



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

ANNUAL REVIEW OF SMALL BUSINESS IN SOUTH AFRICA 2005-2007

FINAL DRAFT

August 2008

MINISTER'S FOREWORD

It is with great pleasure that I present the *Annual Review of Small Business in South Africa* (2006-2007) on behalf of the Department of Trade and Industry (**the dti**). The current edition marks the third time that **the dti** has co-ordinated the production of the *Review* and, as before, contains a combination of primary research published here for the first time as well as a synthesis of information on SMMEs available in South Africa. The publication also draws out important issues and policy implications.

The analysis highlights successes as well as areas where further work is needed. Overall, micro, very small and small businesses accounted for 27-34% of total GDP in 2006. **This GDP share** remained relatively constant across the period 2001-2006. In terms of officially registered SMMEs that are economically active, the sector grew by 27% between 2004 and 2007 (from 422 000 to 536 000).

It is encouraging to note that the government's SMME support strategy, tabled in Cabinet in 2005 and which provided the backdrop at a policy level to this edition of the *Review*, is starting to bear fruit. However, against this should be weighed up the fact that the positive growth in economically active enterprises does not apply to all size categories – micro enterprises showed a negative growth of -5.6% between 2004 and 2007. As a result, the share of micro enterprises in the total pool of registered SMMEs in South Africa significantly decreased, from 50% of SMMEs in 2004 to 37% in 2007.

In relation to equity targets, progress has been made. An analysis of the demographics of SMME business ownership indicates that in March 2007, Africans represented about 71% of the country's business owners. This is mainly in the formal sector however (an increase between March 2005 and March 2007 from 22% to 31%), with the figures for informal business remaining more or less constant at 88%.

Gains have also been made in respect of the participation of women in SMMEs - in March 2007, about 45% of women in South Africa were owning and managing a business (up from 24% in March 2005). As is the case with the figures for population group, in March 2007 the share of female business owners was far higher in the informal sector (52%) than in the formal sector (31%). Given the high number of people working in the informal sector and the potential of co-operatives and micro-enterprises to generate employment, it is imperative that further attention and resources should be focused on this area.

The sustainability of SMMEs is also of concern: approximately 1% of enterprises registered between 1 April 2005 and 31 March 2006 lasted only between 1.5-2.5 years. There has also been a steady increase in the number of liquidations, particularly in the following industrial sectors: wholesale and retail trade; catering and accommodation, financing, insurance, real estate and business services (although the highest number of new registrations in a specific period is also found in these industrial sectors).

The literature indicates that despite significant progress in creating an enabling environment for SMMEs, much work remains, with a majority of enterprises remaining in the nascent and 'baby business' phases (less than 3.5 years in existence). Research by the Global Entrepreneurship Monitor (GEM) confirms that the survival rate for start-ups in South Africa is low and that the opportunity for entrepreneurial activity is the lowest of all the reviewed developing countries.

Nonetheless, it is encouraging to note that Local Economic Development (LED) initiatives in the Provincial Focus section of this *Review* (which looks at Kwa-Zulu Natal) are starting to make a real impact on economic development and SMME growth. The two sector-specific analyses included in this review (SMMEs in Manufacturing; and SMMEs in Education and Training) also provide useful insights in relation to support programmes, highlighting the importance of sector-specific research and the design of customised support interventions to suit the specific needs of SMMEs in each sector.

It is our sincere hope that the insights and ideas put forward in this *Review* will contribute substantially towards our collective understanding of the current SMME profile in the country and how we can continue to enhance our support for the Small, Medium and Micro Enterprises across all forms of enterprises and a wide range of existing and new interventions.

Mr Mandisi Mpahlwa
Minister of Trade and Industry

PREFACE

It is with great pleasure that **the dti** presents the *Annual Review of Small Business in South Africa* for the period 2006-2007. In most data tables, baseline data for 2005 is included. This baseline data is largely sourced from the previous edition of this report, based on research performed by Trade and Industrial Policy Strategies (TIPS).

The *Annual Review* has two main objectives:

- to provide an updated qualitative and quantitative analysis on what is known about SMMEs in South Africa for the use of all institutions and state organs that are involved in SMME support
- to contribute to policy formulation on SMME support through adding to the body of reliable data on SMMEs.

As such, the final publication is of interest to a broad target audience: policy-makers; all those involved in SMME development and support (including government bodies, NGOs and the corporate sector); economists, researchers and investors and last but not least, SMMEs themselves.

There is an additional 'process' objective which should also be mentioned. Following the practice adopted by the TIPS research team who worked on the previous two *Annual Reviews*, this year's *Review* consciously endeavours to provide readers – particularly researchers – with a detailed understanding of the methodological principles and approaches that have shaped the report, as well as the databases used for the statistical analysis and some of the challenges and data limitations that were experienced (see Chapter 1). It is recommended that this practice should continue, as it will contribute to the ongoing improvement of the *Review* in future years.

Traditionally the *Annual Review of Small Business in South Africa* has two sections: a Regular Features section (the National profile) and a Non-Regular Features section (selected Focus Areas). This year's edition has adhered to this format, but presents the information in one volume instead of two for ease of reference.

Part 1 (Regular Features – National profile) begins with a discussion of the context of SMME development in South Africa (Chapter 2), specifically what the literature has to say about the current economic environment and macro-economic outlook, the policy and regulatory environment and general trends and performance of SMMEs. This sets the

scene for Chapter 3, where an in-depth statistical profile of SMME development in South Africa is presented. This covers the number of SMMEs in South Africa; the size and distribution of SMMEs; the biographical profile of SMME owners; new enterprise registrations in the formal sector; enterprise liquidations in the formal sector and an analysis of the contribution of SMMEs to the South African economy.

Part 2 (Non-Regular Features – Selected Focus Areas) has two components: a provincial profile of one selected province and two sector profiles.

The provincial profile of SMMEs in KwaZulu-Natal (Chapter 4) begins with a discussion of the economic environment and regional context for SMMEs. An overview of provincial SMME policies, programmes and initiatives is provided; the informal and formal SMME sectors in KwaZulu-Natal are discussed; together with four sub sectors of particular significance for SMME development in KZN, namely general manufacturing, automotive manufacturing, tourism and Information and Communication Technology (ICT).

The Sectoral Focus component of the *Annual Review* presents two profiles: the first is of SMMEs in the Manufacturing Sector (Chapter 5) and the second of SMMEs in the Education and Training sector (Chapter 6).

ACKNOWLEDGEMENTS

This year's Annual SMME Review was undertaken for the first time by the National Skills Research Agency (NASRA), JOBWORX. The following research team members worked on this report:

Dr Terry Davies:	Research director
Fiona Farquharson:	Project manager, research contributor for Chapters 1-6. Carried out the compilation and quality assurance of the final report.
Nelius Boshoff:	Lead researcher for the quantitative analysis in Chapters 3, 4, 5 and 6. Wrote up the methodology in Chapter 1.
Eduard Grebe and Wilmien Wicomb:	Lead researchers for the qualitative analysis in Chapters 2 and 4.
Simone Esau-Bailey:	Lead researcher for the qualitative analysis in Chapter 5
Derick van Niekerk:	Assistant for data manipulations and transformations.
Johann van Eeden:	Specialist for input on methods for calculating GDP discussed in Chapter 1.
Ann Dawson:	Publishing consultant. Responsible for editing, layout and research assistance.

A study of this scope is by necessity a collaborative effort and the richness and breadth of this year's *Annual Review of Small Business in South Africa* reflects the input of a wide range of organisations and individuals. Particular thanks go to:

- the Enterprise Development Unit of **the dti**, especially Mojalefa Mohoto, Mandisa Manjezi, Sunday Mahlangu and Khomotso Ramaifo, who provided valuable direction, support and feedback on the draft reports
- Patience Gidongo and Jeffrey Ndumo from the Co-operatives unit of **the dti** for their assistance in accessing available research information on cooperatives.
- Fundiswa Kepeyi and Tlalani Teffo from SEDA for their assistance in accessing information from SEDA

- Stephen Hanival from TIPS, who generously shared the methodology and approach used for the previous *Annual Review of Small Business in South Africa*
- The Companies and Intellectual Property Registration Office (CIPRO) and Statistics South Africa (Stats SA), particularly the following individuals, for their assistance in facilitating access to electronic datasets and their patience in answering a myriad of queries: Dina Makhothong, Francis Manickum, Joey Mathekga, Marietjie Swart, Lucas Botes, Glory Moumakwe, Veronica van Dyk, Gideon Schutte, Mercy Maseko and Rector Rapoo (CIPRO); Hilda van der Stoep, Marietha Gouws, Harry Holtzhausen and Feroza Mohideen (Stats SA).
- Dr. More Chakane and Malose Thole from ETDP-SETA and Derrick Peo and Helen Brown from MERSETA, who provided useful information for the sector profiles on 'SMMEs in education and training' and 'SMMEs in manufacturing' respectively
- Chris Mtshali from the Department of Economic Development in KwaZulu-Natal for inputs made in the section covering the analysis of Provincial support
- Avril Swarts from the Umsobomvu Youth Fund, who willingly supplied a dossier of information on UYF's current SMME initiatives
- Christopher Byren, for allowing us access to the pre-publication findings of the survey he conducted as part of his MBA on 'identifying key success factors for an SMME Growth strategy in South Africa'

LIST OF ACRONYMS AND ABBREVIATIONS

ABET	Adult Basic Education and Training
ANC	African National Congress
APS	Adult Population Survey
ASGISA	Accelerated and Shared Growth Initiative for South Africa
ASSA	Actuarial Society of South Africa
ATR	Annual Training Report
BCEA	Basic Conditions of Employment Act
BDS	Business Development Services
BEE	Black Economic Empowerment
BER	Bureau for Economic Research
BMI	Business Monitor International
BOSS	Business Opportunities Support Service
BRAIN	Business Referral and Information Network
CBO	Community Based Organisation
CEDU	Co-operative Enterprise Development Unit
CDE	Centre for Development and Enterprise
CIP	Capital Infrastructure Programme
CIPRO	Companies and Intellectual Property Registration Office
CLO	Client Liaison Officer
COPAC	Co-operation and Policy Alternative Center
CPPP	Community Public Private Partnership Programme
CSIR	Council of Scientific and Industrial Research
DAC	Durban Automotive Cluster

DACT	Downstream Alum Centre for Technology
DBSA	Development Bank of South Africa
DCC	Durban City Council
DEAT	Department of Economic Affairs and Tourism
DED	Department of Economic Development
DMA	Durban Metropolitan Area
DMP	Disease Management Programmes
DoE	Department of Education
DoL	Department of Labour
the dti	Department of Trade and Industry
EAP	Economically Active Population
EDA	Environment and Development Agency
EPRD	European Programme for Reconstruction and Development
EPWP	Expanded Public Works Programme
ERS	Environmental and Rural Solutions
ETD	Education Training and Development
ETDP-SETA	Education, Training and Development Practices SETA
ETQA/s	Education and Training Quality Assuror/s
EU	European Union-Republic of South Africa
FDI	Foreign Direct Investment
FED	Forestry Enterprise Development
FET	Further Education and Training
FINCA	Foundation for International Community Assistance
GDMA	Greater Durban Metropolitan Area
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GEM	Global Entrepreneurship Monitor
GEP	Gauteng Enterprise Propeller

GGP	Gross Geographical Product
GTZ	German Technical Co-operation (Deutsche Gesellschaft für Technische Zusammenarbeit)
GVA	Gross Value Added
HAART	Highly Active Antiretroviral Therapy
HDI	Historically Disadvantaged Individual
HRD	Human Resource Development
HSRC	Human Sciences Research Council
ICC	International Convention Centre
ICLS	International Conference of Labour Statisticians
ICT/s	Information Communication Technology/ies
IDC	Industrial Development Corporation
IFP	Inkatha Freedom Party
ILO	International Labour Organisation
ISBDS	Integrated Small Business Development Strategy
JIPSA	Joint Initiative on Priority Skills Acquisition
JOBS	Job Opportunities Seekers
JSE	Johannesburg Stock Exchange
KZN	KwaZulu-Natal
LBSC	Local Business Service Centre
LCF	Local Competitiveness Fund
LED	Local Economic Development
LFS	Labour Force Survey
LIP	Local Industrial Park
MAC	Manufacturing Advice Centre
MCO	Micro Credit Outlet
MERSETA	Manufacturing, Engineering and Related Services SETA
MFRC	Micro Finance Regulatory Council
MIDP	Motor Industry Development Programme

NAFCOC	National African Federated Chambers of Commerce
NAMAC	National Coordination Office of the Manufacturing Advisory Centre
NBT	National Business Trust
NCA	National Credit Act
NCASA	National Co-operative Association of South Africa
NCF	Networking and Co-operation Fund
NEF	National Empowerment Fund
NGO	Non-Governmental Organisation
NLR	National Loans Register
NQF	National Qualifications Framework
NSDS	National Skills Development Strategy
NSF	National Skills Fund
NSIC	National Small Industries Corporation
NVC	New Venture Creation
ODA	Official Development Assistance
PAYE	Pay As You Earn
PDI	Previously Disadvantaged Individual
PSEDS	Provincial Spatial Economic Development Strategy
R&D	Research and Development
RDP	Reconstruction and Development Programme
RFI	Retail Financial Institution
RPL	Recognition of Prior Learning
SABCOHA	South African Business Coalition on HIV/AIDS
SACCOL	Savings and Credit Co-operatives League
SACCOs	Savings and Credit Co-operatives
SACN	South African Cities Network
SADC	Southern African Development Community
SAHCA	South African Housing Co-operative Association

SALDRU	Southern African Labour and Development Research Unit
SAMAF	South African Microfinance Apex Fund
SAQA	South African Qualifications Authority
SARS	South African Revenue Service
SBP	Small Business Project
SDSP	Skills Development Support Plan
SEDA	Small Enterprise Development Agency
SEF	Small Enterprise Foundation
SESE	Survey of Employers and the Self-employed
SETA	Sectoral Education and Training Authority
SIC	Standard Industrial Classification
SME	Small and Medium Enterprise
SMEDP	Small, Medium Enterprise Development Programme
SMME	Small Medium and Micro Enterprise
SNA	System of National Accounts
SOE	State-Owned Enterprise
SP	Strategic Programme
Stats SA	Statistics South Africa
STP	SEDA Technology Programme
TAF	Technical Assistance Fund
TEA	Total (early-stage) Entrepreneurial Activity
THETA	Tourism and Hospitality Education and Training Authority
TIPS	Trade and Industrial Policy Strategies
TTO	Triple Trust Organisation
UIF	Unemployment Insurance Fund
UNIDO	United Nations Industrial Development Organisation
UYF	Umsobomvu Youth Fund
VAT	Value-added Tax

VSME	Very Small and Micro Enterprises
WSP	Workplace Skills Plan
WTO	World Trade Organisation
YAC	Youth Advisory Centre

TABLE OF CONTENTS

Minister's foreword	i
Preface.....	iii
Acknowledgements	v
List of acronyms and abbreviations	vii
Table of contents.....	xiii
List of tables	xviii
List of figures	xxii
Executive summary	xxv
CHAPTER 1 DEFINITIONS, DATA SOURCES AND METHODOLOGY	1
1.1 The concept of 'small businesses'	1
1.1.1 Areas of focus in defining small businesses	1
1.1.2 The official definition of small businesses	2
1.1.3 Small businesses in this <i>Annual Review</i>	4
1.2 Data sources.....	5
1.2.1 Stats SA Labour Force Survey.....	6
1.2.2 Stats SA Survey of Employers and the Self-employed (SESE)	8
1.2.3 Adult Population Survey (APS) of the Global Entrepreneurship Monitor (GEM)	9
1.2.4 Stats SA Integrated Business Register.....	9
1.2.5 CIPRO New Enterprise Register.....	10
1.2.6 Stats SA statistics on liquidations of close corporations and companies	12
1.2.7 CIPRO Register of Co-operatives.....	12
1.3 Methodological and other comments	15
1.3.1 Methodology used to compile this <i>Annual Review</i>	15
1.3.2 Estimating the contribution of SMMEs to the South African economy	15

1.3.3	Other unique features of this <i>Annual Review</i>	18
PART 1	REGULAR FEATURES: NATIONAL FOCUS	21
CHAPTER 2	THE CONTEXT OF SMME DEVELOPMENT IN SOUTH AFRICA	23
2.1	Introduction.....	23
2.2	Economic environment and macroeconomic outlook.....	24
2.2.1	Macroeconomic context.....	24
2.2.2	The HIV/AIDS challenge.....	26
2.3	The policy, regulatory and institutional environment	28
2.3.1	Introduction.....	28
2.3.2	The Integrated Small Enterprise Development Strategy (2005-2014)	28
2.3.3	SMME development institutions	29
2.3.4	Skills Development for SMME Development.....	32
2.3.5	Sector development strategies.....	33
2.3.6	Other SMME development initiatives.....	33
2.3.7	Provincial SMME development policy	36
2.4	Trends and performance analysis.....	42
2.4.1	Small business contribution to production and employment	43
2.4.2	Small business performance	44
2.4.3	Entrepreneurial dynamism	46
2.4.4	Entrepreneurial opportunity	47
2.4.5	SMMEs in the informal and formal sectors	49
2.5	Concluding comments	50
CHAPTER 3	A STATISTICAL PROFILE OF SMME DEVELOPMENT IN SOUTH AFRICA	53
3.1	Number of SMMEs in South Africa	53
3.1.1	How many people define themselves as employers or self-employed?.....	53
3.1.2	How many people are owning and managing a business or starting up a new business?	55
3.1.3	How many enterprises are registered with the CIPRO, according to the Stats SA Integrated Business Register?.....	57
3.1.4	How many enterprises operate in the formal sector but are not registered with the CIPRO?	58
3.1.5	How many South Africans are involved in informal business activities? ...	59
3.1.6	Summary.....	60

3.2	Size and distribution of SMMEs	61
3.2.1	What are the size categories of small businesses?	61
3.2.2	In which industries do small businesses operate?	63
3.3	A biographical profile of SMME owners.....	68
3.3.1	Population group	69
3.3.2	Gender	72
3.3.3	Gender by population group.....	75
3.3.4	Age group and educational level	79
3.4	New enterprise registrations in the formal sector	81
3.4.1	Overview	81
3.4.2	Industrial sector and provincial distribution of new enterprise registrations	82
3.4.3	Directors of newly registered enterprises	84
3.4.4	De-establishment of newly registered enterprises	85
3.5	Enterprise liquidations in the formal sector.....	86
3.5.1	Compulsory and voluntary liquidations of close corporations and companies	86
3.5.2	Industrial sector distribution of liquidations of close corporations and companies, compared to new registrations of close corporations and companies	89
3.6	Profile of co-operatives.....	91
3.7	Contribution of SMMEs to the South African Economy	93
PART 2	NON-REGULAR FEATURES: SELECTED FOCUS AREAS	97
CHAPTER 4	PROVINCIAL FOCUS: SMMEs IN KWAZULU-NATAL.....	99
4.1	Introduction.....	99
4.2	Economic environment and regional context	99
4.2.1	The regional economy of KwaZulu-Natal	99
4.2.2	The HIV/AIDS challenge.....	103
4.3	Provincial SMME policies, programmes and initiatives: an overview	104
4.3.1	Provincial SMME development policy in brief	104
4.3.2	The EPWP in KwaZulu-Natal.....	105
4.3.3	The Provincial Co-operative Development Programme	106

4.3.4	Local Economic Development (LED) in KZN.....	108
4.3.5	SMME Development Institutions in KZN.....	114
4.4	The informal SMME sector in KwaZulu-Natal	116
4.4.1	Introduction.....	116
4.4.2.	The urban informal SMME sector	118
4.4.3	The rural informal SMME sector	121
4.5	The formal SMME sector in KwaZulu-Natal.....	123
4.5.1	Economically active SMMEs in the formal sector.....	123
4.5.2	New SMME registrations in the formal sector	131
4.6	Sectors/sub sectors of significance for SMME development in KZN	133
4.6.1	General manufacturing.....	133
4.6.2	Automotive manufacturing.....	134
4.6.3	Tourism	135
4.6.4	Information and Communication Technology.....	137
4.7	Concluding remarks.....	139
CHAPTER 5 SECTORAL FOCUS: SMMEs IN THE MANUFACTURING SECTOR.....		141
5.1	Overview.....	141
5.2	The context of the South African SMME manufacturing sector.....	142
5.3	Employment and skills requirements in the SMME Manufacturing sector.....	145
5.4	New enterprise registration in the SMME Manufacturing sector	146
5.5	Formal Manufacturing enterprises: Close corporations vs private companies	148
5.6	Informal manufacturing enterprises	149
5.7	Education and skills training in the Manufacturing sector	150
5.8	Concluding remarks.....	152
CHAPTER 6 SECTORAL FOCUS: SMMEs IN EDUCATION AND TRAINING		155
6.1	Overview.....	155
6.2	SMMEs focused on Education and Training.....	156

6.3	The SMME Education and Training Sector	157
6.4	Concluding remarks.....	168
	ELECTRONIC DATA SOURCES (DATASETS)	171
	REFERENCES	172
	BIBLIOGRAPHY	179

