

**THE IMPACT OF REGULATION ON SMALL BUSINESSES IN THE
REPUBLIC OF SOUTH AFRICA**

by

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Abstract

Title of Dissertation: The impact of regulation on small businesses in the Republic of South Africa

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The study examines the impact of regulations on small businesses in the Republic of South Africa. It analyses the Small Business Development Policy of 1996 which categorised small businesses into micro, small, very small, and medium enterprises (SMMEs).

This policy outlines the functions of the large number of small business support institutions such as Ntsika Enterprise Promotion Agency, Khula Finance, the Department of Trade and Industry (DTI) institutions and the Gauteng Provincial SMME desks.

Ntsika was formed in 1996 to implement the small business strategy. The institution provides non-financial support to small businesses through a number of programmes. These programmes include Tender Advise Centres and Manufacturing Centres.

Khula Enterprise Promotion Agency was established in 1996 to provide loans and guarantees to small businesses in order to increase their access to finance through commercial banks. Khula manages a large number of programmes, namely, business loan schemes, guarantee schemes, Khula star funds and equity funds.

The DTI provides a number of incentive schemes for registered small businesses. The DTI incentive schemes provide the necessary infrastructure and contribute towards increasing the performance in the small businesses sector.

Small businesses face a large number of challenges such as the lack of competent human capital, low profit margins, inadequate financing, stiff competition from large monopolistic and well established businesses, inadequate marketing strategies, unfavourable policy and legal environment, lack of information about government support initiatives, and cyclical sensitivity of their products.

The study concludes that there is a need for mentorship programmes in the small business sector in order to increase the success rate. More research is needed in the small business sector to create awareness about potential benefits accruing to the financial sector and the economy as a whole. More players are required in the commercial banking sector in order to enhance competition. The state should reduce barriers to entry into the banking and the SMME sector. Furthermore, the state should level the playing field to facilitate access of women to financial resources. These institutions must publish all their results regularly so that the success of their financing can be evaluated. Transparency is needed and non-performing loans must be reported to judge the small business support institutions.

DECLARATION

I, **TALENT THEBE ZWANE**, declare that the **IMPACT OF REGULATION ON SMALL BUSINESSES IN THE REPUBLIC OF SOUTH AFRICA** is my own work, that all sources used or quoted have been indicated and acknowledged by means of complete references. It is submitted in partial fulfillment of the requirement of the degree Magister Commercii at the University of Johannesburg, Auckland Park campus. This dissertation has not been submitted before, for any degree or examination, in this or any other university.

TALENT THEBE ZWANE

January 2009



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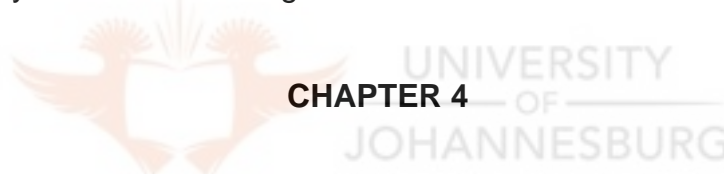
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List of abbreviation and acronyms

ANC: African National Congress
BCEA: Basic Conditions of Employment Act, number 75 of 1997
BEE: Black Economic Empowerment
BBBEE: Broad Based Black Economic Empowerment
BMR: Bureau of Market Research
CA: Company's Act, number 6 of 1973
DTI: Department of Trade and Industry
EEN: Enablis Entrepreneurship Network
ECTA: Electronic Communications and Transactions Act, number 25 of 2005
EDS: Enterprise Development Strategy
EEA: The Employment Equity Act, number 55 of 1998
GEAR: Growth, Employment and Redistribution strategy
GDP: Gross Domestic Product
GGDS: Gauteng Growth and Development Strategy
ICGS: Individual Credit Guarantee Scheme
IDC: Industrial Development Corporation
ITA: The Income Tax Act, number 58 of 1968
LRA: The Labour Relations Act, number 66 of 1995
KEPA: Khula Enterprise Promotion Agency Ltd
MFMA: Municipality Financial Management Act
MCO: Micro Credit Outlets
MSMPPMA: Municipality Systems of 2000 and the Municipality Planning and Performance Management Regulations Act
NSBA: National Small Business Act, number 102 of 1996
NSBAA: National Small Business Amendment Act, number 29 of 2004
NSBC: National Small Business Council
NTEPA: Ntsika Enterprise Promotion Agency
OHSA: Occupational Health and Safety Act, number 85 of 1993
PCGS: Portfolio Credit Guarantee Scheme

PIC: Public Investment Corporation
PPPFA: Preferential Procurement Policy Framework Act
REF: Regional Equity Fund
RDP: Reconstruction and Development Programme
RFIs: Retail Finance Institutions
RSA: Republic of South Africa
SBDA: Small Business Development Agency
SBDC: Small Business Development Corporation
SDA: Skills Development Act, number 19 of 1998
SDLA: Skills Development Levies Act, number 9 of 1999
SEDA: Small Enterprise Development Agency
SMME: Small, Medium and Micro-Economics
SME: Small and Micro-Enterprise
SSP: Skill Support Programme
UNISA: University of South Africa
UICFA: Unemployment Insurance Contribution Fund Act, number 4 of 2000
UYF: Umsobomvu Youth Fund
VAT: Value Added Tax
WPNSDPSSA: White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa
WPLG: White Paper on the Local Government 1998
TMS: Thuso Membership Scheme

Laws, regulations and strategies referred to

Basic Conditions of employment Act, number 75 of 1997 (BCEA)
Black Economic Empowerment (BEE)
Broad Based Black Economic Empowerment (BBBEE)
Company's Act, number 6 of 1973 (CA)
Electronic Communications and Transactions Act, number 25 of 2005 (ECTA)
Enterprise Development Strategy (EDS)
The Employment Equity Act number 55 of 1998 (EEA)
Growth, Employment and Redistribution (GEAR) strategy
Gauteng Growth and Development Strategy (GGDS)
The Income Tax Act, number 58 of 1968 (ITA)
The Labour Relations Act, number 66 of 1995 (LRA)
Municipality Financial Management Act (MFMA)
Municipality Systems of 2000 and the Municipality Planning and Performance Management regulations Act (MSMPPMA)
National Small Business Act, number 102 of 1996 (NSBA)
National Small Business Amendment Act, number 29 of 2004 (NSBAA)
Occupational Health and Safety Act, number 85 of 1993 (OHSA)
Preferential Procurement Policy Framework Act (PPPFA)
Reconstruction and Development Programme (RDP)
Skills Development Act, number 19 of 1998 (SDA)
Skills Development Levies Act, number 9 of 1999 (SDLA)
Unemployment Insurance Contribution Fund Act, number 4 of 2000 (UICFA)
White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (WPNSDPSSA)
White Paper on the Local Government of 1998 (WPLG)

CHAPTER 1

THE PROBLEM AND ITS SETTING

1. Problem statement

1.1 Introduction

When the democratic government came to power in 1994, they took over an economy with approximately 30 percent unemployment and a declining per capita gross domestic product (Bantjes, Kedachi and Kriel 2006:34). There were only a small number of people from disadvantaged groups in leadership positions in commerce, industry and other socio-economic institutions.

Martin (2001:34) argues that apartheid policies denied black entrepreneurs the opportunity of realising their full potential as businessmen and women in the economy of the Republic of South Africa (RSA). As a result of this marginalisation, many black entrepreneurs could only maintain small businesses. Kampel (2003:10) categorises small businesses into five groups, namely, survivalist, micro, very small, small, and medium enterprises (SMMEs). The classification of small businesses is dependent on the sector within which the business is operating. The sector of operation determines the number of labourers employed, the annual turnover and the total asset value excluding property.

Furthermore, historical injustices have prevented a large number of the South African population from gaining access to finance and this has restricted their access to major markets (Bantjes et al. 2006:34). These injustices by the previous government resulted in a distorted economy where large numbers of small businesses were confined to the margins of economic activities.

The macroeconomic objectives of the state include job creation, poverty alleviation, and economic growth of about six percent (Bantjes et al. 2006:34). Hence, the aim of the establishment of SMMEs was to alleviate poverty and create employment opportunities for previously disadvantaged communities (Liebenberg, Louw, Steadman and Swanepoel 2007:73).

However, there were major problems in the establishment of SMMEs. Small business enterprises were faced with major challenges in their day to day operations. These challenges include poor product quality and limited access to major markets. As a result of poor product quality, small business undertakings found it difficult to export their final output to international competitive markets. The outside world viewed products coming from small business undertaking as of inferior quality and less attractive (Liebenberg et al. 2007:73).

Other challenges faced by SMMEs include financial exclusion by large established banks as they require security for any amount of money they lend (Sharp 1999:125). These difficulties created barriers to SMMEs success. A large number of these barriers have prevented SMMEs from executing their economic role of acting as engines of job creation and as sites of innovation in South Africa.

In addition, other challenges included the lack of capital, high tax rate, a high crime rate, lack of business skills, lack of equipment, poor marketing strategies, lack of training opportunities, high rentals, disloyalty of staff and high interest rates (Darroch and Clover 2005:244). All this has contributed to a high rate of unemployment in South Africa and increased poverty. The intervention of the state in the economy was met with great challenges such as changing the mindset of the participants.

Another challenge for the government is to overcome these barriers without creating unemployment and poverty. In order to overcome the barriers faced by SMMEs, the South African government has introduced several laws and regulations which are designed to protect SMMEs from unfair competition with well established businesses. In order to benefit the society at large, the state therefore regulates SMMEs in order to promote fair competition and provide them with access to major markets.

Regulation is designed to reduce the negative effects that private companies have on other organisations, groups and individuals within the society. These negative effects can be incurred intentionally or unintentionally by the private sector businesses during the process of conducting business (Martin 2001:34). Hence, it is

the responsibility of the government to intervene in the working of the economy through regulation in order to reduce unhealthy competition.

The state regulation of businesses is intended to achieve at least two public objectives (Liebenberg et al. 2007:73). The first objective is to promote healthy market competition and to control consumers and small businesses during their business operations. Sharp (1999:125) argues that these objectives are achieved by the state through the proper implementation, monitoring and evaluation of government antitrust laws.

The second objective is to mitigate any adverse effects of company activities on individuals, the environment and other organisations within the society. This objective is supported by an expansive array of environmental laws, security laws, employment laws and safety regulations (Bantjes et al. 2006:34). Regulation is also intended to benefit organisations such as corporate and financial institutions, employees in an organisation, customers and the general public (Bantjes et al. 2006:34).

The regulation of businesses by the government strives to prevent past political injustices from occurring again. In this way regulation is a major tool designed to control and shape the economy in order to perform certain functions and achieve particular objectives such as job creation, increased investment, increased standards of living, accelerated growth and community participation without discrimination (Sharp 1999:125).

Regulation can also have some unintended negative consequences for the business community. Regulation imposes expensive costs on businesses that usually shift the costs to the final users of goods and services (Sharp 1999:124). These costs to business undertakings include capital costs, which are linked to the compliance of the SMME sector. Another cost associated with the SMME business sector is the cost of the various information collection processes. These information collection processes are necessary for regulatory compliance.

The costs of regulatory compliance take up a larger proportion of small business revenue compared to large businesses. Hence, the burden of regulatory compliance on SMMEs is greater, and may harm their ability to create jobs and maximise profit. Furthermore, a large number of regulation processes expose companies to the danger of litigation (Sharp 1999:124).

The implementation of regulation therefore causes some unintended and unexpected difficulties that negatively impact on the performance of businesses, especially SMMEs. Sharp (1999:124) contends that regulation was designed as a protective measure for both participants in the labour markets, but its unintended consequences create an unfavourable business environment exposing companies to a large number of questions.

The small business sector is left with a large number of unanswered questions about the intended aims of regulation and its unintended consequences in South Africa. For these questions to be answered, research has to be conducted in order to determine the impact of regulation on small business undertakings. This dissertation aims to undertake some further research into these problems.

1.2 The aim and objectives of the study

The main aim of the study is to obtain a better understanding of the ways in which regulation affects the South African businesses. The research studies the impact of regulation on the SMME sector. The study is designed to assess the impact of regulation in the economy given its unintended consequences on the SMME sector.

The study analyses the macroeconomic impact of regulation on South African businesses, specifically on the SMMEs. The main focus of the research is more on the literature study of regulation. The study aims to determine whether the process of business regulation in South Africa is in line with the current government's goals of job creation, economic growth, increased investment and community participation. It therefore, investigates whether regulation of businesses by the state hampers or promotes the SMME sector.

The research also investigates the successes and shortcomings of the support services provided by the different small business support institutions during the period 1996 to 2006. Small business support institutions are business organisations established by the state to service the interest of small businesses in the RSA. Furthermore, it evaluates the recent developments in these small business support institutions as a result of the Small Business Development Policy of 1996. In order to achieve this aim, the study assesses the Small Business Development Policy Framework in South Africa in terms of the functions of the small business support institutions and the ways in which they assist the SMME sector.

Furthermore, the research critically evaluates the policies governing small businesses according to the generally accepted principles of transparency, accountability, proportionality, consistency and targeting. This shows which major tools have been formulated and developed by the state in monitoring the impact of their policies on the sustainability of the SMMEs in the country.

The importance of this research is to broaden the knowledge and understanding of the various support programmes available to the SMME sector. It also highlights the lessons learned from the past in terms of the accessibility and perception amongst small businesses regarding the quality of these support programmes.

1.3 Nature of the problem and reason for research

The implementation of business regulation by the South African government is creating some unintended consequences for the SMME sector. These unintended consequences of laws and regulation are limiting the chances of SMMEs to create employment opportunities and for acting as sites of innovation in South Africa.

Regulation of businesses by the state is broad as it includes environmental protection, employment and health insurance. A large number of these regulatory frameworks impose great risks of litigation on businesses (Darroch and Clover 2005:43).

It is important to analyse business regulation in order to determine whether such regulation meets the stated goals and objectives of the state, whether they are well targeted and whether they have unintended consequences that interfere with the intended aims (Davies and Pillay 2006:201). If unintended consequences of this legislation are found, the study will suggest solutions in order to address these consequences. Such tentative recommendations for improvement will be proffered in the final chapter.

In conclusion, the study provides a systematic comparison of the costs and benefits of regulation, as well as the regulatory impact analysis in order to determine the impact of regulation and suggest corrective measures for the policy to be more efficient, effective and productive.

1.4 Research methodology

This research is mainly a literature study. It uses the available literature as primary sources. Various documents such as journals and newspapers, as well as published and unpublished papers, are used in this study. Some of the statistics in this study have been obtained from the Ntsika Enterprise Promotion Agency, which has now been incorporated into the Small Business Development Agency, Khula Enterprise Finance and the Department of Trade and Industry institutions.

1.5 Structure of the study

Chapter 2 analyses laws and regulations governing small, medium and micro-enterprises (SMMEs) in South Africa. The types of laws and regulations that are discussed in this chapter include the national as well as provincial laws and regulations of businesses. The policies evaluated in this chapter include the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, the Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR) strategy, Small Business Development Policy of 1996, the Labour Relations Act number 66 of 1995 as well as the Employment Equity Act number 55 of 1998.

Other policies include the Skills Development Act number 19 of 1998, the National Small Business Act number 102 of 1996 and tax related regulations. The main reasons for the implementation of the above regulations are critically evaluated in this chapter.

Chapter 3 gives an overview of the historical development of regulation in South Africa. The chapter includes the history of regulation from 1994 to 2007. It also analyses the extent to which the state has intervened in the economy and explains how the intervention was carried out by various institutions. Business strategies that are designed to sustain the SMMEs within the country, which are some of the main tools of state intervention in the economy, are also analysed in this chapter.

These strategies are informed by laws and regulation of businesses. The developments and reforms in small business support institutions are analysed in this chapter. Furthermore, the chapter analyses the views of different stakeholders on these laws and regulations.

