrated markets with limited niche opportunities. The regulatory burden is clearly a concern for South African business. According to the first round of our SME Growth Index, 19% of respondents identified it as the key obstacle to business expansion (second only to the general economic climate, an unsurprising outcome at present). By a considerable margin (32% of the total), the labour regime was seen as the key problem. This is more than a perceptual issue. The scale of the burden was illustrated by Small Business Projects study of the cost of red tape, published in 2005. It estimated that regulatory costs incurred across the economy the previous year amounted to some R79bn, or 6.5% of GDP.

More recently, a proposed set of amendments to the Labour Relations Act and Basic Conditions of Employment Act signalled a further significant burden on business, attracted widespread and ongoing attention beyond this, a draft Business Registration Bill had been produced. While not widely distributed, it sought a thoroughgoing revision of key aspects of the business regulatory environment.

Its stated aims are quite laudable, principally to simplify the establishment of businesses. In practice, it would impose potentially onerous requirements and, by implication limitations on anyone seeking to conduct “business” in South Africa. It speaks to an ongoing trend and contradiction at the heart of South Africa’s economic governance. It is striking that with the apparent acceptance of the regulatory burden in constraining business growth and, particularly the supposedly sought-after small businesses, so little appears to have been ventured to correct it.



To this end, it can be argued that small business regulation suffers from a case of ambiguous motivation. In some cases, it is not clear what considerations lie behind the substantive measures. Why would they be desirable or necessary? One of the impending pieces of legislation is the Business Registration Bill which seeks to formalise the unregistered and informal enterprises. At first glance, this seems understandable – why should anyone object to bringing businesses, which are operating somewhat illegally into the legislative net, not to mention tax obligations? But the bill demands more and seeks to formalise the country’s considerable informal economy. But it is largely the absence of regulatory restraint which makes the informal sector possible.

There are naturally some negative consequences, but informal sector economies provide a livelihood – however meagre or imperfect – that would otherwise not exist. Attempting to force (or “encourage”) informal traders to formalise their operations would be to erect a barrier to them. In the absence of other alternatives, this seems quite counterproductive.

The more pertinent question is whether the aggregate interests of the country would not better be served by conceding the need for a different regimen for small businesses (with an eye on the job creation benefits), and accepting the attendant risks, and dealing with wilful and egregious evasion through monitoring and enforcement.

There is considerable evidence that labour legislation has had a dampening impact on employment creation, particularly by smaller firms. Much of this is anecdotal, although it is supported by a considerable body of hands-on research, and it stands out as a major disincentive in our SME Growth Index – the most comprehensive primary study into the sector in South Africa to date.

The conclusion that presents itself is that employment creation ranks lower in the drafters’ minds than regulated protection. In fairness, there have been some about-turns on aspects of the labour regime in relation to small businesses – such as differentiating between overtime rates for small and large firms. But these have tended to be sporadic, somewhat grudging concessions and it appears that insufficient principled commitment exists in policy-making circles for this to signal any sort of recognition that such differentiation is necessary.

If the business environment is complicated by an unfocused or unsympathetic official mind set, the erratic and often anaemic performance of the state in practice introduces another element of unpredictability. It is often said that while South Africa has wonderful legislation, it fails down in implementation.

The draft Business Registration Bill would be one such law. Potentially, it could – and seems to intend to eliminate the informal sector through mandatory registration. In reality, this is unlikely, simply because of the immensity of the task that it sets the state and the implausibility of it succeeding in doing so. Given that the informal sector employs in excess of two million people (conservatively estimated), the scale of the administrative task is truly herculean. As South Africa's experience with company registrations and the attendant databases has not been uniformly happy, difficulties in this regard are to be expected. In addition, government would need to communicate its plans to the country's informal traders, and (presumably) rely on them to present themselves at designated offices for registration.



The direct and opportunity costs for someone earning a few rands a day to do this would be considerable. If present procedures are a guide, they would need to pay for their registration, and might be required to make an application and return at a later date to collect whatever documents are prescribed. These would be new and onerous burdens for little apparent reward. In reality, it is unlikely that this law would be observed by anyone other than profitable unregistered businesses fearful of prosecution (essentially formal-style operations operating below the radar) but this is enabled by current legislation and is, in any event, a function of enforcement. Most informal traders would

be likely to ignore it, even if they were made aware of it. However, they could be exposed to harassment, both legal and extortionate, for operating outside the law.

South Africa's history should be a warning about the mismatch between ambition and capability. It is, by way of illustration, questionable whether the state institutions established to support small business have added much value to the sector. This has implications for the usefulness of policy proposals, such as that recently floated by the Black Business Council for a ministry of small business. This is not in itself an unworthy idea, but unless it is staffed with people familiar with and committed to the interests of small business and prepared aggressively to push for the sector's interests, even in the face of politically more weighty interests such as those of labour it is hard to imagine why this should achieve more than its antecedents or, for that matter, the Department of Trade and Industry in whose bailiwick small business currently resides.

The section below is a discussion of the current legislation that regulate the activities of small business.

2.4 Discussion of the various policies and legislation

2.4.1 The National Small Business Act of 1996

The National Small Business ("NSB") Act of 1996 was promulgated as a replacement to the (now-repealed) Small Business Act of 1981. It provides a guideline for organs of State to promote small businesses, and for measures on related matters.

This Act provides for the establishment of :

- The National Small Business Advisory Council ("NSBAC")

-The core business of NSBAC is to represent and promote the interests of small business in South Africa, as envisaged in the National Strategy for the Development and Promotion of small, medium and micro enterprises (SMMEs).

- Small Enterprise Development Agency (“SEDA”).

SEDA is responsible for advancing the policies in support of small business to sustain and enhance competitiveness, and for designing and implementing development support projects that enhanced job creation, entrepreneurship and economic growth.


A particularly salient feature of this Act is that it provides a definition of a small enterprise organisation, as follows: “Small enterprise organisation means any entity, whether or not incorporated or registered under any law, consisting mainly of persons carrying on small enterprise concerns in any economic sector and established for the purpose of promoting the interests of or representing the small enterprise concerns and includes any federation consisting wholly or partly of such associations and any branch of such organisation”

Another definition is provided for a small enterprise, reading: “Small enterprise means a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises managed by the owner or more predominantly carried on in any sector or sub-sector of the economy (as per schedule) classified as a micro, a very small or a medium enterprise by satisfying the criteria as per the schedule”. In terms of administration and oversight, the Board ensures the implementation of the functions of SEDA, through the Public Finance Management Act (PFMA).

2.4.2 Cooperatives Act No 6 of 2013

The Cooperatives Act allowed for the establishment of:

- A Primary Cooperative, which is aimed at providing employment and services to enhance community development.
- A Secondary Cooperative, which is formed by two or more primary cooperatives to provide sectoral services.
- A Tertiary Cooperative, which is formed by multi-sectoral cooperatives whose members are secondary cooperatives, and which is aimed at policy advocacy with government and the private sector.
- Worker Cooperatives consist of primary cooperatives in pursuit of the collective objectives of labour with regard to self-managed enterprises. The Cooperatives.



Amendment Act, No. 6 of 2013, called for the establishment of a single National Apex Cooperative to lobby government and the private sector on policy recommendations that may improve and grow cooperatives in the economy. The National Apex Body could be formed by a minimum of three operational tertiary cooperatives at national level, and a minimum of five operational multi-sectoral cooperatives at the provincial or district or local level. With regard to administration and oversight, it is envisaged that a Cooperatives Development Agency and Tribunal would be established in the financial period of 2015/2016.

2.4.3 The Financial Advisory and Intermediary Services Act (No 37 of 2002)

The Financial Advisory and Intermediary Services Act (No 37 of 2002), in tandem with the National Credit Act, regulates financial advisory and intermediary providers of services offered by any means or medium to a group or client. It also regulates the

conduct of a Financial Service Provider (FSP) and provides guidance to consumers in their daily dealings with the considered product provider. The Act provides for remedies such as the Ombudsman and “Hellopeter” an informal platform for resolving disputes. Primary administration is handled through the Registrar and Deputy Registrar, on the basis of written practice notes and codes of conduct. Secondary administration is done through the Advisory Committee which can advise, investigate and report on matters relating to financial service providers. The Board will grant final approval for implementation by the Registrar.