LIST OF TABLES

Table 1.1:	Thresholds for the classification for micro, very small, small and medium enterprises	3
Table 1.2:	Characteristics of data sources used in <i>Annual Review</i>	14
Table 2.1:	Prioritisation of support programmes for co-operatives	38
Table 3.1:	Number of people working on their own or with a partner, according to Stats SA's LFS (March 2005-September 2007)	53
Table 3.2:	Number of business owners and subsistence farmers by age category, sector (formal/informal) and survey period (2005-2007)	55
Table 3.3:	Estimated number of entrepreneurs in South Africa, based on the GEM Survey, 2004-2006	56
Table 3.4:	Number of enterprises registered with the CIPRO, according to the Stats SA Integrated Business Register of March 2007	58
Table 3.5:	Number of people of working age (15-65) who work on their own or with a partner in the informal sector, according to Stats SA's LFS (March 2005-September 2007)	59
Table 3.6:	Number of persons owning and managing an enterprise and number of economically active enterprises in 2007, by data source	60
Table 3.7:	Distribution of enterprises in Integrated Business Register, by size category and whether or not economically active (as of March 2007)	62
Table 3.8:	Stats SA Integrated Business Register figures by enterprise category, 2004 and 2007 figures compared	63
Table 3.9:	Standard Industrial Classification distribution of SMMEs in the formal and informal sectors	64
Table 3.10:	Distribution of economically active SMMEs in the formal sector, by Standard Industrial Classification and SMME size category based on annual turnover	65
Table 3.11:	Provincial distribution of SMMEs in the formal and informal sectors	67

Table 3.12:	SMMEs as percentage of population of working age, by province and formal/informal sector	68
Table 3.13:	Data sources used to compile biographical profile of SMME owners	69
Table 3.14:	Business owners as percentage of economically active population, by population group (March 2007)	70
Table 3.15:	Africans as a percentage of all subsistence farmers (15-65 & 66+ years), by survey period (2005-2007)	71
Table 3.16:	Business owners as percentage of economically active population, by gender (September 2005 & March 2007)	73
Table 3.17:	Women as a percentage of all subsistence farmers (15-65 & 66+ years), by survey period (2005-2007)	74
Table 3.18:	Sector distribution of persons of working age (15-65) who are owning and managing a business, by gender-and-population group and survey period (2005-2007).....	76
Table 3.19:	Gender-by-population group distribution of persons of working age (15-65) who are owning and managing a business, by sector (formal/informal) and survey period (2005-2007)	77
Table 3.20:	Number of new enterprises registered with the CIPRO by enterprise type, and period of registration, 2001-2007	81
Table 3.21:	Industrial distribution of new enterprises registered between 1/4/06 and 31/3/07 within four enterprise types	83
Table 3.22:	Provincial distribution of new enterprises registered between 1/4/06 and 31/3/07 within four enterprise types	83
Table 3.23:	Number of directors of newly registered enterprises, 2005-2007	84
Table 3.24:	Age distribution of directors of newly registered enterprises, 2005-2007.....	85
Table 3.25:	Percentage of newly registered enterprises (registered between 2005-2007) that are in the process of de-establishment or de-established.....	86
Table 3.26:	Liquidations of enterprises by year period, disaggregated in terms of enterprise type and voluntary/compulsory liquidations, 2001-2007	88
Table 3.27:	Industrial distribution of enterprise liquidations and new enterprise registrations, within two periods (1/4/2005-31/3/2006 and 1/4/06-31/3/07)	90

Table 3.28:	Number of newly registered and de-registered co-operatives (2003/4 to 2006/7)	91
Table 3.29:	Sector distribution of co-operatives in 2007	92
Table 3.30:	Value of co-operatives by year (2002 to 2005).....	93
Table 3.31:	Percentage contribution of micro, very small, small and medium/large firms to GDP, 2006.....	94
Table 4.1:	Distribution of Ithala loans by sector	115
Table 4.2:	Composition of the rural micro-enterprise sector in KwaZulu-Natal.....	121
Table 4.3:	Estimated numbers of individuals moving into and out of self-employment in micro-enterprises in KwaZulu-Natal	122
Table 4.4:	Distribution of KZN enterprises in Integrated Business Register, by enterprise size category and whether or not economically active (as at March 2007).....	123
Table 4.5:	Distribution of economically active SMMEs in KZN by enterprise type and SMME size category, and SMMEs expressed as a percentage of all economically active enterprises in the province	124
Table 4.6:	Economically active SMMEs in KZN by enterprise type and SMME size category, expressed as a percentage of all economically active SMMEs in South Africa	126
Table 4.7:	Distribution of economically active SMMEs in KZN by Standard Industrial Classification (SIC) and SMME size category, and SMMEs expressed as a percentage of all economically active enterprises in the province.....	127
Table 4.8:	Standard Industrial Classification (SIC) distribution of SMMEs in KZN, by SMME size category	128
Table 4.9:	Economically active SMMEs in KZN by Standard Industrial Classification (SIC) and SMME size category, expressed as a percentage of all economically active SMMEs in South Africa	130
Table 4.10:	Number of new enterprises in KZN registered with the CIPRO, by enterprise type (2001-2007)	132
Table 4.11:	Strategic interventions.....	138
Table 5.1:	Distribution of Manufacturing enterprises in Integrated Business Register, by enterprise category and whether or not economically active (as at March 2007)...	142

Table 5.2:	Distribution of economically active SMMEs in Manufacturing by enterprise type and SMME category, and SMMEs expressed as a percentage of all economically active enterprises in Manufacturing	144
Table 5.3:	Manufacturing enterprises as percentage of all enterprises (nation-wide), by SMME category, enterprise type and province	145
Table 5.4:	Skills in demand - Small manufacturing firms 2005-2006	146
Table 5.5:	New enterprise registrations in Manufacturing as a percentage of all new registrations (national), 2001-2007	147
Table 5.6:	Age profiles of members of new close corporations and directors of private companies registered in Manufacturing, 2005-2006 and 2006-2007	149
Table 5.7:	Indicators based on the number of persons owning and managing at least one non-VAT registered business (informal sector businesses) (2005)	150
Table 6.1:	The National Qualifications Framework	156
Table 6.2:	The list of Sector Education Training Authorities	162
Table 6.3:	Distribution of Education enterprises in Integrated Business Register, by enterprise category and whether or not economically active (as at March 2007)...	164

LIST OF FIGURES

Figure 1.1:	From informal to formal business.....	5
Figure 2.1:	First and second economies	23
Figure 2.2:	Total formal and informal sector employment 1996-2007	26
Figure 2.3:	Long-term projections of HIV prevalence and AIDS deaths (ASSA2003).....	27
Figure 2.4:	Monthly income distribution of entrepreneurs (GEM respondents).....	43
Figure 2.5:	Number of jobs intended among entrepreneurs expecting to create jobs	44
Figure 2.6:	Total Entrepreneurial Activity: international comparison (GEM ranking)	45
Figure 2.7:	Stage of activity – new entrepreneurs (GEM respondents)	46
Figure 2.8:	Liquidations of companies and close corporations: 2000 to 2006	47
Figure 3.1:	Size category distribution of economically active SMMEs in the formal sector, by Standard Industrial Classification.....	66
Figure 3.2:	Africans as a percentage of all business owners of working age (15-65 years), by sector (formal/informal) and survey period (2005-2007)	70
Figure 3.3:	Population group distribution of older persons (66+) who are owning and managing a business, by survey period (2005-2007)	71
Figure 3.4:	Women as a percentage of all business owners of working age (15-65 years), by sector (formal/informal) and survey period (2005-2007)	72
Figure 3.5:	Gender distribution of older persons (66+) who are owning and managing a business, by survey period (2005-2007)	73
Figure 3.6:	Gender distribution of persons owning and managing at least one non-VAT registered business, by industry (2005).....	74
Figure 3.7:	Number of Africans of working age (15-65) who are owning and managing a business in the formal sector, by gender and survey period (2005-2007)	78

Figure 3.8:	Number of Africans of working age (15-65) who are owning and managing a business in the informal sector, by gender and survey period (2005-2007).....	79
Figure 3.9:	Age profile of entrepreneurs in the 2006 GEM survey	80
Figure 3.10:	Education level profile of entrepreneurs in the 2006 GEM survey	80
Figure 3.11:	Share of voluntary liquidations of close corporations and companies, 2001-2007	88
Figure 3.12:	Number of registered co-operatives over three year-periods (1922-2007)	91
Figure 3.13:	Number and percentage of co-operatives per province, in 2007.....	92
Figure 3.14:	Contribution to GDP by size of enterprise, aggregated across all industries	93
Figure 3.15:	Percentage contribution of micro, very small, small and medium/large firms to GDP, 2001-2006	94
Figure 4.1:	Population by province (September 2006)	100
Figure 4.2:	Provincial contributions to national Gross Domestic Product.....	101
Figure 4.3:	KwaZulu-Natal unemployment rate vs. the national unemployment rate (September 2001 to September 2006)	101
Figure 4.4:	Provincial unemployment rates (September 2006)	102
Figure 4.5:	Number of persons owning and managing at least one non-VAT registered business, by province (2005)	117
Figure 4.6:	Provincial distribution of persons owning and managing at least one non-VAT registered business (2005).....	117
Figure 4.7:	Distribution of economically active enterprises in KZN, by enterprise size category (N=68 241)	124
Figure 4.8:	SMME size category classification (%) of economically active SMMEs in KZN, by enterprise type	125
Figure 4.9:	SMME size category classification (%) of economically active SMMEs in KZN, by Standard Industrial Classification (SIC)	129
Figure 5.1:	Distribution of economically active enterprises in Manufacturing, by enterprise category (N=62 651)	143

Figure 5.2: SMME category classification (%) of economically active close corporations and private companies in Manufacturing	144
Figure 6.1: The link between the literature review and the statistical profile	155
Figure 6.2: Distribution of economically active enterprises in Education, by enterprise category (N=4 766)	164

EXECUTIVE SUMMARY

Data sources and methodology

The current *Annual Review of SMMEs* covers the years 2005-2007, in some cases expressed in terms of two financial year-periods, namely 1 April 2005 to 31 March 2006 and 1 April 2006 to 31 March 2007. Where applicable, data as far back as from 2001 have been included to enable a trend comparison.

Small businesses can be classified as micro, very small, small or medium enterprises (SMMEs), following a complex set of thresholds per industry, as scheduled in the National Small Business Act. SMMEs are not restricted to formally registered enterprises (such as close corporations, private companies and co-operative enterprises) but include informal and non-VAT registered enterprises, such as survivalist street trading enterprises, backyard manufacturing and services, and occasional home-based evening jobs.

Seven primary data sources were used to compile this *Annual Review*:

- Stats SA Labour Force Survey (LFS)
- Stats SA Survey of Employers and the Self-Employed (SESE)
- the Adult Population Survey (APS) of the Global Entrepreneurship Monitor (GEM)
- Stats SA Integrated Business Register
- CIPRO New Enterprise Register
- Stats SA statistics on liquidations of close corporations and companies
- CIPRO Register of Co-operatives.

These data sources exclusively informed the statistical profile of SMMEs (Chapter 3) and were also used in parts of Chapter 4 (SMMEs in KwaZulu-Natal), Chapter 5 (SMMEs in the Manufacturing sector) and Chapter 6 (SMMEs in the Education and Training sector). The remainder of Chapters 4 to 6, however, together with Chapter 2 (the context for SMME development in South Africa), is based on desk-top research and was compiled by reviewing existing literature and studies on the small business sector in South Africa.

The context of SMME development in South Africa

SMME development is a key aspect of Government's economic development, poverty-alleviation and job creation strategy. Chapter 2 reviews the macroeconomic context within which SMMEs operate and the policies and initiatives aimed at giving effect to the imperative of SMME development.

While economic growth has increased in recent years, it remains insufficient to reduce unemployment substantially, especially when compared with other middle-income countries. Despite the achievement of macro-economic stability and an increasingly open market, there are still concerns about South Africa's competitiveness, however. Employment growth is further constrained by, among other things, a skills shortage and limited entrepreneurial capacity. Other social challenges like HIV/AIDS contribute to an environment that is less than conducive to small business growth. It has also proved difficult to integrate marginalised individuals and informal sector enterprises (the second economy) into the formal or first economy.

SMME policy was initially outlined in the 1995 White Paper on SMME development, and finds practical expression in the Integrated Small Business Development Strategy for 2005 to 2014. The strategy is based on three pillars:

- increasing the supply of financial and non-financial support
- creating demand for SMME products/services
- reducing regulatory constraints.

A number of institutions are responsible for implementation, the cornerstones being

- the Small Enterprise Development Agency (SEDA) with its Local Business Service Centres and SEDA-Technology on the service side
- Khula Enterprise Finance for small and medium enterprise finance
- the new South African Microfinance Apex Fund (SAMAF) on the finance side.

While a large number of interventions to small enterprises and partnerships within and outside government have been secured to enhance service delivery capacity of these cornerstone institutions, the literature indicates that greater coordination and a more effective implementation system is required. It is hoped that an ongoing repositioning of Khula and other institutions will contribute to this.

Skills development policy as articulated in both the Skills Development Act and the National Skills Development Strategy and implemented through the 25 Sector Education

and Training Authorities (SETAs) is a critical vehicle for SMME development. Most SETAs have SMME programmes, but performance in learnerships for SMMEs has lagged. The Joint Initiative on Priority Skills Acquisition (JIPSA) is the skills initiative aimed at developing the priority skills identified in the Accelerated and Shared Growth Initiative for South Africa (ASGISA). JIPSA explicitly aims to benefit SMMEs within priority sectors, but as yet its impact is not clear. In addition, Sector Development Strategies within the priority sectors (including tourism, business process outsourcing and the creative industries) aim to incorporate SMME initiatives. Other policy initiatives with SMME components include the Expanded Public Works Programme (EPWP), Local Economic Development (LED) and private sector initiatives.

SMMEs make a substantial contribution to GDP and an even greater contribution to employment. However, most SMMEs are micro and survival enterprises, with little potential for growth. Surveys (eg Maas & Herrington, 2007) indicate that very few SMME proprietors aim to hire additional staff and that South Africa performs below average in measurements of entrepreneurial activity.

South African SMMEs are also **less dynamic**, with a majority of enterprises remaining in the nascent and 'baby business' phases (less than 3.5 years in existence). A high rate of liquidations, as well as large numbers of registered but inactive enterprises and shifting business focus within the first three years of enterprise existence further corroborate the evidence that performance is less than satisfactory. Research by the Global Entrepreneurship Monitor (GEM) confirms that the survival rate for start-ups is low and that the opportunity for entrepreneurial activity is the lowest of all the reviewed developing countries.

Despite progress in creating an enabling environment, therefore, much work remains. The actual performance of South African SMMEs is reviewed in detail in this year's *Annual Review*.

A statistical profile of SMMEs in South Africa

Background

Rather than making assumptions and guesses about the number of SMMEs and owners of SMMEs in the country, this *Annual Review* reports only on what can be observed in the national household surveys (eg LFS and SESE) and business registers (Stats SA Integrated Business Register, CIPRO New Enterprise Register).

According to the LFS, in March 2007, 2.43 million people older than 15 years were managing big and small enterprises in South Africa. Of these, about 1.69 million persons between the ages of 15-65 years were doing so in the informal sector. However, the total number of persons owning and managing SMMEs in both the formal and informal sector is unknown because the LFS figures are reported for big and small enterprises combined. Also, the number of businesses owned or managed by the 2.43 million individuals is not reported.

Moreover, in March 2007, there were 1.87 million enterprises, big and small, listed in the Stats SA Integrated Business Register. This register covers only the formal economy and excludes sole proprietors and partnerships. About 556 thousand of the 1.87 million enterprises were regarded as economically active, and of these 556 thousand, a total of 536 thousand operated as SMMEs.

The total number of SMMEs covering both the formal and informal sectors cannot confidently be determined on the basis of the data available. The reasons are twofold:

- the LFS does not report figures for SMMEs as a separate category
- the LFS reports figures for individuals whereas the Stats SA Integrated Business Register reports figures for enterprises.

Enterprises

Of the economically active enterprises of known size (based on annual turnover), in March 2007:

- 36% were micro enterprises
- 46% were very small enterprises
- 11% were small enterprises
- 4% medium enterprises
- 3% were large enterprises.

The SMME sector grew by 27% between 2004 and 2007, in terms of the total number of formal enterprises in the Stats SA Integrated Business Register. The smallest growth occurred among micro enterprises (-5.6% growth). As a result, the share of micro enterprises to the total pool of formally registered enterprises significantly decreased between 2004 and 2007 – from 50% of SMMEs in 2004 to 37% in 2007.

Stats SA Integrated Business Register figures by enterprise category, 2004 and 2007 figures compared (Table 3.8 in this report)

Enterprise category	Integrated Business Register 2004		Integrated Business Register 2007		Percent growth 2004-2007
	Count	Percent	Count	Percent	
Micro	212,161	50.3%	200,377	37.4%	-5.6%
Very small	170,338	40.4%	251,920	47.0%	47.9%
Small	32,397	7.7%	63,193	11.8%	95.1%
Medium	6,748	1.6%	20,750	3.9%	207.5%
Total SMME	421,644	100%	536,240	100.0%	27.2%
Large	4,596	--	17 251	--	275.3%
All enterprises	426,240	--	553,491	--	29.9%

Gauteng is the leading province in terms of the number of SMMEs in both the formal and informal sectors, but while it accommodates 48% of formal SMMEs nationally, it accounts for only a quarter of informal SMMEs.

The Western Cape is the second largest province as far as the number of formal SMMEs is concerned (19%). Provinces with large rural populations, such as KwaZulu-Natal (19%), Limpopo (14%) and Eastern Cape (13%), accommodate higher proportions of informal businesses.

The industries where small businesses in the formal sector operate are different from the ones preferred by informal businesses. SMMEs in the formal sector are concentrated largely in the 'Financial Intermediation Insurance, Real Estate and Business Services' sector (44%). The next largest sector is the one that is broadly labelled as 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants' (23%). In the informal sector the Wholesale and Retail Trade industry dominates – altogether 52% of owners of non-VAT registered businesses are to be found in this sphere of industry.

In the 2001-2002 financial year there were just more than 120 000 new enterprise registrations (in the formal sector), and in 2006-2007 the number increased to almost 280 000 new enterprise registrations. The increase in new enterprise registrations over the period 2001 to 2007 is due largely to a sharp increase in close corporations. Close corporations grew at an average rate of 22% over the total period, and between 2005-2006 and 2006-2007 the percentage growth was 20%.

The share of newly registered enterprises comprising a single director is highest among close corporations and incorporated (professionals) enterprises – respectively 51%, and 56% of all new registrations between 1 April 2006 and 31 March 2007 were single-

director enterprises. Private companies and non-profit companies comprise largely three or more directors.

About 1% of enterprises registered between 1 April 2005 and 31 March 2006 lasted only between 1.5-2.5 years.

The number of close corporations (cc) liquidations decreased between the 2001-2002 and 2006-2007 financial years (from 2 469 liquidations in 2001-2002 to 1 438 in 2006-2007, with 1 919 liquidations in 2004-05). The number of private company (Pty Ltd) liquidations also decreased when comparing figures for these two financial years (1 838 in 2006-2007 versus 1 572 in 2006-2007). However, since 2004-2005 there has actually been a steady increase in the number of private company liquidations (respectively 1 468 and 1 516 liquidations in 2004-2005 and 2005-2006).

Voluntary liquidation comprised almost 90% of all liquidations in the 2006-2007 financial year.

The two industrial sectors with the highest shares of liquidations in the 2006-07 period are:

- wholesale and retail trade (31%)
- financing, insurance, real estate and business services (40%).

These industrial sectors also have relatively high shares of new registrations in 2006-07 (32% and 22%).

Enterprise owners

In March 2007, Africans represented about 71% of the country's business owners, meaning that the other population groups represented 29%. However, the figures hide a great disparity between formal and informal businesses. The participation of Africans in formal sector businesses appears to have increased between March 2005 and March 2007, from 22% to 31%. The share of Africans owning and actively managing informal business, however, remained more or less constant at 88%.

The share of Africans older than 65 who are owning and actively managing a business steadily decreased from 67% in September 2005 to 59% in March 2007.

More than 90% of subsistence farmers are African.

In March 2007, about 45% of women were owning and actively managing a business. The share of female business owners is far higher in the informal sector than in the formal sector (52% versus 31% in March 2007). The 31% of female business owners in

the formal sector, however, represents an increase since March 2005, when the figure was 24%.

Among persons of non-working age (66+), a larger percentage of women than men own and actively manage businesses (59% of women versus 41% of men in March 2007). However, a breakdown in terms of formal/informal sector is not provided in the LFS, which is the data source.

Women are also well-represented among subsistence farmers of working age (about 53% in March 2007), and have a clear presence among subsistence farmers of non-working age (49% in March 2007).

Between 92-94% of all female African business owners are concentrated in the informal sector. Among male African business owners the figure is somewhat lower (between 81-87%), but is nevertheless still relatively high compared with the non-African population groups.

The share of both female and male African business holders in the formal sector seems to be increasing – respectively from 7% in March 2005 to 10% in March 2007 (female African) and from 15% to 21% (male African). The share of non-African female business owners also increased over this period (from 17% to 21%).

Co-operatives

In 2006/7 the total number of registered co-operatives stood at 13 920, which is significantly more than the corresponding figure for 2005/6 (ie 7 355). Also, the period 2006/7 witnessed a significant increase in the number of new co-operative registrations (6 765 in 2006/7 versus 2 829 in 2005/6).

Co-operatives are largely concentrated in KwaZulu-Natal (40%) and operate mainly in Agriculture (27) and Services (19%), with 25% of co-operatives being 'multi-purpose', ie operating across sectors.

SMME contribution to GDP

Micro, very small and small businesses accounted for 27-34% of total GDP in 2006. This remained relatively constant across the period 2001-2006.