Chapter 4 focuses on the impact of regulation on the SMMEs. The chapter analyses the constraints faced by the SMMEs in South Africa as a result of regulation. It evaluates the impact of labour regulation on the development of the SMMEs, the effect of corporate and securities laws as well as the impact of employment laws on the SMMEs. Furthermore, the chapter evaluates the effect of environmental regulations as well as the compliance cost of taxation on the SMMEs. This is done in order to determine the effects and impacts of regulation on the sustainability of the SMMEs, including the allocation of resources, redistribution of income, investment, employment and the general production of goods and services.

Chapter 5 summarises the main findings and conclusions of the study and proffers some tentative recommendations.

CHAPTER 2

LAWS AND REGULATIONS GOVERNING SMALL, MEDIUM AND MICRO-ENTERPRISES (SMMES) IN SOUTH AFRICA

2.1 Introduction

The growth and economic power of private sector businesses has led to a large number of laws regulating business activities in South Africa. These laws serve to promote market competition and control the market power of large firms over customers and small business undertakings. Regulations on businesses originate from these laws in order to control provincial and local conditions. This affects a wide range of stakeholders positively and negatively. These stakeholders include the corporate and financial institutions, employees and the general public.

However, some of these policies create some unintended consequences for the small business development. The impact of these policies on the sustainability of the small businesses and the unintended consequences of regulations are discussed more broadly in Chapter 4.

This chapter discusses a wide range of policies and regulations that governs the small businesses in South Africa. The main aim of this chapter is to provide a framework for policy development and implementation within the country. Hence, this chapter provides an analysis of the successes and failures of these policies to measure how effective they are.

Although a large number of studies have investigated the impact of regulations on the relationship between the government and the private sector, less attention has been directed towards understanding how the government's regulations have affected small businesses in South Africa.

2.2 Overview of the laws and regulations and their development in South Africa

In the developing world, the question of regulatory reform has become an important part of the discourse on the local economic development and anti-poverty programmes. It is recognised that the regulatory framework is established by the national, provincial and local government for protection and developmental purposes and for the conditions of the times. According to De Clercq and Venter (2006:34) the regulatory framework is designed to apply nationally and locally with the intention of supporting business development strategy. The regulatory framework sets the parameters for the development and support of businesses in general. These regulatory frameworks comprise of a wide range of laws, rules and orders, legislation and policies related to town planning, public health and procurement (Van Eeden et al. 2003:23)

Conventional wisdom suggests that the growth and development of the small business undertaking is very important for the country's ability to address the serious problems of unemployment, income inequality, economic growth, lack of international competitiveness and low socio-economic growth (Van Eeden et al. 2003:23).

The SMMEs are regarded by a large number of people as vehicles that address the problem of poverty and the standard of living within the country. These institutions have a high labour-absorptive capacity (Dean and Tusten 2003:361). The SMME sector is regarded by many people as a major contributing factor to black economic empowerment in that the majority of SMME institutions are reported to be initiated and owned by the previously disadvantaged individuals (De Clercq and Venter 2006:36).

In addition, the SMMEs play a very important role in people's efforts to meet their basic needs in the absence of social support systems during the reconstruction processes. A large number of initiatives are embarked on by the state to unlock the potential of small businesses and to assist these institutions with the support and development processes. These initiatives create a friendly environment for the

SMMEs to grow and are made possible by a range of policies, laws and regulations (Dean and Tusten 2003:361).

Therefore, this chapter seeks to examine the legislation and regulations that govern the small businesses, which comprise of a large number of laws, rules and policies that are designed to sustain the SMMEs. These policies are examined in terms of their contribution towards the upliftment of the SMME sector. These types of laws and regulations include the national, provincial and local regulations of businesses. This chapter provides a comprehensive list of policies, of which only some will be dealt with in the later chapters.

Other laws and regulations governing the small businesses examined in this chapter include the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, the Labour Relations Act number 66 of 1995, as well as the Employment Equity Act number 55 of 1998.

In addition to the above policies, the chapter also evaluates the Skills Development Act number 19 of 1998, the National Small Business Act number 102 of 1996 and various tax related regulations. The main reasons for the establishment and formation of the above regulations are critically examined in this chapter.

In order to sustain the small businesses, the South African government has formulated a national strategy for the SMMEs. "This strategy includes, creating an enabling environment for the SMMEs to operate, levelling the playing field between well established business and the SMMEs, and encouraging more rural and decentralised business enterprise" (Van Eeden et al. 2003:23).

Furthermore, these strategies are designed to further the aims of black economic empowerment, supporting the advancement of women in business and preparing the SMMEs for the challenges of a competitive global economic environment (Van Eeden et al. 2003:23).

A large number of government departments are involved in these initiatives, especially the Department of Trade and Industry (DTI). These departments have different mandates to assist the SMMEs in South Africa. These mandates allow the small businesses to act as engines of job creation and sites of innovation (Dean and Tusten 2003:361).

2.3 New regulatory measures governing the SMMEs in South Africa

The South African economy has some advanced and comprehensive regulatory measures, especially in areas of financial regulations. Some of the regulatory measures include, among others, the Occupational Health and Safety Act number 85 of 1993, the Unemployment Insurance Contribution Fund Act number 4 of 2000, the Skills Development Levies Act number 9 of 1999, the Companies Act number 6 of 1973, Electronic Communications and Transactions Act number 25 of 2005 as well as the Income Tax Act number 58 of 1968 (Sharp 1999:125).

Other important regulations governing the small businesses in the RSA include the Small Business Development Policy of 1996, Growth, Employment and Redistribution (GEAR) strategy, Reconstruction and Development Programme (RDP) and the Financial Services Charter (FSC). These policies are the examples of the attempts made by the state to address the challenges of unemployment and poverty in South Africa (Oxford 2005:23).

The small businesses are not immune to these policies. However, these policies are mostly implemented in line with the size of the business undertaking. The regulations in this chapter form part of the policies governing the small businesses, and not all of these policies are analysed in this dissertation.

2.4 Regulation and its objectives

Davies and Pillay (2006:201) define regulation as “legislation that is designed to alter the way in which markets operate in the provincial or local context”. It does this by creating rules, such as determining the price that can be charged on specific commodities in a market. This type of legislation provides guidelines on what has to

be done in order for the businesses to comply. Hence, this type of regulation gives guidance on ways in which businesses have to function by setting minimum standards (Davies and Pillay 2006:2001).

Nieuwenhuizen and Kroon (2002:21-28) contend that some of the minimum standards of regulation include the rules and orders as well as codes of practice issued by different state departments. Regulation uses powers created by legislation and rules issued by other relevant institutions to which the government has delegated power, such as provincial and local government.

Sharp (1999:125) contends that regulations are intended to protect the general public interest. These public interests include health, safety, the environment, public order as well as social cohesion. Such legislation acts as a protective measure and is designed to safeguard the interest of different stakeholders within the economy (Van Eeden et al. 2003:23).

The main objective of regulations is to protect stakeholders, but in the process of their implementation they may accumulate some unintended consequences on small undertakings (Chalera 2006:131).

Regulations are designed to address the important information and market failures, but they may also increase the cost of doing business and usually impose large costs on society as a whole. The costs of doing business within the South African economy are of the highest in the world. These costs add to the difficulty of generating and sustaining small business enterprise growth in the country (Dean and Tusten 2003:361).

Chalera (2006:131) contends that regulation is designed to solve social and political problems and to achieve policy objectives that unregistered markets might be unable to solve. These policy objectives include high economic growth, full employment, price stability and the equitable distribution of income (Sharp 1999:33).

Furthermore, policy objectives are designed to achieve the current government goals of job creation, reduced poverty, increased investment and community participation.

These policies are formulated at a national level and implemented at a local level of the government (Jeppesen 2005:431). They will be discussed in turn in the following section.

2.5 National regulations analysis

The South African Government adopted a new Small Business Development Policy in 1996 in order to enable the SMME sector to play a meaningful role towards achieving economic growth, creating employment opportunities and reducing poverty and equitable distribution of income (Jeppesen 2005:431). The policy aims to enhance the capacity of small businesses to comply with the demand of modernising the economy and the challenges brought about by increasing international competition.

A large number of institutions were established by the Small Business Development Policy of 1996 in order to help small businesses in various ways. These institutions provide a variety of functions and products to SMMEs. This policy is a result of the fact that small businesses are now being considered as complementary to large firms in terms of addressing other socio-economic imbalances (Jeppesen 2005:431). Hence, a large number of other policies were formulated.

2.5.1 The National Small Business Act number 102 of 1996

The National Small Business Act (NSBA) number 102 of 1996 was introduced to provide for the formulation of National Small Business Councils (NSBCs) and the Ntsika Enterprise Promotion Agency. This was after all the recommendations and inputs were made and incorporated from the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa. The NSBA act aims to provide guidelines for the organs of the government in order to promote the formation of small business within the country (Van Eeden et al. 2003:231).

2.5.2 National Small Business Councils (NSBCs)

As a result of the establishment of the NSBA, the NSBCs were formed (Dean and Tusten 2003:361). The main aim of such a council is to represent and promote the interest of small business development in the country. According to Van Eeden et al. (2003:214), the councils advise the national, provincial and local governments on social and economic policies that promote the development of small businesses. The NSBA also authorised the formation of the Ntsika Enterprise Promotion Agency (NEPA). This institution provides a wide range of support to small businesses in South Africa. However, the institution supports only those who can help themselves and who could get loans from banks also if they wanted to. The very small and micro-enterprises are often not helped by this institution. Targeting by the NSBCs is a major problem.

2.5.3 The objectives of the Ntsika Enterprise Promotion Agency (NEPA)

The NEPA expands, coordinates and monitors the provision of training, advice, counselling and non-financial services to the SMMEs (Hinson and Bawuah 2006:214). This is done in accordance with the National Small Business Support Strategy (NSBS). In addition, the NEPA also provides financial support to service providers that are established to promote the activities of the small businesses.

According to Van Eeden et al. (2003:321) the NEPA consults with any other organs of the state, which include the council and the service providers, in order to facilitate access by small businesses to raw materials and other products. In addition, the agency facilitates access to products and services of small businesses in the country for national as well as international markets.

Furthermore, the NEPA, with the assistance of the Department of Trade and Industry (DTI) formulates and coordinates the national programme of policy research, collection and dissemination of information concerning the small business development initiatives (Smith and Perks 2006:48). The NSBA was amended in 2004 in order to expand its services in support of the small business enterprises.

2.5.4 National Small Business Amendment Act (NSBAA) number 29 of 2004

The amendment of the NSBA repealed all provisions pertaining to the NEPA (Hinson and Bawuah 2006:92). According to Dean and Tustin (2003:361) the amendment of this act led to the establishment of the Small Enterprise Development Agency (SEDA). This amendment facilitated the establishment of the manufacturing advisory centre and other designated institutions in the agency. The amendment also provided for the necessary transformational arrangements to this effect (Van Eeden et al. 2003:54). SEDA was established to provide a range of assistance to the development of small businesses and to sustain their growth. These objectives are stipulated in this amendment act. However, this act has also failed to provide comprehensive support to the SMMEs. These failures are analysed in the following chapter as this chapter is merely an introduction to the laws and policies governing the small businesses.

2.5.5 Objectives of SEDA

According to Smith and Perks (2006:47) SEDA facilitates the design and the implementation of small business enterprise development support, in order to facilitate the building of sustainable and competitive small business enterprises. The institution also facilitates the creation of an enabling environment for small business to develop and to create enough employment opportunities in the country. Hinson and Bawuah (2006:231) argue that SEDA has a mandate to develop a national delivery network with regard to small business development. Unfortunately, SEDA in most cases finds it difficult to be consistent and accountable to the general public.

According to De Clercq and Venter (2006:121) SEDA integrated all government funded small business support agencies across all spheres of government. However, SEDA is experiencing difficulties in leadership. A direct result of the absence of good leadership in SEDA has been policy confusion, which is discussed more broadly in Chapter 4.

The municipality as an organ of the state is one of the role players that participate in an integrated approach to small business development and support (Van Eeden et

al. 2003:243). Labour regulations also play a very important role in the development of small businesses.

2.6 Employment, labour and skills development regulations

The relationship between the employer and the employees is very important in any labour market. In South Africa, the employment relationship is regulated by the state. In this regard, a large number of regulations, policies, rules, orders and strategies influence or restrict the ways in which business is conducted. They also influence the way in which businesses interact with prospective, current and former employees (Smith and Perks 2006:182). Such regulations and policies recognise that there are various factors that can alter the balance of power between the employees and the employers.

These types of legislation are designed to address the concerns that one party might, intentionally or unintentionally, impose harm on the other party (De Clercq and Venter 2006:182). This harm may consist in the employer's intentional or unintentional discriminating against certain groups of current or potential employees, which denies them access to jobs, promotion and fair wages. It may also include unsafe or unfair working conditions. This harm might also be that the employer exercises his market power to drive down wages (Smith and Perks 2006:182).

Employment laws, regulations, rules, policies and legislations which range from minimum wages and anti-discrimination laws, to workers compensation and unemployment insurance are designed to protect the employees in the labour market environment from such harm (Smith and Perks 2006:182).

In contrast to their objective of protecting the employees, these types of legislations can impose serious harm and cost to the employers. In designing these types of regulations, policy makers strive to maintain a balance between the cost and the benefits (Dean and Tustin 2003:361). However, South African regulations usually favour the employees in an organisation (Smith and Perks 2006:182).

Policy makers often adjust the application of or the enforcement of employment related regulations according to the size of the business undertaking (Dean and Tustin 2006:361). This is done due to the belief that a given regulation or regulatory policy imposes a greater relative cost on small businesses. This section evaluates these labour market related regulations and identifies ways in which the interaction between a firm's size and employment laws and regulations affect explicit tradeoffs between costs and benefits.

2.6.1 Basic Conditions of Employment Act (BCEA) number 75 of 1997

The BCEA lays down the basic working conditions, such as the regulation of ordinary working hours, overtime and leave, leave provisions and severance pay applicable to all full-time employees. Owners of small business undertakings claim that the BCEA has a positive impact on the level of productivity of its employees (Dean and Tustin 2003:361). More goods and services are produced as a result of overtime and other financial gains (Dean and Tustin 2003:361). The SMME owners indicate that the minimum wage level set by the Employment Conditions Commission encourages them to employ skilled labourers for specific jobs (Dean and Tustin 2003:361).

2.6.2 Employment Equity Act (EEA) number 55 of 1998

The EEA aims to prevent unfair discrimination by employers on the basis of race, gender, or health status of employees (Dean and Tustin 2003:361). This act forces employers with more than 50 employees to develop and implement an employment equity plan in order to ensure the equitable representation of previously disadvantaged individuals in all occupational categories and levels of the workforce.

2.6.3 Local municipality regulations

According to Smith and Perks (2006:182) any study on the regulatory best practice in the context of the local government must take into account the developmental role of SMMEs. The developmental role is relevant when regulation is analysed in terms of the small businesses whose promotion is targeted as a key element in the government's strategy for employment creation and income generation (Van Eeden

et al. 2003:231). Clarity on the broader policy framework surrounding the developmental role of the municipality is provided by the White Paper on Local Government (WPLG) of 1998 (Hinson and Bawuah 2006:34). This document defines the objectives of the municipality with reference to small business development and support strategies.

2.6.4 White Paper on Local Government (WPLG) 1998

According to Hinson and Bawuah (2006:34) the White Paper has developed some related characteristics of the developmental goals of the local government. These developmental goals include, among others, social and economic growth. Another developmental goal is integrating and coordinating the development of learning support initiatives for the small businesses (Smith and Perks 2006:182).

According to Hinson and Bawuah (2006:34) municipalities develop their own strategies for promoting the social development of the communities they serve through laws and regulations. The development outcomes of the local government, identified in the White Paper, include the provision of household infrastructure and services, integrated cities, town and rural planning (Dean and Tustin 2003:361).

According to Smith and Perks (2006:182) the DTI must cooperate with the local government towards achieving its developmental mandate of supporting the small businesses. Business support centres and local economic development (LED) pilot projects initiated by the DTI and the special development initiatives are cited as areas where the involvement of the municipalities is encouraged. This cooperation has led to the formation of the municipality system and the Municipality Planning and Performance Management Regulations Act number 55 of 2000 (Dean and Tustin 2003:361).