2.4.4 South African Micro-Finance Apex Fund (SAMAF)

The South African Micro-Finance Apex Fund (SAMAF) was a wholesale funding institution formally established in April 2006. Its primary purpose was to reduce poverty and unemployment and to extend financial services to reach people in rural and peri-urban areas. One of the mandates of SAMAF was to build capacity amongst its clients and to train intermediaries who were considered as partners for the success of the SAMAF model, because they were close to communities where micro and survivalist businesses were located.

2.4.5 Small Enterprise Finance Agency (Sefa)

The Small Enterprise Finance Agency (Sefa) provides financial support using both wholesale and direct lending as channels. The utilisation of intermediaries by Sefa such as the Micro Financial Institutions started during the time when Khula was still operating, before the merger between SAMAF and Khula, and this principle was then carried over.

2.4.6 Companies Act

The revised Companies Act provides a new legislative framework for the incorporation, registration and management of companies. It established the Companies and Intellectual Property Commission (CIPC) and Companies Tribunal. The current legislation treats all businesses as companies.

2.4.7 Industrial Development Corporation Act

The Industrial Development Corporation (IDC) aims, through its overarching legislation, to promote the establishment of new industries and industrial undertakings, and to develop existing industries and industrial undertakings. This Act allowed for the establishment of Sefa to advance the objectives of SMMEs and cooperatives.

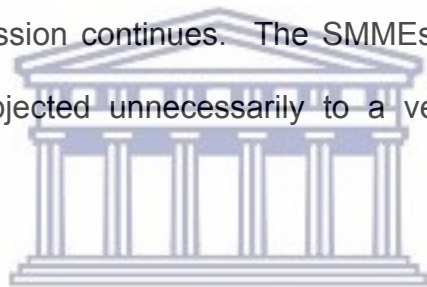
2.4.8 Small Enterprise Development Agency (SEDA)

As indicated above, the mandate of the Small Enterprise Development Agency is to provide non-financial support services. It currently provides these services through a number of delivery points across the country and is supported by the national office located in Tshwane. At the moment, SEDA offered a network of 43 branches, 18 mobile units, 48 electronic information kiosks (self-service information points) 3 enterprise information centres (EICs), 42 incubation centres and 47 access points where SEDA had co-located with other institutions.

SEDA also provides services through strategic partnerships, for instance with State Owned Companies (SOCs) such as Transnet, and with private sector organisations such as Vodacom. The utilisation of other business associations over time would be able to provide for an extension of support services.

2.4.9 The Municipal Bylaws

The municipal bylaws further increase the red-tape that SMMEs must adhere to. The municipal bylaws could be restrictive in nature and not necessary having the goal of advancing SMME development. A case in point is that residential homes cannot be used for business purposes unless zoned as such. Many of the SMMEs are operating from their homes which is in contravention of the municipal rezoning bylaw. Another example is the adherence to the Health and Safety regulations. SMMEs are required to ensure that their business premises adhere to these regulations. The residential home does not comply with these regulations and are then subjected to fines and so forth. The municipality enforces the local bylaws very strictly and many SMMEs are issued with fines or closed if the transgression continues. The SMMEs, on the other hand are of view that they are being subjected unnecessarily to a very restrictive and punitive regulatory framework.



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2.5 Conclusion

The above was a discussion of the current literature regarding SMMEs. This was followed by a discussion of the policy and regulatory framework guiding SMME operations. South Africa is in the paradoxical position of being both over regulated and under governed. In respect of South Africa's regulatory environment, the evidence speaks of severe governmental deficiencies. These deficiencies stand as a significant obstacle – real and potential – to the growth and development of a robust small enterprise sector. It is a failure that is expressed in the dearth of jobs and the growing sense of social despondency.

Government agencies supporting small business seem to have failed to act as effective advocates. Small business itself is mostly unorganised and excluded from policy debates. The end result is that policies are formulated that do not advance the interest of the SMME sector.



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The previous chapter explained the literature review on the Small Medium and Micro Enterprises. This chapter explores the research methodology used to study the research question. It provides an explanation of the reason that the qualitative approach to research is used in this research project. The different research designs are explained and a rationale provided for using the case method to address the research question. The chapter explains the data collection instruments and strategies used to address the issues of reliability of data collected as well as the validity of the findings. The chapter concludes with an explanation of the data analysis method used for the purpose of drawing inferences.

3.2 RESEARCH APPROACH: QUALITATIVE RESEARCH

This study is qualitative in nature and deemed to be the most appropriate to bring understanding to the research question posed. The qualitative approach to research essentially wants to determine the experiences of the individuals that is under investigation. This approach is commonly referred to as gaining the insider's perspective. Merriam (1998: 6) states that the key concern is to understand what the views are of the participants and not that of the researcher. The objective is then to get an insider's perspective in "emic" rather than the "etic" or outsider perspective. Neuman (2003: 75) is of the opinion that "understanding and describing" is insufficient to make sense of reality. Making sense of reality is only possible through interpretation of the data collected. Babbie and Mouton (2002) say that the researcher becomes part of the situation and could become subjective.

Qualitative research is criticised, in that it fails to ensure validity, reliability and objectivity. This difficulty could be attributed to the fact that this research approach is not based on experimental design methods where variables are controlled and manipulated, as is the situation in quantitative research. On the contrary, the researcher is guided by the insider's perspective and the emerging trends that unfold during the research. Babbie and Mouton (2002: 273) explain that in the qualitative study objectivity is as follows. Firstly, it requires that the qualitative researcher to be unbiased in the description and interpretations. Secondly, the researcher must be aware of not getting too close to the "research subject" in order to generate legitimate and truthful insider descriptions. Objectivity is when the researcher gains the trust and establishes rapport and generates truthful and credible data from the sample interviewed.

Neuman (2003: 184) states that reliability is based on consistency, implying that the results of the findings could be applied to another setting and the same outcomes would be reflected. Merriam (1998: 206) suggests six strategies that the qualitative researcher could use to enhance validity, which are:

- The use of triangulation using multiple investigators, multiple sources of data, or multiple methods to confirm the emerging findings.
- Member checks-taking the data and tentative interpretations back to the people from whom they derived and asking them if the results are plausible.
- Long term observation at the research site or repeated observation of the same phenomenon.
- Peer examination-asking colleagues to comment on findings as they emerge.
- Participatory or collaborative modes of research-involving participants in all phases of research from conceptualising up to the findings.

- Researcher's biases-clarifying the researcher's assumptions, worldviews and theoretical orientation at the onset of the study.

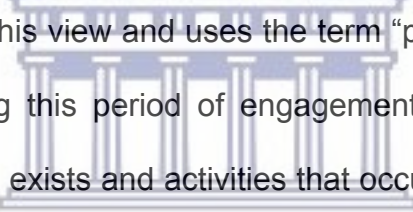
Triangulation, rich thick description, long-term observation of the phenomenon, peer examination, awareness of researcher's bias and member checks will be used to ensure reliability, validity and objectivity of the phenomenon researched.

3.3 RESEARCH DESIGN

Brewer and Millward (2001:52) state that the design of a project refers to the manner in which the research question is investigated. They indicate that the research design indicates three levels of investigation. The broadest level refers to the research approach, namely quantitative or qualitative. The second level refers to whether it is going to be a case study or an experiment. The third level refers to the research instrument to be used, such as interview, questionnaire, or focus group. The first level - the broad level - has been dealt with, since it was already indicated that this research follows a mixed methodology of qualitative and quantitative research. The second level – the case study as a research design - is discussed next. Babbie and Mouton (2002: 279) identify three specific qualitative research designs (ethnographic studies, case studies and life histories) that share the following characteristics:

- A detailed engagement with the object of study;
- Selecting a small number of cases to be studied;
- An openness to multiple sources of data (multi method approach); and
- Flexible design features that allow the researcher to adapt and make changes to the study where and when necessary.