Provincial Focus: SMMEs in KwaZulu-Natal

KwaZulu-Natal is South Africa's largest province by population and very important economically. A significant division exists, however, between its rural and underdeveloped economy, and the urban industrial economy centred around the port city of Durban. KZN suffers from higher unemployment (26.6%) than the average for South Africa. It also suffers disproportionately from the effects of HIV/AIDS and has the highest prevalence rate of all provinces (39.1%).

The province has well-developed SMME development policies that have showed some success. Local Economic Development efforts are a key element of this. KZN has an SMME Support Service Delivery Network aimed at integrating provincial and national support initiatives. Gijima KZN – the LED support programme for KwaZulu-Natal – is a six-year programme aimed at achieving equitable economic growth in the province by building local government capacity to manage LED and increasing local competitiveness. It provides support through four funds, including a Local Competitiveness Fund that aims to strengthen existing businesses through networking and partnerships. Ithala Development Finance Corporation, the provincial SMME development agency, disbursed almost R500 million to about 700 small businesses by February 2006. In addition, the EPWP and Co-operative Development programmes have operated well in the province.

Durban/eThekweni occupies a key position in the provincial economy, and LED efforts in this area are particularly important. An important policy initiative of 2000 has shown some success in supporting informal sector businesses, including the provision of basic services and infrastructure/business support services. Studies show that further support could significantly boost the income of poor households in the city. The rural informal sector consists largely of agriculture, employing more people than formal sector agriculture. The rural micro-enterprise self-employment sector is also significant and consists largely of retail (spaza shops) and some manufacturing (principally crafts). A number of factors including political divisions and poor communication impair the impact of government support in these sectors. Overall, in 2005, the number of persons owning and managing informal non-VAT registered businesses in KwaZulu-Natal represented 19% of all non-VAT registered business owners in the country. In the formal sector, KwaZulu-Natal represented about 12% of all formal SMMEs in the country in March 2006. Moreover, 82% of all economically active enterprises in the province are either micro (35%) or very small enterprises (47%).

Two sectors (Tourism and Information and Communications Technologies), as well as two manufacturing sub sectors (automotive and general manufacturing), have been identified

as of key importance in the KZN economy. These are briefly reviewed in the report, with particular focus on the potential for SMME development. Tourism in particular holds great potential.

The SMME sector is a significant contributor to employment in both the formal and informal sectors of the KZN economy. As is the case with the rest of the country, however, its potential to generate additional employment is limited, except in the strategic tourism and ICT sectors.

Sectoral Focus: SMMEs in the Manufacturing Sector

South Africa has a large and diverse manufacturing sector, which is a major contributor to achieving South Africa's macroeconomic objectives.

As of March 2007, there were 107 724 enterprises in the Manufacturing sector in the country, of which 42% enterprises were considered economically inactive. This implies 62 651 active Manufacturing enterprises (ie enterprises having some financial activity during the previous five years). Of these, the majority (53%) were very small enterprises, followed by 25% of micro enterprises. Only 4% of enterprises in the Manufacturing sector were large enterprises. Close corporations and private companies almost exclusively represented the Manufacturing SMME sector in the country (43 985 and 15 933 of 60 154, which means 73.1% and 26.5%, giving a combined total of 99.6%).

In terms of new enterprise registrations in Manufacturing, there has been a decrease over the last few years. In 2001/02, manufacturing enterprises comprised 3% of all new registrations, whereas in 2006/07 the figure was 2%. This does not mean that the absolute number of new Manufacturing enterprises has been decreasing, however. In fact, it is the opposite (3 989 in 2001/02 compared to 5 604 in 2006/07). Almost all new manufacturing enterprise registrations occurred among close corporations and private companies. New close corporation registrations showed a positive average annual growth rate for the period 2001/02-2006/07 (11%), whereas private companies recorded a negative growth (-7.5%).

In 2005/06 and 2006/07, 44%-45% of the owner members of newly registered close corporations in manufacturing were 35 years or younger. The comparative figure for private companies was 23%-24%. Further studies are required on the qualifications and skills levels of these young entrepreneurs, as well as their gender and race composition and the ways in which support programmes can be tailored to suit their specific needs.

Sectoral Focus: SMMEs in Education and Training

Education and training are viewed as critical to the success of establishing a culture of entrepreneurship in South Africa. Alongside finance, the need for training and the upgrading of skills are critical themes for South African SMME policy development (Rogerson, 2007c:28).

As at March 2007, there were about 13 193 Education enterprises listed in the Integrated Business Register. About 64% of these were 'economically non-active' (ie they did not experience any financial activity during the previous five years). Of the economically active enterprises in Education, almost 80% were either micro enterprises (41%) or very small enterprises (37%).

More than half of all SMMEs in Education (55%) are located in Gauteng. The Western Cape and KwaZulu-Natal follow second and third respectively, with 17% and 12% of enterprises. In addition, between 96%-100% of enterprises involved in Education across the different provinces are SMMEs.

The number of new **registered training and education** enterprises steadily increased between 2001/02 and 2005/06, from 1 422 in 2001/02 to 1 954 in 2005/06, where-after it declined significantly in 2006/07 to 1 559.

The changing world of work, induced by economic development, demands an increasingly flexible and highly skilled labour force as customary jobs, activities and occupations are disappearing and being replaced with new ones. As a result, in most innovation-driven economies there is a mounting tension between the requirements of the job structure and the structure of the qualifications of the employed and unemployed population. These disparities manifest themselves in the excessive supply of unskilled labour or workers with obsolete qualifications (resulting in high unemployment rates), as well as in labour shortages in new skilled jobs (Erasmus, Steyn and Mentz, 2005:16). It is crucial that government and enterprises alike acknowledge these trends and work together towards finding solutions to challenges.

CHAPTER 1

DEFINITIONS, DATA SOURCES AND METHODOLOGY

1.1 The concept of 'small businesses'

1.1.1 Areas of focus in defining small businesses

The concept of 'small businesses' often covers different implicit areas of focus both in literature and in current economic life. The lack of clarity about what is understood as a small business can affect the reliability of research findings.

In some cases, the relevant feature is the entrepreneurial dimension: there is a natural concern for the economy's capacity to generate new activities, or to create new entities in response to new needs. However, many entrepreneurial ventures do not reach the stage of small businesses, as they never start operations. On the other hand, many small businesses are age-old entities, such as family businesses which have been passed from generation to generation.

Another interesting characteristic often associated with small businesses is ownership and management. The issues here are both concentration versus competition, and the broad economic participation of the population, not only as (co-)owners of productive entities, but as agents who are able to exercise a power in the management of these entities (unlike in an economic model of participation of individuals through small shareholdings in large firms). However, some small businesses are not owner-managed (eg if the owner employs a manager to run it), while some owner-managed entities are actually large.

Other studies are concerned with the labour status of the economic agents, who can be employees, employers or self-employed. The latter ones, even if they are not providing permanent jobs to the community, can be regarded as small business entities of their own.

A further area of focus is on the informal or semi-formal economy. This sector occupies a major part of the population, especially in rural or peri-urban areas, and especially

among the black African population group. A majority of informal businesses can be categorised as micro enterprises, but other entities may be larger. Many informal activities are also intermittent, in the sense that they may be started, discontinued and reactivated several times during a year, depending on the needs and availability of their owners.

Lastly, there is a concern around the *size of entities*. This is the criterion most frequently adopted internationally for small business studies. However, the limits of what constitutes a 'small' business vary from one economy to the next. In developed countries, entities with fewer than 500 employees are usually considered small and medium enterprises, while in developing countries the thresholds are generally lower. In South Africa, micro enterprises are occasionally described as businesses whose annual turnover is below the compulsory VAT registration limit. A further distinction is the 'survivalist' business, which is generally defined as providing income only below the poverty line.

However, all these criteria do not fit exactly with the official definition, as per the small business definition schedule in the National Small Business Act of 1996 as amended in 2003 and 2004.

1.1.2 The official definition of small businesses

The National Small Business Act of 1996, defines a 'small business' as follows:

... a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in column I of the Schedule.

Small businesses can be classified as micro, very small, small or medium enterprises, following a complex set of thresholds. The National Small Business Act, as revised by the National Small Business Amendment Act of 2003 and 2004, defined the thresholds per sectors and sub-sectors as in Table 1.1.

Compared to developed-country standards, SA thresholds are low. Many businesses which Americans or Europeans regard as small or medium enterprises would be regarded as large enterprises in South Africa.

Table 1.1: Thresholds for the classification for micro, very small, small and medium enterprises

Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)	Site or Class	Total full-time equivalent of paid employees (Less than)	Total annual turnover (Rm) (Less than)	Total gross asset value (fixed property excluded) (Rm) (Less than)
Agriculture	Medium	100	5.00	5.00
	Small	50	3.00	3.00
	Very small	10	0.50	0.50
	Micro	5	0.20	0.10
Mining and Quarrying	Medium	200	39.00	23.00
	Small	50	10.00	6.00
	Very small	20	4.00	2.00
	Micro	5	0.20	0.10
Manufacturing	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	52.00	2.00
	Micro	5	0.20	0.10
Electricity, Gas and Water	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Construction	Medium	200	26.00	5.00
	Small	50	6.00	1.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Retail and Motor Trade and Repair Services	Medium	200	39.00	6.00
	Small	50	19.00	3.00
	Very small	20	4.00	0.60
	Micro	5	0.20	0.10
Wholesale Trade, Commercial Agents and Allied services	Medium	200	64.00	10.00
	Small	50	32.00	5.00
	Very small	20	6.00	0.60
	Micro	5	0.20	0.10
Catering, Accommodation and Other Trade	Medium	200	13.00	3.00
	Small	50	6.00	1.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Transport, Storage and Communications	Medium	200	26.00	6.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10
Finance and Business Services	Medium	200	26.00	5.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Community, Social and Personal Services	Medium	200	13.00	6.00
	Small	50	6.00	3.00
	Very small	20	1.00	0.60
	Micro	5	0.20	0.10

Source: Schedule 1 to the National Small Business Act of 1996, as revised by the National Small Business Act as amended in 2003 and 2004

1.1.3 Small businesses in this Annual Review

The purpose of this *Annual Review* is to provide information for a wide range of users with different interests, so the present report will embrace as comprehensive a definition of small businesses as possible, providing that the economic activity remains below the thresholds for a large enterprise. This means that it can include manufacturing enterprises employing 150 to 199 full-time employees, as well as survivalist hawking enterprises, or occasional home-based evening jobs. Since agriculture is one of the sectors considered relevant in the official small business definition, it seems correct also to include subsistence farming in a review of small businesses.

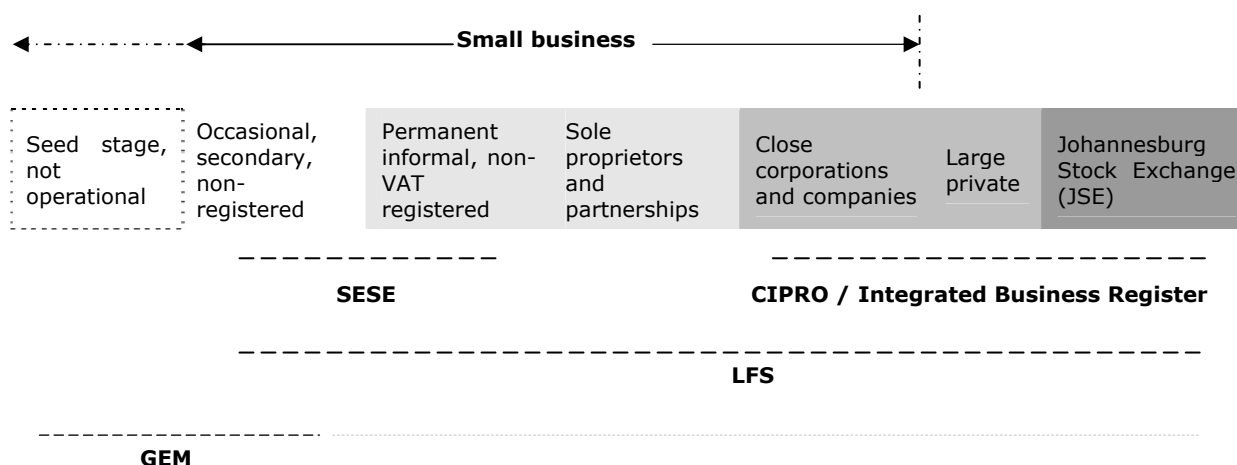
The terms 'small business' and 'SMME' are used as synonyms, whereas the term 'enterprise' refers specifically to entities (especially close corporations, co-operatives and companies) registered with CIPRO.

The owners of these SMMEs are hence referred to as business owners or 'employers and self-employed', while we have tried to keep the term 'entrepreneur' for those involved in a start-up or a new business activity.

Figure 1.1 shows a continuum of enterprises, from the most informal to the most formal. The various 'blocks' in Figure 1.1 represent an increased degree of formality:

- seed stage, not operational
- fully started (operational)
- continued activity
- registration for VAT
- permanent employees
- registration as legal entities.

The formality criteria are intertwined and not necessarily correlated – for example, enterprises registered with the CIPRO may well be trading only occasionally or even not at all, while non-VAT registered trades may provide many jobs, at least on a casual basis. Figure 1.1 also indicates underlying data sources for the different entities. These data sources will now be discussed in Section 1.2.

Figure 1.1: From informal to formal business

1.2 Data sources

The primary focus of this *Annual Review* is on two financial year-periods used for comparative analysis of trends, namely 1 April 2005 to 31 March 2006 and 1 April 2006 to 31 March 2007. The datasets that were created reflect these demarcations in terms of period covered. However, where applicable, data as early as 2001 have been included to enable a deeper trend comparison where deemed necessary to do so, often based on volatility of data in data sets covering the main review period (2005-2007).

It must be remembered, though, that since there are different concepts of businesses, there are also different qualities of data:

- The businesses that are formally registered have a continuous trade and are captured by several business registers and therefore reasonably well known (see Sections 1.2.4 and 1.2.5).
- Informal enterprises, on the other hand, have been described best by the extensive survey of non-VAT registered businesses, last carried out by Stats SA in 2005 (see Section 1.2.2).
- Entrepreneurial businesses in their infant stages are more of a known quantity since 2001, when a team at the University of Cape Town's Graduate School of Business joined the global GEM team in running annual surveys of entrepreneurship (see Section 1.2.3).
- In fact, at present the 'informational opacity' seems to be highest among a segment of small business that is potentially very significant – sole proprietors and partnerships – which usually have a permanent and substantial formal activity but are not registered with the CIPRO.

- Lack of data is particularly acute among unregistered businesses that employ only casual staff or none, are only a minor side occupation of their owner or operate on an 'on-and-off' basis. While in developed countries these cases can be considered marginal, in South Africa many of these informal and micro enterprises are key to the livelihoods of millions of people.

The various data sources used in this *Annual Review* are described further below.

1.2.1 Stats SA Labour Force Survey

The LFS is a bi-annual household survey, conducted every year in March and September, which is specifically designed to measure various aspects of the labour market. It provides insight into a variety of issues related to the labour market, including the level and pattern of unemployment and the industrial and occupational structure of the economy. It is based on a multi-stage stratified sample of dwelling units in the nine provinces. The target population is all households, as well as residents in workers' hostels and convents/monasteries. A questionnaire is administered through face-to-face interviews for each household visited (Stats SA, 2007a:i).

Stats SA uses a rotating panel methodology for the LFS, ultimately to obtain a better picture of movements into and out of the labour market over time. The rotating panel methodology involves visiting the same dwelling units on a number of occasions. After the panel has been established, a proportion of the dwelling units is replaced in each round. New dwelling units are added to the sample to replace those that are taken out. The advantage of this type of design is that it provides the basis for monitoring changes in the work situation of members of the same households over time, while retaining the larger picture of the overall employment situation in the country. It also allows for both longitudinal and cross-sectional analysis (Stats SA, 2007a:xxiii).

The LFS employs population estimates based on sampled data. For that reason small sub-groups (which involve small sample sizes) should not be compared over time, as estimates would not be reliable.

Following the guidelines in the previous *Annual Review* (**the dti** and SEDA, 2004:34-35), the LFS was used to estimate the number of small business owners in the country, as well as the number of persons involved in subsistence farming.

Business owners

In the case of business owners, Table 2.1 in the LFS gives the number of individuals of working age (15-65 years) who 'run or do any kind of business, big or small, for himself/herself'. The breakdown is by gender and by population group.

Tables 6.1 and 6.2 in the LFS also apply to business owners and have the same formulation as in Table 2.1. The difference is that these Tables 6.1 and 6.2 pertain to older persons (66+ years) and respectively give a breakdown by gender (Table 6.1) and population group (Table 6.2).

In addition, Table 3.11.1 also pertains to business owners. The table contains the number of people of working age (15-65 years) who are 'working on his/her own or with a partner, in any type of business (including commercial farms)'. A breakdown by gender and sector (formal/informal) is provided.

Table 3.11.2 is equivalent to Table 3.11.1; the only difference is that the breakdown is in terms of population group and sector (formal/informal).

Tables 3.11.1 and 3.11.2 were preferred in the estimation of the number of business owners because of the distinction between the formal and informal sectors. However, the figures in Tables 6.1 and 6.2 were used to enable the inclusion of people aged 66 and over. This corresponds with the methodology used in the previous *Annual Review*.

Subsistence farming

With regard to subsistence farming, Table 2.1 in the LFS also includes the number of individuals of working age (15-65 years) who 'do any work in his/her own or family's plot, farm, food garden, cattle post or kraal or help in growing farm produce or in looking after animals for the household'. The breakdown is in terms of gender and population group.

Tables 6.1 and 6.2 in the LFS include the same definition of subsistence farming as Table 2.1. However, these two tables pertain to older persons (66+ years) and are disaggregated in terms of gender (Table 6.1) and population group (Table 6.2) respectively.

Table 3.11.1 provides another definition of subsistence farming. The table captures the number of people of working age (15-65 years) who are 'working on his/her own small farm/plot or collecting natural products from the forest or sea'. A breakdown by gender and sector (formal/informal) is provided.

Table 3.11.2 is equivalent to Table 3.11.1, except for the fact that the breakdown is in terms of population group and sector (formal/informal).

Again Tables 3.11.1 and 3.11.2 were preferred in the estimation of the number of people involved in subsistence farming because of the distinction between formal and informal sectors. The figures in Tables 6.1 and 6.2 were nevertheless used to enable the inclusion of people aged 66 and over.

The formal sector includes all businesses that are registered in any way. For the LFS this is identified by the respondents. The informal sector consists of those businesses that are not registered in any way. They are generally small in nature, and seldom operate from business premises. Instead, they are run from homes, street pavements or other informal arrangements (Stats SA, 2007a: xxiv).

1.2.2 Stats SA Survey of Employers and the Self-employed (SESE)

The Survey of Employers and the Self-employed (SESE) was conducted in October 2005. Due to the lack of a sampling frame for businesses that are not registered for VAT, the LFS, which is a household-based survey, was used to identify persons who ran such businesses. Once identified, the owners of these businesses were interviewed to determine the nature of their business. In essence, the SESE sample is a subset of the September 2005 LFS sample (Stats SA, 2005d:xxxi).

The criterion for inclusion in the SESE depends on whether or not a business has been registered for VAT, given that these small and micro-businesses are generally excluded from the Business Frame which is used by Stats SA during surveys to assess the formal economy. A business with an annual turnover of R20 000 is eligible to register for VAT, while any business with an estimated turnover of R300 000 or more is obliged to register for VAT. The latter is therefore used as a cut-off point for not being registered for VAT (Stats SA, 2005d:ii).

Because of changes in the sampling and fieldwork methodology, Stats SA advises against a comparison of the 2005 SESE results with those of the 2001 SESE. Also, the 2001 SESE sample was stratified according to an urban and rural variable, while the 2005 sample did not include this.

The following data tables and figures from the 2005 SESE (Stats SA, 2005d) were used in compiling this *Annual Review*: Table 3 (p xi), Figure 9 (p xviii), Figure 10 (p xviii), Figure 21 (p xxix), Table 1.3 (p 3), and Tables 8.1, 8.2 and 8.4 (pp 27, 28 & 30).

1.2.3 Adult Population Survey (APS) of the Global Entrepreneurship Monitor (GEM)

The Global Entrepreneurship Monitor (GEM) research program provides an annual assessment of the national level of entrepreneurial activity in different countries, including South Africa. The primary research tool of GEM is the Adult Population Survey (APS). The individual country surveys are harmonised into one master dataset. The GEM Annual Report and the South African country report are based largely on the results of the adult population survey each year.

The GEM survey data documents the behaviour and characteristics of nascent entrepreneurs, new entrepreneurs and established business owners. The degree of innovativeness, competitiveness and growth expectations of early-stage and established business owners, as well as the existence and characteristics of social environments conducive to entrepreneurship, are also included (www.gemconsortium.org).

APS master datasets for the years 1999 to 2003 are available on the GEM website. However, no datasets are available in the public domain for 2005 and 2006, the two survey years that correspond to the period of this *Annual Review*. As a result, the 2005 and 2006 national reports for South Africa (Maas & Herrington, 2006; Von Broembsen, Wood & Herrington, 2005) were used in the relevant sections in the Review. However, the structure of reporting in the GEM country reports for South Africa varies from year to year. As a result, most tables in the previous *SMME Annual Review* that incorporate statistics from the 2004 country report for South African could not be replicated here because the 2005 and 2006 reports do not contain these figures.