2.6.5 The Municipality Systems of 2000 and the Municipality Planning and Performance Management Regulations Act number 25 of 2000

According to Smith and Perks (2006:182) this Act provides for a comprehensive basis for the emerging systems of integrated development planning proposed in the

White Paper. As part of compliance with the above legislation, municipalities draw up their own LED strategies and by-laws (Dean and Tustin 2003:361).

The local government administers the provisions of the national and provincial government legislation as well as regulating these through its own by-laws (Dean and Tustin 2003:361). According to Van Eeden et al. (2003:361) municipality regulations are directly given effect through the provisions of national and some provincial legislation.

In the light of renewed focus on the small businesses, the role of the local government includes some of the pro-active initiatives to promote small business growth (Smith and Perks 2006:182). This gives an added merit or incentive to analysing the regulatory activities of different municipal departments in terms of whether they create a favourable business environment for small business undertakings. This can be achieved through financial systems and the procurement processes of the municipality, which are properly focused and monitored.

2.6.6 The Municipality Financial Management Act (MFMA) number 5 of 2001

The MFMA is an extension of the Public Finance Management Act (Dean and Tustin 2003:364). The main aim of the Act is to assist municipalities to maximise their capacity to deliver services for the benefit of the poor. Smith and Perks (2006:182) argue that this Act is a measure to combat fraud, corruption, favouritism and irregular practices by the municipal officials and other state organs. It seeks to promote the ethical behaviour of the officials of the local government and other role players in the supply chain.

The Act places considerable emphasis on the efficiency in the provision of services and achieving financial value for money. The municipality's role with regard to making the MFMA pro-active is to provide institutional support that brings the poor into the procurement loop, including the small and micro-enterprises (Dean and Perks 2003:361). The small business undertakings are benefiting from the implementation of the MFMA through tenders and contract allocations. This is done through the Preferential Procurement Act number 36 of 2001.

The Gauteng Provincial Government's (GPG) departments and agencies apply a preferential procurement policy when procuring all goods and services (Dean and Perks 2003:361). The target to be achieved in 2009 includes 70 percent of total GPG procurement from BBBEE enterprises with equitable gender participation. In order to make government tenders more accessible, the GPG pays attention to simplifying tender specifications, improving access to tender documents and facilitating easy procurement for SMMEs.

2.7 Preferential Procurement Policy Framework Act (PPPFA) number 36 of 2001

The PPPFA is applicable to the local governments (Hinson and Bawuah 2006:231). The policy stipulates that all local municipalities have to implement a preferential system in the allocation of contracts for the categories of services provider to advance the interests of people disadvantaged by unfair discrimination (Smith and Perks 2006:182).

The PPPFA has a set of accompanying goals for tendering conditions. These tendering conditions stipulate some of the specific objectives (Hinson and Tustin 2003:361). Dean and Tusten (2003:361) argue that one of these objectives is to encourage the establishment of small business and to promote SMMEs located in rural areas.

This Act promotes economic empowerment through the application of price preferences in favour of categories of persons historically disadvantaged by unfair discrimination on the basis of gender and disability (Hinson and Bawuah 2006:231). According to De Clercq and Venter (2006:23) the small business undertakings form the largest portion of this category. The entire legislation and policy framework have a direct bearing on the local municipality's developmental goal and responsibility to the social and economic development and support of small businesses through contracts and tenders.

In order to benefit small businesses, large tenders are broken down into smaller contracts (Hinson and Bawuah 2006:121). According to Smith and Perks 2006:182) this enables a small business to bid on these contracts. The primary rationale behind breaking the tenders into manageable pieces is to create an opportunity for a large number of the SMMEs, who would otherwise not be able to tender or bid. This is mainly because they lack the human and financial capital that is required to make a successful bid. This is the main objective of procurement in the new South Africa (Smith and Perks 2003:361).

The municipality identifies projects within its budget that it wants to pursue to enhance small business development. According to Hinson and Bawuah (2006:121) the municipality waives the security for the small business development. The procurement office is one part of the internal reorganisation exercise that aims to link the procurement of goods and services to local economic development, while stimulating the formation of small businesses among previously disadvantaged communities. In this way, it contributes to black economic empowerment (Dean and Tustin 2003:361).

Unfortunately, nepotism, crime and corruption are not absent as bribes are expected in many cases for these favours. According to Hinson and Bawuah (2006:34) corruption is evident in the Broad Based Black Economic Empowerment tender processes. This works against the objectives of the law.

2.8 Broad Based Black Economic Empowerment (BBBEE)

The BBBEE expands from the framework provided in the PPPFA (De Clercq and Venter 2006:47). This policy framework takes into account and applies codes of good practice for black economic empowerment. According to Hinson and Bawuah (2006:231), BBBEE also provides for the use of qualification criteria for the issuing of licenses, sale of state owned assets and entering into private public partnerships.

The BBBEE policy addresses poverty, unemployment and inequality in the economy (De Clercq and Venter 2006:43). Hence, poverty alleviation strategies benefit from BBBEE initiatives even though this type of legislation lends itself to crime, corruption, favours and bribes.

The BBBEE policies make provisions for the increasing extent to which communities, workers, cooperatives and other collective enterprises are owned and managed by black people. Unfortunately, large numbers of people regard this BBBEE policy as reverse apartheid or reverse discrimination. This policy increases the access to economic activities, infrastructure, skills and training of small business institutions (Smith and Bawuah 2006:54). Together with the BBBEE, affirmative procurement is one of the key elements of the empowerment of black owned enterprises (Dean and Tustin 2003:361).

2.9 Growth and Development Strategy (GDS) of the Gauteng Province

The Growth and Development Strategy (GDS) identifies BBBEE as a critical mechanism to achieve the Gauteng Provincial Government's (GPG's) objectives. One of these objectives is to make sure that a large number of people, especially the poor and marginalised women, youth and people with disabilities, become active participants in economic activity (Dean and Tustin 2003:361).

The creation of more and quality job opportunities for black people is an important objective of both the GDS and BBBEE strategy. The strategy indicates that BBBEE is an integrated, coherent, socio-economic strategy that directly contributes to South Africa's economic transformation. According to Dean and Tustin (2003:361) BBBEE brings about significant increases in the number of black people who manage, own and control the country's economy and significantly decreases income inequalities.

According to Dean and Tustin (2003:361) BBBEE has been widely debated over the past few years, with some critics attempting to discredit it as a strategy to benefit only the so-called black elite. It is therefore important to set the record straight once again that in line with the Broad Based Black Economic Empowerment Act, the beneficiaries of BBBEE are all black people, including women, workers, youth, people with disabilities and people living in rural areas.

In this way, the policy discriminates against the whites and other groups that are perceived to have benefited in the past (Dean and Tustin 2003:361). It is indeed not all whites who benefited in the past. The BBBEE policy also classifies the Chinese community as black. This indicates how confused the policy is in terms of its representatives.

The objective of BBBEE is to effect transformation and ensure the redistribution of the country's wealth, as well as to address the inequalities and distortions caused by years of apartheid (Dean and Tustin 2003:361). However, it is important to note that BBBEE is also a fundamental requirement to stimulate economic development and shared growth. However, this policy has created discrimination, even among the blacks who are to benefit from its implementation.

The state has a responsibility and a clear mandate to use its considerable financial muscle to promote growth in the economy and to reduce poverty and unemployment, in this particular case through the mechanism of BBBEE. Instead, the BBBEE policy has created a very big gap between the black people who are rich and those who are poor. This has led to the rich blacks getting richer, while the poor get children (Smith and Bawuah 2006:54). This policy is not finding much favour from the trade unions either. This is the policy that has created the most unrest in the country (Smith and Bawuah 2006:54).

2.10 Enterprise development strategy

To strengthen SMMEs and ensure that more SMMEs are able to tender for the GPG work, the government paid attention to enterprise development strategy, particularly through the Gauteng Enterprise Propellor (GEP), which provides support to SMMEs (Smith and Bawuah 2006:54).

The strategy outlines a range of interventions in enterprise development, including the adjustment of procurement practices to enhance the growth of small enterprises. The preferential procurement policy also sets targets for small enterprises, micro enterprises and cooperatives (Smith and Bawuah 2006:54).

The strategy strives to approach small business development and BBBEE in an integrated manner in line with the national strategy. It seeks to enter into partnership with national, provincial and local institutions on this matter.

2.11 Benefits and costs of regulations for small businesses in South Africa

A large number of business regulations are beneficial to small business undertakings in South Africa. These regulation frameworks are designed to eliminate the production of harmful and dangerous products within a country. Some of the business regulations are designed to promote employment equity and discourage wage discrimination in the work place. However, employment laws, regulations and policies which range from minimum wage laws and anti-discrimination laws to non-competing agreements and regulations on workers' compensation and employment insurance can protect and benefit employees at the expense of the company (Van Eeden et al. 2003:23).

In addition, regulations are designed to act as a tool that prevents past political injustices from occurring again. By enforcing regulation frameworks, a large number of small businesses and individuals benefit as they are protected by these laws (Van Eeden et al. 2003:23). However, this often leads to reverse discrimination and is not always justifiable from an economic point of view.

Another benefit of the regulation of companies is to protect the state, the employees and the private sector in terms of the production of goods and services and unfair treatment experienced by either party (De Clercq and Venter 2006:54). In order for a company to be recognised and to be protected by laws, certain skills and resources are required for compliance purposes. Authorities are required to have knowledge about the type of business ownership, the products it intends to produce and sell, its possible location and the role that the enterprise will play in a competitive world.

One of the major benefits of regulation is that it allows small businesses to acquire loans, business sites and other support services including participation in tenders for the delivery of goods and services to the government (Van Eeden et al. 2003:23-24). Another benefit of regulation is that it focuses on education and training for

entrepreneurship. This simplifies the processes and procedures to establish new enterprises, availability of skills and improving the tax and financial matters for the SMMEs (Dean and Tustin 2003:361).

However, a large number of the policies, laws and regulations introduced above have failed the SMMEs in several ways. These policies lack transparency, as will be indicated in the following chapter, because data are limited for the general public to determine the success and failure ratio of this legislation. Furthermore, these policies are not consistent in their operations as little has been done to sustain the SMMEs from 1996 to 2005. The authorities are not accountable for their actions, given how SEDA's CEO is operating (Smith and Bawuah 2006:54). The government ignores the public voice and does as it pleases. It is evident that a large number of these policies are ineffective as they help mainly those SMMEs that can help themselves anyway, without the assistance from the state. This indicates the lack of proper targeting by these policies and institutions.

Even though regulation was designed for the protection of small businesses, these forms of legislation have some unintended negative consequences for small businesses in the country (Smith and Bawuah 2006:54). Regulation often leads to reverse discrimination and is not always justifiable from an economic point of view. The unintended consequences of regulations, which include crime and corruption, are dealt with more broadly in Chapter 4, which evaluates the impact that regulation has on small businesses.

2.12 Summary of the main findings and conclusions

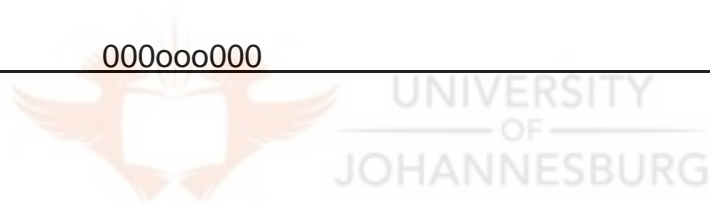
In conclusion, the involvement of the state in the working of the economy through regulations has increased the participation ratio of small businesses in creating job opportunities for many South Africans. These regulations act not only as guidelines to be followed by the emerging businesses, but also enforce and protect the rights of the large number of stakeholders in the country.

Therefore, the South African government seeks to improve the effectiveness, efficiency and transparency of regulation implementation. Regulations are a major

tool of the state and continue to be used to promote public interests. For regulations to be properly implemented, every policy must be carefully planned in order to eliminate the unintended consequences for businesses, specifically the small businesses. In addition, the effectiveness of regulations in achieving the policy objectives is often disappointing and raises questions about the regulatory design, content and priorities.

One of the benefits of regulations is to protect the state, the employees and the private sector in terms of the production of goods and services and against unfair treatment experienced by either party. In order for a company to be recognised and to be protected by laws, certain skills and resources are required for compliance purposes. Authorities are required to have knowledge about the type of business ownership, the products it intends to produce and sell, its possible location and the role the company will play in a competitive world.

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CHAPTER 3

HISTORICAL DEVELOPMENT OF REGULATIONS FOR THE SMMEs IN SOUTH AFRICA

3.1 Introduction

The promotion of entrepreneurship and the SMMEs remains an important priority of the government of South Africa. This commitment ensures that small businesses progressively increase their contribution to the growth and performance of the South African economy. This is done in critical areas such as job creation, equity and access to markets.

However, there are important gaps which still need to be addressed. These gaps have, in many cases, resulted in the failure of government strategies to establish and to support the growth and development of SMMEs. Key among these is the failure in the integration of the support provided by the various governmental departments and institutions. As a result of these failures, the small businesses are faced with the dilemma of closing down because of the lack of intended support by the state.

Even though there are these obstacles, the government continues to lead the efforts to increase the level of entrepreneurship through supporting small business creation. Hence, the state is mindful that this important task cannot be successfully undertaken by one player alone. A partnership between government and various stakeholders and role players remains a critical success factor.

In recent years, there has been an increasing involvement of the corporate sector, organised business, private financing institutions, non-governmental organisations and universities. Furthermore, the media has made substantial efforts in fostering entrepreneurship and small business development initiatives.

However, the failure of the government strategies to support the SMMEs is the cause of the shutting down of a large number of small business undertakings in the country. Nevertheless, success and failure is normal in business. However, effective networking, mentoring, developing good business acumen, and sound principles and practices coupled with a high degree of business integrity can ensure that the prevalent environment does not perpetuate a culture of failure, but rather one of winning.

Hence, an investigation into the SMME businesses that is geared to meet the opportunities presented by accelerated economic growth and new export markets is needed. This research evaluates the reasons behind the high failure rate or shutting down of the SMMEs even though they are supported by many institutions. This research investigates the level of support offered by the government institutions in sustaining the small business undertakings.

This chapter evaluates the positive and negative impacts of policies in terms of the contributions made by different institutions in their efforts to support the development of small businesses. It concentrates on selected institutions, because they are established through laws and regulations governing the growth and development of small businesses.

Furthermore, the chapter evaluates the successes and the failures of the supporting institutions as they relate to the processes of promoting SMMEs in the RSA. The inabilities of some of these institutions and regulations to deliver the results expected are also analysed. This shows that changes in the framework for providing support to small businesses are inevitable and needed (Davies and Pillay 2006:132).

3.2 Constraints facing the SMMEs in South Africa

In South Africa, small businesses are still faced with a large number of constraints and limitations. These limitations prevent small businesses from executing their responsibilities of acting as agents of job creation and sites of innovations. These constraints include the lack of capital, high tax rates, lack of business skills, lack of equipment for the production process, poor marketing strategies, high crime rates,

lack of training opportunities, high rentals, disloyalty of staff, high interest rates and nepotism (Darroch and Clover 2005:244).

One of the major challenge facing small businesses is under-staffing that leaves the entrepreneurs with multiple assignments and reduces the efficiency. Under-staffing creates time management difficulties which hampers the entrepreneur's performance (Ladzani 2001:10).

Inadequate marketing strategies are another problem which affects the ability of the small businesses to sell its products in the market. Businesses with proper marketing strategies create a demand for its products and services. Most small businesses do not have the capacity to do market research and are too small to develop marketing strategies. The inability of the small businesses to market its products and services negatively affects the profitability of the business (Mambula 2002:3).

The other constraint to SMME development is the fact that a large number of small businesses do not hold deposit accounts with major commercial banks in the RSA. Poor regulations is another factor hindering access of small business funds as banks are unable to force small businesses to repay their loans in case of default (Mutezo 2005:59).