The researcher has selected the case research design as the strategy to operationalise the research. An explanation will be provided of what the case research design is and the reasons for the choice of the design. Yin (1994: 13) states that the case study is an all-encompassing method with the logic of design incorporating specific approaches to data collection and data analysis. It is a comprehensive research strategy. Eisenhardt (1969: 534) echoes Yin's viewpoint and states that the case study approach is a research strategy, which focuses on understanding the dynamics present within a single setting. This single setting, or unit of analysis, provides the researcher with the opportunity to engage with the subject matter over a period of time. This engagement allows the researcher to get an emic perspective of the phenomena.



Neuman (2003: 148) supports this view and uses the term "passage of time" to describe the engagement period. During this period of engagement, the researcher comes to understand the relationship that exists and activities that occur over time as well as what prompted these responses. This insider's perspective of the causes and effects reflects a more authentic understanding than an outsider's perspective. The case study research design enables the researcher to draw inferences and comparisons with the conceptual framework developed in the literature study.

Merriam (1988: 29) ascribes three characteristics to qualitative case studies namely particularistic, descriptive and heuristic. Particularistic means to focus on a particular situation. She refers to the work of Shaw (1978) that describes case studies as an approach of concentrated attention on the way particular groups of people confront specific problems, taking a holistic view of the situation. Secondly, she uses the concept descriptive to refer to the 'end product' of the study. The description is a 'rich, thick description' of the research question. This description is generally qualitative in nature

instead of quantitative, meaning that findings are reported by the use of prose and literary techniques to describe, elicit images and analyse the situation, instead of reporting findings in numerical data. Wilson (1998:66), supports this view and indicates that qualitative case studies are a presentation of the documentation of events that occur, the quotations cited and descriptions of samples and artefacts to support the findings. Thirdly, she describes heuristic as the process of getting insight into the phenomena being researched. According to her, it is a process of enlightenment and the challenging of preconceived ideas. It is a process of discovering and the emerging of new insight and meaning.

3.4 DATA COLLECTION METHOD

The data collection method that was used is an interview guide. Sarandakos (2000: 256), provides a number of methodological aspects of the qualitative interview. A few of these are extracted to provide some clarity on the qualitative interview. These are:

- Reflexivity, meaning that it employs methods and a process of analysis that reflects the nature of the research object rather than the methodological conviction of the researcher;
- Primacy of the respondent, in other words the respondent is the expert that provide valuable information;
- Openness or flexibility, meaning no standard format is used during the interview and it is open to change as circumstances require; and
- Explanation, meaning that findings emerge through the study and are interpreted during the process of interviewing.

Qualitative interviewing is a flexible approach where the main actors are the respondents. The information from these interviews is used to support phenomena or develop new insight of the phenomenon under discussion.

Cassell and Symon (2004: 11), draw attention to the nature of the relationship that exists between the researcher and the interviewee. They states that quantitative research is grounded in a clinical relationship-free context, whilst the in qualitative researches both the interviewer and interviewee are seen as active participants that continually shape the process of engagement. The authors are of the opinion that qualitative research is not relationship-free and state that in fact the relationship is an important part of the research process, rather than a distraction from it.

Neuman (2003: 390) states that the interviewee and the interviewer are active participants in the interviewing process, stating that they bring with them a baggage of insights, own understanding, experience, and emotions to this engagement process. The author refers directly to the various roles that the researcher ought to play during the interviewing process. This is extremely relevant due to the fact that the researcher has multiple roles in the research process and an understanding of what is required to ensure an effective interview is important.

As mentioned earlier in this chapter, the researcher needs to recognise his or her bias during the research process. It is clear that the researcher needs to strive for objectivity (Babbie and Mouton, 2002) but simultaneously develops a relationship of trust with the participants. This relationship is important to encourage the participants to express themselves freely which will result in an authentic insider's perspective. A negative aspect of qualitative interviews is the amount of data generated. This data overload is

due to the amount of richly descriptive data that are produced during the process. If not dealt with properly and systematically, the researcher lands in a quagmire of data and a feeling of despair and hopelessness. Cassell and Symon (2004: 21) suggest that the question that needs to be asked consistently when looking at the data is what is relevant to answer the research question. As indicated earlier, interviews can generate the kind of information needed to answer the research question.

Welman, Kruger and Mitchell (2005:165) explain that researchers use three types of interviews, namely :

- structured, semi-structured and unstructured interviews.

In a structured interview a set number of questions from a questionnaire – referred to as an interview schedule – is put to the interviewee by the interviewer who records the responses of the interviewee. The interviewer asks only the questions on the interview schedule and does not deviate from the sequence of the questions. The structured interview is thus conducted in a standardised manner (Welman, et al. 2005:166).

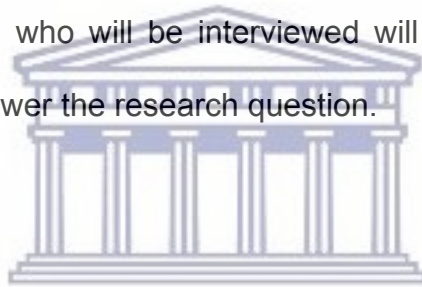
Unstructured interviews are used to explore an issue in depth and are conducted in an informal manner (Welman, et al. 2005:166). There is no set of questions to be covered. The only requirement regarding the questions is that the interviewer must have a clear idea of the issue to be explored.

Semi-structured interviews occupy a position between structured and unstructured interviews (Welman, et al. 2005:166) and involve the interviewer compiling a list of aspects to be covered. These aspects are contained in questions that can differ from interview to interview as long as the relevant aspects are addressed. In order to guide

the interviewer, an interview guide which is used similar to the interview schedule used in structured interviews. The interview guide contains a list of aspects that have a bearing on the theme and which the interviewer should address during the interview. Although all interviewees are asked the same questions, the interviewer is at liberty to formulate the questions according to the background of the various respondents.

3.5 SAMPLING METHOD

Purposive sampling had been used for this study. Babbie (2004:135) describes purposive sampling as a form of non-probability sampling where one selects the unit of analysis on the basis of own judgement that will be the most useful representative. The determining factor in selecting who will be interviewed will be ability of the person to provide the data needed to answer the research question.



3.6 DATA ANALYSIS

Regarded as a core activity of the research, data analysis is described as the process where inferences are made from the data collected, and a conclusion reached. Richie and Spencer (1994:186) state that although it appears that analysis appears very structured and mechanical, the process requires that it be performed.

The research approach followed in this research project is the qualitative approach to research. In analysing the data collected through the qualitative research instrument, Sarandakos (2000:314) states that data analysis in qualitative format is part of data collection and evaluation. The process is circular in that while data is collected, analysis continues, evaluation and interpretation follow, and the circular process continues until all units have been studied and nothing is left to research. Sarandakos (2000:314) state

that the result of the analysis process is a large volume of data, which is different from quantitative data in the following ways:

- They appear in words;
- They have been collected in a variety of ways; and
- They need to be processed before they are ready for use.

According to Vos, Strydom, Fouche and Delport (2005), triangulation involves the use of multiple sources to verify the reliability and validity of the data collected and the results presented. Indeed, observing the phenomenon from different perspectives allows the researcher to uncover aspects which would not have been the situation, if only one measure has been used. The multiple method approach fulfils an important function of cross-checking the reliability of data collected and supporting the validity of the findings.

3.7 CONCLUSION

The chapter explained the research method used and how the sampled had been selected. It also explained how the data had been collected and, importantly, the use of triangulation to ensure reliability and objectivity. The next chapter is an analysis of the data collected to answer the research question posed.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter is an analysis and discussions of the data collected. A number of probing questions had been asked to extract the data and to inform the discussions of the phenomenon being researched. The chapter commences with a socio-economic explanation of the case study. This is followed by an in-depth analysis of the data collected in relation to the research question posed. The chapter concludes with a few observatory remarks regarding the data analysis.