For future reference, if the GEM survey results are to be used in the statistical profile section of the *Annual Review*, it is recommended that access to the GEM datasets be negotiated by **the dti** and that a core set of standard tables for inclusion be decided upon.

1.2.4 Stats SA Integrated Business Register

The Integrated Business Register, maintained by Stats SA, is a database of enterprises which is based largely on information from administrative data and incorporates information from various systems such as

- CIPRO data (see Section 1.2.5)
- the Income Tax system
- the Value Added Tax (VAT) system
- the Unemployment Insurance Fund (UIF).

The unit records of the Integrated Business Register were not made available for the purpose of this report, as Stats SA does not currently release this information. Instead, Stats SA provided us with a pivot table in Microsoft Excel, which contained a summary of the data at a specific point in time – March 2007. The pivot allowed us to disaggregate the total number of enterprises, as of March 2007, in terms of five key variables, as well as investigating the interaction of these five variables:

- enterprise type (eg close corporation, private company)
- whether economically active or not ('economically active' referring to enterprises having some financial activity during the previous five years, which could be an income tax or a VAT return, even if the return reflects a loss)
- province
- Standard Industrial Classification (SIC)
- enterprise category (micro, very small, small, medium and large).

The latter enterprise categories were provided by Stats SA and are based on the annual turnover figures of enterprises. These were determined by Stats SA by using the thresholds provided in the Small Business Act of 1996 (see again Table 1.1 of this report).

1.2.5 CIPRO New Enterprise Register

Details of recently registered enterprises

CIPRO provided us with the unit records of their 'new enterprise registrations' database in the form of a series of delimited text files, covering the period 2001 to mid-2007. The database includes 1.13 million records and was converted into a Microsoft Access database. The database was too large (270 MB) for efficient analysis and was split into six smaller segments, each corresponding to a financial year (1 April 2001-31 March 2002 up to 1 April 2006-31 March 2007).

The 'new registrations' datasets do not contain any variable (eg member size or annual turnover) that can be used to determine which enterprises are SMMEs. The two crucial variables in the datasets are industrial sector (Standard Industrial Classification – SIC) and province. However, inconsistencies were detected with regard to the provinces of the enterprises, as received by CIPRO (the same physical address postal codes are sometimes classified as representing different provinces). This was pointed out to CIPRO, who provided corrections, and these corrections were integrated in this report. This should be viewed positively because the analysis of these data sets for this *Annual Review* has contributed to the identification of areas for correction.

Directors of recently registered enterprises

CIPRO provided us with the unit records of their 'enterprise directors' database in the form of a series of delimited text files, covering the period 2001 to mid-2007. The database includes 2.74 million records. Only data for the two most recent financial years (1 April 2005-31 March 2006 and 1 April 2006-31 March 2007) were extracted from this database and converted into two Microsoft Access databases.

The enterprise identification numbers in the 'new registration' databases were matched to those in the two 'enterprise directors' databases. Only 67 of the enterprises in the 'new registration' databases did not have a corresponding link in the two 'enterprise directors' databases.

The plan was to use the 'enterprise directors' information for three kinds of analysis:

- to present the number of members per newly registered close corporation and the number of directors per other enterprise category
- to present the age profile of members and directors
- to present the nationality profile of members and directors.

The third intention turned out to be impossible, however. No nationality affiliation is reported for members of close corporations, and the other types of enterprises are characterised by large numbers of missing values as far as director nationality is concerned. Hence, only parts of the first two sets of analyses could be performed.

The calculation of the ages of members and directors at the time of enterprise registration was not uncomplicated, however. A number of outlier ages were obtained (eg negative ages, ages below 10 years and ages way above 100 years). For this reason, only ages ranging from 18 to 90 years were regarded as 'valid' in the calculation of the age categories.

Deregistration of recently registered enterprises

CIPRO provided us with six Excel™ files containing the records of enterprises that were first registered during the period 2005 to mid-2007 and, at the time of analysis (September 2007), had the following status:

- They have been dissolved.
- They have been voluntarily liquidated.
- They have been provisionally liquidated.
- They have been finally liquidated.
- They have been finally deregistered.

- They are currently in the process of deregistration.¹

For each enterprise in these files, the enterprise life-span was calculated by taking the difference between the date of registration and the date of liquidation/deregistration (whether in process or final). These datasets were merged with the 'new enterprise registrations' databases in order to calculate what share of enterprises first registered between 2005 and 2007 have since been de-established or are in the process of de-establishment. However, it should be noted that the dates of liquidation/deregistration go up to only the end of September 2007 (when all datasets were generated). As a result, the share of enterprises first registered between, say, 1 April 2005 and 31 March 2006 and which have since been de-established, is not fixed, but is subject to change. However, the share of enterprises first registered between 1 April 2005 and 31 March 2006 and which lasted for less than a year – even if additional de-establishment figures after September 2007 were to be obtained – would have no influence on the calculated statistic.

1.2.6 Stats SA statistics on liquidations of close corporations and companies

We downloaded from the Stats SA website the number of liquidations of close corporations and companies, per month, for the period 2001 to 2007 (Statistical Release P0043 – Stat SA, 2005c, 2006c, 2007b). The figures in the Statistical Releases have been re-computed to correspond to six financial year-periods (1 April 2001-31 March 2002 until 1 April 2006-31 March 2007).

1.2.7 CIPRO Register of Co-operatives

A Co-operative Development Strategy for South Africa was formulated in 2004, where persons and groups who subscribe to values of self-reliance and self-help and who choose to work together in democratically controlled enterprises are encouraged to register co-operatives (**the dti**, 2004:7). Since co-operatives represent an important emerging trend within the South African enterprise environment, we approached CIPRO with a request to access unit-record data for this enterprise category. However, it appears that there is a backlog in the capturing of co-operative registrations as the Excel™ file received contained records for only 1 576 active co-operatives. Hence, for the

¹ The deregistration process is as follows: CIPRO receives an application letter from the enterprise representative requesting deregistration. The application is captured to change the enterprise's status from 'active' to 'in deregistration process' in the enterprise database. Thereafter formal letters are sent to all enterprise representatives, who must respond within 30 days. At the expiry of that time the enterprise is listed in the *Government Gazette* (in what is called the 'B-list'), where it remains for 60 days. (Letters are sent again to enterprise representatives to respond within the 60 days.) Thereafter the enterprise is finally deregistered and is advertised again in the *Government Gazette*, in what is referred to as the 'A-list'.

purposes of this report we were dependent on other sources for CIPRO data on co-operatives. Two sources were consulted:

- A draft report of a baseline study of South African co-operatives that was commissioned by **the dti** and executed by the Growth Laboratory (G' Lab, 2008)
- A Powerpoint presentation **by the Co-operatives Unit** in the Enterprise and Industry Development Division of **the dti**, on an Integrated Strategy for co-operative development **(the dti, 2008)**.

Table 1.2 presents a comparative summary of the characteristics of the different data sources used to compile this *Annual Review*:

Table 1.2: Characteristics of data sources used in Annual Review

Data source	Source type	Data availability format	Available in public or private domain	Focus on enterprises or individuals	Focus on formal or informal sector	Periods covered in this Review	Extracting info on SMMEs only	Other comments
Stats SA LFS	Household survey	Figures in report	Public (report on Internet)	Individuals owning and managing any business (including subsistence farmers)	Both	March 2005, Sept 2005, March 2006, Sept 2006, March 2007	Not possible in the case of individuals owning and managing businesses in the formal sector. All individuals owning and managing businesses in the informal sector can be regarded as SMME business owners	Concerned with MAIN activity of individuals – (employed respondents who own and manage an informal business on the side will be counted as ‘employees’ only, not as ‘employers’ or ‘self-employed’ as well)
Stats SA SESE	Household survey	Figures in report	Public (report on Internet)	Individuals owning and managing non-VAT registered businesses	Informal	Sept 2005	All individuals owning and managing non-VAT registered businesses can be regarded as SMME business owners	Not regularly updated – first survey was conducted in 2001 and second in 2005
GEM-APS	Household survey	Figures in report	Public (report on Internet)	Individuals involved in start-ups and new firms	Both	2005 & 2006	Not possible	Small samples so year to year comparisons not really possible
Stats SA Integrated Business Register	Business register	Electronic dataset	Private (special request required)	Enterprises	Formal	March 2007	Possible because of the inclusion of enterprise size categories based on annual turnover	Does not cover entities such as sole proprietors
CIPRO New Enterprises Register (including director statistics)	Business register	Electronic dataset	Private (special request required)	Enterprises & individuals	Formal	1 Apr 2001 to 31 March 2007	Not possible	The accuracy of the ‘provincial classification’ of enterprises requires attention
Stats SA statistics on liquidations of close corporations and companies	Published statistics	Figures in report	Public (report on Internet)	Enterprises	Formal	1 Apr 2001 to 31 March 2007	Not possible	Covers only small portion of business deaths
CIPRO Register of Co-operatives	Business register	Unclear	Private (special request required)	Enterprises	Unclear	Unclear	Unclear	Not integrated with Stats SA Business Register; at present a separate register

1.3 Methodological and other comments

1.3.1 Methodology used to compile this Annual Review

The data sources discussed in Section 1.2 exclusively informed Chapter 3, the statistical profile of SMMEs, and were also used in parts of Chapters 4 to 6 (the profile on SMMEs in KwaZulu-Natal and the profiles on SMMEs in the Manufacturing, and Education and Training sectors, respectively). Thus, Chapter 3 and the applicable parts of Chapters 4, 5 and 6 are quantitative in nature.

The remainder of Chapters 4 to 6, together with Chapter 2, is based on desk-top research and was compiled by reviewing existing literature and studies on the small business sector in South Africa.

Moreover, this *Annual Review* represents the synthesis of six working reports produced in the course of this study for **the dti**:

- Macro analysis: The context for SMME development
- SMME Trends and performance analysis
- A barometer of entrepreneurial activity in the formal SMME sector
- National profile of small business
- Sectoral SMME profiles: (1) Manufacturing and (2) Education and Training
- KwaZulu-Natal SMME profile

These six working reports served as the 'building blocks' for the *Annual Review*. It is recommended that a similar methodology be followed for future Reviews, as the process allowed for ongoing monitoring of the project by **the dti**, the obtaining of feedback on work-in-progress by **the dti** review panel and the subsequent incorporation of revisions. This year's *Annual Review* can therefore be thought of as the final end product that synthesizes the preceding reports.

The present *Annual Review* also builds on the previous *Annual Review* that was undertaken by Trade and Industrial Policy Strategies (TIPS) in 2004. Selected sections in this methodological chapter and in Chapter 3 (statistical profile of SMMEs) therefore replicate the discussions and insights generated by TIPS in the previous Review.

1.3.2 Estimating the contribution of SMMEs to the South African economy

The previous *Annual Review* adopted an approach to the estimation of the contribution of SMMEs to GDP that was developed by Iraj Abedian, and which has since come to be

known as the 'Abedian method'.² This particular method was also executed in a recent SEDA report on the contribution of small enterprises to the South African economy (SEDA, 2007). Since the SEDA report estimated the GDP contribution of SMMEs already up to 2006, it was decided to incorporate, for the purposes of the current *Annual Review*, the relevant section from the SEDA report.

In its most intuitive description, the method uses the following approach: Gross Value Added (GVA) is divided into gross operating surplus to business and total compensation to employees. The split is in line with the terminology used in the South African National Accounts. Subsequently, each of the two components is measured individually for the SMME sector and added together in order to obtain an estimate for the contribution of SMMEs to GDP in a given calendar year. SMME contribution to gross operating surplus is obtained by assigning perceived rates of profitability to the different categories or sizes of business that have been identified.³ In addition, total compensation to employees applicable to the SMME sector is derived by applying a weighting system to the total compensation received by employees as it appears in the standard South African National accounts. In the case of compensation to employees, however, the weights originate from the LFS. Hence, any question relating to the applicability of the Abedian methodology should be centred on the estimation of these parameters and not so much the method itself.

Weaknesses of the Abedian method

The approach presents the following weaknesses, according to a SEDA report (SEDA, 2007:47):

- The implicit assumption of equal remuneration across size categories probably results in a bias in the Abedian method. If large firms remunerate their employees better than small and especially micro-enterprises, then the Abedian method may over-estimate the share of the smallest firms.
- The method requires estimations on SMMEs' contribution to employment, which (see above) are only available for the period 2001 to 2004 and do themselves carry a certain risk of error (see Section 1.3.3).

2 The estimate in the 2004 *Annual Review* for SMME GDP contribution was between 39% and 45%. This followed from using the obtained estimates for the GVA1 and GVA2 sets of parameters as endpoints for an estimate (ie minimum and maximum values) and assuming the true value of SMME GDP contribution lies between these two points.

3 For this particular estimation, two sets of weights are used – commonly referred to as GVA1 and GVA2. GVA1 displays the following weights: survivalist 0.0; micro 0.05; very small 0.05; small 0.20; medium 0.20; and large 0.50. The weights for GVA2 are adjusted downwards for all businesses smaller than medium, while profitability of large enterprises is given to be 60% of the total (thus: survivalist 0.0; micro 0.0; very small 0.05; small 0.15; medium 0.20; and large 0.60). Clearly, GVA2 gives a downwardly adjusted estimation of SMME contribution to GDP compared to GVA1.

- In order to generate estimates for 2000, 2005 and 2006 the distribution of employment between micro, very small, small, medium and large in each sector was assumed to be equal to the average of 2001-2004, except for four sectors (transport & communication, manufacturing, construction and wholesale & retail) where data was modelled along certain tentative trends.
- By maintaining constant sets of weights for the distribution of the gross operating surplus, the model is per definition eliminating the possibility of shifts through the period. If, for example, the profitability of small enterprises has increased over the period relatively to that of larger enterprises, this should be reflected in an increased share of the gross operating surplus (hence, GDP) being attributed to small businesses.

Positive aspects of the Abedian method

The most illuminating aspect of the Abedian method is the fact that comparable estimates can be computed over successive time periods, and that these results can be understood by a wider audience. This would not have been the case with a highly parameterised model. Over and above this, the uncertainty surrounding some of the parameters can also be seen in a positive light. Taking into account that these measurements are admittedly neither precise nor permanent indicators implies that they can be improved on in future – both in terms of contemporary accuracy and inter-temporal adjustments. Equally important perhaps is the characteristic that adjustments to the sectoral contributions (both value-added and employment) can be done without leaving the entire estimation process redundant. In other words, stepwise improvements in accuracy to most of the questionable variables are possible without derailing the entire estimation procedure. In short, the Abedian method has the following positives:

- It uses existing (and periodically updated) data sources.
- It is consistent with the South African National Accounts composition.
- Improved accuracy can be attained with the majority of estimation procedure remaining intact.

Alternative measures?

The limited data available to compute the contribution of SMMEs to GDP implies that the appropriate measure should have its origin in the current dataset rather than be based on a theoretical framework. In other words, the approach is to see first what information is available and then to deduct the optimal measure from there. Given this limitation in

methodology, it is difficult to suggest for future *Annual Reviews* something wholly different from the method currently in use.

The most obvious starting point for improving the current estimates for the parameters in the model would be the sector estimates used in GVA1 and GVA2. The advent of a firm-level study that serves the primary purpose of ascertaining profitability levels in SMME sectors relative to other company sizes has the potential of significantly improving the weights used in current estimations. The same applies to a study aimed at relative remuneration levels in the economy. An approach that incorporates these (presumably more accurate) parameter estimates would have the following advantages:

- The majority of data needed would come from currently existing data sources
- Comparability with previous studies once new parameter values have been factored in
- Cost effectiveness compared to complete new estimation method

However, these are considerations for future *Annual Reviews*.

1.3.3 Other unique features of this Annual Review

The current *Annual Review*, particularly the Statistical Profile of SMMEs (Chapter 3), contains some features which did not form part of the previous Review. These are as follows:

- An Executive Summary has been included.
- A full References List and Bibliography have been provided. The Reference list includes (i) the electronic databases used for the report and (ii) all those sources referred to in the final published Review. The Bibliography is an additional resource for the interested reader or researcher and provides a comprehensive list of all other sources consulted during the researching and writing of this year's Review (as reflected in the six individual working reports described in 1.3.1.).
- Following the trend of data sets used in the previous *Annual Review* reports by TIPS, far greater attention has been paid to accessing relevant datasets from CIPRO. The analyses of these datasets (the New Enterprise Register, including statistics on directors of newly registered enterprises and the de-registration or life-span of recently registered enterprises) add a new dimension to the current *Annual Review*, as they contain a wealth of data on SMMEs as yet untapped by previous studies.
- The previous *Annual Review* included a specific sub-section on trends, particularly an analysis of evolutions between 2001 and 2005. In this Review no separate sub-section on trends is included because all trend analyses, where applicable, are incorporated within the main body of the statistical profile.

Two sections from the previous *Annual Review* have been omitted in this year's Review. The first is the contribution of South African SMMEs to employment based on Stats SA LFS data (6.1 in the previous Review), and the second a discussion on the dynamics of small businesses in Cape Town (7.1-7.3 in the previous Review). The reasons are explained below:

- The approach used in the previous *Annual Review* to determine the contribution of SMMEs to employment was based on LFS data, whereby surveyed workers were asked to indicate the number of regular employees in the entity they work for. Specifically, the number of regular workers per business and per sector was taken from Table 3.14 in the LFS, and entities were transferred to the thresholds proposed by the National Business Act (see Table 1.1 in this Review). Non-business sectors, such as private households with employed persons and extraterritorial organisations and foreign governments, were not included. The share of each size category of small business was then calculated sector by sector and overall. However, for the purposes of the current Review, the exercise **could not be replicated due to the fact that after September 2004 Statistics SA has discontinued the practice of providing the number of regular workers per entity. Since the number of regular workers per entity is an important variable, particularly when considering the employment element (priority) of small business development and promotion, it is recommended that the dti approaches Stats SA (LFS) to include the variable in future surveys.**
- The previous *Annual Review* used the City of Cape Town Regional Services Council Levy database **primarily to estimate the number of formal, non-incorporated businesses in the country.** The principle employed was to calculate a ratio of the number of sole proprietors and partnerships to the number of close corporations and companies in Cape Town, and to apply this ratio to the number of close corporations and companies nationally. Both a life-span analysis and turnover growth analysis were also performed on the information in the City of Cape Town levy database. The City of Cape Town levy database is privately-owned, moreover it is not representative of what is happening in the rest of the country or even in other metropolitan areas as far as SMMEs are concerned. Thus, the City of Cape Town levy database should not be used as a basis for national extrapolation. In the light of these issues, it was decided to omit this database.⁴

⁴ The discussion on non-incorporated businesses, based on the Cape Town Levy database, may be found on pages 33, 37 and 68 of the previous *Annual Review* which was undertaken by TIPS (**the dti**, 2004).

PART 1

REGULAR FEATURES:

NATIONAL FOCUS

CHAPTER 2

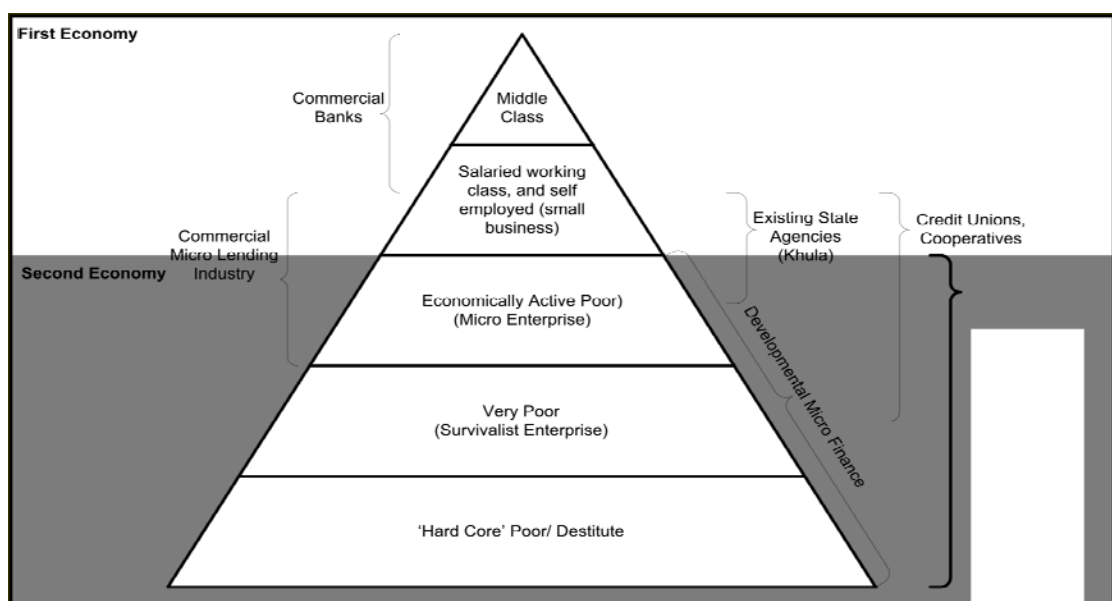
THE CONTEXT OF SMME DEVELOPMENT IN SOUTH AFRICA

2.1 Introduction

The first democratic government inherited from apartheid extreme levels of poverty, inequality in wealth and income and highly skewed access to social services, together with educational and employment opportunities. Economic growth is dependent not merely on macroeconomic stability or labour market flexibility, it involves also the role of institutions, microeconomic reforms and governance. It could further be argued that the concentrated structure of the South African economy results in the most growth taking place within existing established industries, with limited new employment generation.