Mutezo (2005:58) identifies unfavorable policies and legal environments, the shortage of effective supportive institutions, and lack of access to information as some of the challenges facing SMMEs. National policies favour large businesses and do not protect small businesses against the anti-competitive behavior of large firms. In other cases, large multi-national companies influence national policies, especially in the RSA.

Other obstacles faced by the SMMEs include the high fuel price, lack of information, customers failing to pay their accounts on time, reduced productivity and proximity to markets. In some cases, businesses are very small and personnel usually leave the job for bigger firms after receiving training (Fourie 2006:22). A large number of these barriers still exist, but the problem has slowly decreased over time. This chapter

evaluates the success and failures of government institutions in their development to support the SMMEs in the RSA.

The government institutions evaluated in this chapter include the Ntsika Enterprise Promotion Agency, the Small Enterprise Development Agency, Department of the Trade and Industry, the Industrial Development Corporation, the Public Investment Corporation and the Umsobomvu Youth Fund.

3.3 Successes and failures of institutions established through regulations in support of the SMME sector

3.3.1 The success of Khula Enterprise Ltd in providing support to the SMMEs

Khula Enterprise Finance Ltd provides loan guarantees to small businesses in order to increase their access to finance through commercial banks (Khula 2006:32. Khula Enterprise Finance Ltd has established a number of loan schemes to increase access to finance for small businesses through banks, retail finance intermediaries and micro-credit organisations (Rogerson 2003:43).

According to the DTI (2005:45) the function of banks is to finance small business through loans. They undertake the selection process of loan applications from small businesses. They further require business plans from all applicants in order to determine the viability of their projects. The current programmes under this scheme are the business loan schemes, guarantee schemes, seed loans, the Khula Start, and the equity funds (Khula 2006:32).

The standard credit guarantee schemes for small businesses provide increased access to finance through commercial banks. According to Fourie (2006:22) such a scheme allows the entrepreneur to access funding for the establishment, expansion or acquisition of a new or existing business.

According to Fourie (2006:222), Khula Enterprise Finance Ltd provides indemnity for a maximum amount of R600 000. This constitutes between 60 and 70 percent of the required funding by the small businesses. The small businesses are required to meet the normal lending rate of the bank (Booyesen and Bonche 2005:78).

Khula Start Funding promotes greater access to micro-credit in rural areas (Khula 2006:34). This is a group lending scheme for the lower end of the micro-enterprise market. The target group is the historically disadvantaged community, especially women in rural areas and the informal sector.

According to Khula (2006:34), the scheme provides loans of between R300 and R3500 and these are accessible to existing non-governmental organisations. It is based in rural areas and is involved in small business activities such as business training and advice (Fourie 2006:22). The scheme has made a positive impact on the South African economy since its inception in 1996. Between 1996 and 2002 Khula has supported small businesses under its assistance programmes designed to sustain the SMMEs in the country.

These programmes have created about 787 000 job opportunities (Khula 2006:52). During the same period, 89 000 small and very small enterprises were assisted under Khula loans through non-bank intermediaries to the value of R230 million (DTI 2006:47). In the same period, Khula also approved 1 500 credit guarantee schemes worth R350 million. In the rural areas and informal settlements, Khula Enterprise Finance assisted 12 000 informal traders with micro loans to the value of R11 million (DTI 2006:47). These figures show the effect that this scheme has had on the South African economy.

According to the DTI (2006:47) Khula received 3157 applications, and of these applications, only 7 percent were rejected as they did not meet all the requirements for assistance in 1999. In 2002, the picture became much better and, from 2144 applications received by Khula, only 0,7 percent were rejected.

According to the DTI (2006:47), Khula has put in place proper investigative mechanisms and proper loan approval criteria for the SMMEs. This shows that small businesses are becoming more competent in meeting the stringent financing criteria of government institutions. Khula only supplies the good news, but it is unable to say how much of these loans were not paid back and how many businesses did not succeed.

According to Rogerson (2003:43), the Bureau of Market Research (BMR) of the University of South Africa evaluated the Khula programmes based on a number of criteria. These included job creation, gender empowerment, rural versus urban breakdown of beneficiaries, income and wealth effects, household support, and the financing of new versus existing businesses. The results of the study from 1996 to 2004 are presented in Tables 3.1 to 3.3 below:

Table 3.1: Employment features, March 1996 to March 2004

Estimated Total Employment	Micro credit outlets	Retail Finance Institutions (RFIs)	Individual Credit Guarantee Scheme	Portfolio Credit Guarantee Scheme	Total
Male	4 038	437 835	11 601	1 486	454 960
Female	18 763	307 378	5 453	1 143	332 737
Total	22 801	745 213	17 054	2 629	787 697
Full-time	21 968	642 455	15 166	2 271	681 860
Part-time	833	102 758	1 888	358	105 837
Total	22 801	745 213	17 054	2 629	787 837

Source: Makina and Malobola; (2005:4).

Table 3.1 shows the employment created through Khula Enterprise Finance assistance programmes between 1996 and 2004. It shows that these programmes have had a significant impact on employment creation. Retail Finance Institutions (RFIs) have created more jobs than other assistance programmes. They created 437 832 and 307 378 jobs for males and females respectively (Rogerson 2003:43).

They also created 642 455 sustainable permanent jobs, which is higher than other similar programmes. In the period under review, Khula was able to create 787 837 jobs. Therefore, its impact has been positive towards job creation (Rogerson 2003:43). As a result of the weakness of data and inconsistency in terms of follow up, data indicating the number of casual or part time employees are not available. The data also do not try to capture how many of these small businesses were unsuccessful or failed.

Table 3.2 below analyses the rural and urban breakdown of household support programmes by Khula Enterprise Finance Ltd. It shows that 70 percent of the micro-credit outlets were available in the rural areas against 30 percent in the urban areas.

Table 3.2: Rural versus urban breakdown and household support, by Khula Enterprise Finance Ltd March 2004

Item	Micro Credit Outlets (MCOs)	Retail Finance Institutions (RFIs)	Individuals Credit Guarantee Scheme	Portfolio Credit Guarantee Scheme	Thuso Mentorship Scheme	Regional Equity Funds
Spatial Composition %:						
Urban	30,0	60,4	86,6	42,9	76,8	93,3
Rural	70,0	39,6	13,4	57,2	23,2	6,7
Dependency on Khula supported business:						
Percentage of owners deriving more than 50% of household income from business (excluding don't know/cannot say).						
%	26,6	32,8	39,5	15,1	-	-
Estimated number of people financially dependent on:						
Business	73 981	1 417 154	25 489	6 888	-	-

Source: Makina and Malobola; (2005:4).

Table 3.2 shows that the Retail Finance Institutions (RFIs) were available to 60,4 percent of urban households compared to 39,6 percent of rural households. The Individual Credit Guarantee Schemes have assisted 86,6 percent of urban

households and only 13,4 percent of the rural population (Makina and Malobola 2005:4).

Table 3.3: Loan features

Item	MCOs	RFIs	Individual Credit Guarantee Scheme	Portfolio Credit Guarantee Scheme (PCGS)	Thuso Mentorship Scheme	Regional Equity Funds or REF
% of beneficiaries with only Khula supported loan	97,7	95,1	95,3	96,4	-	-
Application of loan:						
Start-up of business %	30,2	52,6	67,0	26,8	-	56,7
Extend business %	69,1	41,8	23,7	17,9	-	36,7
Consolidate credit %	0,9	2,2	2,2	0,0	-	0,0
Continuation of business %	0,0	2,9	5,4	32,1	-	0,0
Other %	0,2	0,5	3,6	25	-	6,6

Source: Makina and Malobola; (2005:4).

According to the above information in Table 3.3, the portfolio credit guarantee scheme, Thuso Mentorship Scheme and Regional Equity Funds assisted 42,9, 76,8 and 93,3 percent of urban households respectively (Makina and Malobola 2005:6). This is compared to 57,2, 23,2 and 6,7 percent of rural households respectively

(Chalera 2006:131). The micro-credit organisations (MCOs) and PCGS are the only programmes available to more than 50 percent of rural households.

According to Makina and Malobola (2005:6), the results further show that the concentration of employment and other benefits are better in urban areas, especially for RFIs. The rural population receives less than a quarter of the Thuso Mentorship Scheme benefits. This is mainly due to a lack of infrastructure in the rural areas and to the fact that high income households experience a higher impact, on average, than low income households who live below the poverty line (DTI 2006:47).

According to the DTI (2005:45), Khula announced the creation of a new programme called the R100 million Khula/Enablis SMME Acceleration Fund in 2006. The aim of this fund was to accelerate SMME growth in South Africa. This fund provided pre-venture capital to SMME entrepreneurs. Enablis also offered its entrepreneur members networking opportunities, skills development and training programmes as well as early-stage financing (Chalera 2006:131). It is difficult to measure its success, because there is no data available on how long small enterprises survive or on the repayment record.

Another success of Khula is that it bought an equity stake in Regent Factors (DTI 2005:45). This equity stake made R100 million available for reverse factoring or supply chain finance (Rogerson 2003:43). The reverse factoring intends to reduce the cash flow problems faced by SMMEs. Reverse factoring funding to SMMEs is not dependent on the borrower's ability to repay the loan, but on the creditworthiness of the supplier's customers. Reverse factoring will allow SMMEs to access much needed working capital by reducing the time gap between the delivery of goods and services and receipt of payment (Chalera 2006:131).

In contrast to the success of Khula, a large number of youth did not receive any training, because the institution failed to market itself to the general public. Hence, the benefits of this institution are not known to the people who are supposed to receive the service. According to Booysen and Bonche (2005:78), Khula still lacks proper leadership capable of implementing the policies and strategies of the organisation. This has negatively impacted on the growth and sustainability of the

small business undertakings. According to Rogerson (2003:43), Khula programmes are supply-driven and therefore do not cater for the needs of very small businesses.

3.3.2 Failure of Khula Enterprise Ltd to provide support for SMMEs

Despite the successes, Khula also experienced some shortcomings and had to refocus its approach in servicing the SMMEs in the country. Unfortunately, no data are available on the success rate of these loans to the SMMEs and on whether the higher approval rate has decreased or increased payment or repayments of loans. Furthermore, there are no data available to indicate the level and frequency of repayment of these loans by the SMMEs. The weakness of the availability of data indicates the deficiencies within the supporting institutions (Rogerson 2003:43).

Khula Start, the entry-level programme of Khula that targets the micro and survivalist sectors, was reviewed in 2001 as a result of serious deficiencies within the institution (DTI 2005:45). These deficiencies included the operational procedures that were not always followed. Chalera (2006:131) contends that these deficiencies led to a lack of cohesion and the loss of power of group peer pressure to repay loans. According to Rogerson (2003:43) loans were also being approved for enterprises that were not always viable. Hence, the availability of data is a problem.

Rogerson (2003:43) argues that loan officers failed to carry out appraisals prior to the approval of these loans to the SMMEs. Moreover, record keeping for management information systems is frequently deficient and very poor (Chalera 2006:131). Hence, they could not produce records of their successes and failures so that the market could judge them on their performance. This is an indication of poor management and lack of compliance on the side of Khula. There is limited transparency in business transactions as there are not much data available. Khula Enterprise Ltd is not consistent as little was done from 1996 to 2004. In order for the institution to avoid being accountable, they started something new in 2004 so that there are no ongoing records to trace.

According to Chalera (2006:131) some of these programmes work for some small SMMEs, but the very small and micro-enterprises still do not have a rightful share of

these benefits. Khula is set up as a wholesaler with the mandate to create and develop SMMEs by making loans and equity capital available particularly to previously disadvantaged individuals. Instead, they provide loans to small businesses that can afford to maintain themselves or can get finance from the banking sector based on their credit records (Rogerson 2003:43).

According to Rogerson (2003:43), it is difficult to carry out this mandate as Khula funds can only be accessed through banks and Retail Finance Institutions (RFIs). Khula has limited control over who receives the funds and admits that many small firms are still excluded from Khula funds. This is very bad for an institution that had been established to serve the interest of the SMMEs. Banks are also becoming less involved in Khula disbursements (DTI 2005:45).

According to Chalera (2006:131), banks lent out 50 percent of this disbursement in the 2005/06 financial year, compared to 36 percent in 2006/07. However, loans through RFIs increased from 14 percent in 2005/06 to 40 percent in 2006/07 (DTI 2005:45).

In most cases, small businesses that are capable of raising funds are assisted, while the plight of the micro-enterprises and the survivalist businesses are still not addressed (Rogerson 2003:43). According to the DTI (2005:45) the criteria set by the banks and RFIs are still too stringent for micro-enterprises. In this regard, Khula is planning to enable entrepreneurs to approach them directly for funds in the future (Chalera 2006:131).

By approaching Khula directly, these programmes might be more accessible to SMMEs if the criteria become less stringent. Direct access also counteracts the decreasing participating role of commercial banks over the past years (Chalera 2006:131). But with the poor management of Khula, it is difficult for the SMMEs to be assisted in this regard. Even though Khula has some shortcomings, its success is still counted as important for the RSA.

The new developments and amendments over the past few years give an indication that the government is still committed to the aims of the Small Business

Development Policy of 1996 (Rogerson 2003:43). The government also acknowledges that small business development agencies such as Ntsika and Khula have not delivered as expected (DTI 2005:45). The government is trying to address many of the shortcomings identified during the period 1996 and 2003 with the reforms.

However, the effects of these reforms will only be realised if all institutions are committed to the aims set by the Small Business Development Policy of 1996 and the aims set by the amendments in 2004. Moreover, it is important to monitor and evaluate progress within the overall strategy and its different components and to publish its data on an annual basis (Chalera 2006:131). This ensures that small businesses are supported and that it is not merely a reshuffling of institutions and programmes to conceal the failures of the past.

Many SMMEs still find it difficult to get support from the small business support institutions, because of a large number of reasons. Some of these reasons are evident from Khula's high failure rate in supporting the SMMEs. According to Chalera (2006:131), the fact that many SMMEs still get minimal support from government institutions points to the shortcomings in the support programmes implemented by government institutions. Some of the shortcomings identified include the fact that SMMEs are not aware of the programmes available to them.

3.4 Reform and developments in small business support institutions since 2003

The government acknowledges that the existing small business legislation had a minimal impact on developing the SMME businesses (Chalera 2006:131). Rogerson (2003:43) contends that the state has admitted that its financial and non-financial institutions and agencies are not meeting the needs of developing and sustaining the growth of the small business sector. According to Rogerson (2003:43) Ntsika has been negatively perceived by the public. Because the state does not want to be perceived as having failed, SEDA instructed its officials not to provide any information on its failure rate to the general public. As a result, this institution does

not publish any data relating to its shortcomings and therefore only supplies selected data to the public.

Hence, there are limited and selected data available that indicate the government's failure ratio based on the level of performance of its supporting institutions. To make matters worse, SEDA is situated in the DTI complex in Sunnyside, in Pretoria. They have blocked the data from their systems that indicate the inefficiency in the support mechanism. Furthermore, SEDA officials were instructed not to discuss issues concerning their CEO, who has lost trust with the board members (Financial Mail 2008:48).

Reforms in the Small Business Framework have affected most of the SMME support institutions. The main institutional reforms, as set out in the Integrated Small Enterprise Development Strategy, include the establishment of the Small Enterprise Development Agency (SEDA) in 2004. This institution localises support to SMMEs through a national network of access points, the establishment of the South African Micro-Finance Apex Fund (SAMAF), and a more focused approach by Khula to service small to medium-sized enterprises (Rogerson 2003:43).

The SMME formation is a critical feature of the strategy of the national, provincial and local government to promote job creation. The roll-out of the new National Small Business Support Framework (NSBSF) through the Small Enterprise Development Agency (SEDA) is ensuring that outreach at local level is maximised for ensuring efficient and effective delivery at the grass root level (Rogerson 2003:43).