4.2 Socio-economic Analysis: Khayelitsha

Figure 1: Aerial photo of Khayelitsha.



Statistics South Africa indicates that Khayelitsha is one of the largest and poorest townships in Cape Town. The name Khayelitsha is a Xhosa name meaning 'New Home'. In the 1980s, Cape Town became one of the most segregated cities in South Africa. Khayelitsha was one of the apartheid regime's final attempts to enforce the Group Areas Act. The establishment of Khayelitsha was seen as the solution to two problems the rapid rise of migrants from the Eastern Cape and overcrowding in Cape Town 'black suburbs'. After the scrapping of pass laws in 1987 many blacks, mainly Xhosas, moved into areas around Cape Town in search of work. Khayelitsha was divided into 28 sub-areas, informal sections, old and new formal and RDP houses. Since 1994 there has been a remarkable improvement in terms of development ,but many areas are classified as informal settlements and lack basic services. Khayelitsha still has a high unemployment rate with several households headed by women.

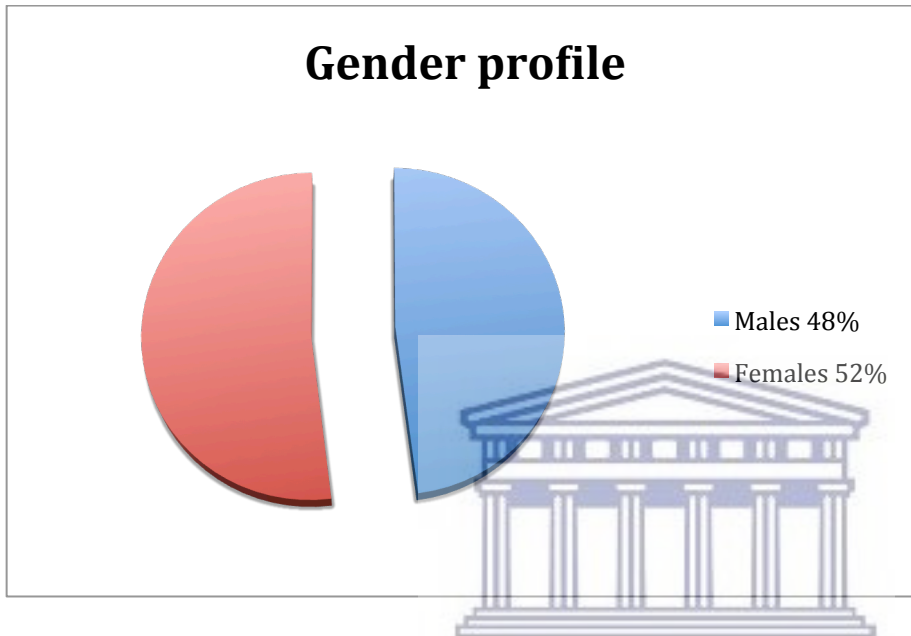
4.2.1 Demographics

According to Stats SA 2011 census, Khayelitsha has a population of about 391, 749: 7,561.99 inhabitants per square Kilometre (19,585.5/sq mi). The number of households is 118,809 and 1,976.31/sq square km (5,118.6/sq mi) .The aforementioned gives an indication of how densely populated Khayelitsha is. The densely populated sprawling informal settlements are high health and fire risk areas. The threat of fire is constant and destroyed the meagre possessions of many ,leaving them destitute. Khayelitsha, the 'new home', has not lived up to its name and is rather a place of hardship, unemployment, high incidence of crime and inequality. It is one of the biggest townships in the country.

4.2.2 Gender Profile

Khayelitsha has more women than male residents. The illustrations below show the population according to gender, race and languages.

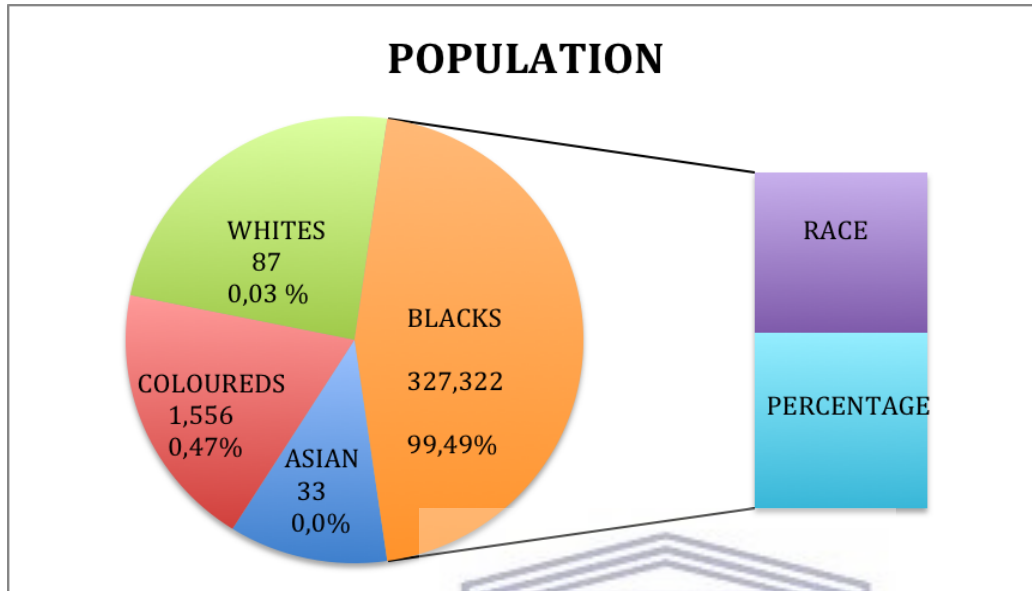
Figure 1: Gender Profile



Females constitute (51,98%) of the population of Khayelitsha and males (48,05%). The research by Stats SA shows that the majority of households are female- headed.

Racial Composition

Figure 2: Population Racial Composition



The statistics show that the African population is the dominant racial group of 99,49% within Khayelitsha.

According to City of Cape Town 2011, Census of the Khayelitsha's suburb unemployment figure was 38% and the majority residents are younger than 35 years of age. Khayelitsha is therefore, a youthful community and displays the characteristics of unemployment, inequality and poverty which is a major concern, given the fact that the majority of the residents are younger than 35 years of age.

4.2.3 The languages Spoken

Khayelitsha is a melting pot of different languages spoken. In fact, all the indigenous languages of South Africa are spoken within Khayelitsha. The use of different languages reflects the diversity of Khayelitsha as well as the different cultures one would find in this

community. The dominant language spoken though is Xhosa and approximately 97% of residents spoken word. A small percentage of foreign nationals have also made Khayelitsha their home and some are SMME owners.

4.3 General information of SMME sampled

4.3.1 Type of business ownership

This section provides details of the sample. In particular ,what type of ownership and in what sector the SMME operates within. The first part is the type of business ownership and the second part deals with the sector that the SMME is functioning within. The sample includes SMMEs from various sectors and different types of ownership. This broad mix of the sample increases the reliability and credibility of the data collected and the subsequent findings.