President Mbeki coined the term 'the second economy' to describe the informal sector (Devey et al, 2006:1) and to point to the structural barriers to participation in the formal economy that are faced by many South Africans. The second economy is seen as structurally disconnected from the mainstream economy. The second economy has also been defined as the space within which those who are marginalised operate (Kirsten, 2006:2).

Figure 2.1: First and second economies



Source: Kirsten (2006)

Informal employment is the norm in many parts of the world, and is not restricted to the developing world (Devey et al, 2006:9).

In terms of government support, Devey et al believe that most government small business initiatives have been of little value to the informal sector. In this regard, Rogerson (cited in Devey et al, 2006:14) writes that 'during the period 1994-2003, **the dti** funding allocations for SMMEs have inevitably favoured and been biased heavily towards support for established small and medium enterprises (often white owned) rather than emerging micro-enterprises and the informal economy.'

Budlender et al (cited in Devey et al, 2006:15) found that at national government level the informal sector initiatives tend to be 'piecemeal'. They suggest that most departments seem to showcase a programme aimed at the poor and marginalised, however small the programme may be in practice. The support generally intersects with informal work through specific poverty-relief funding. The absence of a coherent policy on the informal economy is reflected in the lack of a programmatic approach, which can be observed in the way departments deal with the sector. An exception seems to be KwaZulu-Natal, which has a relatively well-developed policy on informal sector support. See Chapter 4 for further detail.

2.2 Economic environment and macroeconomic outlook

2.2.1 Macroeconomic context

The first post-Apartheid government inherited an economy that had been stagnant for several decades (economic growth averaged around 1% per annum in the 1980s) and that had experienced many years of high inflation and low levels of investment (Kingdon & Knight, 2005). It was imperative to transform an inward-oriented, highly concentrated and inefficient economy that was highly dependent on mining into an outward-oriented, stable, competitive economy capable of growing rapidly and of absorbing large numbers of people into productive employment. The focus in the initial period was on macroeconomic stabilisation, trade liberalisation and the promotion of investment (both foreign and domestic). The core economic policy document in the first decade of democracy was the 1996 Growth, Employment and Redistribution (GEAR) policy. **As a result, South Africa's first economy achieved relative macroeconomic stability and an increasingly open trade environment (World Bank, 2007:1). Exports diversified to manufacturing, though there concerns about South Africa's international competitiveness still exist (World Bank, 2007:2). This is due to factors such as the technological level of**

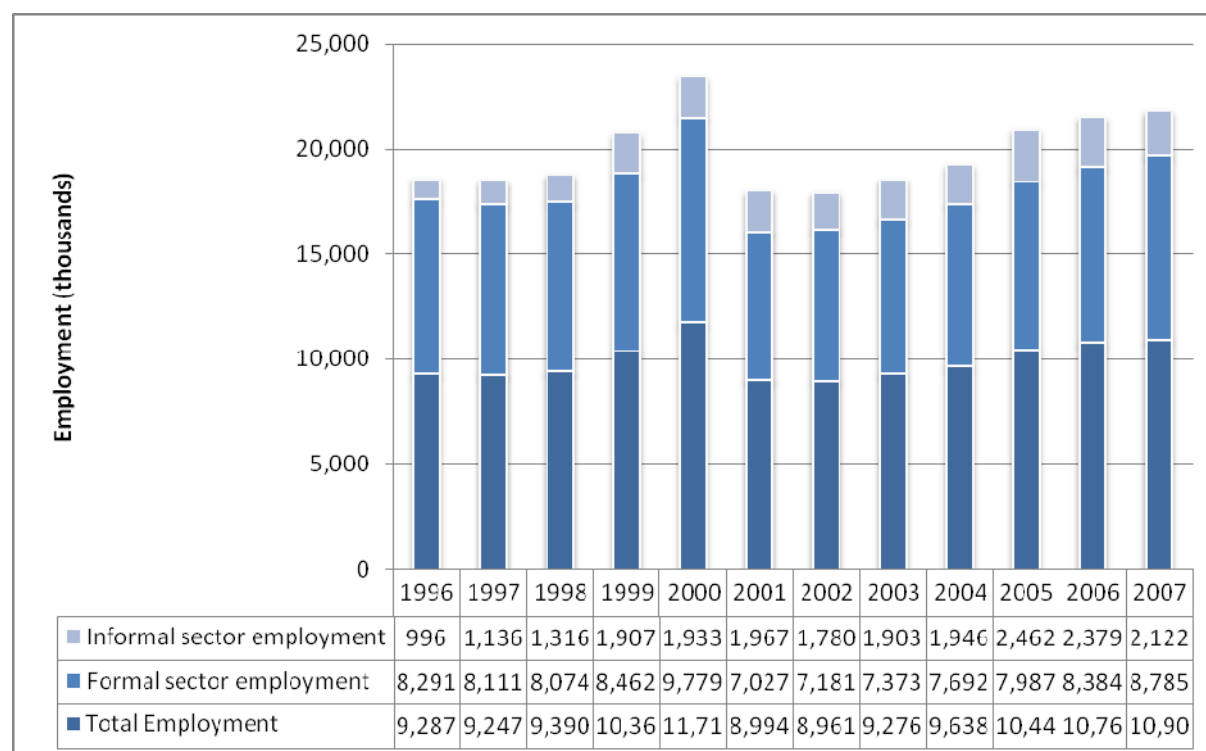
manufactured products, but significantly, also the high formal wage costs in South Africa – higher than in most countries used in the comparison (World Bank, 2007:3).

While growth performance was significantly enhanced and macroeconomic and fiscal stability were achieved, growth remained well below the projections of GEAR and insufficient to significantly impact on poverty and unemployment, which kept rising through most of the period (Kingdon & Knight, 2005:13). Gradually, consensus has emerged that the South African economy could succeed in becoming globally competitive only if successful supply-side policies were adopted to address its structural weaknesses – including the shortage of high-level skills and the mismatch between the supply of skills and the skills needs of the economy. This view is reflected in the Accelerated and Shared Growth Initiative for South Africa (ASGISA), which focuses on the supply-side and industrial policy interventions required, including infrastructure investment, sector strategies and education and skills development.

Since 2004, economic growth has been better (reaching more than 4% in that year), but remains modest. This improved growth is often attributed to greater business confidence and macroeconomic stability creating an environment for investment. This has not resulted in sufficient investment compared with other middle-income countries, however, which probably accounts for the lack of sufficient economic growth (World Bank, 2007:1).

As can be seen in Figure 2.2 below, total employment stagnated between 1996 and 1998, but grew relatively rapidly from 1998 to 2000. Again in the period 2001-2005 there was continuous employment growth – with a substantial acceleration between 2004 and 2005 – enough to reduce the unemployment rate from 29.4% in 2001 to 26.7% in 2005. A significant proportion of employment growth throughout the period was in the informal sector, reflecting a trend in most developing countries (World Bank, 2007:5).

Figure 2.2: Total formal and informal sector employment 1996-2007



Note:

All data excludes agriculture and domestic work.

Source: 1996-2000: McCord & Borat (2003); 2001-2005: 2001-2007: Stats SA (2008).

Employment growth is constrained by a number of factors, including South Africa's serious skills shortage and limited entrepreneurial capacity, which has resulted in limited employment creation in new enterprises. Labour productivity is high, however, even compared with other middle-income countries (World Bank, 2007:2).

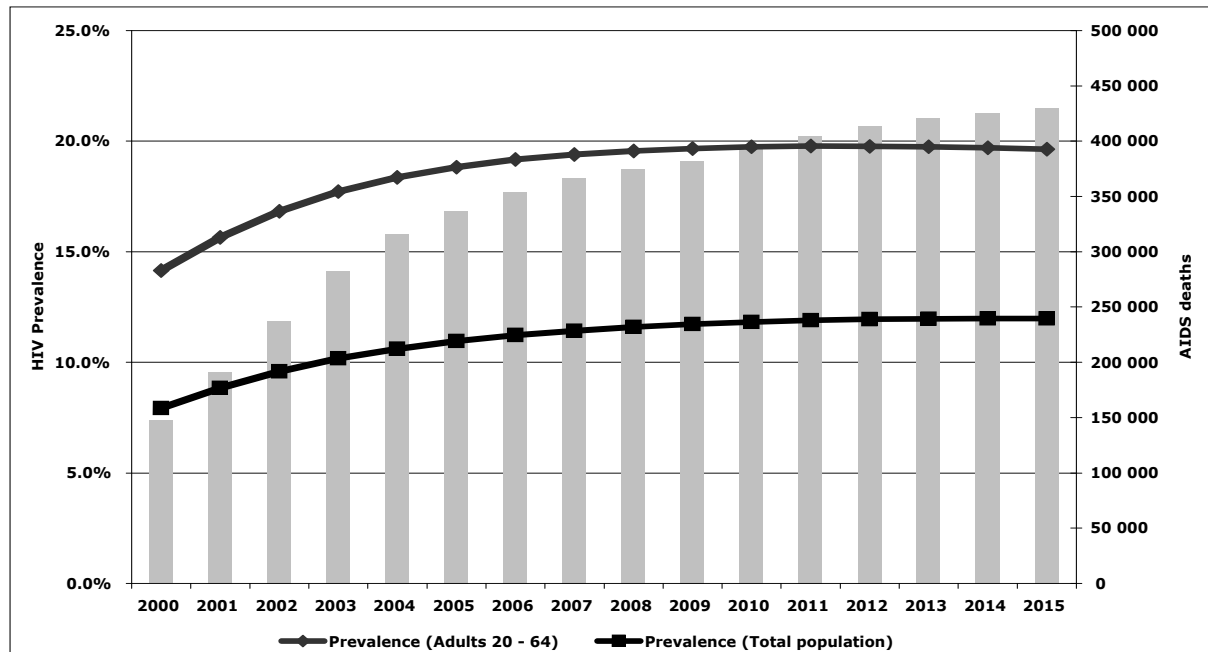
The question of whether SMME development can successfully contribute to redressing inequality remains a complex one – for example Rogerson (2004) suggests that SMME development should not be seen as the main agent for economic redistribution in South Africa. The structural distortions that apartheid caused in South Africa's dual economies left the country with a 'missing middle' in the lack of small formal-sector firms (World Bank, 2007:4), which has an adverse effect on economic growth. The increasingly capital-intensive first economy gives a greater potential role for smaller firms in job-creation (World Bank, 2007:4).

2.2.2 The HIV/AIDS challenge

South Africa is the country with the largest number of HIV-positive inhabitants in the world, and the prevalence rate (like in most Southern African countries) is extremely

high. It poses a serious challenge to poverty alleviation efforts, not least because cases are concentrated in the age groups most likely to be economically active, thereby exacerbating the impact of unemployment.

Figure 2.3: Long-term projections of HIV prevalence and AIDS deaths (ASSA2003)



Note:

Mortality projections do not assume widespread access to antiretroviral therapy. Such access could significantly reduce mortality rates.

Source: ASSA (2006)

Data on the prevalence and impact of HIV in the SMME sector is extremely limited. It is therefore difficult to assess precisely what the impact of HIV/AIDS is and will be on the SMME and informal sector (Vass, 2005:565). No data exists to support any conclusions as to the relationship between the size of an enterprise and susceptibility of its workforce to HIV. However, the particular demographic and skills profiles of SMMEs characterise them as highly susceptible (Vass, 2005:575). The inability of SMMEs to implement effective HIV/AIDS intervention programmes further increases the vulnerability of the sector. They are therefore highly reliant on the public sector antiretroviral treatment programme to ameliorate the impact of HIV/AIDS on them and their employees.

2.3 The policy, regulatory and institutional environment

2.3.1 Introduction

The government's SMME policy initiative was first outlined in a 1995 White Paper and, since then, various measures have been implemented to assist the development of the sector. In fact, South Africa has been at the forefront of developing pro-SMME policies (Rogerson, 2004:765).

Ten years after the 1995 White Paper, new issues arose which lead to the development of a refocused strategy from the Department of Trade and Industry. These issues include local economic development and black economic empowerment (Rogerson, 2004:766).

The policy instruments that are intended to positively impact on the SMME sector span the entire breadth of economic and social policy. Apart from the national SMME development programme articulated in the Integrated Small Enterprise Development Strategy, provincial SMME policies, skills development policy, sector development strategies (i.e. sectorally differentiated industrial policy) all have significant SMME development components.

2.3.2 The Integrated Small Enterprise Development Strategy (2005-2014)

In 2005, the Department of Trade and Industry released an Integrated Small-Enterprise-Development Strategy (**the dti**, 2005b), outlining the objectives for the period 2005-2014 and taking into account the successes and failures of the first ten years that followed the White Paper of 1995.

The strategy is based on three pillars, which specify the 'strategic actions' that form the core of the strategy:

- increase supply of financial and non-financial support services
- create demand for small enterprise products and services
- reduce small enterprise regulatory constraints (**the dti**, 2005b:4).

The first pillar (supply of support services) consists of streamlining resources from the public sector and encouraging ('crowding in') resources from the private sector. The second (demand for SME products and services) is to be driven by new policy initiatives, particularly procurement policy and BEE codes of good practice as levers for increased demand. The third pillar (reducing the regulatory burden) is to be achieved through a

regulatory impact assessment and business environment monitoring mechanism (**the dti**, 2005b:4).

2.3.3 SMME development institutions

The Integrated Small Business Development Strategy (**the dti**, 2005b:28) identifies a number of institutions that have important roles in the implementation of the strategy. These agencies (which include both dedicated SMME support agencies and institutions with broader and related functions) are **as follows**:

- o Small Enterprise Development Agency (SEDA)
- o South African Micro-Finance Apex Fund (SAMAF)
- o Khula Enterprise Finance Limited
- o Ntsika
- o Umsobomvu Youth Fund (UYF)
- o Small Enterprise Foundation (SEF)
- o Manufacturing Advice Centres
- o National Empowerment Fund (NEF)
- o Land Bank
- o Mafisa.

Some of these have operated more effectively than others, and the Strategy identifies the need to improve coordination both within government and between support agencies in order to improve implementation (**the dti**, 2005b:27). The SMME support agencies and institutions are discussed in greater detail below.

- o *The Small Enterprise Development Agency (SEDA)* was established in December 2004 through the enactment of the National Small Business Act of 1996, as amended. SEDA incorporated the Ntsika Enterprise Promotion Agency (Ntsika), the National Manufacturing Advice Centre Trust (NAMAC), the Community Public Private Partnership Programme (CPPP) and the Small Enterprise Human Development Programme. The purpose of SEDA is to support the development of small business in South Africa, to ensure a coordinated approach to the design and implementation of development support programmes and to create a service delivery network for small businesses throughout South Africa.⁵ SEDA specifically targets co-operatives in rural areas. Within SEDA is situated the Business Referral and Information Network (BRAIN), which seeks to improve the competitiveness and growth of small businesses in South Africa by providing relevant information.

5 <http://www.dst.gov.za/s-t-landscape/technology-transfer-and-innovation-support-services/SEDA>

- *The South African Micro-Finance Apex Fund (SAMAF)* is a wholesale funding model that includes the provision of capacity-building and skills development to selected financial services cooperatives, village banks and microfinance institutions. The capacity-building ensures that specialised non-financial interventions are provided to funded institutions. This assists them to perform more effectively in servicing the enterprising poor with micro-loans. Asset capital for the poor is strengthened through savings mobilisation models and the promotion of spending in social security products and activities (eg education, home improvements, affordable investment products and insurance products relevant to the needs of the poor). All of the above contribute to breaking/alleviating the poverty cycle.
- *Khula Enterprise Finance Limited* was set up in 1996 to help with the financial constraints faced by SMMEs (Karungu et al (2000:23). It provides financial support to small- and medium-size businesses through banking institutions and intermediaries. The objectives of this institution included improving the outreach and efficiency of alternative financial institutions, increasing bank lending to SMMEs at rates not inflated by unreasonable risk perceptions, stimulating the provision of start up and small scale equity products for SMMEs and expanding the number of small and medium-sized enterprises listed on the JSE. There are five components to its funding, namely:
 - funding for retail financial institutions (RFIs)
 - a credit guarantee scheme
 - equity capital.
 - gearing capital for public and private sector-specific funds targeting small enterprises in specific sectors.
- *Ntsika* was originally designed as a wholesale service provider and had as its cornerstone the Local Business Services Centre (LBSC) programme. At present, it
 - provides information for policy-makers on SMME development
 - is developing an effective Service Provider Network to improve services to SMMEs
 - liaises with SMME stakeholders
 - is involved in promoting the development of an entrepreneurial culture in South Africa.
- The *Umsobomvu Youth Fund (UYF)* was established in January 2001 with the mandate of promoting entrepreneurship, job creation, skills development and skills transfer among South Africans between the ages of 18 and 35. The Vision of

the UYF is 'to increase the involvement of young South Africans in our country's dynamic economy', its Mission is 'to make it easier and more achievable for young people in South Africa to get good jobs and develop valuable skills'. More specifically, the purpose of the UYF is 'the creation of effective youth programmes and to give young people what they need to create their own sustainable livelihoods' (www.uyf.org.za). The UYF targets youth co-operatives with at least 25% youth ownership, and also co-operatives run by women.

- *The Small Enterprise Foundation (SEF)* was established in 1992 to provide small loans to the very poor and unemployed people of rural Limpopo, using group-lending methodology. The methodology of group-lending closely follows that pioneered by the Grameen Bank of Bangladesh. The SEF uses two operational streams:
 - the Micro Credit Programme
 - Tshumisano Credit Programme.
- *The National Empowerment Fund (NEF)* was established to promote and support business ventures pioneered and run by historically disadvantaged persons. It helps such people to acquire shares or interest, directly or indirectly, in state-owned commercial enterprises that are being restructured, or in private enterprises. NEF finances new projects and expansions for a minimum of R250 000.
- *The Land Bank* is a statutory body with a mandate from the government to support the development of the agricultural sector. The Land Bank is one of few agencies that has historically supported the agricultural co-operative sector, and provides a comprehensive range of retail and wholesale financial products and services designed to meet the needs of commercial and developing farmers and agriculture-related businesses.
- *MAFISA* was established to contribute to the working poor's ability to run existing agricultural businesses, to start new ones and to be able to develop these businesses into fully commercial operations. MAFISA drives and facilitates the development of financial services, intended to contribute to developing very small and micro level farmers, farm workers, farm tenants, small landholders, landless emerging farmers, processors, micro-entrepreneurs and the working poor.

Until 2004, in addition to Khula and Ntsika, *the Manufacturing Advice Centres* constituted the third leg of **the dti's** small business support programmes (Devey et al, 2006:13). Their purpose was to offer sector-specific advisory services to manufacturing SMMEs to

enable them to increase their productivity and to improve their international competitiveness.

2.3.4 Skills Development for SMME Development

The policy context

Post-apartheid skills policy is expressed in the National Skills Development Strategy (NSDS) – now in its second iteration for the period 2005 – 2010, often referred to as 'NSDS II' – as well as the new institutional arrangements with which it is associated, namely the National Skills Authority, National Skills Fund and the Sector Education and Training Authorities (SETAs) established by the Skills Development Act of 1998. These are viewed by Kraak (2004a:117) as primarily an attempt to address incoherence in skills development and enterprise training activities. Learnerships, as the primary form of workplace training aimed at providing workplace learning in a more structured and systematic form, together with the levy-grant system, which makes industry investment in skills development compulsory, are key elements of the new institutional arrangements. Most SETAs have specific skills development programmes for SMMEs.

JIPSA initiatives on SMMEs

In March 2006 the Joint Initiative on Priority Skills Acquisition (JIPSA) was launched, aiming to develop the skills identified by ASGISA as an immediate priority. JIPSA is a short to medium-term initiative, with an envisaged life span of only three years and aiming to relieve critical skills shortages in a number of areas, including skills for infrastructure development, public service delivery, ICT skills and for the ASGISA priority sectors. In addition, JIPSA specifies that skills development must benefit SMMEs within these priority sectors. However, it is still too early to ascertain to what extent JIPSA programmes have indeed succeeded in developing skills appropriate for SMMEs. Despite ASGISA's identification of the second economy and SMMEs as one of six priority areas, the JIPSA progress report published in March 2007 makes very limited reference to SMMEs, focussing instead on the skills areas (such as Engineers, Artisans, etc.) where skills shortages are most acute and on short-term interventions to address those shortages.

However, in the case of Tourism – identified as a priority sector – the report indicates that the JIPSA Task Team set as a milestone the development of SMME and community participation in education and training, through the establishment of specially-designed training programmes. The Tourism, Hospitality and Sport SETA have been tasked with

leading the task team, ensuring that these programmes are in place by the end of June 2007 (Presidency, 2007b:18).

2.3.5 Sector development strategies

ASGISA identifies a group of sectors which are regarded as ripe for development. These so-called 'priority' sectors are seen as having 'a range of comparative economic advantages which, if fully exploited, would lend themselves to higher rates of economic growth' (**the dti** in Rogerson, 2007a:1). The ten sectors are divided into three categories, namely:

- tourism
- business process outsourcing and off-shoring
- creative industries.

Rogerson (2007a:22) argues that a need exists for the Customised Sector Programmes to incorporate issues of SMME development. Such integration is currently lacking, partly because there is an uneven understanding of the specific issues regarding SMME development across the sectors.

2.3.6 Other SMME development initiatives

The Expanded Public Works Programme

The Expanded Public Works Programme (EPWP) was announced by President Mbeki in his State of the Nation Address in February 2003 with the aim of directly absorbing a significant number of unemployed people into productive employment. The Programme also contains a training component aimed at increasing the ability of participants to earn an income beyond their participation in the programme. Public works programmes are one of the two main active labour market policies pursued by the South African government to alleviate unemployment, the other being skills development (Kingdon & Knight, 2007:836).