The collective objective of the above strategies and programmes has managed to generate growth and employment. It has succeeded by creating a platform for the SMME sector and facilitating competitiveness. The programme drives broad based black economic and women's empowerment. It has alleviated poverty by expanding economic opportunities and extending access to these opportunities and utilising technologies to enable growth (Chalera 2006:131). In this way, SEDA was established to take over the responsibilities of the Ntsika Enterprise Promotion Agency.

3.5 Small Enterprise Development Agency (SEDA)

According to Rogerson (2003:43), all provisions pertaining to Ntsika Enterprise Promotion Agency were cancelled, because of its negative public image in 2003. This paved the way for the DTI's enterprise organisation institutional framework which was aligned to enhance its assistance to small businesses. This provided for the establishment of the Small Enterprise Development Agency (SEDA). SEDA made provision for the incorporation of the Ntsika Enterprise Promotion Agency and the National Manufacturing Advisory Centre and any other designated institutions (DTI, 2004:34).

This step was taken to address Ntsika's negative public image and to make the programmes more effective by realigning DTI's enterprise organisation institutional framework to enhance its assistance to small businesses. SEDA does not replace existing interventions by any stakeholders. Its aim is to ensure that new and existing public-sector programmes are coordinated. It also works towards the effective integration of financial and non-financial services for small businesses (DTI 2005: 16).

SEDA has designed and implemented several developmental support programmes, promoted a service delivery network that has increased the contribution of small enterprises to the South African economy, promoted economic growth, job creation and equity, and generally strengthened the capacity of service providers to support small enterprises (DTI 2005:16). It also assisted small enterprises to compete successfully, both domestically and internationally. SEDA aims to build capacity and to make SMMEs more competitive (DTI 2005:16).

3.5.1 Leadership problems at SEDA leading to policy confusion

According to Chalera (2006:131) SEDA is viewed as the agency of South Africa's Small Business Development Strategy. However, it is a dysfunctional organisation that has been floundering since its inception in 2004. The Financial Mail (2008:48) argues that SEDA's CEO, Wawa Damane, is currently away on six weeks' sick leave and has hardly been at work for most of the year. The SEDA board members have

even urged the Minister of Trade and Industry, more than 18 months ago, to replace Damane. So far, the minister has not acted on their advice. Hence, service delivery is adversely affected (Financial Mail 2008:48).

The board members have completely lost confidence with the CEO. The negative impact of infighting and the absence of an efficient CEO at SEDA constrain the service delivery for the SMMEs. According to the Financial Mail (2008:48), a forensic audit conducted in 2007 for SEDA has indicated that the CEO was responsible for a series of violations of the Public Finance Management Act. This constitutes mismanagement and misconduct on the part of the CEO, but surprisingly, the people who have the powers to relieve the CEO from her duties have failed to do so because of personal friendship.

According to the Financial Mail (2008:48) SEDA has been under the leadership of Damane since 2004. Her leadership has impacted poorly on the support of the SMMEs, which has been disappointing and unacceptable. Financial Mail (2008:48) argues that many of SEDA's staff members do not understand business or entrepreneurship. A large number of these individuals are government bureaucrats who have never been involved in business (Financial Mail 2008:48).

According to the Financial Mail (2008:48) a study on the entrepreneurship among youths, conducted by the University of Cape Town's Graduate School of Business, indicated that few youths aged between 18 and 19 had heard of SEDA, and even fewer have used its services. Booyesen and Bonche (2005:78) argue that SEDA is failing to market its services to the youth which it was meant to serve.

According to the Financial Mail (2008:48) SEDA does not have projects that have been progressing successfully. An example is a programme for small-scale farmers using the Israeli irrigation techniques. Two other projects that failed include the jewellery design and the furniture manufacturing initiatives.

According to the Financial Mail (2008:48), it is its poor leadership that has been the obstacle for progress in SEDA. This is because the authorities elected the CEO because of her political involvement and not because of her leadership abilities. A direct result of this absence of leadership has been policy confusion. This has led to the branches failing to understand what to do and how to act in terms of assisting the small businesses.

According to the Financial Mail (2008:48), an indication of the lack of leadership in SEDA is its failure to make a persuasive case to the National Treasury on why the institution should be supported. As a result, SEDA does not receive the financial support that is necessary to promote the SMMEs. This is the main reason why the general public is unaware of many of its projects. SEDA has to appoint a strong and persuasive CEO who has the entrepreneurship skills and expertise to drive such an organisation (Financial Mail 2008:48).

3.5.2 Evaluation of the South African Micro-Finance Apex Fund (SAMAF)

The South African Micro-finance Apex Fund (SAMAF) was established in 2004. According to the DTI (2005:45), the SAMAF addresses poverty alleviation strategies and provides sustained and affordable access to financial services for the poor. The SAMAF has pro-poor micro-finance institutions in all nine provinces. The SAMAF is an autonomous institution operating independently of government. However, during the pilot phase it still operates as a Trading Account under the DTI (Booyesen and Bonche 2005:78). It would seem that they have not yet proved themselves, because they have been operating in this way since 2004.

According to the DTI (2006:47), the SAMAF has established the Micro-Credit Loan Fund that provides loans of up to R10 000 to micro-entrepreneurs who depend on micro-enterprises for their livelihood. This fund comprises of micro-credit for micro-enterprise development and the poverty alleviation fund for clients whose household income is less than R1 500. This has benefited the small businesses in their fight against poverty (Chalera 2006:131). However, no measures of the success of the loans as far as payment of these loans are available.

The Institutional Capacity Building Fund provides funds to SMMEs to strengthen these institutions and ensure their long-term sustainability (DTI 2006:47). According to Rogerson (2004:43) the SAMAF's savings mobilisation serves to promote and encourage the creation of financial cooperatives and other savings establishments of the SMMEs. These include stokvels and burial societies for the accumulation of locally owned and invested wealth (DTI 2006:47).

3.6 Department of Trade and Industry (DTI) institutions

This department is representing the national government and has been given the overall responsibility of implementing all laws and regulations concerning small businesses. According to the DTI (2005:45), it provides a number of incentive schemes for registered small businesses. These include the standard leased factory building scheme, which is administered by the industrial development corporation. The scheme assists small manufacturers to acquire factory buildings for leasing at subsidised rates (Chalera 2006:131).

Rogerson (2003:43) contends that the small and medium manufacturing development programmes consist of a tax-exempt establishment grant and the skills support programme for small businesses. According to the DTI (2006:34), this is a tax holiday programme for smaller projects. This encourages employment creation, strengthens existing businesses and encourages small businesses to expand.

The import finance scheme is administered by the DTI and it consists of credit guarantee facilities for local industrialists to import capital goods (DTI 2006:34). According to Khula (2006:47), R400 million was provided to local industrialists under this scheme. There are also no available data to indicate the amount that has been paid back to the scheme.

3.7 Perceptions of the BBBEE strategy

The Gauteng Provincial Government (GPG) recognises that the implementation of the BBBEE strategy is an essential mechanism in its efforts to meet the objectives set out in the Freedom Charter to achieve sustainable and inclusive economic development, social stability, and labour absorbing economic growth (Chalera 2006:131).

According to the DTI (2005:45), the BBBEE strategy gives impetus to the Gauteng Growth and Development Strategy. It provides the GPG with an integrated framework within which BBBEE activities are driven and monitored (Booyesen and Bonche 2005:78). Given Gauteng's place as the economic hub of sub-Saharan Africa, the opportunities for the province to address BBBEE are significant and there are great expectations for it to take a leading role in wealth creation and empowerment (Rogerson 2003:43).

Even though BBBEE has achieved the goals of the state, the policy still encounters some obstacles, which constrain the SMMEs development. Among these constraints are the processes of procurement and political interference leading to nepotism and corruption among government employees (Booyesen and Bonche 2005:78).

3.8 Perceptions on procurement processes

According to Rogerson (2003:43), there is no uniform framework for the recognition and measurement of BBBEE transactions. This has created confusion as the same BBBEE initiatives or transactions have received different BBBEE recognition by different organs of the state, business entities and verification agencies. This has led to extensive delays in the implementation processes due to differences in the interpretation of the policy. As a result, sectors are often locked in debates around certain aspects of BBBEE, thereby delaying the implementation of BBBEE initiatives (DTI 2005:45).

In this way, narrowly-based recognition tended to benefit a limited number of black people with access to capital (Booyesen and Bonche 2005:78). Only a limited number of people have tended to benefit from black economic empowerment to date, especially the families of the politicians (Rogerson 2003:43). This is an indication of the failure in the policy formulation and implementation and that politicians are influential in tender allocation.

According to the Star (2008c:16), BBBEE has not created the much needed jobs and entrepreneurs, because black businesses are only focused on buying minority stakes in white companies without hands-on involvement. The Star (2008b:16) argues that institutions such as the Industrial Development Corporation, the Public Investment Corporation, Khula and the Umsobomvu Youth Fund only help black business to gain control of key industries, but that success is possible if control and management can be hands-on.

Hence, a large number of black entrepreneurs are not profitable, because they have no balance sheets, declining revenues, low staff morale and no transformation agenda (The Star 2008a:12). This is one of the public sector's main difficulties, as acknowledged by the President of the African National Congress (ANC), Jacob Zuma.

The ANC leader has acknowledged for the first time that the government tender processes are influenced by politicians, and that politicians should not be trusted to adjudicate government procuremen (Star 2008a:17). Mr Zuma argues that tendering should be independent and incorruptible. He contends that there is evidence of nepotism and corruption at the local government level. According to Zuma, the corruption in the public sector is still a major problem. Hence, the BBBEE processes have to be changed and transformed.

According to the Star (2008c:10), the President of the ANC added that people who hold political office should not be involved in the tendering processes, because their families benefit at the expense of the poor. The departmental accounting officers at the national and the provincial levels of government should be responsible for the

state procurement (The Star 2008a:10). It is in this context that Zuma has proposed that the BBBEE should be reviewed. When people talk of corruption, it is generally associated with the government structures and this needs intervention. This will, however, slow down the process and is no guarantee that corruption will be lower at higher levels of government.

According to Rogerson (2003:43), there is a strong emphasis on top-down initiatives controlled at national level, without the national bodies having the capacity to effectively implement them. This has resulted in a lack of clarity on the roles and mandates of the various national institutions. Matters relating to policy formulation and implementation are especially unclear. The DTI (2005:45) argues that there is confusion on three different objectives within the current SMME promotion approach. This includes the welfare objective of supporting income generation in the survivalist sector, the socio-political objective of enhancing black empowerment and the economic objective of small business promotion (Rogerson 2003:43).

According to Chalera (2006:131), there is limited differentiation between the instruments and the needs of the SMMEs. This problem has manifested itself in insufficient recognition and integration of private sector SMME support within the public sector initiated programmes. Newly established institutions tend to replicate rather than complement or refocus the range of services provided by other supporting institutions.

According to Booyesen and Bonche (2005:78), there is no explicit integration of the SMME development strategy into the wider economic context and into overarching government strategies. The SMME promotion is being reduced to a residual function instead of forming an essential part of all economic integration. This has resulted in financial constraints on small business undertakings (Rogerson 2003:43).

3.9 Financial constraints faced by SMMEs

Chalera (2006:131) argues that few micro-finance institutions promoting SMME initiatives exist in rural areas. This is an indication of the limited commitment and support by the banks and financial institutions for small and emerging businesses,

both in rural and urban areas. Lack of leadership by the CEO at SEDA is a typical example of the failure by both the state and the supporting institutions. Some of the SMMEs receive funding that is linked to collateral instead of being based on a business plan and on the quality and strength of the enterprise. According to Rogerson (2003:43), a framework to guide the activities of the development finance institutions is needed to enable the access to finance by SMMEs in many cases.

Moreover, financial institutions have ineffective debt recovery mechanisms in the case of defaulting SMMEs. The absence of subcontracting and the presence of vertical integration cause procurement of components and parts from other countries, thus restricting the growth of local SMMEs (Chalera 2006:131).

With large suppliers increasingly making technology tie-ups with foreign companies, local SMMEs' opportunities to enter prospective fields becomes restricted by the absence of proprietary technology. In the absence of technology service providers, the SMMEs find it difficult to withstand global competition, resulting in failures. The absence of common facilities and testing centres that would enable SMMEs to manufacture better quality products is a major concern.

3.10 Interventions needed for partnership

According to Booyesen and Bonche (2005:78) service centers for the SMMEs, staffed by highly skilled people, should be provided. The staff of service centers must have the experience to assist small businesses with their financial affairs, marketing, production, organisation, and technical support. It is essential to provide all start-up information through a single integrated gateway such as support centers with complementary partnerships (Chalera 2006:131).

Booyesen and Bonche (2005:78) argue that the promotion of small business training and economic development in local communities leads to the youth having information about financing institutions. According to Rogerson (2003:43), structured frameworks should be provided for supporting the building of successful businesses, including funding, staffing, training and mentoring. This is currently not

adequately implemented by the state. Booyesen and Bonche (2005:78) argue that programmes for entrepreneurial skills development and the leadership that SEDA is lacking should be provided (Chalera 2006:131). Unfortunately the qualified staff with these qualifications either does not exist or are unaffordable to SMMEs when available.

3.11 Summary of the main findings and conclusions

In summary, the involvement of the state in the working of the economy through regulation has increased the participation ratio of the SMMEs to create job opportunities for the previously disadvantaged population. Regulations act not only as a guideline that gives direction to be followed by the emerging businesses, but should also be enforced by law makers on businesses in order to protect the rights of other businesses.

Many SMMEs still find it difficult to get support from the small business support institutions because of many reasons. The fact that many SMMEs still do not get support points to the shortcomings in the support programmes. Some of the shortcomings identified include the fact that SMMEs are not aware of the programmes available to them. The institutions that provide these services should be made more visible and accessible. A large number of programmes are not easily accessible because of the stringent criteria for assistance. These programmes are costly and commercial banks' participation in these programmes are still very small. The programmes do not cater for the needs of the small businesses and most benefits from these programmes accrue mainly to SMMEs in urban areas.

With the termination of Ntsika and the establishment of SEDA, the larger institution's objectives were to build capacity and to make SMMEs more competitive, both nationally and internationally. Although Khula's credit guarantees have increased, commercial banks are becoming less involved in Khula disbursements than RFIs.

Khula's overall disbursements have also increased, but the fact that business owners can only access Khula products at banks and RFIs excludes many SMMEs

from benefiting from these programmes. Therefore, Khula is working on plans to enable entrepreneurs to approach them directly for funds.

The new developments and amendments over the past few years give an indication that the government is committed to the small business development policy of 1996. It also acknowledges that small business development agencies such as Ntsika and Khula have not delivered as expected.

The government has tried to address many of the shortcomings identified during the period 1996 and 2003 with these reforms. However, the effects of these reforms will only be realised if all institutions are committed to the aims set by the small business development policy in 1996 and the aims set by the amendments in 2004.

Moreover, it is important to monitor and evaluate the progress within the overall regulations and their different components. These institutions must publish such data on an annual basis to be accountable and transparent. This will ensure that small businesses are supported and that it is not merely a reshuffling of institutions and programmes to conceal the failures of the past.

BBBEE has not created the much needed jobs and entrepreneurs, as black business is focused only on buying minority stakes in the white companies without hands-on involvement. The institutions such as the Industrial Development Corporation, the Public Investment Corporation, Khula and the Umsobomvu Youth Fund only help black business to gain control of key industries. However, hands-on control and management by black people is needed to measure the success, if any.

Hence, a large number of black enterprises are not profitable, have no balance sheets, declining revenues, low staff morale and no transformation agenda. This is one of the public sector's main difficulties as acknowledged by Mr Zuma.

Zuma acknowledges for the first time that the government tender processes are influenced by politicians and that politicians should not be trusted to adjudicate government procurement. Zuma argues that tendering should be independent and incorruptible. He further contends that there is evidence of nepotism and corruption

at local government level and argues that corruption in the public sector is still a major problem. Hence, the ANC President believes that the BBBEE processes have to be changed and transformed.