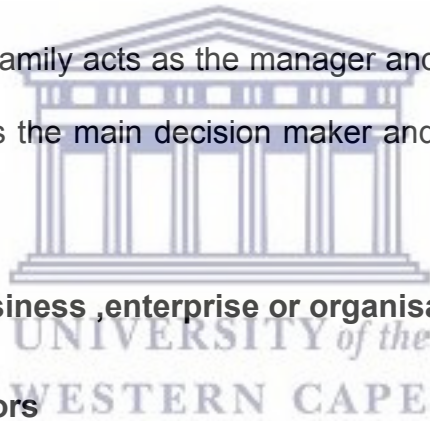


Table 1: Different types of SMME Ownership

Type of Business	Percentage
1. Private limited company	20%
2. Public limited company	0%
3.Partnership	20%
4. Sole Proprietor	40%
5. Family Own Business	20%
6. Other (specify)	0%

The data indicated that 40% of the respondents are sole proprietor the sole shareholders and have 100% shares of the company. The owner fulfils all of the functions needed to manage a business, buyer of stock, the book keeper, the marketer, the salesperson and so forth. He is responsible for planning, coordination, staffing, financial management and deciding the strategic direction of the business. In many instances the owner has less than a year's business experience and neither has the formal qualifications to perform all the functions.

The lack of business experience in itself is a negating factor in starting and growing a business. Approximately 20% of the sample SMME is family-owned. The family-owned SMME management style is more of a collective decision- making and involves the entire family. The head of the family acts as the manager and strategic decision-making. Whereas, the sole proprietor is the main decision maker and the profits made is that of the owner.



4.3.2 Nature/Type of the business ,enterprise or organisation

Table 2 Different SMME sectors

Sector	Percentage
1. Export	10%
2.Retail	20%
3.Manufacturing	20%
4. Hospitality	20%
5. Services	10%

6. Farming	10%
7. Other-ICT	10%

The sample SMMEs covers a wide spectrum and operates within the following sectors, namely: retail, manufacturing and the hospitality industry. Ten percent of the respondents are functioning within the farming sector. Ten percent of the sample indicated that they are in the export market. This was against the prevailing view that black SMMEs within the Khayelitsha township are struggling to grow financially.

4.3.3 How long has the company be in operation?

Table 3. SMME years of Operation

Length of operation in years	
1. Less than a year	60%
2. Between 1-5 years	20%
3. Between 6-10 year	10%
4. Between 11-15 Years	10%
5. Over 15 years	0%

None of the sample group is in operation longer than 15 years. The majority of the SMMEs (60%) had not been operating less than 1 year. The majority of the start-ups are owner-managed. Ten percent of the sample is in operation longer than one year. The

data regarding SMMEs operating less than one year will provide information and give a picture of what the SMMEs are confronted with during the first year of operation. The second group of SMMEs had been operating between 6-10 years. The data collected from this group is important because it will provide data regarding SMMEs that showed some resilience with an income and a customer base.

4.3.4 Employment creation: How many people have you employed

Table 4 : Staff Employed

Staff Employed	
1. Less than ten	60%
2. Less than twenty	10%
3. Less than Fifty	10%
4. Less than 100	10%
5. More than 100	10%

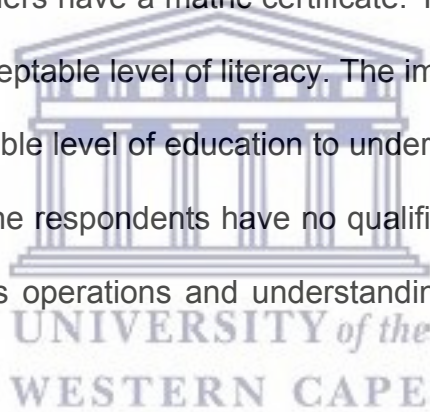
Sixty percent of the SMMEs sampled employed less than ten staff members. Ten percent of the SMMEs employed more than 100 staff. The 10% of SMMEs that employed more than 100 staff is within the landscaping sector and had been employing contract staff in its operations. In all SMME, the type of employment created is on a temporary basis and short term in nature. Although short term in nature ,it creates much-needed employment in Poverty-stricken Khayelitsha.

4.3.5 SMME owners-Formal Qualification

Table 5: SMME Owner Qualification

Type of Qualification	Percentage
1. Matric	60%
2. First Degree	10%
4. No matric qualifications	30

The majority of the SMME owners have a matric certificate. This is an indication that the SMME owners do have an acceptable level of literacy. The importance thereof is that the SMME owners have a reasonable level of education to understand the basic workings of a business. Thirty percent of the respondents have no qualifications. This poses a great challenge in terms of business operations and understanding on aspects like financial management.



4.3.6 Do you have any business training?

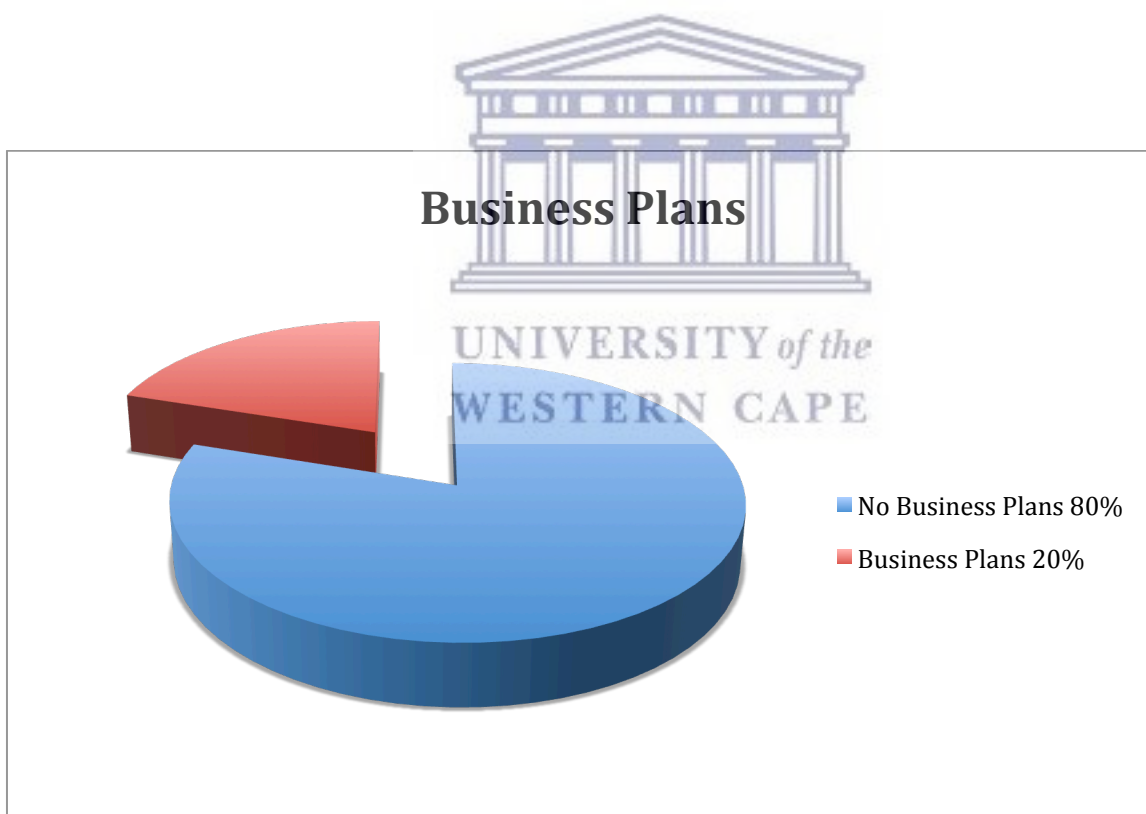
Figure 3: Business Training



The majority (80%) of the respondents indicated that they have no formal training in business management and rely mostly on their learnt experience. The other 20% attended short training courses on business management. But, according to them, this is not sufficient to be able to effectively manage their business. They mostly acquire their business skills through their on-the-job experience. A small percentage indicated that they attend seminars that are hosted by the City of Cape Town to gain experience.

4.3.7 Does the company have a business plan?

Figure 5: Business Plans



The majority of businesses, (80%) in Khayelitsha have no Business Plan because they feel it's just a piece of paper that is meant for compliance purposes. Few of them have a business plan and express the view that it has never assisted them in anyway. The business owners do not understand the advantages of having a business plan. They could not provide a meaningful answer when probed about what they wanted to achieve at the end of the financial year. This is an indication that many of the SMMEs do not have future growth plans and operate in a short -term day-to-day approach.