The EPWP consists of four programmes:

- an infrastructure programme (civil works projects)
- an economic programme (entrepreneurship learnerships and SMME development)
- an environmental programme
- a social development programme.

(See sector-based SMME programmes in 2.3.5.)

Local Economic Development and Local government support

Local government support represents an important element of SMME development (Rogerson, 2006:54). These support initiatives have included affirmative public procurement, assistance for promoting local clusters of SMMEs, the establishment of business incubators as an infrastructure support measure, new frameworks for informal economy entrepreneurs and the establishment of local advice or support centres designed to nurture entrepreneurship and to advance existing SMME entrepreneurs.

The South African Cities' Report of 2006 cites the creation of Local Economic Development (LED) capabilities, specifically indicating that SMME development is an area where economic development strategies have been most effective. The report indicated the existence of governance and effectiveness problems, however, and concerns were expressed about efforts to support non-sustainable SMMEs (SACN,⁶ 2006:4).

Rogerson (2007a:1) argues for the introduction of industrial clusters, either based on geographical or industry concentration, as a means of increasing the prospect of competitive growth of SMMEs in South Africa. It is widely accepted that clusters provide an enabling environment that ensures the sustainability and growth of entrepreneurs which otherwise would probably not have succeeded (Rogerson, 2007a:2).

The United Nations Industrial Development Organisation's (UNIDO) approach to cluster support for small firms in developing countries focuses on three specific factors:

- Enterprise development – helping existing groups of firms to upgrade and new ones to emerge
- Business environment – in terms of promoting Business Development Services (BDS) that channel information and services to local firms
- Local governance – in terms of facilitating co-operation amongst firms and developing cluster-wide institutions. (UNIDO, in Rogerson, 2007a:6)

Official Development Assistance (ODA)

Before 1994, ODA was primarily channelled to non-governmental organisations (NGOs) and anti-apartheid organisations, while post-1994 ODA is channelled mostly in support of the government and its developmental projects (Karungu et al, 2000:1). In this context, private sector and specifically SMME developments have emerged as a major attractor of ODA. In the period between 1994 and 1999, around 160 projects were donor-funded in the SMME sector. Government agencies that have partnered the donors include Khula,

⁶ South African Cities Network

Ntsika, the Development Bank of South Africa (DBSA) and the Council of Scientific and Industrial Research (CSIR) (Karungu et al, 2000:22).

The European Union (EU) and the Industrial Development Corporation (IDC) have recently launched a R450 million-fund for the development of emerging small businesses in South Africa (www.southafrica.info). This follows reports that the IDC is lending finance to more franchises than ever before. From April to July 2006, the IDC lent R86 million to 68 franchises (SBP⁷, 2006:8).

BDS and private sector SMME support

The role of the private sector has received increasing attention in promoting the SMME sector, notably from people within the private sector itself. SMMEs are seen as a means of developing a dynamic private sector, increasing exports and enhancing industrial competitiveness. In addition, it is hoped that SMMEs in South Africa will play a role in ensuring equitable development. What is more, SMMEs make up the largest segment of firms in the private sector, and therefore their development can only provide a further boost to the sector.

International experience shows that BDS (Business Development Services) is essential for SMME development. 'After experimenting for decades with small-scale subsidized programmes having only a modest impact, the international experience in the field of BDS shows that there is occurring a 'paradigm shift' with the emergence of new high impact strategies that can reach large numbers of businesses in a sustainable manner' (Rogerson, 2006:57). The aim is to develop effective markets for private sector providers who offer services enabling SMMEs to develop and compete.

In South Africa, SMME development has tended to be anchored in the paradigm of state-delivery of subsidized support services, with little debate about the market development approach (Rogerson, 2006:68). A number of international donor agencies have tried to erode this neglect of the market development approach for BDS in South Africa, notably the German Technical Co-operation (GTZ) and USAID. GTZ has, for example, funded two large research investigations in Nelspruit and Queenstown, designed to collect the first empirical information on the state of local markets for commercial BDS provision in the country. The best documented BDS initiative to date in South Africa has been the project of the Triple Trust Organisation (TTO) in support of spaza retailing (Rogerson, 2006:70).

⁷ Small Business Project

Tourism Enterprise Programme

The Business Trust is a partnership between the government and the business sector aimed at 'stimulating employment, building capacity and enhancing trust' (www.btrust.org.za). An example of this is the Tourism Enterprise Programme, which is run in conjunction with the Department of Environmental Affairs and Tourism and focuses on helping to establish new SMMEs in the tourism sector. With a budget for the period 2000 to 2010 of almost R340 million, this is a substantial SMME support programme. To date, more than 4000 enterprises have been assisted in the tourism enterprise programme of the Business Trust (www.btrust.org.za).

Banks

The relationships between the major banks in South Africa and SMMEs have not always been easy (CDE, 2004:52). Banks have been criticised for being overly cautious, even though the major financial players have established a micro-lending arm targeting small businesses. Like Khula, many banks have found the lack of capacity to provide aftercare mentoring to be a major constraint. A distinction should be made however between banks' relationships with small and medium businesses, and their relationships with micro or very small enterprises (CDE, 2004:53). Lending to small and medium enterprises is profitable and these businesses seldom experience difficulty in obtaining loans. The cost of making a loan to micro enterprise is disproportionate to the typical size of the loan, however, and micro entrepreneurs are often unable to cover these costs.

2.3.7 Provincial SMME development policy

There is significant variation between the provinces regarding the degree to which SMME development receives attention in provincial policy documentation. Most provinces make reference to SMMEs in major economic development policy documents such as provincial Growth and Development Summit declarations and Growth and Development Policies, youth development policies, etc. A comparative analysis is beyond the scope of this report, but a detailed look at KwaZulu-Natal is presented in Chapter 4.

2.3.8 Co-operative Development Policy

The motivation for a Co-operative Development Policy

Since the advent of democracy, the Government has increasingly acknowledged the value of co-operatives as enterprises and organisations inspired by solidarity to ensure greater black participation in the mainstream economy, especially participation by

persons in rural areas, women, persons with disability, and youth. This resulted in the publishing of the *Co-operative Development Policy* in 2004 (**the dti**, 2004), followed in 2005 by the Co-operatives Act (*Government Gazette*, 2005). At present the *Integrated Strategy on the Promotion of Co-operatives and Collective Entrepreneurship* is being formulated (**the dti**, 2008).

The Co-operative Development Policy focuses largely on emerging co-operatives that are owned by black entrepreneurs, in contrast with established co-operatives that are operating mainly in agriculture and, to a large extent, controlled by white South Africans (**the dti**, 2004:6). The Government views the co-operative model as instrumental in:

- reducing the disparities between urban and rural businesses, this being conducive to entrepreneurship
- contributing to the country's economic growth
- increasing the number and variety of economic enterprises operating in the formal economy (**the dti**, 2004:5).

It is further argued that the co-operative model has the potential to enhance the small business competitiveness nationally and globally in accessing opportunities through its comparative advantage of economies of scale, synergies, increased bargaining power, joint innovation, member involvement and stability (**the dti**, 2004:11).

According to Ramadiro, Mavundla and Seohatse (2004:12-13), other explanations also account for the resurgence of the co-operative movement in South Africa:

- Poor South Africans have always used collectives in communal and subsistence agriculture, or in urban areas 'stokvels'. The implication hereof is that the renewed focus on co-operatives can be seen as a continuation or extension of existing experiences with collectives.
- The recent interest in co-operatives or common ownership amongst poor and unemployed people in South Africa is a direct and often spontaneous response to unemployment.
- The success of agricultural co-operatives, in particular, has helped to put the idea of co-operatives on the agenda of governments and international and national development agencies.
- Co-operatives are a materialisation of the notion of 'bottom-up development'.
- The co-operative sector makes it possible to envisage small businesses outside of the conventional SMMEs concept (ie it provides an alternative income generation strategy).

Given the strategic importance of co-operatives in the light of the above, the *Integrated Strategy on the Promotion of Co-operatives and Collective Entrepreneurship* proposes a prioritisation of support programmes for co-operatives, based on the size category of co-operatives. Table 2.1 summarises the essence of this prioritisation.

Table 2.1: Prioritisation of support programmes for co-operatives

Market segment	Support programme	Significance (priority)
Pre-formation	<ul style="list-style-type: none"> Co-operatives Promotion and Awareness Support Programme 	Highest significance
Survivalist co-operatives (Revenue < R300 000)	<ul style="list-style-type: none"> Micro Finance (through SAMAF) Start-Up Grant (Through Co-operatives Incentive Scheme by TEO) 	Highest significance
Micro co-operatives (Revenue between R300 000 and R5 million)	<ul style="list-style-type: none"> Micro Finance (through SAMAF) Start-Up Grant (Through Co-operatives Incentive Scheme by TEO) Infrastructure Support Programme (Through Municipalities) 	Higher significance
Small co-operatives (Revenue between R5 million and R35 million)	<ul style="list-style-type: none"> Start-Up Grant (Through Co-operatives Incentive Scheme by TEO) Co-operatives Special Projects Fund (through Khula) Khula Direct Retail Funding Enterprise Networks Programme (through SEDA) Infrastructure Support Programme (Through Municipalities) 	High significance
Medium Co-operatives (Revenue between R35 million and R50 million)	<ul style="list-style-type: none"> Co-operatives Special Projects Fund (through Khula) Start-Up Grant (Through Co-operatives Incentive Scheme by TEO) Khula Direct Retail Funding Enterprise Networks Programme (through SEDA) 	Lowest significance

A Co-operative Development Unit (CDU) was further established, with the Registrar of Co-operatives' office being located in CIPRO. The functions of registration and de-registration of co-operatives, according to the Co-operative Development Policy of 2004, 'shall be decentralized to provinces in order to facilitate rapid, simple, affordable and efficient procedure' (**the dti**, 2004:15).

The role of the CDU is multiple and includes the areas of policy, legislation, coordination, promotion and implementation as follows (**the dti**, 2004:15):

- *Co-operative Legislative Framework, Policy and Strategy*: This is the focal point for reviewing policies and strategies and addressing barriers to co-operative development in partnership with stakeholders, ensuring that matters related to co-operative development are treated on the basis of wide consultations with the Government's partners.
- *Coordination*: This encompasses:
 - co-ordination of the various Government institutions dealing with co-operative enterprises

- co-ordination of donor initiatives in the area of co-operative development.
- o *Education and Training:* This involves designing uniform training materials for the co-operative sector involving relevant government programmes.
- o *Promotion:* This is:
 - the provision and management of non-financial and financial co-operative support services
 - the management of privileges and incentives for co-operatives
 - the collection, analysis and dissemination of statistics related to co-operative development
 - the facilitation of access to markets
 - the facilitation of access to credit
 - the promotion of the concept and practice of co-operatives.
- o Registration and de-registration of co-operative enterprises through CIPRO.

Statistics produced by the Registrar of Co-operatives are presented in Section 3.6.

The defining characteristics of co-operatives

Co-operatives are autonomous self-help organisations controlled by their members. They are associations of people who agree to be the owners, the makers of democratic decisions and the users of their joint enterprise (**the dti**, 2004:8-9).

A co-operative differs from a company and private enterprise in terms of the economic participation of its members. Specifically, these differences are:

- o The primary aim of a co-operative is to provide services to its members at affordable prices, or to create employment for its members.
- o Any services provided by a co-operative must be provided mainly to its members.
- o Members contribute to the 'capital' of their co-operative and control the economic affairs of the co-operative in a democratic way.
- o Members do not usually receive a big return on the amount they contribute to the capital of the co-operative as a condition of membership.
- o If the co-operative has money left over after it has paid all its debts and taxes and provided the planned benefits to its members, this is called a 'surplus'. The surplus is normally used mainly to develop the co-operative.
- o Any surplus that is returned to the members must be shared in proportion to the contribution each member made to the surplus (**the dti**, 2005a:3-4).

A distinction can be made between primary, secondary and tertiary co-operatives (**the dti**, 2004:7; Government Gazette, 2005:24):

- A (primary) co-operative is an autonomous association of five or more persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.
- A secondary co-operative is a co-operative formed by two or more primary co-operatives to provide services to its members. The purpose of a secondary co-operative is to help primary enterprises serve their members more effectively and more comprehensively. They provide services such as auditing, training, bookkeeping and advice.
- Primary and/or secondary co-operatives may form a tertiary co-operative of a specific sector or regional area. The main objectives of a tertiary co-operative must include advocating and engaging organs of state, the private sector and stakeholders on behalf of its members.

The relationship between co-operatives and SMMEs

Co-operatives range in size from small business to large corporations, and from non-profit service organisations to large trade associations (Ramadiro, Mavundla & Seohatse, 2004:9). The Co-operative Development Policy deals largely with the promotion and support of developing/emerging co-operative enterprises, which include small, medium, micro and survivalist co-operative enterprises (**the dti**, 2004:4). Accordingly, the Integrated Strategy on the Promotion of Co-operatives (which is currently being formalised) classifies co-operatives into four categories, in terms of revenue (**the dti**, 2008):

- Survivalist co-operatives (Revenue < R300 thousand)
- Micro co-operatives (Revenue between R300 thousand and R5 million)
- Small co-operatives (Revenue between R5 million and R35 million)
- Medium co-operatives (Revenue between R35 million and R50 million)

Co-operatives can, moreover, be created by the conversion of a conventional private enterprise into a co-operative. Co-operatives can also be established by members that have their own enterprises. In such cases, members use the jointly owned co-operative enterprise to obtain goods and/or services required for their enterprises (**the dti**, 2004:8). Also, the idea behind the Co-operative Development Programme is that it will encourage co-operatives eventually to become SMMEs (Gijima, 2006:6).

Lastly, all Government support programmes for small and medium enterprises are extendable to co-operative enterprises, taking into account the specific characteristics of and differences between such enterprises (**the dti**, 2004:17).

Institutional arrangements for the implementation of enterprise development support to co-operatives

Examples of agents providing financial and other support to co-operatives in specific follow.⁸

Financial support

The dti is mandated to provide financial support to co-operatives through the provision of start-up grants, assistance with financial audits and management of a special projects fund that target co-operatives. In March 2006 it set aside R3.9 million for start-up grants, which are dispersed to co-operatives in the initial phase of their development.

The start-up grant is an especially important financial instrument because commercial banks have been wary of extending development finance to co-operatives. The grant allows **the dti** to finance up to 90% (to a maximum of R300 000) of start-up costs, with the co-operative responsible for securing the remaining 10%.

The CDU manages a special projects fund for co-operatives. The unit also has funds available to assist co-operatives with financial audits and compliance, training, and administration. These funds can be sourced only once a business plan and other deliverables are in place.

Non-financial support

The **Co-operative and Policy Alternative Center (COPAC)** was established in 1999 to contribute through bottom-up practices to reconstruction and development in post-apartheid South Africa. It has committed itself to building capacity among poor communities to achieve self-reliant, collectively-driven, sustainable and participatory development.

COPAC's objectives are as follows:

- o The development of a co-operative movement and sector in South Africa
- o The promotion of alternatives that meet the needs of workers, the poor, women and youth

Co-operative sector support

This comes from the following:

- o *The Savings and Credit Co-operative League of South Africa (SACCOL)*. This is a sectoral body which represents SACCOs locally and internationally. It comprises

⁸ This section is based on a report produced by the Growth Laboratory (G'Lab, 2008:30-33). **the dti** has commissioned G'Lab to conduct a baseline study of co-operatives in South Africa.

40 SACCOs with over 5 000 members and an asset value of R60 million. Its support services for affiliated SACCOs include:

- development services kits/ training resources to assist SACCOs with start-up and organising
- targeted grant support
- training services such as long distance education modules, provincial forums, national manager training, an e-library and continental and international training program links
- services such as in-house software, loan products and a central financing facility
- a set of regulatory tools and examination services to monitor standards and operations of SACCOs.

o *The South African Housing Co-operative Association (SAHCA)*. This is the sectoral body for housing co-ops. It has 50 housing co-ops and 12 500 members. It supports affiliated housing co-ops by:

- engaging with government at various levels about policies in the housing sector
- developing important international and national partnerships to strengthen its capacity to support housing co-ops.

o *Support from NGOs*. In addition to the sectoral bodies mentioned, various NGOs have over many years supported the development of co-operatives by providing training and development services, research, funding and technical advice. These include:

- Eco-City Trust
- CBDC-Fort Hare University
- Social Housing Foundation
- Labour and Enterprise Policy Research Group
- Workers College
- Environmental Monitoring Group
- YEBO Co-operative
- COSATU Job Creation Fund
- the Dora Tamana Centre.

2.4 Trends and performance analysis

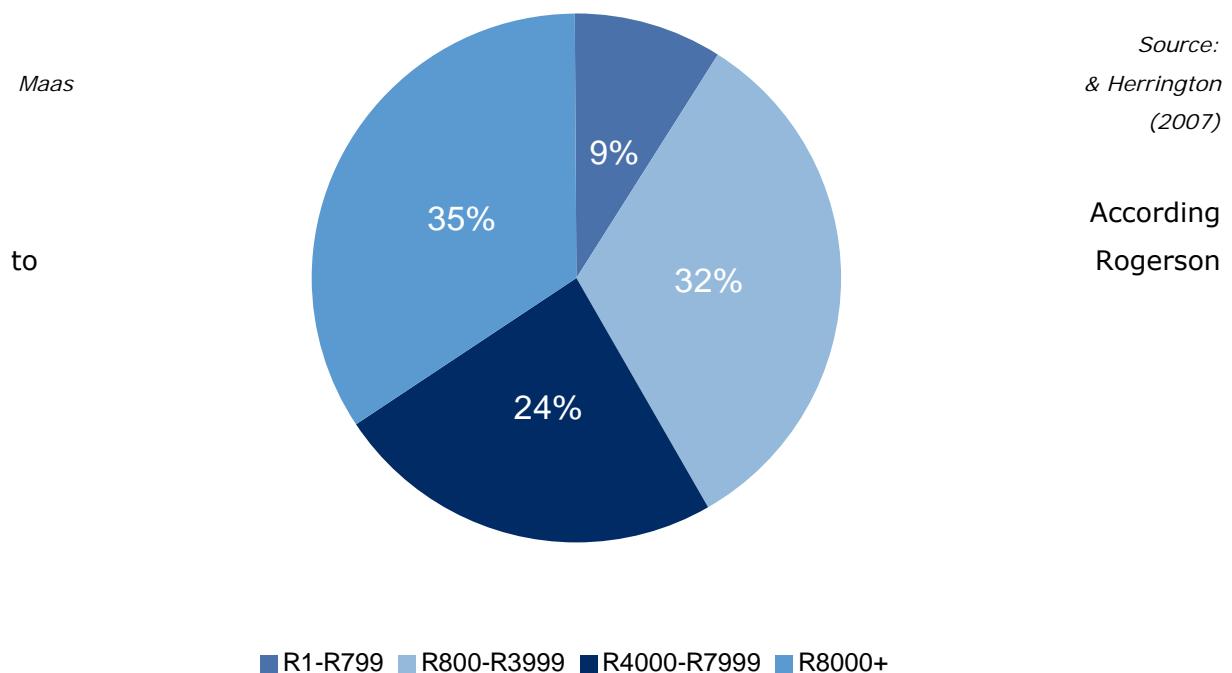
2.4.1 Small business contribution to production and employment

This section provides an overview of existing literature on SMME trends and performance and gives the context for the statistical profile that is presented in Chapter 3.

Jeppeson (2005:467) found that the tertiary sector makes up 77% of all SMMEs, employing 57% of the workforce and that around 12% of SMMEs operate in the secondary sector, employing 21% of the workforce. Most SMMEs are found in four provinces: Gauteng, KwaZulu-Natal, Western Cape and Eastern Cape.

The 2006 GEM⁹ report indicates that the largest numbers of TEA respondents (ie respondents to the GEM survey that take part in the activities falling under their definition of Total Early-stage Entrepreneurial Activity) fall within the monthly income categories of R800 - R3 999 and R8 000 and more, indicating that a significant proportion of entrepreneurs have difficulty increasing their income.

Figure 2.4: Monthly income distribution of entrepreneurs (GEM respondents)



(2004:770), small enterprises constitute the most significant SMME employer (although, as Rogerson indicates below, this does not mean they make up the majority of enterprises), with 21% and medium-sized enterprises accounting for 18% of

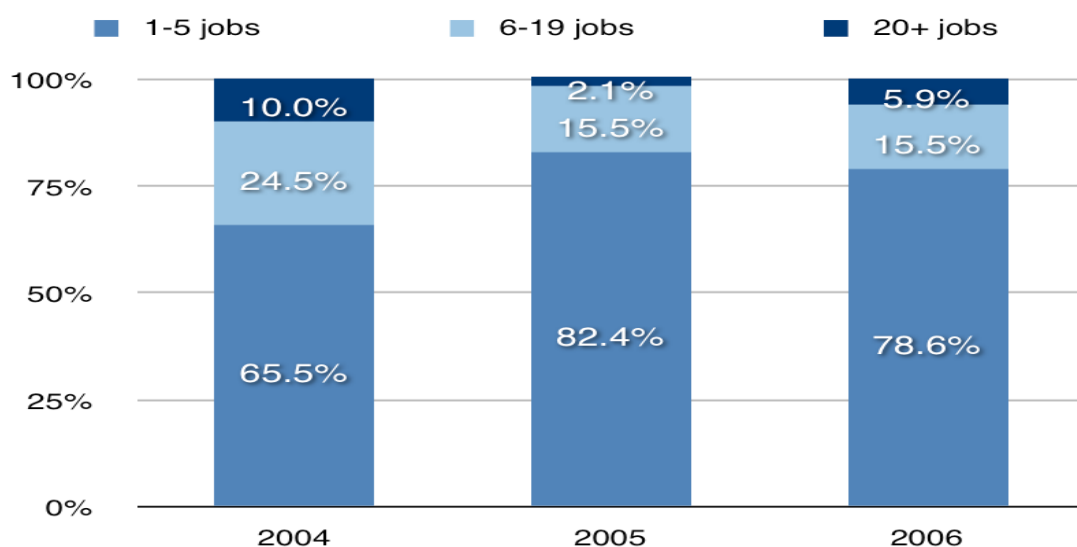
9 The Global Entrepreneurship Monitor report is a comprehensive survey of entrepreneurial activity in South Africa and covers all sectors of the economy. It uses three main sources of data:

- face-to-face in-depth interviews with 'key informants'
- an adult population survey of a sample of more than 3000 individuals
- other secondary data (collected from World Bank reports, etc.) other secondary data (collected from World Bank reports, etc.) (Maas & Herrington, 2007:7).

employment. Micro-enterprises provide employment for 17%, while large enterprises make up the majority (44%) of employment.