Zuma adds that people who hold political office should not be involved in the tendering processes, because their families benefit at the expense of the poor. At the national and the provincial level of government departmental accounting officers should be responsible for the state procurement. It is in this context that the ANC President has proposed that the BBBEE should be reviewed. He also contends that when people talk of corruption, it is generally associated with the government structures and one cannot be speaking of corruption without acting.

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CHAPTER 4

THE IMPACT OF REGULATIONS ON SMALL, MEDIUM AND MICRO-ENTERPRISES (SMMEs)

4.1 Introduction

The idea of using regulations to improve the economic performance of developing countries has a long history. Since regulation is used by governments to try and change people's behaviour, it is not surprising that it can be described as good or bad. This depends on whether the state or the market has been the politically preferred agent of the state's economic management and development at any given time. This dissertation concentrates more on the small and micro-enterprises, which are not catered for by the banking sector in many cases.

According to Bantjes et al. (2006:34) inappropriate or undue legislative and regulatory conditions are viewed as the main critical constraints on the success of the SMMEs. These instruments that are designed to sustain the SMMEs have turned out to act as obstacles and barriers for the development and growth of small business undertakings in South Africa, in some cases. These unintended consequences of legislation for the development of the SMMEs are the main factors that impact on the performance of small business undertakings within the country (Darroch and Clover 2005:415).

Therefore, this chapter seeks to examine a range of options that exists with regards to the impact that regulations can have on the growth and development of small business organisations in South Africa. The chapter evaluates the impact that labour regulations and tax related legislation have on the success of the SMMEs in South Africa. In order to evaluate the impact of legislation on the SMMEs, the proper definition of the SMMEs is analysed in this chapter. In addition, the chapter evaluates the characteristics of the SMMEs in South Africa. Furthermore, the chapter evaluates the perceptions regarding the impact of the Labour Regulations Acts,

Basic Conditions of Employment Act, and the Employment Equity Act on the growth and development of the SMMEs.

4.2 Analysis of the SMMEs

According to Liebenberg, Louw, Steadman and Swanepoel (2007:74) the definition of SMMEs differs from country to country. This is based on the criteria used by each country to define these institutions for the purpose of regulation and tax related purposes. Bantjes et al. (2006:34) argue that, in the South Africa context, the concept of SMMEs encompasses a broad range of firms starting from the established traditional family business employing over a hundred people. They also include the medium sized enterprises all the way down to the survivalist self-employed firms. According to Mashiya (2001:5), a survivalist enterprise is one with no paid employees, which generates an income below the minimum income standard or poverty line.

These types of enterprises aim to provide a minimum subsistence means for unemployed members of the household. The category includes hawkers and street vendors, and according to Mashiya (2001:5) it contributes 23,3 percent of all enterprises in the RSA. Another characteristic of a survivalist enterprise is that it is financed by either families or friends, by moneylenders, or credit from suppliers. According to Jeppesen (2005:431) 90 percent of the survivalist firms are owned by previously disadvantaged individuals (PDI).

After 1994, the South African government established a more comprehensive definition of SMMEs. This definition was established by the state in order to categorise these institutions for the purpose of giving support and to encourage their growth (Davies and Pillay 2006:201). Furthermore, a distinction between the SMMEs by the state after 1994 was to legalise some of the SMMEs which were operating in the informal sector.

According to Davies and Pillay (2006:201) and based on the NSBA, whether an enterprise qualifies as SMMEs varies from one industrial sector to another. Bantjes et al. (2006:34) argue that the most common criteria in all definitions used are the

total full-time equivalent of paid employees, the total annual turnover and the business' gross asset value. Table 4.1 illustrates the characteristics of each form of SMME by size according to the National Small Business Amendment Act 26 of 2003.

4.3 Description of the SMMEs in South Africa

Table 4.1: The NSBA classification of SMMEs by size

Category of SMME	Description
Survivalist enterprises	Operates in the informal sector of the economy. Mainly undertaken by unemployed persons. Income generated below the poverty line, providing minimum means to keep the unemployed and their families alive. Little capital invested, not much assets. Opportunities for growing the business very small.
Micro enterprises	Between one to five employees, usually the owner and family. Informal - no license, formal business premises, labour legislation Turnover below the VAT registration level of R300 000 per year. Potential to make the transition to a viable formal small business.
Very small enterprise	Part of the formal economy, use technology Less than 10 paid employees Include self-employed artisans (electricians, plumbers) and professionals.
Small enterprise	Less than 100 employees More established than very small enterprises, formal and registered, fixed business premises. Owner managed, but more complex management structure
Medium enterprise	Up to 200 employees Still mainly owner managed, but decentralised management structure with division of labour. Operates from fixed premises with all formal requirements.

Source: Department of Trade and Industry (2005:23)

4.3.1 Characteristics of the SMMEs in South Africa

According to Bantjes et al. (2006:34), there are more than 800 000 SMMEs in the Republic of South Africa. These types of business undertakings are capable of absorbing about a quarter of the South African labour force of 15 million people. This is in addition to approximately 3,5 million people involved in some or other type of survivalist enterprise or activities (Liebenberg et al. 2007:74). The SMME sector is highly diverse, with structures, problems, growth potential and access to support differing widely between different segments. These differences relate as much to the economic industries, such as retailing, manufacturing, mining and a large number of other small businesses.

From a broad strategic perspective, the most important distinction is between survivalist activities, micro-enterprises, small enterprises and medium-sized enterprises, with the general term "small business" and the abbreviation "SMMEs" widely used to contrast firms in this sector with big business. Due to the similarity of some of the obstacles facing SMMEs, the survivalist and micro-enterprises are often lumped together. Many support agencies feel that medium-size enterprises need not be viewed as a category warranting any particular attention (Liebenberg et al. 2007:74). The following characteristics of the four categories help to justify particular policy stances outlined in the White Paper.

According to Bantjes et al. (2006:34) the survivalist enterprises are business organisations that are owned by people who are unable to enter into the economic sector of their choice. The income generated from these activities usually falls far short of even a minimum income standard, with little capital invested. According to Liebenberg et al. (2007:74) the business activities of this type of organisation have virtually no skills training in the particular field. Hence, the introduction of labour related regulation is important to shape the sector and reduce unfair labour practices.

According to the Small Business Development Policy, by far the largest section in the economy is the survivalist enterprise section. The small and micro-enterprise (SMEs) accommodate a large number of the unemployed individuals in income generating activities (Liebenberg et al. 2007:74). These undertakings have limited opportunities for growth into a viable business (Bantjes et al. 2006:34). Poverty and the attempt to survive are the main characteristics of this category of enterprises. The Small Business Support Strategy primarily tries to help the owners of these business undertakings, of which large percentages are women (Bantjes et al. 2006:34). The SMMEs are different from the micro-enterprise form of business undertakings in several ways.

According to Davies and Pillay (2006:201) micro-enterprises are very small businesses, often involving only the owner, some family members and one or two paid employees. They usually lack formality in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures (Liebenberg et al. 2007:74). However, most of these micro-businesses have a limited capital base and rudimentary technical or business skills among their operators (Bantjes et al. 2006:34). Many micro-enterprises nevertheless, advance into viable small business undertakings of up to 20 workers.

Liebenberg et al. (2007:74) argue that small enterprises constitute the bulk of the well established businesses in South Africa. Such organisations have the capacity to employ potential employees ranging between five and about 50 in their workplace (Liebenberg et al. 2007:74). The enterprises are owner-managed or directly controlled by the owner (Davies and Pillay 2006:201). These types of business undertakings are likely to operate from business or industrial premises and are well organised (De Clercq and Venter 2006:121).

Small businesses are registered for tax purposes and meet other formal registration requirements (Davies and Pillay 2006:201). Classification in terms of assets and turnover is difficult. However, given the wide differences in various business sectors, such as retailing, manufacturing, professional services and construction (Bantjes et al. 2006:34).

According to Bantjes et al. (2006:34) small businesses are also divided into established formal SMMEs. These institutions are mainly white-owned, with some Indian ownership, and these forms of ownership are situated predominantly in the urban settings. The emerging SMME businesses are mainly controlled by members of the African and Coloured community and can be found in townships, informal settlements and rural areas. The small business undertakings often graduate to the medium enterprises when they grow.

According to Bantjes et al. (2006:34) medium enterprises constitute a category that is difficult to demarcate between the small and the big business undertakings. This type of business organisation is still viewed by a large number of people as basically owned, managed and controlled by the shareholders. The employment is usually about 200 and capital assets of about R5 million are often seen as the upper limit (Liebenberg et al. 2007:74).

The problems faced by members of each of these four categories needs a somewhat different policy stance in each case. However, these policies usually have unintended consequences that impact negatively on the SMMEs (Liebenberg et al. 2007:74). These unintended consequences prevent the SMMEs from contributing significantly towards the development and sustainability of the small businesses in South Africa. Hence, the opportunity of job creation is sacrificed and many cannot cope in the business environment.

4.4 Contributions of the SMME sector in South Africa

All over the world it has been recognised that the small businesses sector (or SMMEs) plays an important, if not critical role in the economic and social development of a country (Bantjes et al. 2006:34). This also applies to South Africa, where the small business sector has been neglected during much of the century following the discovery of diamonds and gold, especially amongst the disadvantaged communities.

While the importance of large industrial, mining and other enterprises for the growth of the economy cannot be denied, there is ample evidence that the labour absorptive capacity of the SMME sector is very high (Liebenberg et al. 2007:74). The average capital cost per job created is usually lower than in big businesses and its role in technical and other innovation is vital for many of the challenges facing the South Africa's economy (De Clercq and Venter 2006:121).

Taking into account the very large micro-enterprise segment of the small business sector, as well as those struggling in survivalist activities, it is clear that the small business sector plays a crucial role in peoples' efforts to meet basic needs. The sector also helps the marginalised groups by bringing them on board. These include the female heads of households, disabled people and rural families (Smith and Bawuah 2006:54).

According to De Clercq and Venter (2006:121), this sector assists these categories of individuals in order to survive during the current phase of fundamental structural changes. This is mainly because the formal economy is unable to absorb the increasing labour supply, and social support systems are grossly inadequate (Bantjes et al. 2006:34).

4.5 Overview of the constraints facing the SMMEs

Compared to big businesses in South Africa and in other countries, small businesses face a wider range of constraints and problems (Davies and Pillay 2006:201). This sector is less able to address the problems on its own, even in effectively functioning market economies (Liebenberg et al. 2007:74). The constraints relate to the legal and regulatory environment confronting SMMEs.

This includes, among others, the access to international markets, the acquisition of skills and managerial expertise, the quality of the business infrastructure in poverty areas, and in some cases, the tax burden (De Clercq and Venter 2006:121). In the South African context the constraints have been particularly hard on entrepreneurs in rural areas and on undertakings owned by women.

Much has been written about these constraints over the past few years. Furthermore, much has been debated at public forums internationally as well as in South Africa (Bantjes et al. 2006:34). The White Paper is based on an understanding of these problems and their legitimacy. At the same time it is recognised that problems and constraints differ widely between the various segments of SMMEs and also the sectors as well as the owner's categories (Liebenberg et al. 2007:74).

According to De Clercq and Venter (2006:121) the micro and survivalist enterprises (SMMEs) are far less able to face constraints linked to finance, market access and the acquisition of skills. This is because these organisations operate on an informal basis and do not pay tax to the state (Liebenberg et al. 2007:74).

Even among medium-sized enterprises, problems such as international competition, technology transfer and skills training constitute major growth obstacles. These differences are of critical importance for the National Support Strategy. This strategy does not only stress the need for some degree of public sector involvement, but also emphasises the need for explicit differentiation in the support framework. This is necessary in order to achieve the objectives of the National Support Strategy (Bantjes et al. 2006:34).

4.6 The impact of the National Small Business Strategy (NSBS)

The primary objective of the NSBS was to create an enabling environment for SMMEs in 1996. Given such an enabling environment, it was expected that the hundreds of thousands of SMMEs accept responsibility for the operation, growth and progress of their enterprises (Bantjes et al. 2006:34). Such a national framework is complemented by programmes developed and implemented at regional and local levels of government. Unfortunately, the NSBS has never created an enabling environment for the small businesses in the country. This strategy has failed to create an enabling environment for the SMMEs. Instead, it has created a large number of constraints for them.

According to Bantjes et al. (2006:34) the strategy has created barriers to entry for a large number of small businesses. These barriers include compliance and administration costs for small businesses. Liebenberg et al. (2007:74) argue that

small businesses find it more expensive to do business under these hard conditions created by legislation. Therefore, policies need to be in line with national, regional as well as sectoral developments. They have to take into account the differences between sectors, such as manufacturing, tourism or construction, as well as differences between categories of SMMEs (De Clercq and Venter 2006:121).

While micro-enterprises and survivalist activities have absorbed large numbers of unemployed people, they are in themselves not always able to generate reasonably or well remunerated long-term jobs (De Clercq and Venter 2006:121). Support for small businesses includes steps to upgrade the skill levels of the SMME operators and to strengthen the use of appropriate and modern technologies. This entails proper labour legislation.

While small enterprises have the potential to generate economic growth, this does not always happen spontaneously (Liebenberg et al. 2007:74). It is the task of a differentiated, industry-focused and growth-orientated small business support strategy to address obstacles that prevent small enterprises from contributing to overall growth. Instead of strengthening the cohesion between the small enterprises, with public as well as private sector support for small enterprises, the NSBS has created clear limitations as well as resource constraints (De Clercq and Venter 2006:121). The small business undertakings are currently experiencing skills deficiencies as compared to big businesses in South Africa.

Hence, individual SMMEs often lack the proper skills and resources to improve their own capabilities. It is thus essential that fragmented small enterprises within sectors, industries, sub-regions or other localities be helped to network more effectively in order to jointly address development obstacles (De Clercq and Venter 2006:121). This also helps to take up opportunities and to build collective efficiency and productivity among these forms of business organisations (Davies and Pillay 2006:201).

Successful examples of strategies based on collective efficiency exist world-wide, for example, in the Emilia Romagna in Italy, Baden-Württemberg in Germany and in some regions in Denmark (De Clercq and Venter 2006:121). Through these

interventions, local governments have created conditions whereby small firms can compete with the best of large international firms through co-operation networks, the provision of supportive services and infrastructure improvements (De Clercq and Venter 2006:121).

The support strategy in the Republic of South Africa has failed to help rectify the imbalance created by the past political injustices, and it is often creating new inequalities due to the government's excessive intervention in the economy. Hence, this policy framework has failed to assist policy makers to be able to formulate policies that are related to labour, taxation and finance. SMMEs are forced to pay tax that is more or less on a par with big companies. This is because the NSBS has failed to differentiate between the different types of SMMEs in the country. The main concern of the SMMEs is that this policy has accumulated unintended consequences during their implementation (Davies and Pillay 2006:201).

The National Small Business Amendment Act number 29 Of 2004 was introduced to strengthen cohesion amongst small enterprises and to level the playing field between big and small business. Instead of strengthening cohesion between small and big enterprises, the Act has created division amongst these different business organisations. The Act has provided a large number of recommendations that have increased the gap between the small and the big business undertakings (De Clercq and Venter (2006:121). These recommendations are in the form of policy reforms. This includes, among other policies, labour legislation and the tax related policies.

A large number of small business owners claim that labour legislation has a negative impact on their sustainability and growth (Bantjes et al. 2006:34). Existing perceptions regarding the impact of labour regulations on the growth and development of the SMMEs in South Africa are mainly negative.

4.7 Labour legislation and its effect on SMMEs

This section critically examines the prevailing perceptions in the industry that suggest that a large number of regulations have a negative impact on the growth and development of the SMME section (Davies and Pillay 2006:201). It evaluates the individuals' responses to these perceptions and not only those of the government.

The study investigates the level of compliance with regards to regulations, specifically labour regulations by the SMMEs. It further examines the negative and positive impact that such regulations have on the growth of SMMEs.