The disadvantage associated with this is that the SMME owners do not have an understanding how external factors such as price increases could impact their business. The SMME owners do not have any future projection on how the business would deal with external factors or perhaps how to take advantage of these. As indicated above, the lack of a business plan is a major weakness of SMMEs.

4.3.8 Average monthly turnover

Table 6 : Monthly turnover

Monthly turnover	Percentage
1. Less than R5000,00	20%
1. Less than R15000,00	40%
2. R15000-R30,000.00	30%
3. R30,000.00-above	10%

The majority of the sample turnover is less than R 15,000.00 per month. The finance generated is barely sufficient to support the business to become sustainable, let alone to support the SMME owner and his staff to make ends meet. The SMMEs that are generating less than R5,000.00 per month falls within the survivalist category. These SMMEs chances to move out of the survivalist category are very slim and the chances of them closing are real. Approximately 40% percent of the SMME's turnover is more that R 15,000.00 per month. These SMMEs do have a chance to become a sustainable business. The business does have an established clientele and a regular turnover of more than R 15,000.00

4.4. SMME Finance

4.4.1 Credit Applied for

Table 7: SMME Credit Record



Applied for credit		Those that applied-Successful	
Yes	No	Yes	No
40%	60 %	20%	20%

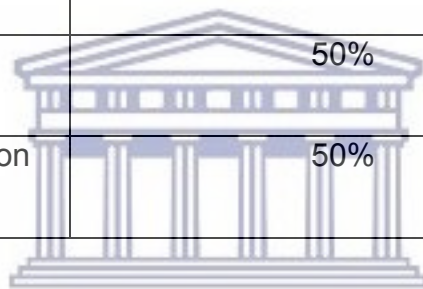
Sixty percent of the sample indicated that they never applied for credit from a bank to finance their business. The respondents indicated that they started the business with their own finance and are dependent on the business generating a profit to continue operating.

Twenty percent SMMEs sampled indicated that they applied for credit from the bank but was never successful. Twenty percent of the sample indicated that they applied for finance and were successful.

4.4.2 What were the main reasons for being unsuccessful

Table 8: Reasons for loan Refusals

Reasons	SMME response
No financials of business	50%
No collateral	50%
No past credit record	50%
Length of business in operation	50%



The respondents that applied for a loan indicated that the bank's decision to decline their loan is based on a number of reasons:

- They indicated that the lack of financial statements to present financial history as well as future financial projection was the main reason for the rejection. The SMME owners expressed the view that the lack of financial statements is because they know their business and do not have the knowledge to complete financial statements. Another reason includes the lack of collateral. The SMME owners stated that they do not have fixed assets and therefore, the bank refused them any financial support.

- The other 50% of the SMME owners who were successful is in operation longer than a year and could provide all the relevant documentation required. Irrespective of the financial institution's view SMMEs operating in township as high risk and the interest rates are high. The high interest rates are a constraining factor and SMMEs generally prefer not to approach the bank for finance. In many instances, the SMMEs approach private individuals to fund their business. In these cases ,the repayment and interest is negotiated and based on their personal relationships.

4.4.3 How did you finance the start-up of the business

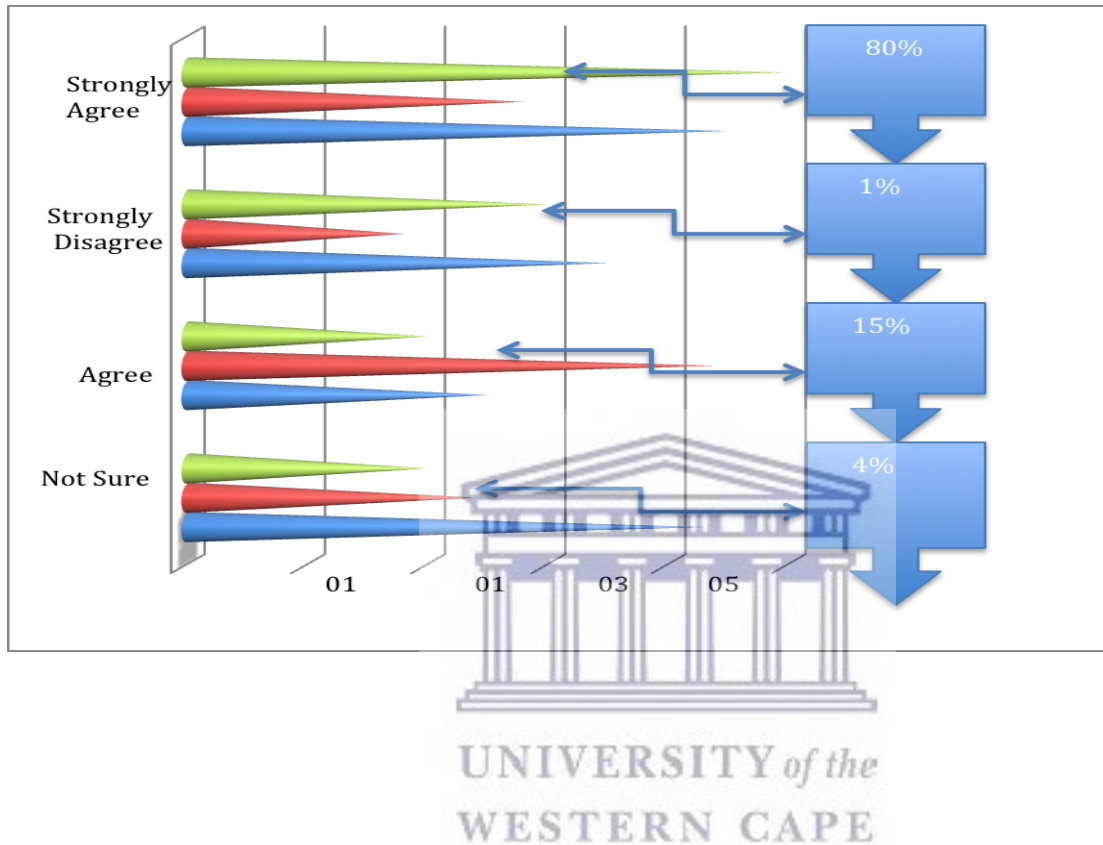
Table 9: SMME start-up Finance

How did you finance your business : Start-up Capital			
Own Finance	Family	Bank	Government
80%	20%	0%	0%

All of the SMMEs (80%) started their businesses without a bank loan either out of their own pockets or supported by their families. None of them approached financial institutions or government for financial assistance.

4.5. Employment Creation: Please state if you agree or disagree to the following:

Figure 6: Employment of more hands in future and expand my business.



The majority of respondents expressed the view that they want to employ more people, but are unable to do so. All the respondents similarly want to grow their business and expand into more branches. This is a common goal but many of the respondents are struggling to run their current business in a profitable manner and therefore, unable to create employment opportunities.

Eighty percent of the SMMEs owners strongly believe that job creation and employing more people in future would help reduce the unemployment rate in Khayelitsha. Majority of them dream of establishing more branches in other areas of Khayelitsha and expanding their businesses.

4.6. Do you Know Government agencies that support SMME?

The majority of the SMMEs indicated that they are not aware of the support provided by government entities. This was rather a worrying finding, given government priority to grow the SMME sector. When probed why they unaware of the support provided by government, some of the SMMEs indicated that the support is not well published and they do not necessarily buy newspapers. This is an important finding because government recognises the importance of the SMME sector in playing a pivotal role to achieve their goal of a million jobs but the SMME's in Khayelitsha are not aware of the services provided.

4.7 Have you ever attended a SMME workshop hosted by government?

Table 10: SMME workshops



Have you attended Government SMME workshop?	
Yes	No
20%	80%

The majority of the respondents indicated negatively, the reason being that they are not aware of such workshops to assist SMMEs. Others indicated that they attend SMME workshops hosted by the City of Cape Town but no positive benefits were derived. The respondents indicated that the workshop attendance does not lead to business opportunities. Therefore, they do not attend the workshops provided by government or City of Cape Town because they view it as a waste of time.