The majority of South Africa's SMMEs are micro- and survival enterprises, however (Rogerson, 2004:770). These businesses show little sign of enterprise growth. Research in South Africa indicates that entrepreneurs do not always choose to increase employment (Kesper, 2000:24). This trend is confirmed by the GEM's survey of entrepreneurs, which indicates that in 2006 a mere 4.8% of respondents expected to hire additional staff (and a similar percentage in previous years). Of those expecting to generate employment, only a small percentage planned to hire substantial numbers of workers, as indicated in the graph below (Maas & Herrington, 2007:24).

Figure 2.5: Number of jobs intended among entrepreneurs expecting to create jobs

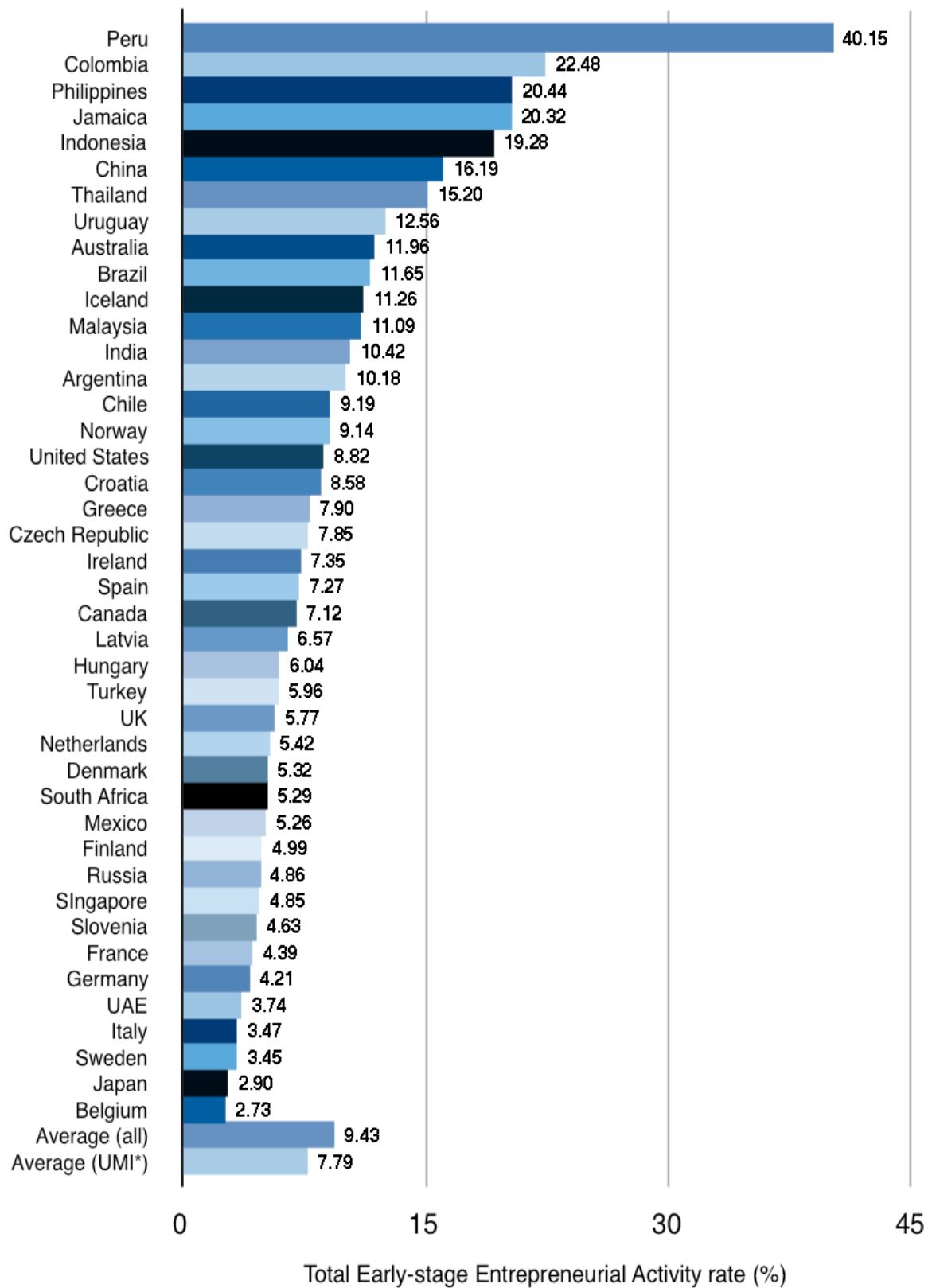


Source: Maas & Herrington (2007)

2.4.2 Small business performance

According to the GEM 2006 survey, South Africa's Total Early-stage Entrepreneurial Activity rate (TEA) is below the average of all other countries, even though the list of countries represents countries at different levels of development (Maas & Herrington, 2007:16). Based on World Bank classifications, the report places South Africa in the 'upper-middle income countries' group, and even here South Africa performs below average. In the past, South Africa was compared with developing countries, which show an average TEA rate of 14,80%. The 2006 report puts South Africa's rate at an alarming 5,29%, a discrepancy that certainly deserves urgent attention. What is more, the 2006 report indicates that South Africa's position has not improved since it was first included in the GEM studies in 2001.

Figure 2.6: Total Entrepreneurial Activity: international comparison (GEM ranking)



Source: Maas & Herrington (2007)

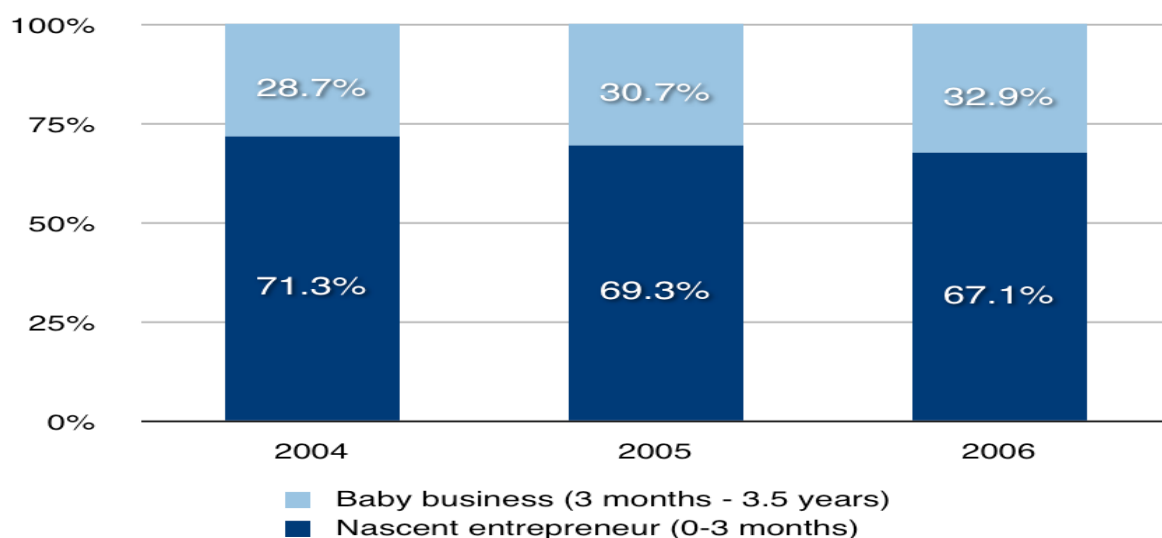
The GEM study differentiates between opportunity entrepreneurs and necessity entrepreneurs (GEM, 2006:18). The former are people who take advantage of a business opportunity, while necessity entrepreneurs have no better options for work. South Africa's TEA opportunity index of 3,47% is far below the average of 6,82% of all countries. Even when South Africa is compared only with countries in the upper-middle income bracket, it remains below the average.

2.4.3 Entrepreneurial dynamism

Entrepreneurial dynamism refers to the physical, intellectual and financial abilities that affect the success of the entrepreneur. In short, these are the skills necessary in order to make a success of a business venture. Perks and Struwig (2005:172-173) identify four categories of skill necessary for an entrepreneur to start a successful business: personal skills, technical skills, business operations skills and management skills. The 2006 GEM report points out that entrepreneurial dynamism, or 'capacity' as it is referred to in that report, is one of the most underdeveloped areas in the South African entrepreneurial landscape (Maas & Herrington, 2007:12).

Given these findings, it is perhaps unsurprising that South Africa has a very high rate of business failure, with an estimated 40% of new business ventures failing in their first year, 60% by the second year and 90% within the first 10 years of existence (Radipere & Van Scheers, 2005:402). This is confirmed by the GEM report's finding that the vast majority of businesses remain in the nascent phase. The breakdown for new entrepreneurs responding to their survey is given in the graph below.

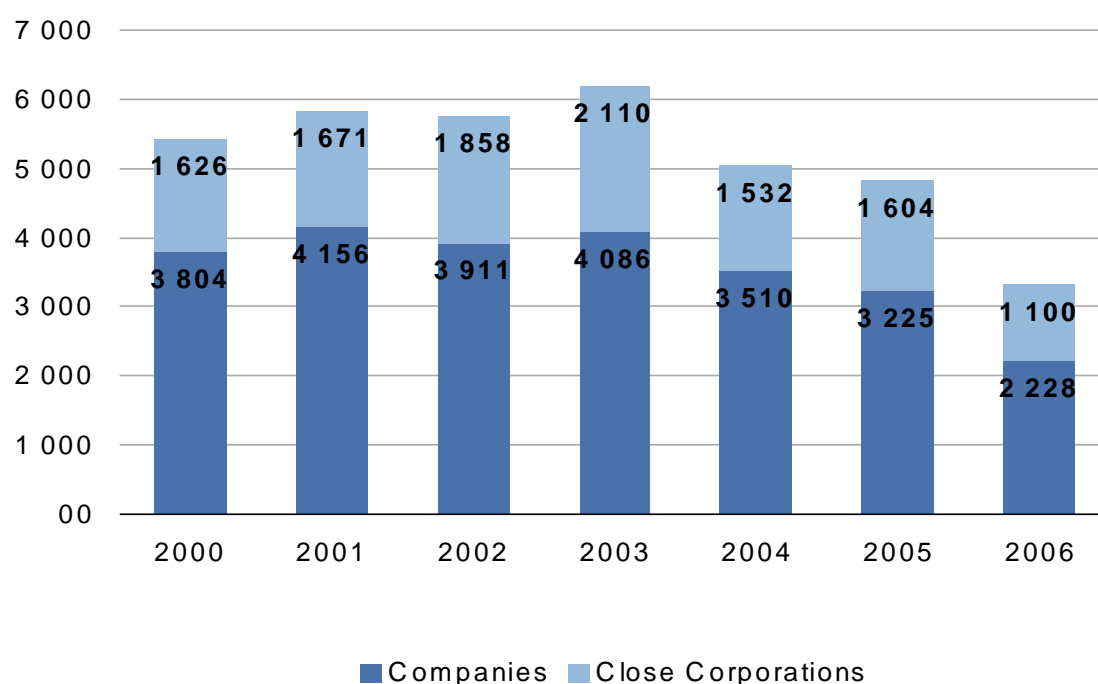
Figure 2.7: Stage of activity – new entrepreneurs (GEM respondents)



Source: Maas & Herrington (2007)

In 2006, there was a total of 2 228 liquidations, of which 1 100 were companies and 1 128 close corporations (Maas & Herrington, 2007:27)¹⁰. This shows a significant decline compared to the figures of 2000-2005, an encouraging trend, which is also reflected in statistics on insolvencies.

Figure 2.8: Liquidations of companies and close corporations: 2000 to 2006



Source: Maas & Herrington (2007)

It has been suggested (see Radipere and Van Scheers, 2005; Maas & Herrington, 2007) that this high rate of failure may be because so many enterprises are born out of a survival strategy, rather than because of an inherent inadequate entrepreneurial dynamism. Radipere and Van Scheers (2005:403) suggest that a lack of managerial skills may also significantly influence these numbers.

2.4.4 Entrepreneurial opportunity

Entrepreneurial opportunity refers to the external factors influencing the capacity of SMMEs to survive and grow. Market saturation, business opportunity, access to finance and public perceptions are all factors impacting on entrepreneurial opportunity.¹¹ The GEM study regards entrepreneurial opportunity as one of South Africa's major strengths,

¹⁰ These liquidation figures are based on calendar year periods. The liquidation figures contained in the statistical profile of this report are based on financial year periods.

¹¹ The GEM uses the term 'entrepreneurial opportunity' – as opposed to 'entrepreneurial necessity' – to refer to entrepreneurs who were pro-active in entering the market, rather than entering as a means of survival. Elsewhere in the report, the GEM indicators on opportunity and necessity are discussed.

as there seem to be enough business opportunities to be exploited (Maas & Herrington, 2007:12).

In the South African context, a distinction can be made between opportunity entrepreneurship, which is the result of finding a niche in the market, and necessity entrepreneurship, which is often characterised by a lack of business experience, skills and resources needed for such a venture (Van der Walt et al, 2004:190). The result, we have seen, is not only a high level of business failure, but also entrepreneurs often ending up with an income below the poverty rate, as is indeed the case with 45% of South Africa's self-employed people.

The GEM research suggests that South Africa's survival rate for local start-ups is low and, even more significantly, that the opportunity for entrepreneurial activity is the lowest of all participating developing countries (Maas & Herrington, 2007). It also shows that entrepreneurship is not well-supported in the South African community and that the stigma of failure is such that it inhibits people from venturing into the sector or from taking calculated risks in furthering their businesses.

In 2007, the Centre for Development and Enterprise (CDE) interviewed Sowetan entrepreneurs in an effort to formulate a clear idea of what the real obstacles to their success are. The following factors were cited as the major obstacles to business growth:

- crime
- infrastructure
- informality and regulation
- corruption
- labour problems
- increased competition
- negative public perceptions (CDE, 2007b:5-6).

The regulatory burden on small business development remains an issue. The Small Business Project (SBP) embarked on a study in 2006 calculating the regulatory costs of the tourism industry. It was found that compliance costs for companies in this sector tended to be up to three times higher than for other businesses (SBP, 2006:75). As the tourism sector is predominantly made up of SMMEs, there is a perception amongst the larger firms that non-compliance is rampant, which leads to some frustration from the firms who took the time and financial resources to comply with the regulations.

The SBP survey showed that 40% of small firms report constraints on growth as a result of the regulatory burden from the state.

The following are examples of the reasons cited for the reluctance to take on more staff:

- regulations, including burdensome and inappropriate labour laws
- time-consuming labour regulations
- the cost of skills development including the appropriate levy and THETA (Tourism, Hospitality and Sports Education and Training Authority) requirements.

In terms of finance, current government policies are underpinned by the objective of providing credit from formal sources. However, the application of this policy has had disappointing results, largely because of the inadequacy of the organisations charged with distributing funds.

It can be concluded that South African business owners are attempting to survive in an environment that is not conducive to entrepreneurship. It should be noted that small business entrepreneurs complain of the same constraints as their counterparts in larger businesses. Regulatory and institutional challenges and access to finance are key constraints repeatedly identified in the literature.

2.4.5 SMMEs in the informal and formal sectors

If informal enterprises are to develop into businesses that can really grow and provide significant employment, they will have to 'step up' to the formal economy. At the same time, the informal economy is able to provide important services and products to the formal economy, and vice versa. It is therefore important to know the extent of interaction between the two sectors, and whether they are indeed stimulating each other economically. In order to provide such an analysis, the difficult task of defining the informal sector needs to be addressed first.

Contrary to many predictions of economists world-wide, the informal economy did not disappear but instead has expanded significantly globally and 'emerged in new guises and in unexpected places, such as even on the streets of developed countries' (Rogerson, 2007d:2). This has led to renewed interest in the sector over the last decade.

The informal sector in South Africa is of greater significance than in many other countries because it has to a large extent provided a safety net for many people in the country who would otherwise not have been provided for by the formal economy. In 1997, it was estimated that 61% of the sub-Saharan African labour force was active in the informal sector, while the ILO indicated that the informal economy was responsible for over 90% of new urban jobs in Africa during the 1990s (Rogerson, 2007d:21).

It may be argued that South Africa needs to encourage its enterprises to move from the informal to the formal economy, for a number of reasons. As we saw above, many of the government programmes aimed at enterprise development never reach the informal businesses precisely because they are unregistered. What is more, although the informal sector may provide new jobs on a regular basis, because of the lack of development potential of a sector characterised by survival employment and illegal activity, it can be argued that the sector is not contributing as much to economic growth and employment creation as it could be.

On a municipal level, significant policy has been formulated to support the growth of the 'second economy', but guidelines remain incoherent and interventions subsequently ad hoc (SACN, 2006:48). The debate between pro-poor and pro-growth strategies have not been settled, it seems, with some South African cities – notably Johannesburg – focusing on growth, while others are targeting mainly second economies. Most cities accept that there is some overlap between their interventions for the first and second economies. The city of eThekweni, for instance, has positioned itself to compete globally while also promoting its second economy through small business support, community tourism and by providing township business centres (SACN, 2006:49) (see also Chapter 4).

The trends in the informal economy measured by employment data suggest continued growth in the period 1996-2001, although there has been evidence of a fall in recent years (Rogerson, 2007d:6).

2.5 Concluding comments

SMMEs make a substantial contribution to GDP and an even greater contribution to employment (see Chapter 3, where the Statistical Profile is presented). However, most SMMEs are micro and survival enterprises, with little potential for growth. Surveys (eg Maas & Herrington, 2007) indicate that very few SMME proprietors aim to hire additional staff and that South Africa performs below average in measurements of entrepreneurial activity.

South African SMMEs are also less than dynamic, with a majority of enterprises remaining in the nascent and 'baby business' phases (less than 3.5 years in existence). A high rate of liquidations further corroborates the evidence that performance is less than satisfactory. Research by the Global Entrepreneurship Monitor (GEM) confirms that the survival rate for start-ups is low and that the opportunity for entrepreneurial activity is the lowest of all the reviewed developing countries.

It is as yet unclear just how well individual SMME programmes are functioning and they are not as well-linked as they could be. The result is that rather than it being clear to an entrepreneur or prospective entrepreneur where support services can be accessed, it is a 'hit-or-miss' situation where they may or may not be reached by particular programmes run by separate institutions. It is therefore imperative that a mechanism is developed to coordinate the various interventions and programmes – preferably through a single national programme.

The regulatory environment remains not only one of the most important factors impacting on the growth of small businesses, but also a matter of great complexity, as it aims to balance various tensions. As an example, this complexity is reflected in labour regulation being identified by many small business owners as a major obstacle, yet deregulation remains out of the question.

SMME development is key to the government's aim of halving unemployment by 2014. Many commentators have expressed reservations regarding the potential of the sector to indeed fulfil this role. There are important external factors that have attributed to the failures, notably government support programmes not reaching the sector effectively. It is not unreasonable to hope that the policy adjustments already undertaken, together with continued insightful adjustment, will result in an expansion of the role of SMMEs so that they fulfil their potential in economic development and employment generation in South Africa.

Despite progress in creating an enabling environment, therefore, much work remains.

CHAPTER 3

A STATISTICAL PROFILE OF SMME DEVELOPMENT IN SOUTH AFRICA

3.1 Number of SMMEs in South Africa

Owing to the data problems mentioned in the data sources and methodology chapter (see Section 1.2), there is no simple way to determine a definite number of small businesses. It is more appropriate therefore to replace the question 'How many small businesses?' with several more specific questions.

3.1.1 How many people define themselves as employers or self-employed?

A first approach to the number of businesses is to look at the number of individuals who work on their own or with a partner in any kind of business that they own, including subsistence farming. For the period March 2005 to September 2007, Stats SA's LFS provides the estimations in Table 3.1.