Early researchers have indicated that the SMMEs contribute about 35 percent to the country's GDP (Bantjes et al. 2006:34). According to Liebenberg et al. (2007:74) the sector is capable of employing about 55 percent of the country's labour force. This sector contributes about 42 percent to the total remuneration in the RSA (Darroch and Clover 2005:415). This is mainly as a result of progressive labour legislations that were designed to protect the needs of both the employers and the employees in the labour market. However, most of these laws are mainly pro-workers and advantage the worker at the expense of the employer in many cases (Liebenberg et al. 2007:74).

Bantjes et al. (2006:34) argue that small businesses are regarded as important weapons to address active domestic competition. They do this by creating market niches in which they grow until they identify a new niche as a response to the demand change (Davies and Pillay 2006:201).

Eksteen (2001:54) states that the initiative to promote the growth and development of small business has failed to achieve certain business objectives. The organisation has identified various problem areas for the small businesses. These problems have been caused by certain provisions in the Labour Relations Act (LRA), the Basic Conditions of Employment Act (BCEA) number 75 of 1999, Employment Equity Act (EEA) number 55 of 1998 and other labour legislation.

According to Darroch and Clover (2005:415), the government has acknowledged that inappropriate labour legislation and regulatory conditions have been acting as major constraints on the growth and development of small business. Liebenberg et al. (2007:74) shows that new labour legislation poses a threat to the development of SMMEs, and hence, on employment creation.

4.7.1 Existing perceptions regarding the impact of labour regulations on the growth and development of the SMMEs in South Africa.

The general perception exists that prevailing new labour regulations pose a threat to the growth and development of SMMEs in South Africa (Bantjes et al. 2006:34). According to Barker (2004:24), labour market flexibility is regarded as an important mechanism for job creation. In the classical model, it is also regarded as an important element in the battle against unemployment and poverty levels. Hence, a properly formulated labour policy that protects both stakeholders will create a stable economic environment.

Barker (2004:48) argues that improving the regulatory environment can have a positive effect on the growth and survival of SMMEs. According to Davies and Pillay (2006:201), the regulatory burden on the private sector should be as modest as possible and it should be matched to the state's capacity to improve these regulations.

Hudson (2004:48) states that SMMEs respond differently to the regulatory environment by ignoring taxes, levies and other safety standards. Hudson (2004:48) contends that this comes at a cost to the national economy and to the small business enterprise community. This is because the inappropriate labour regulations act as barriers to development by keeping a large number of the population out of the mainstream of the economy. This results in a loss of tax revenue and the lack of compliance by a large number of small businesses (Davies and Pillay 2006:201).

Bantjes et al. (2006:34) argue that where wages are rigid, the impact of these shocks show up in unemployment as firms are unable to adjust wages downwards to meet competitive pressure. Small businesses respond by hiring less labour for the production of goods and rendering services (Davies and Pillay 2006:201).

Solomon (2004:54) argues that other obstacles to the development of SMMEs, shows that a large number of small businesses cited common constraints with prevailing labour regulations. One of these constraints experienced by small businesses is that this legislation imposes additional direct costs on businesses

(Darroch and Clover 2005:41). This is manifested by the increased input costs, including labour cost that prevents small businesses from being efficient and effective in their operations.

According to Liebenberg et al. (2007:74) “input and output tables for the South African economy indicate that intermediate inputs top the table at 65 percent of the production costs, with labour remuneration following at 19 percent”. De Clercq and Venter (2006:121) argue that it is not possible for small business to obtain their inputs at a lower price than the larger competitors.

Bantjes et al. (2006:34) contend that current labour legislation precludes small business from competing on the basis of wage costs. According to De Clercq and Venter (2006:121), this has a negative impact on the labour absorption capacity of the SMMEs. Small business undertakings are unable to create and employ more employees because of increased wage demand (De Clercq and Venter 2006:121).

An additional constraint of the labour regulations is that it has a high hassle factor associated with compliance costs (De Clercq and Venter 2006:121). In small business, the owners and managers are often required to take responsibility for most of the management functions of labour regulations. De Clercq and Venter (2006:121) argue that these functional activities place a large administrative burden on managers and owners of small business undertakings.

According to Bantjes et al. (2006:34) these activities are significant enough to diminish the manager’s ability to focus on factors that contribute to the long-term growth and development of the SMMEs.

Furthermore, labour regulations rob owners and managers of some of the control and flexibility that they perceive as being both desirable and necessary for the effective running of the small business (Darroch and Clover 2005:415). According to Davies and Pillay (2006:201) this is another way that labour regulations reduce the flexibility and the owner’s control of the business. Instead of concentrating on the running of the business, small business managers spend most of their time adhering to government policies and ensuring compliance with the regulations. According to

Fourje (2006:52) this factor discourages small business managers from having long-term growth objectives for their undertakings.

De Clercq and Venter (2006:121) contend that this type of regulation acts as a disincentive both to starting a new business and to growing and expanding the existing SMMEs. Labour regulations therefore place artificial constraints on the growth and development of small businesses in South Africa.

This claim is mainly due to the fact that SMME managers and owners perceive the prevailing labour regulations governing employment practices and labour relations as excessively onerous (Bantjes et al. 2006:34). In this way they are actively seeking ways to reduce the number of people they employ. This is due to the excessive burdens and administration that these types of organisations are forced to comply with. Hence employment creation is compromised by these business undertakings.

De Clercq and Venter (2006:121) contend that the National Small Business Regulatory Review has examined a large number of laws and regulations in eighty broad categories. This was done in order to identify the provisions that create obstacles and constraints to the development of small business undertakings. The areas investigated included the finance, taxation, labour, business trade, property and land ownership, by-laws, procurement, women and rural development (Davies and Pillay 2006:201). Liebenberg et al. (2007:74) argue that a wide range of regulatory obstacles and constraints in the development and growth of the SMMEs are viewed as predominantly in the labour market regulations. A closer analysis of specific labour regulations allegedly constraining SMMEs are evaluated below.

These regulations include the LRA, BCEA and EEA. These forms of regulation are designed to limit and reduce unfair treatment in the workplace. In contrast to the main aims of the policies, these laws have some unintended consequences on the development of small business undertakings (Hinson and Bawuah 2006:47).

4.7.2 Labour Regulations Act (LRA) number 66 of 1995

According to Liebenberg et al. (2007:74), the LRA outlines organisational rights, and sets a framework for collective bargaining and extending council agreement to non-parties. This piece of legislation also provides mechanisms for resolving disputes including unfair dismissals and regulated industrial action (De Clercq and Venter 2006:121). The authors argue that the LRA enables the establishment of workplace forums. Instead of achieving these objectives, this legislation creates a large number of constraints for small business undertakings.

According to De Clercq and Venter (2006:121) three broad constraints for small business undertakings in the LRA have been identified by the National Small Business Regulatory review. These problems areas include the bargaining councils, the dismissal of employees and the commission for conciliation, mediation and arbitration processes of the CCMA (Bantjes et al. 2006:34).

4.7.2.1 Bargaining councils

According to Darroch and Clover (2005:415) bargaining councils are regarded by SMMEs as “unrepresentative institutions imposing big business conditions of service upon them, while not incorporating their interests in wage negotiations”. Bayene (2002:14) argues that SMMEs claims that the extension of agreement to non-parties is regarded as being contrary to the principles of voluntarism. Liebenberg et al. (2007:74) show that small businesses also claim that it is impossible for them to be effectively represented on this bargaining council, because they simply do not have the time and the expertise to effectively participate in such bodies. Their skills and level of understanding of the processes of the bargaining council places a large burden on their success.

According to De Clercq and Venter (2006:121), small business managers and owners argue that it is expensive for them to employ experts to represent their needs as compared to large businesses. In this way, small business undertakings find it difficult to discipline or dismiss untrustworthy employees (De Clercq and Venter

2006:121). Hence, the CCMA and the labour legislations are pro-workers, with little appreciation or consideration of the difficulties faced by SMMEs.

4.7.2.2 Dismissal of employees

According to Davies and Pillay (2006:201) small businesses claim that they do not have the skills and expertise to deal with unduly complicated legal and procedural rules and requirements. They find the disputes resolution procedures cumbersome (Liebenberg et al. 2007:74). According to De Clercq and Venter (2006:121) the SMME managers argue that this legislation favours the employees at the expense of the employer. Dismissing an employee often leads to cases that head to the Commission of Conciliation, Mediation and Arbitration (CCMA) to solve disputes. The CCMA has some very complicated procedures, which require firms to employ someone with a legal background. It is based mainly on procedures which are often very difficult or costly to follow by very small enterprises.

4.7.2.3 CCMA proceedings

Liebenberg et al. (2007:74) argue that small business claim to be intimidated by the CCMA proceedings and often do not have the experience to effectively represent themselves. These institutions claim that the dispute resolutions system, of which the CCMA is part, imposes a disproportionate burden on SMMEs (Darroch and Clover 2005:415).

In addition, it appears that commissioners do not show much regard for the size of a business undertaking when making their ruling. This is a factor that has a differential and negative impact on SMMEs. Commissioners seem not to differentiate between the characteristics and the definition of each SMME (Davies and Pillay 2006:201).

4.7.3 Basic Conditions of Employment Act (BCEA) number 75 of 1997

According to De Clercq and Venter (2006:121), the BCEA lays down the working conditions for employees that have to be adhered to by the employer. Some of these conditions provided by the BCEA include, among others, the regulation of ordinary

working hours, overtime, leave, the overtime rate, leave provisions and severance pay applicable to all full-time employees (Davies and Pillay 2006:201).

Bantjes et al. (2006:34) argue that SMME employers claim that the BCEA has a negative impact on the additional labour costs for their small businesses. This claim is based on the fact that the standards imposed by this legislation result in increased annual leave, family responsibility leave and in a higher overtime rates (De Clercq and Venter (2006:121). These responsibilities are costly to the small business undertakings as compared to big businesses that are competing with the SMMEs in the same markets.

Furthermore, the small business undertakings argue that the minimum wage levels set by the employment conditions commission discourage them from employing unskilled labour force entrants (Liebenberg et al. 2007:74). The owners of small businesses claim that the four months paid leave discourages them from employing young women (Darroch and Clover 2005:415).

Davies and Pillay (2006:201) contend that this is based on the fact that young women usually fall pregnant at early ages of employment and small businesses are forced to compensate them during their absence. This constitutes a significant loss to the emerging small business undertakings (Davies and Pillay 2006:201).

According to De Clercq and Venter (2006:121), small business owners argue that they find themselves unwilling to expand their permanent labour force due to the cost of the three week leave provision as well as the three days family responsibility leave (De Clercq and Venter (2006:121). This piece of legislation builds on the Employment Equity Act (EEA) number 55 of 1998. Together, these pro-worker labour laws have contributed to the closure of many SMMEs.

4.7.4 Employment Equity Act (EEA) number 55 of 1998

According to Davies and Pillay (2006:201), the EEA aims to eliminate unfair discrimination by employers in the workplace. This can be on the basis of race, gender or health status. It forces companies to develop and implement an

employment equity plan. This plan ensures the equitable representation of the previously disadvantaged individuals in all occupational categories and levels of the work force (Davies and Pillay 2006:201). According to Bebczuk (2004:34), this legislation imposes onerous and direct compliance costs on small business undertakings that simply do not have the capacity to fulfil them. The main concern of the SMME employers is the definition of the designated employer.

The designated employers include entrepreneurs who do not have the capacity to meet the regulation requirements of the EEA (Bantjes et al. 2006:34). This makes it difficult for the small business owners to make a genuine contribution to affirmative action requirements and recommendations (Davies and Pillay 2006:201). The EEA has failed to promote equal opportunity and fair treatment in employment through the elimination of unfair discrimination. The Act has, in fact, created new discrimination against white men and women. This is done through the implementation of affirmative action. Affirmative action is a direct response to previous discrimination and a reverse of discrimination by black people (Liebenberg et al. 2007:74).

According to Liebenberg et al. (2007:74) small business employers argue that it is more difficult for them to search and identify suitable previously disadvantaged individuals when recruiting for permanent occupation. It is costly to retrench longstanding employees in order to bring about the transformation requirement in the workplace. Moreover, retrenchment means less tax to the government coffers. Taxation is the main source of state income and these taxes are often used by the state to formulate other policies that sustain the SMMEs.

According to De Clercq and Venter (2006:121) tax related policies also have unintended consequences for small business undertakings in South Africa. Regulatory compliance costs impose a deadweight burden or loss on small businesses. Tax compliance costs are one type of regulatory cost that is often viewed as having a large negative impact on small business undertakings in South Africa. One of the impacts of tax related regulations is counting the cost of red tape for the business in South Africa and the compliance with the Value Added Tax Act (Smith and Perks 2006:214).

4.8 Tax related regulations and their impact on the development and promotion of small businesses in South Africa

According to Smith and Perks (2006:214), tax compliance cost elements include all costs incurred by taxpayers, non-filers and third parties to comply with tax obligations. According to Bantjes et al. (2006:34), tax compliance costs can be voluntary or mandatory, though both add to the social cost of the tax. Bribes, being a transfer, are part of the private costs, but not part of the costs to society. Compliance activity also has benefits via better record keeping or via the cash flow benefits of tax deductions. Costs arising from economic distortions and equity violations are, however, omitted here.

According to Nieuwenhuizen and Kroon (2002:94), tax compliance costs are the costs incurred by taxpayers (including the SMMEs) in meeting the requirements laid on them by the tax law and the revenue authorities. Bantjes et al. (2006:34) argue that these are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. Thus, for small businesses these costs include the costs of acquiring sufficient knowledge or employing tax specialists to meet their legal obligations.

According to Smith and Perks (2006:23), one of the undesirable consequences of tax legislation is the time taken by the small businesses in completing their company tax, filing and storing the data to enable them to complete their returns, the fees paid to any advisers or tax agents, incidental expenses, and travel costs to visit a tax advisor or the revenue authorities (Hinson and Bawuah 2006:35). The small businesses are experiencing major problems in terms of the entire process and procedures that are related to tax compliance.

Bantjes et al. (2006:34) contend that small businesses experience stress and anxiety in seeking to deal with their tax affairs. For SMMEs some of these constraints include the costs of collecting, remitting and accounting for tax on the products and profits of the business. Bantjes et al. (2006:34) argue that the burden also falls on the wages and salaries of employees.

Other expenses include the costs of acquiring and updating the knowledge to enable compliance and knowledge of legal obligations and penalties. Besides the financial costs, a large number of SMMEs incur substantial time costs in being helped to comply with all the requirements of tax related regulations.

According to Hinson and Bawuah (2006:48), the tax compliance costs for small businesses are large, taking up substantial resources and potentially offering scope for substantial savings. One broad indicator is to relate compliance costs to administrative costs for the SMMEs. A large number of the small businesses find the compliance costs, such as personal income tax, corporate income tax and value-added tax, to be a multiple of the administrative costs. Large tax compliance costs for small businesses reduce the international competitiveness of the small businesses in South Africa (Sharp 1999:49).

According to Fourie (2006:35) tax compliance costs have undesirable distributional effects. Taxes are unpredictable in their incidence, especially for small businesses. Tax compliance costs generate particular resentment, adversely affecting voluntary compliance. It is bad enough to have to pay taxes. It is even worse is to have to incur substantial expenses for the privilege of doing so.

The introduction of value added tax (VAT) in some countries, specifically in the United Kingdom and possibly in Canada and New Zealand, has been a pivotal factor leading to research about compliance costs. According to Dean and Tustin (2003:89), VAT is a transaction-based tax and the compliance costs are therefore necessarily high. Moreover, in some countries the introduction of VAT has meant that many small businesses have had to account for tax on their products for the first time. The introduction of VAT has often been accompanied by an outcry from small firms and organisations in a large number of countries (Davies and Pillay 2006:67).

According to Dean and Tustin (2003:89), small businesses claim to be paying higher taxes and higher rates on water and electricity to subsidise the poor. The relative rates for small businesses are up to ten times higher than those on the big companies and the SMMEs cannot always afford to pay. If the small businesses fail to comply and pay these rates, they are liable for fines. Very small and micro-

enterprises are exempted from many of the provisions, but are still severely affected by the remaining rules and regulations (Smith and Bawuah 2006:54).