4.8. What is your strategy when buying stock?

Figure 7: Strategy to buy stock



The majority (60%) of the SMMEs are doing their own buying. They do not collaborate with other SMMEs to increase their buying power and negotiate a better price for the goods. Twenty percent of the SMME's do, however partner with other SMMEs to improve their buying power and negotiate a better price. The respondents that partnered indicated that this enabled them to ask for competitive prices and attract and retain their customers. The SMMEs that collaborate are able to use social networks with other businesses to extract value and in this way increase their buying power and negotiate lower prices.

On the other hand, the survivalist SMME buys their stock from the local retailer. They are buying the stock at a higher price in comparison with those doing bulk buying. In many instances, they are paying the same as their customers. The survivalist product price is

generally higher than the local retail shop. This makes it difficult for them to be competitive let alone make a profit.

The survivalist SMMEs indicated that they do not have their own transport and must rely on others when purchasing stock. The lack of transportation is one reason that prevents them from buying their stock from major retailers such as Makro.

4.9. Specific challenges the SMMEs encounter

4.9.1 Unsafe Trading environment

All the respondents rate the unsafe trading environment as the major challenge to their business. The high crime rate and SMME owners fearing for their personal and their customer safety. The SMME owners are daily confronted with the fear of not knowing when they will be robbed. Some of the robberies are violent in nature and in many instances the SMME owner or their staff is injured during the robbery. – Stock theft is crippling their business. The SMME owners indicated that because of their outdated inventory system, it is easy for staff to steal some of the stock. In some cases staff would legitimately sell the goods but add extra items without charging the customers.

The SMME owners generally indicated that, as a start-up ,their income is limited and they are struggling to break even. Their financial situation is of such a nature that they are unable to spend money on effective safety mechanisms to safeguard their premises. Break-ins at their businesses are a general occurrence. The criminals steal their stock and many times structural damage is done. The end result is that many SMMEs then throw in the Towel.

4.9.2 Rental of space

SMMEs indicated that rental cost is another impeding factor. Due to regulatory restrictions, SMMEs cannot operate from their own premises and ,therefore, must rent space. The rental cost is high for a business that, is starting out. The respondents indicated that they had defaulted on rental payment and had to negotiate with the landlord. The uncertainty of security of business premises definitely impacts on the SMME's ability to plan long term. This is mainly attributed to the fact that if they default, the landlord could end the rental contract which could spell the end of the business.

4.9.3 Lack of Capital

Without exception, the SMMEs indicated that the lack of capital is a major impediment for the future growth and sustainability. They said that they are operating on a shoestring budget and any unexpected expenditure could result in financial ruin and their business closure.

The financial constraints impact on the ability of the business to employ permanent staff. The SMME owners indicated that although they want to employ staff, their business is not generating the required income. The end result is that the SMME owner performs all the tasks and does not spend enough time on ensuring that the business grows and becomes sustainable.

The exception though is that 20% of the respondents' businesses have been growing and are financially sustainable. These SMMEs had appointed staff with the necessary expertise to assist and place the business on a sustainable path. The SMME owners indicated that they spend less time on the operations because they appointed staff with

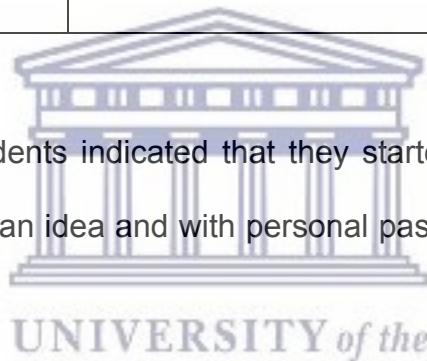
the skillset. The SMME owners now have more time to network and increase their market footprint.

4.10. Did you do a feasibility study or a competitor analysis before indentation trading?

Table 11: SMME feasibility study

Feasibility study	
Yes	No
20%	80%

The majority (80%) of respondents indicated that they started their business without a feasibility study. It was merely an idea and with personal passion and drive, they started their business.



None of the SMMEs has done a feasibility study, and therefore, are unable to predict if their business is viable or not. Neither, are the respondents able to say if they are the only business providing a particular service or if the market is over-saturated with the same type of business. The lack of understanding of the market impacts on the sustainability of the business. A feasibility study would have provided information to the prospective SMME, if the market demand was big enough for another business.

4.11. Do you have a cash flow budget?

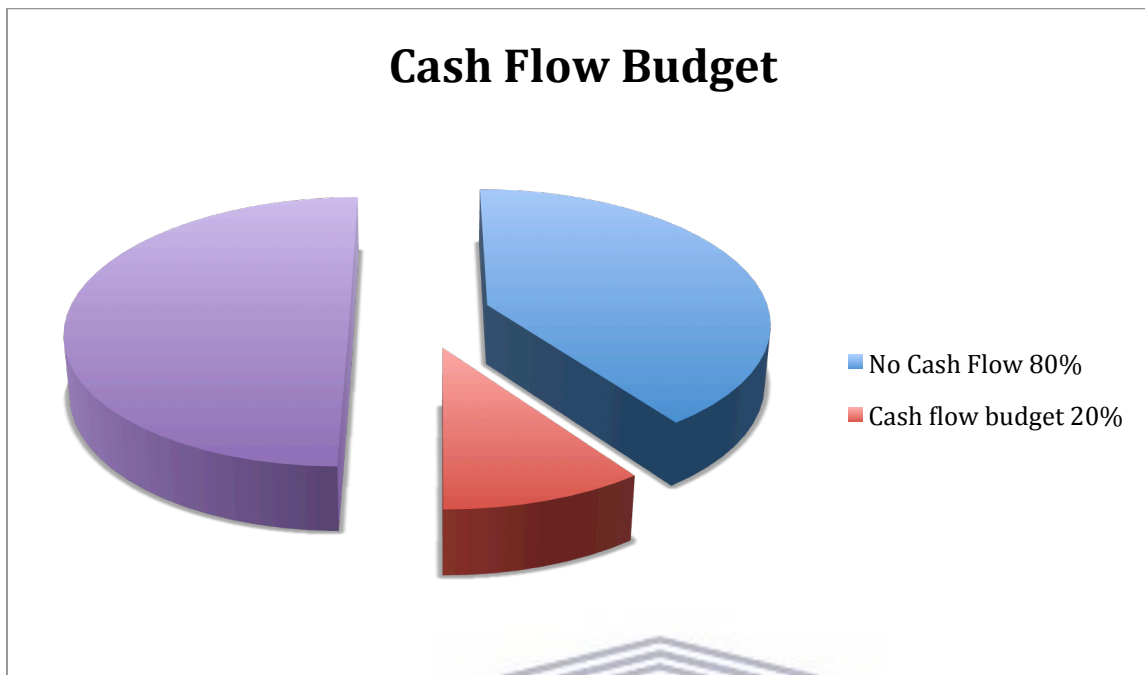


Figure 8 : SMME cash flow budget

Eighty percent of the respondents indicated that they do not have a cash flow budget and have no idea what the future cash requirements would be to ensure that their business grows and remains a going concern. Concepts such as liquidity and cash flow analysis seems foreign to them.

It must be pointed out though that 20% of the respondents do have cash flow budgets. These SMMEs had been in operation for a while and had introduced the financial fundamentals. They had shown resilience and the potential to grow and become a going concern.