4.9 Skills Development Act number 19 of 1998

For both the public infrastructure and the private investment programmes, the single greatest impediment is the shortage of skills. This includes professional skills such as those of engineers and scientists, financial managers and project managers. There is a shortage of skilled technical employees, such as artisans and IT technicians (Davies and Pillay 2006:67). The shortfall is due to the policies of the government and the slowness of the education and skills development institutions in catching up with the current acceleration of economic growth.

According to Smith and Bawuah (2006:54), the Accelerated and Shared Growth Initiative of South Africa (AsgiSA) programme respond to some of these problems. The AsgiSA programmes range from medium-term educational interventions to raise the level of skills in areas needed in the economy, to immediate measures to acquire the skills needed for the implementation of AsgiSA projects (Davies and Pillay 2006:67). This policy framework is not responding enough to the current skills deficiencies in the country. The policy implementation lacks proper leaders who are able to identify with the vision of the country. In most cases, these policies are implemented by people with low levels of skills.

Therefore, deficiencies in state organisation, capacity and leadership have an impact on the performance of the SMMEs. Certain weaknesses in the way the government is organised, in the capacity of key institutions, including some of those providing economic services, and insufficiently decisive leadership in policy development and implementation, all constrain the country's growth potential. This is evident in the case of SEDA where the CEO was absent from work for a long periods, leaving board members to make crucial decisions on their own (Davies and Pillay 2006:67). There is a lack of consultation on the side of the top management of SEDA, which leads to poor service provision to the small business sector (Smith and Bawuah 2006:54).

However, education extends beyond skills training by preparing individuals who are to become agents of change. According to Hinson and Bawuah (2006:48), the main areas of training are business skills training, technical skills training and entrepreneurial skills training. Business skills training refers to formal training that covers all aspects of conventional management. Technical skills training addresses the ability to use knowledge or techniques of a particular discipline to attain certain ends. Entrepreneurial training cultivates entrepreneurial traits such as creativity and innovation.

Educational programmes for small business ownership and management should be encouraged to develop the significant human potential for entrepreneurship which exists in the country. The focus should be on training small businesses seeking to enter industries that are labour-intensive. This would enable the country to be less dependent on imported products. According to Hinson and Bawuah (2006:48) entrepreneurship should be taught at schools in order to broaden the level of skills. Entrepreneurship programmes already exist to some extent at the tertiary education level, but to be really effective entrepreneurship concepts should be taught in secondary or even primary education.

4.10 Success of the Umsobomvu Youth Fund (UYF)

According to the Star (2008a:12) R1,2 billion of the taxpayers' money has been invested in the UYF. The Star (2008a:13) argues that the UYF has supported more than 85 000 young entrepreneurs, including advancing R524 million worth of enterprise finance as well as business development support services valued at R244 million through its voucher programmes designed for training. The UYF has also leveraged approximately R2 billion from the private sector, including R240 million from FNB, R100 million from Old Mutual and R25 million from Business Partners and the public sector.

These include the Expanded Public Works Programmes and various Setas. According to the Star (2008c:12), about 200 000 young people have been trained, of which 80 000 acquired skills through the National Youth Service Programme.

Moreover, 15 000 were trained on scarce skills and the remaining 129 000 were trained on various entrepreneur education programmes.

Even though Umsobomvu has such a good success record, a large number of the youth do not receive services from this institution. It has failed to market itself in order to be known by the youth. A large number of the youth therefore do not know about the services that are offered by Umsobomvu (The Star 2008b:12). Although it measures its own success, nothing is said about the early failure rates of the programmes or on the repayment of these funds.

4.11 Summary of the main findings and conclusions

The poor performance of the small business sector in terms of its contribution to employment arises from the sub-optimal regulatory environment. This happens in the administration of tax, the planning system, municipal regulations, the administration of labour law, and in specific sectoral regulatory environments. Laws and regulations unnecessarily hamper the development of small businesses in South Africa.

The government is concerned with fostering entrepreneurship in the economy. The state is providing knowledge and information which is important to the process of entrepreneurial discovery. Education and an environment that facilitates a free flow and availability of information have to be promoted by the state. This is however not available or suitable for all small businesses and should be applied by experts in the field.

The importance of competition in stimulating entrepreneurship suggests a need for policy instruments that encourage competition and punish anti-competitive behaviour. In drafting policy suggestions, policy makers need to consider the constraints that are currently faced by small businesses. In addition, the major universally applicable constraints outlined in the research include a high tax burden, inefficient bureaucracy, fragmented policies, a low level of competition, and a high early failure rate that are not addressed by current legislation.

Educational programmes for small business ownership and management should be encouraged to develop the significant human potential for entrepreneurship which exists in South Africa. The focus should be on training small businesses seeking to enter industries that are labour-intensive. This would enable the country to be less dependent on imported products. Entrepreneurship programmes to some extent already exist at the tertiary education level, but to be really effective entrepreneurship concepts should be taught much earlier in the education system.

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CHAPTER 5

SUMMARY OF THE MAIN FINDINGS, CONCLUSIONS, TENTATIVE RECOMMENDATIONS, AND AREAS OF FURTHER RESEARCH

5.1 Introduction

The research has investigated the successes and shortcomings of the support services provided by different Small Business Support Institutions during the period from 1996 to 2006. Furthermore, the research evaluated the recent developments in these Small Business Support Institutions. In order to achieve this aim, the study assessed the Small Business Development Policy Framework in South Africa in terms of the functions of the Small Business Development Policy of 1996 and the ways in which they assist the SMMEs.

The research critically evaluated the policies governing small businesses according to the principles of transparency, accountability, proportionality, consistency and targeting. This indicated the major tools formulated and implemented by the state in monitoring the level of the impact of this theory on the sustainability of the SMMEs in a country.

The central aim of this study was to obtain a better understanding of the laws and regulations governing the small businesses in the Republic of South Africa. The study aimed to address a number of policy objectives. Furthermore, the study critically evaluated the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, a document that facilitated the establishment of the Small Business Development Policy of 1996.

In addition, the study evaluated the state assistance programmes that were designed to assist small businesses and analysed their impact on the sustainability of the SMMEs. The study also evaluated the impact of these programmes in terms of awareness by the SMME entrepreneurs, assistance received, cost of funding received as well as employment creation by the programmes of the government. The

study critically analysed the impact of laws and regulations governing small business development in the country.

The study found that the development of the SMMEs has a number of advantages to the society at large. These advantages include the ability of these institutions to create job opportunities for unemployed individuals, fighting poverty and reducing unemployment in the country. The SMMEs are easy and inexpensive to form and contribute towards economic growth. The SMMEs are also capable of reducing the economic power of large multinational companies.

They accelerate the achievement of broader socio-economic objectives such as poverty alleviation programmes, income distribution and promoting rural development. Small business undertakings provide services in those markets which cannot attract large and well-established big businesses.

5.2 Laws and regulations governing small, medium and micro-enterprises (SMMEs) in South Africa

In order to sustain the small businesses, the South African government formulated the Small Business Development Policy of 1996 for the establishment of the SMMEs. This policy created an enabling environment for the SMMEs to operate within the RSA. It also aims to level the playing field between well established businesses and the SMMEs, as well as encouraging more rural and decentralised business enterprises.

The policy on Small Business Development was formulated to further the aims of black economic empowerment, to support the advancement of women in business and to prepare the SMMEs for the challenges of a competitive global economic environment. This policy led to the formulation of large numbers of policies designed to sustain the development of small businesses in the country, all managed by the Department of Trade and Industry (DTI) and other government departments.

The objective of the Small Business Development Policy of 1996 was to create an enabling environment for growth and development of SMMEs in the RSA. The policy provides a mechanism through which SMMEs can grow and develop on their own without dependence on the government. Other objectives of the policy are to enhance the capacity of the SMMEs to meet the demands of the modernising economy and the challenges brought about by increasing international competition.

Furthermore, the policy has established the Small Business Support Institutions to provide various supports to SMMEs. These institutions are the Ntsika Enterprises Promotion Agency, Khula Enterprise Finance Ltd, the DTI institutions, and the provincial help desks in the various provinces.

The Small Business Development Policy of 1996, which was established after the input and recommendations of the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, categorises small business into micro, very small, and medium enterprises. These categories are defined in terms of full time equivalent of paid employees, total annual turnover, and total gross asset value excluding fixed property.

A large number of government departments are involved in these initiatives designed to sustain the small business development. These departments have different mandates to assist the SMMEs in South Africa. These mandates allow the small businesses to act as agents of job creation and as sites of innovations.

5.3 Historical development of regulations for the SMMEs in South Africa

In South Africa, small businesses are still faced with a large number of constraints and limitations. These limitations prevent small businesses from executing their responsibilities of acting as agents of job creation and sites of innovations. These constraints include the lack of capital, high tax rates, lack of business skills, lack of equipment for the production process, poor marketing strategies, high crime rates, lack of training opportunities, high rentals, disloyalty of staff and high interest rates and nepotism.

Other obstacles faced by the SMMEs include the high fuel price, lack of information, customers failing to pay their accounts on time, reduced productivity and proximity to markets. In some cases, businesses are very small and personnel usually leave the jobs after receiving training. A large number of these barriers still exist now, but at a reduced rate.

Khula Enterprise Finance Ltd provides loan guarantees to small businesses in order to increase their access to finance through commercial banks. Khula Enterprise Finance Ltd has established a number of loan schemes to increase access to finance for small businesses through banks, retail finance intermediaries and micro-credit organisations.

The function of banks is to finance small business through loans. They undertake the selection process of loan applications from small businesses. They further require business plans from all applicants in order to determine the viability of their projects. The current programmes under this scheme are the business loan schemes, guarantee schemes, seed loans, the Khula Start, and the equity funds.

The standard credit guarantee schemes for small businesses provide them with increased access to finance through commercial banks. The scheme allows the entrepreneur to access funding for the establishment, for expansion or for the acquisition of a new or existing business.

5.4 The impact of regulations on small, medium and micro-enterprises (SMMEs)

A large number of policies and laws have been tried, but many of these have generally failed and been replaced by other, equally inefficient policies. Differentiated tax treatment, intellectual property regulations and procurement regulation are all a cause for concern in the support initiative as they create major barriers to success for the small businesses.

Other components of regulations indicating failure include the lack of implementing an enabling legal framework, capacity building and the failure of institutions to provide strong commercial, legal and financial services that are made more accessible and affordable for small start-up businesses. Furthermore, a database of possible accredited suppliers has not been made available for small businesses.

Less training has been provided to potential entrepreneurs regarding the legal and financial requirements that they will encounter and this is especially important in the light of the entrepreneurial discovery approach. Finance and preferential credit and localising small business support are of great importance to micro-enterprises.

Inappropriate or undue legislative and regulatory conditions are viewed as the main critical constraints on the success of the SMMEs. These instruments that are designed to sustain the SMMEs have turned out to act as obstacles and barriers for the development and growth of small business undertakings in South Africa. These unintended consequences of legislation for the SMMEs development are the main factors that impact on the performance of small business undertakings within the country.

A wide range of options exists with regards to the impact that regulations have in the growth and development of small business organisations in the country. The initiative to promote the growth and development of small business has failed to achieve certain business objectives. The small business organisations have identified various problem areas that prevent their success. A large number of these problems have been caused by certain provisions in the Labour Relations Act (LRA), the Basic Conditions of Employment Act number 75 of 1999 (BCEA), the Employment Equity Act number 55 of 1998 (EEA) and other labour legislations.

The general perception exists that prevailing new labour regulations pose a threat to the growth and development of SMMEs in South Africa. The government has acknowledged that inappropriate labour legislation and regulatory conditions are acting as major constraints on the growth and development of small business.

5.5 Conclusions and tentative recommendations

It is important to focus on regional development by providing infrastructure for small businesses in the rural areas. Some initiatives should include formal training programmes, developing local markets and creating targeted financial assistance programmes. The government needs to adopt a targeted approach towards small business support, and they also need to ensure that as many people as possible have the necessary skills and information to qualify for this support.

Hence, the state has to revise the current educational system of the country and provide a more career orientated approach, such as the teaching of entrepreneurial skills and concepts at high school. In terms of information, the government needs to make market and industry information publicly available, as well as information on support services and entrepreneurship training programmes.

Educational programmes for small business ownership and management should be encouraged to develop the significant human potential for entrepreneurship which exists in the RSA. The focus should be on training small businesses seeking to enter industries that are labour-intensive. This would enable the country to be less dependent on imported products. Entrepreneurship should be taught at schools in order to broaden the level of skills. Entrepreneurship programmes to some extent already exist at the tertiary education level, but to be really effective, entrepreneurship concepts are very important from a very early age (Liebenberg et al. 2007:74).

There is a need for the state to facilitate training and mentorship programmes in the small business sector. Such progressive programmes can fast-track the success rate in the SMME sector and improve the capacity of small businesses to honour their financial obligation and create more job opportunities.

Zuma acknowledges that the government tender processes are influenced by politicians and that politicians should not be trusted to adjudicate government procurement. Hence, tendering should be independent and incorruptible. If tendering is independent, evidence of nepotism and corruption at local government level will

not be visible and service delivery will be improved. In this way, corruption and bribes in the public sector will not be a major problem.

The BBBEE processes have to be changed and transformed urgently and people who hold political office should not be involved in the tendering processes because their families benefit at the expense of the poor. At the national and the provincial levels of government, departmental accounting officers should be responsible for the state procurement processes.

Service centers for the SMMEs should be provided and staffed by highly skilled people with experience to assist small businesses with financial, marketing, production and organisation. Providing all start up information through a single integrated gateway such as support centers with complementary partnerships is important for the growth and development of the small businesses.

The promotion of small business training and economic development in local communities will lead to the youth having information about financing institutions. Structured frameworks should be provided for supporting the building of successful businesses, including funding, staffing, training and mentoring which are all currently not adequately implemented by the state.

The programmes for entrepreneurial skills development and leadership that SEDA is lacking should be provided. The negative impact of infighting and the absence of the CEO at SEDA, which is constraining the service delivery on the side of the SMMEs must be addressed. Hence the minister of Trade and Industry has to appoint a strong and persuasive CEO who has the entrepreneurship skills necessary to enable SEDA to achieve its objectives.

It is important to focus on regional development by providing infrastructure for small businesses in the rural areas. Some initiatives should include formal training programmes, developing local markets and targeted financial assistance programmes. The government needs to adopt a targeted approach to small business support and also need to ensure that as many people as possible have the necessary skills and information to qualify for this support.

Hence, the state has to revise the current educational system of the country and provide a career orientated approach. In terms of information, the government needs to make market and industry information available, as well as information on support services and entrepreneurship training programmes.

At school level, the government has to revisit the implementation of outcomes based education and come with some recommendations. This new syllabus does not teach learners to be prepared and compete in the outside world. The curriculum is not achieving the government goals of entrepreneurship, business orientation and community participation. Therefore, a new curriculum which puts greater emphasis on skills development at the Further Education and Training Band needs to be adopted and implemented.

5.6 Areas of further research

The research has identified areas for further research which could not be undertaken due to budget and time constraints. In some cases, relevant information has been withheld, because it was deemed confidential and not for public scrutiny by the supporting institutions.

Information indicating how borrowed loans were paid back to government institutions was not available to the researcher as Khula Enterprise Development Agency considered this information confidential and not for public consumption. One of the reasons for this was that loans were being approved for enterprises that were not always viable. This institution could not produce records of their successes and failures so that the researcher could judge them on their performance based on the available data.

Hence, there is a need to investigate to what extent the SMME businesses have geared up to meet the opportunities presented by accelerated economic growth and new export markets, and to what extent they have been able to enhance their prospects by drawing on new technology.

There is a need to conduct an interview with individual small business entrepreneurs in order to analyse the problems they experience in terms of regulations based on finance. This analysis might provide important information regarding other challenges that regulations and policies have on the growth and development of the SMMEs in the RSA.

A regulatory impact analysis was not conducted due to time and budgetary constraints. Such an analysis would have assisted the researcher in providing alternative ways of evaluating the impact of regulations on small businesses.

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