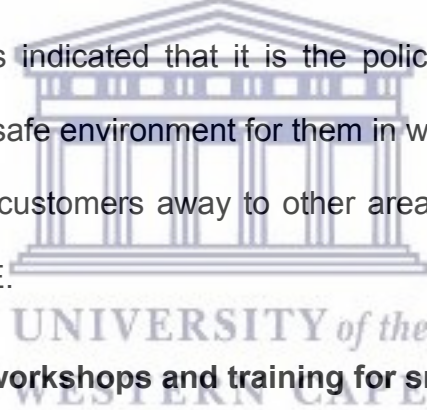
4.12 Government assisting your company/business? – Explain

The respondents indicated that government never assisted them to ensure that the business is growing. They started their businesses out of their own pockets. No starter packs were provided to them although there were entities established to assist these SMMEs. The respondents appear to blame government for their inability to become a financially sound business.

4.13 How would you want to see government assisting SMMEs?

4.13.1 Create a safe trading environment

All the sampled SMMEs expressed the view that government must create a safe trading environment. The respondents indicated that it is the police services responsibility to develop strategies to create a safe environment for them in which to operate. The unsafe trading environment push the customers away to other areas. This has a direct impact on the profitability of the SMME.



4.13.2 Organising business workshops and training for small business owners

The respondents stated that government ,through the Department of Small and Medium Enterprises must develop more capacity-building workshops. These workshops must be arranged within close proximity to the SMMEs.

Importantly ,government must understand what the needs are of the SMME and then arrange the correct capacity building. Training for the sake of training is only wasting SMME time and does not add to them becoming effective. According to the respondents, the workshops must focus on how to grow the business and how to become competitive in a difficult economy.

4.13.3 Government to assist SMME through financial support

The respondents overwhelmingly support this idea are of view that government must establish entities that could provide financial support for SMMEs. The respondents stated that, given the difficulty to access loans from banks, government must develop a policy to assist SMMEs. The respondents indicated that innovative financial strategies such as providing subsidies for start-ups and creating enterprise hubs with low rental are some of the ways that government could assist.

The survivalist respondents indicated that government could provide them assistance with transport to purchase their products. Furthermore, that government could offer them subsidies during the first year to get going.

The SMMEs that are operating longer than a year want government to assist them to expand and grow. One respondent indicated that government must include SMME in trade shows to showcase their goods.



4.13.4 Implement BBEE policy to benefit SMME

The respondents are of the view that the broad-based black economic empowerment policies must be implemented to advance the interest of historically disadvantaged SMMEs. They states that they have not benefitted from the BBEE policy and blame government therefore. The 30% black ownership of government procurement must be enforced. Government ,according to the respondents ,must procure goods from SMMEs in Khayelitsha. This will enable them to grow and become financially sustainable.

4.13.5 Reduce the cost of data and install WIFI in strategic areas within Khayelitsha

The respondents said that Government must negotiate with the cellular providers to reduce the cost of data. The reason stated is that the SMMEs used the internet to look for opportunities such as procurement opportunities from government. The huge cost of data means that SMMEs are unable to make optimum use of the WIFI as a tool to look for opportunities.

4.13.6 The Reduction of red tape

All of the respondents expressed the view that the regulatory requirements are a major constraining factor, saying that from the time they registered their company, were confronted with red tape. Each month they must report to the Department of labour on staff employed, even if none are employed. Registration with SARS and ensuring that financial documentation is compiled and checked by an accountant is expensive for a small and struggling SMME. Other red tape is the opening of a bank account that could be a constraining factor. The respondents said that government must review the policies and provide some relief to the SMMEs.

4.14 Conclusion

This chapter was an analysis of the data collected to understand what the challenges are that confronting Small, Medium and Micro-Enterprises. The data collected revealed that, according to SMMEs, government is not assisting them. Importantly, that they find it difficult to get financial support from banks because of the strict requirements. SMMEs provided various reasons they felt directly affects the success of their business. A key area according to them, was crime and unsafe trading areas. They are of the view that government intervention is required to assist them to become financially viable and grow and provide employment to the unemployed of Khayelitsha.

CHAPTER FIVE: FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study focused on SMME development and to bring an understanding of what the challenges are, that confront Small, Medium and Micro-Enterprises in becoming a financially viable business. The SMME sector is seen as the answer to addressing poverty and unemployment. This seems not to be the case and this research objective was to bring an understanding of what the challenges are. The research question formulated to guide this study was: What are the challenges faced by the SMME sector in becoming a going concern? A number of objectives were set, namely:

- To do a literature study to understand the SMME.
- To draw a common understanding of what the challenges are.
- To present the findings.
- To make recommendations to assist the development of SMME development.

The **main findings** coming from the literature study is as follow:

The SMME sector failed in meeting the objectives of employment creation and poverty reduction. The reason for this is because nearly 80% of the SMMEs are struggling to survive and to grow and create employment opportunities. The failure, therefore, of the SMME to become a sustainable business means that they could not create employment opportunities. Many reasons are provided for this failure. The most important as the research showed are:

- The inability of government policies to stimulate the SMME sector within the disadvantaged and marginalised community.
 - The lack of marketing government policy support to the SMME sector.

- The application of government policies such as BBEE to advance the SMME sector.
- Government policies adopt a broad paint brush approach; in other words, the policies speak to the SMME sector instead of focusing on different sectors within the SMME sector.
- The needs of the survivalist SMMEs are different than those that had been operating and showing some sustainability.
- The lack of start-up capital. The findings support that of Brink and Cant (2003) that most of the SMMEs are owner-funded. This money is usually used to purchase stock. The conversion of the stock into money usually takes a while and this places financial pressure on the SMME. In certain instances, the profit generated is insufficient to cover the operational cost of the business. The end result is that the business closes down
- Access to finance. The findings support that of Soni (2005) that SMMEs do not have an established and credible credit record and, therefore, unable to obtain much-needed finance. The financial sector requires some credit record on which to base their decision to grant finance or not. As stated above, most of the SMMEs do not meet the requirement and, therefore, approach scrupulous moneylenders for financial assistance. These moneylenders charge high interest rates which the SMME cannot afford, resulting in them ending up in financial difficulty.
- Over-reliance on the owner. The findings support that of Brijlal and Jere (2018) that the owner is the key resource during the initial phase of the business. The owner does all the planning, costing, marketing and production. In such a situation, the growth of the business is dependent on the business experience of

the owner. The research showed that many of the business owners do not have the necessary experience of how to manage a business. This lack of business experience is found to be one of the reasons for business failure.

- Lack of resources. A key business resource is transportation, either to collect material or to deliver the final product. Many of the SMMEs do not have transport and depend on others. Lack of transport is similarly cited as a factor that prevents SMME growth.
- Access to market and securing customers is another critical factor that was highlighted in the research. The SMME is struggling to enter the market and attract customers. This is mainly because they are new participants in the market and did not do a market analysis to determine if their product is in demand. Given the financial struggle of the SMME, they do not have the finances to go on a market drive. The lack of marketing of their product then directly impacts on their ability to enter the market and attract customers.
- The competitive environment. Many of the SMMEs are unable to compete within a competitive market. A case in point was when new competitors, such as foreign traders, enter the market with a reduced price strategy against which the local SMME sector was unable to compete resulting in their closure. In a competitive market, the sustainability of any business depends on its ability to compete and motivate customers to buy their product. The absence thereof, as shown in this study, results in business closing shop.

5.2 Recommendations

- Local Economic Development Department should provide the necessary resources for the informal business.
- National Government Departments should in some way, intervene where necessary. The establishment of an SMME fund to finance and support SMME development is highly recommended.
- Government must design specific interventions to support and stimulate the township economy.
- Assisting in business plan development.
- Mentorship programmes where SMME owners are partnered with a mentor to build the business.
- Government must fast-track the establishment of township enterprise development hubs. This has the following advantages :
 - Low rental space for SMME.
 - Improve the safety of place of business.
 - This could attract more customers to the enterprise hubs.
 - To review the regulatory framework for SMME's- in particular to reduce the red tape for survivalist SMMEs. This could be done by exempting them from the extensive regulations.
 - Government capacity development must be focused and demand-driven; in other words, the strategy of training for the sake of training must be stopped.
 - Lastly, government must promulgate strategies aimed at township development by providing support to SMMEs operating within the townships.

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