Table 3.1: Number of people working on their own or with a partner, according to Stats SA's LFS (March 2005-September 2007)

	Category of employer/ self-employed	March 2005	Sept 2005	March 2006	Sept 2006	March 2007
Business owners	Number of persons of working age (15-65) working on [their] own or with a partner, in any type of business (including commercial farms)	1,836,000	2,060,000	1,999,000	2,105,000	1,942,000
	Number of elderly persons (66+) who run or do any kind of business, big or small, for [themselves]	56,000	87,000	73,000	65,000	59,000
Subsistence farmers	Number of persons of working age (15-65) working on [their] own small farm/plot or collecting natural products from the forest or sea	385,000	240,000	585,000	425,000	374,000
	Number of elderly persons (66+) who do any work in [their] own or the family's plot, farm, food garden, cattle post or kraal, or help in growing farm produce or in looking after animals for the household	64,000	42,000	89,000	71,000	57,000
	Total	2,341,000	2,429,000	2,746,000	2,666,000	2,432,000

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Tables 3.11.1 and 6.1

Potentially, Table 3.1 gives a total number of employers or self-employed, including subsistence farmers, of 2.43 million in March 2007.¹² This represents a decrease in the number of employers or self-employed since March 2006, when the figure stood at 2.75 million.

The following notes must be considered when trying to infer the number of small businesses from these statistics:

- Table 3.1 only describes people's main activity, so that an individual who owns a business in addition to his employment, may not be captured here. Differently put, a number of people run some kind of business while being employed, or define themselves as unemployed although they run some (survivalist) business activity. They are not recorded as employers here.
- Entrepreneurs are frequently involved in several businesses, which may or may not be related to one another, so behind one employer there may be two, three or more businesses.
- Lastly, if one wants to consider small businesses specifically, the number of owners of large businesses must be deducted from the above total.

The first two elements are likely to have more impact than the latter; therefore 2.43 million is presumably a low estimate for the number of small businesses in March 2007.

As a matter of comprehensiveness, Table 3.2 gives a detailed breakdown of the figures in Table 3.1 in terms of formal/informal sector and the working age/elderly population.

¹² Note that the figure of 2.43 million refers to individuals who run businesses, however the total number of businesses being run by these individuals remains unknown – it is not necessarily a one-to-one link (ie one business for every single individual).

Table 3.2: Number of business owners and subsistence farmers by age category, sector (formal/informal) and survey period (2005-2007)

Survey period	Category	Among persons of working age (15-65)			Among elderly (66+)	Grand total
		Formal	Informal	Total		
March 2005	Business owners	575,000	1,252,000	1,836,000	56,000	1,892,000
	Subsistence farmers	12,000	370,000	385,000	64,000	449,000
	Total			2,221,000	120,000	2,341,000
September 2005	Business owners	527,000	1,518,000	2,060,000	87,000	2,147,000
	Subsistence farmers	<10,000	233,000	240,000	42,000	282,000
	Total			2,300,000	129,000	2,429,000
March 2006	Business owners	563,000	1,431,000	1,999,000	73,000	2,072,000
	Subsistence farmers	<10,000	579,000	585,000	89,000	674,000
	Total			2,584,000	162,000	2,746,000
September 2006	Business owners	598,000	1,494,000	2,105,000	65,000	2,170,000
	Subsistence farmers	12,000	411,000	425,000	71,000	496,000
	Total			2,530,000	136,000	2,666,000
March 2007	Business owners	595,000	1,338,000	1,942,000	59,000	2,001,000
	Subsistence farmers	14,000	356,000	374,000	57,000	431,000
	Total			2,316,000	116,000	2,432,000

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Tables 3.11.1 and 6.1

Notes:

For all values of 10 000 or less the sample size is too small for reliable estimates.

For the population of working age, people owning and managing a business are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)', while subsistence farming is defined as 'Working on his/her own small farm/plot or collecting natural products from the forest or sea'.

For the elderly, people owning and managing a business are defined as those who 'Run or do any kind of business, big or small, for himself/herself', while subsistence farming is defined as those who 'Do any work in his/her own or the family's plot, farm, food garden, cattle post or kraal or help in growing farm produce or in looking after animals for the household'.

Totals include 'don't know / unspecified' sector.

Due to rounding, figures do not necessarily add up to totals.

3.1.2 How many people are owning and managing a business or starting up a new business?

The Global Entrepreneurship Monitor (GEM) undertakes annual surveys of the South African population to estimate percentage of people aged between 18-64 years who are actively involved in starting or managing a business which they wholly or partly own and which is less than three-and-a-half years old. This estimate is known as the Total Early-stage Entrepreneurial Activity (TEA) rate. In 2006 the TEA rate was 5.29, meaning that 5.29% of the adult South African population (18-64 years) were either starting a business or owning and managing a business that was less than 3.5 years old at the time of the survey. The TEA rates

for 2004 and 2005 were 5.40 and 5.15 respectively. Table 3.3 gives a breakdown of the TEA rate in each of these three years in terms of the percentage of adults starting a business and those owning and managing a business less than 3.5 years old. The percentages of adults owning and managing businesses older than 3.5 years old are also known for only 2004 and 2005. If all of these percentages are expressed in terms of the actual population count, about 1.8 million of adults in 2006 were involved in either starting or owning and managing a business. This is an improvement on the figures for the previous two years.

Table 3.3: Estimated number of entrepreneurs in South Africa, based on the GEM Survey, 2004-2006

Business activity stage	2004	2005	2006
Percentage of adults currently			
Starting a business	3.90%	3.57%	3.55%
Owning and managing a business less than 3.5 years old (new firms)	1.60%	1.58%	1.74%
Owning and managing a business older than 3.5 years (established firms)	1.40%	1.30%	Not provided
Number of adults (18-64 years) currently			
Starting a business	0.98 million	0.96 million	0.97 million
Owning and managing a business less than 3.5 years old (new firms)	0.40 million	0.43 million	0.48 million
Owning and managing a business older than 3.5 years (established firms)	0.35 million	0.35 million	(0.35 million)
Total	1.73 million	1.74 million	1.80 million

Sources: Maas & Herrington (2006: 17&20), Tables 7&15 [for percentage estimates of adults starting a business and owning and managing new firms in 2005 and 2006]

SEDA (2004: 47), Tables 7&8 [for 2004 figures]

Stats SA (2005b), Table 1.1 [for estimate of population aged 18-64 in 2005; estimate = 26,937 thousand]

Stats SA (2006b), Table 1.2 [for estimate of population aged 18-64 in 2006; estimate = 27,295 thousand]

Von Broembsen, Wood and Herrington (2005: 18), Figure 3 [for percentage estimate of adults owning and managing established firms in 2005]

To interpret the figures in Table 2.3 it is important to bear in mind the following:

- o 'Starting' a business does not necessarily mean that the business is already trading. The entrepreneurial reality is such that many start-ups (projects) never reach the stage of actual operation.
- o On the other hand, it is not clear how one-person businesses, self-employed and informal businesses are covered by the GEM. Since the criterion for 'new' or 'established firms' is the payment of wages or salaries, one-person businesses which are not formally paying a salary to their owners, or informal businesses whose employees are not paid, may not be recorded in these estimations.

- o Also, it must be noted that the GEM sample size is usually limited, so that there is a fairly large error margin in the results, causing ample year-to-year fluctuations.

3.1.3 How many enterprises are registered with the CIPRO, according to the Stats SA Integrated Business Register?

Entities registered with the CIPRO, such as private companies, close corporations or incorporated professionals, are relatively well defined, but they represent only a portion of South African small businesses. Many other businesses are not registered, either because they are informal (for example, not even VAT-registered) or because they operate as sole proprietors or partnerships with unlimited liability of their owners.

As of March 2007 there were about 1.87 million business enterprises listed in the Stats SA Integrated Business Register (Table 3.4), of which the majority (1.41 million) were close corporations. However, not all of these enterprises are economically active. Only about 566 thousand of the 1.87 million enterprises (that is, 30%) are economically active, where 'economically activity' refers to enterprises having some financial activity during the previous five years. The activity could be an income tax or a VAT return, even if the return reflects a loss.

Since the focus of this review is on SMMEs, the 1.87 million enterprises in Table 3.4 are also broken down in terms of size. The size categories in the Stats SA Integrated Business Register are determined on the basis of the annual turnover figures of enterprises. About 536 thousand of the 1.87 million registered enterprises are (active) SMMEs. This figure could be slightly higher, given that there are a further 2 551 active enterprises in the register for which no annual turnover figures are available.

Lastly, all of the economically non-active enterprises in the Stats SA Integrated Business Register (1.31 million) also lack an annual turnover figure. Thus it cannot be determined which of these non-active enterprises are SMMEs, making it impossible to calculate a total number of SMMEs that include both active and non-active enterprises. However, it is not unrealistic to assume that the majority of these non-active enterprises are SMMEs.

Table 3.4: Number of enterprises registered with the CIPRO, according to the Stats SA Integrated Business Register of March 2007

Enterprise type	Size in terms of annual turnover				Total enter-prises (active & not active)	Total active enter-prises	Total active enter-prises of known size
	SMMEs (Active)	Large enter-prises (Active)	Enterprises of unknown size				
			(Active)	(Not active)			
Close corporations	379,410	4,123	1,451	1,026,465	1,411,449	384,984	383,533
Private companies	147,246	12,082	314	265,089	424,731	159,642	159,328
Incorporated (professionals)	5,463	153	20	2,555	8,191	5,636	5,616
Non-profit (Section 21)	2,317	111	730	14,285	17,443	3,158	2,428
Public companies	1,379	663	26	1,798	3,866	2,068	2,042
External company	384	111	7	591	1,093	502	495
Limited by guarantee	30	6	2	49	87	38	36
Unlimited	3	1	1	2	7	5	4
Type unspecified	8	1	0	8	17	9	9
Total	536,240	17,251	2,551	1,310,842	1,866,884	556,042	553,491

Source: Stats SA Integrated Business Register, March 2007

Notes:

'Active' means economically active – enterprises which reported some financial activity during the previous five years on the basis of an income tax or a VAT return.

The annual turnover figures of enterprises were determined by Stats SA by using the sector-based thresholds provided in the Small Business Act of 1996.

3.1.4 How many enterprises operate in the formal sector but are not registered with the CIPRO?

A large portion of the very small and micro businesses in the formal sector (that is, businesses registered for VAT and possibly other taxes such as Pay as You Earn, or PAYE), are not incorporated (registered with CIPRO). Rather, they operate as sole proprietors or partnerships with unlimited liability of their owners.

In the absence of access to the SARS data on VAT- or PAYE-registered businesses, there is hardly any data enabling one to estimate the size of this particular business population. The 2004 *Annual Review* used statistics from the City of Cape Town's RSC Levy database in an attempt to estimate the number of formal, non-incorporated businesses nationally. The resulting figure for 2004 was in the range of 240 000 to 320 000. However, the City of Cape Town's RSC Levy database was unavailable for the purposes of the current review and it is also debatable as to whether or not figures that are not entirely reliable and based on a single city should be used as a basis for national estimates.

3.1.5 How many South Africans are involved in informal business activities?

Not surprisingly, informal businesses are the most difficult to estimate. Two sources by Stats SA are available:

- the SESE, run in 2005, which focused on businesses not registered for VAT purposes
- the LFS, which is updated twice a year.

These are their findings:

- The SESE found that in September 2005, approximately 1.75 million people were owners of at least one non-VAT registered business. These businesses were usually one-person enterprises, since only 15.7% of them had one or more employees, either paid or unpaid. Unfortunately these data have not been updated since.
- Also in September 2005, the LFS estimated the number of self-employed in the informal sector at 1.75 million (Table 3.5)¹³ The LFS estimate for March 2007 was at 1.69 million, indicating a negative growth of -3.3% over the 1.5 year period.
- Applying the LFS estimate growth rate to the SESE estimate leads to an updated number of 1.69 million persons owning and managing non-VAT registered businesses in March 2007.
- Lastly, if one assumes that some of these entrepreneurs own more than one non-registered business, the number of these informal (non-VAT registered) businesses at March 2007 may be over 1.8 million.

Table 3.5: Number of people of working age (15-65) who work on their own or with a partner in the informal sector, according to Stats SA's LFS (March 2005-September 2007)

Category of employer/ self-employed	March 2005	Sept 2005	March 2006	Sept 2006	March 2007
Number of persons of working age (15-65) working on [their] own or with a partner, in any type of business (including commercial farms)	1,252,000	1,518,000	1,431,000	1,494,000	1,338,000
Number of persons of working age (15-65) working on [their] own small farm/plot or collecting natural products from the forest or sea	370,000	233,000	579,000	411,000	356,000
Total	1,622,000	1,751,000	2,010,000	1,905,000	1,694,000

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 3.11.1

¹³ Thus, the September 2005 LFS estimate for the number of self-employed in the informal sector is 1.75 million, which is the same as the September 2005 SESE estimate for the number of people owning and managing non-VAT registered businesses. However, it is unsure as to whether or not these two figures refer to the same group of people. Their gender and population group distributions, for instance, are the same, implying that it is more or less the same group. On the other hand, if they are the same group, then the need for a separate survey (SESE) other than the LFS becomes redundant. It is therefore assumed that these two groups are not exactly the same.

3.1.6 Summary

Table 3.6 summarises the discussions from Sections 3.1.1 to 3.1.5. Based on available data one can conclude that, in 2007, at least 2.43 million people were managing big and small enterprises in South Africa. Of these, about 1.69 million people were doing so in the informal sector. However, the total number of people owning and managing SMMEs in both the formal and informal sector is unknown because the LFS figures are reported for big and small enterprises combined. Also, the number of businesses owned or managed by the 2.43 individuals is not reported.

Moreover, in March 2007 there were 556 thousand economically active enterprises, big and small, in the formal economy, of which 536 thousand operated as SMMEs. However, it must be borne in mind that this figure does not represent the entire formal SMME sector of South Africa since it does not include sole proprietors and partnerships. Also, the total number of SMMEs covering both the formal and informal sectors cannot be confidently determined on the basis of the data available.

Table 3.6: Number of persons owning and managing an enterprise and number of economically active enterprises in 2007, by data source

Data source	Number of PERSONS owning and managing an enterprise		Number of economically active ENTERPRISES		Sector focus of data source	Period
	All enterprises, big or small	SMMEs	All enterprises, big or small	SMMEs		
LFS	2,432,000	Cannot be determined	Cannot be determined	Cannot be determined	Both formal and informal sectors (persons 15-65 & 66+)	March 2007
	609,000	Cannot be determined	Cannot be determined	Cannot be determined	Formal sector (persons 15-65)	March 2007
	1,694,000	1,694,000	Cannot be determined	Cannot be determined	Informal sector (persons 15-65)	March 2007
GEM	1,800,000	Cannot be determined	Cannot be determined	Cannot be determined	Both formal and informal sectors (persons 18-64)	2006
Integrated Business Register	Cannot be determined	Cannot be determined	556,042	536,240	Formal sector (enterprises)	March 2007
SESE	1,750,000	1,750,000	Cannot be determined	Cannot be determined	Informal sector (persons 15-65)	Sept 2005

Sources: Maas & Herrington (2006); Stats SA Integrated Business Register, March 2007; Stats SA (2005d); Stats SA (2007a), Tables 3.11.1 and 6.1

Note:

The larger share of the 1.8 million estimate for the GEM survey are only starting a business – thus the business may never be operational or moving beyond being a mere project.

3.2 Size and distribution of SMMEs

A number of analyses in this section concentrate on those small businesses for which there is reasonably good data – the formal and active SMMEs registered with the CIPRO and known by the SARS (as captured in the Stats SA Integrated Business Register). The reader must, however, bear in mind that this data source does not represent the entire formal small business population of South Africa because – as explained in Section 3.1.6 – sole proprietors and partnerships are excluded.

In this section figures from both the LFS and SESE will be used to cover the informal sector. It must be remembered that these figures do not represent SMMEs, but rather the number of individuals owning and managing SMMEs (see again Table 3.6). Nevertheless, the Stats SA Integrated Business Register and the LFS and SESE in combination give a reasonably balanced picture of the size and distribution of SMMEs.

3.2.1 *What are the size categories of small businesses?*

As explained in Section 3.1.3, the size categories in the Stats SA Integrated Business Register are determined on the basis of the annual turnover figures of enterprises.

Table 3.7 shows that 36% of the CIPRO-registered active entities (of known size) are micro enterprises and about 82% are either micro or very small. Large enterprises represent 3% of all registered enterprises. It must be noted that this result underestimates the proportion of micro and very small enterprises to the total (formal) economy, for two reasons. First, 2 551 enterprises are economically active but classified as unknown in terms of size category. These enterprises are likely to be at the bottom-end of the size distribution. Secondly, the figures do not include sole proprietors and partnerships, which, on average, tend to be significantly smaller.

Needless to say, if one were to include informal businesses, the proportion of micro enterprises would be even higher.

Table 3.7: Distribution of enterprises in Integrated Business Register, by size category and whether or not economically active (as of March 2007)

Size category	Economically active	Number of enterprises	% distribution of enterprises		
			All enterprises (Both active & non-active)	Active enterprises (Unknown size excluded)	Active SMMEs
Micro	Yes	200,377	10.7%	36.2%	37.4%
Very small	Yes	251,920	13.5%	45.5%	47.0%
Small	Yes	63,193	3.4%	11.4%	11.8%
Medium	Yes	20,750	1.1%	3.7%	3.9%
Large	Yes	17,251	0.9%	3.1%	–
Unknown size	Yes	2,551	0.1%	–	–
	No	1,310,842	70.2%	–	–
Total		1,866,884	100% (1,866,884)	100% (553,491)	100% (536,240)

Source: Stats SA Integrated Business Register, March 2007

Notes:

'Economically active' refers to enterprises having some financial activity during the previous five years. The activity could be an income tax or a VAT return, even if the return reflects a loss.

'Size category' is based on annual turnover only.

Since the Stats SA Integrated Business Register presents only a 'snapshot' of small businesses (in this case, only figures as of March 2007), it was considered worthwhile to compare the figures with those listed in the 2004 *Annual Review*. Table 3.8 shows the comparison for 2004 and 2007 in terms of size category.

As can be seen, the SMME sector grew by 27% between 2004 and 2007.¹⁴ The largest growth is associated with medium-sized enterprises (208% growth). The smallest growth occurred among micro enterprises (-5.6% growth). As a result, the share of micro enterprises between 2004 and 2007 significantly decreased – from 50% of SMMEs in 2004 to 37% in 2007. Large enterprises, although not part of the SMME sector, recorded the largest growth during this period (275%).

¹⁴ The 27% figure refers to growth in the number of enterprises in the Stats SA integrated business register (not in the LFS because the latter gives the number of enterprise owners, not number of enterprises). In ordinary terms, the 27% means that in 2007 there were 27% more formally registered enterprises in the Stats SA Integrated Business register than in 2004. The figure of 7.4% cited in Section 8.5 of the previous *Annual Review* (the dti, 2004) appears to refer to the LFS data (formal sector), which most likely reflects the number of business owners of working age who are running businesses in the formal sector. It does not state whether the 7.4% refers to the increase between only two year points. The two figures are therefore not directly comparable.

Table 3.8: Stats SA Integrated Business Register figures by enterprise category, 2004 and 2007 figures compared

Enterprise category	Integrated Business Register 2004		Integrated Business Register 2007		Percent growth 2004-2007
	Count	Percent	Count	Percent	
Micro	212,161	50.3%	200,377	37.4%	-5.6%
Very small	170,338	40.4%	251,920	47.0%	47.9%
Small	32,397	7.7%	63,193	11.8%	95.1%
Medium	6,748	1.6%	20,750	3.9%	207.5%
Total SMME	421,644	100%	536,240	100.0%	27.2%
Large	4,596	--	17 251	--	275.3%
All enterprises	426,240	--	553,491	--	29.9%

Source: Stats SA Integrated Business Register, March 2007;
SEDA (2004:47, Table 11) for 2004 figures.

The decline in micro enterprises can be accounted for by one or more of a variety of factors, such as

- o relatively fewer new registrations among this category of enterprises
- o relatively more liquidations of micro enterprises
- o more micro enterprises being 'upgraded' (graduating) to very small and small enterprises as their annual turnover increases.

Thus, the interpretation could be either positive or negative but cannot be conclusively answered by the evidence available.

3.2.2 In which industries do small businesses operate?

The industries in which small businesses in the formal sector operate are different from the ones preferred by informal businesses (Table 3.9). SMMEs in the formal sector are concentrated largely within three broad sectors:

- o Financial Intermediation Insurance, Real Estate and Business Services (44%)
- o Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants (23%)
- o Manufacturing (11%).

In the informal sector, on the other hand, the pattern is different:

- o The Wholesale and Retail Trade industry dominates in terms of the industry distribution of non-VAT registered businesses. Altogether 52% of owners of such businesses are to be found in this sphere of industry.

- o The Manufacturing industry and the Community, Social and Personal Services industry also have relatively large proportions of non-VAT registered businesses. Respectively 12% and 10% of business owners are located in these two industries.

Table 3.9: Standard Industrial Classification distribution of SMMEs in the formal and informal sectors

SIC Major Division	Formal sector (March 2007)	Informal sector (Sept 2005)
Agriculture, Hunting, Forestry and Fishing	3.4%	4.4%
Mining and Quarrying	0.4%	0.7%
Manufacturing	11.3%	12.3%
Electricity, Gas and Water Supply	0.2%	0.7%
Construction	7.3%	9.0%
Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants	22.9%	51.7%
Transport, Storage and Communication	3.4%	5.3%
Financial Intermediation Insurance, Real Estate and Business Services	44.4%	4.0%
Community, Social and Personal Services	6.7%	10.3%
Total	100% (534,561)	100% (1,693,000)

Sources: Stats SA Integrated Business Register, March 2007
Stats SA (2005d: xv, 3), Figure 6 and Table 1.3

Notes:

'Unspecified SIC' excluded in the formal sector

'Unspecified SIC' included in the formal sector but percentages for 'unspecified SIC' not reported – the percentages therefore do not exactly add to 100% but to 98.4%

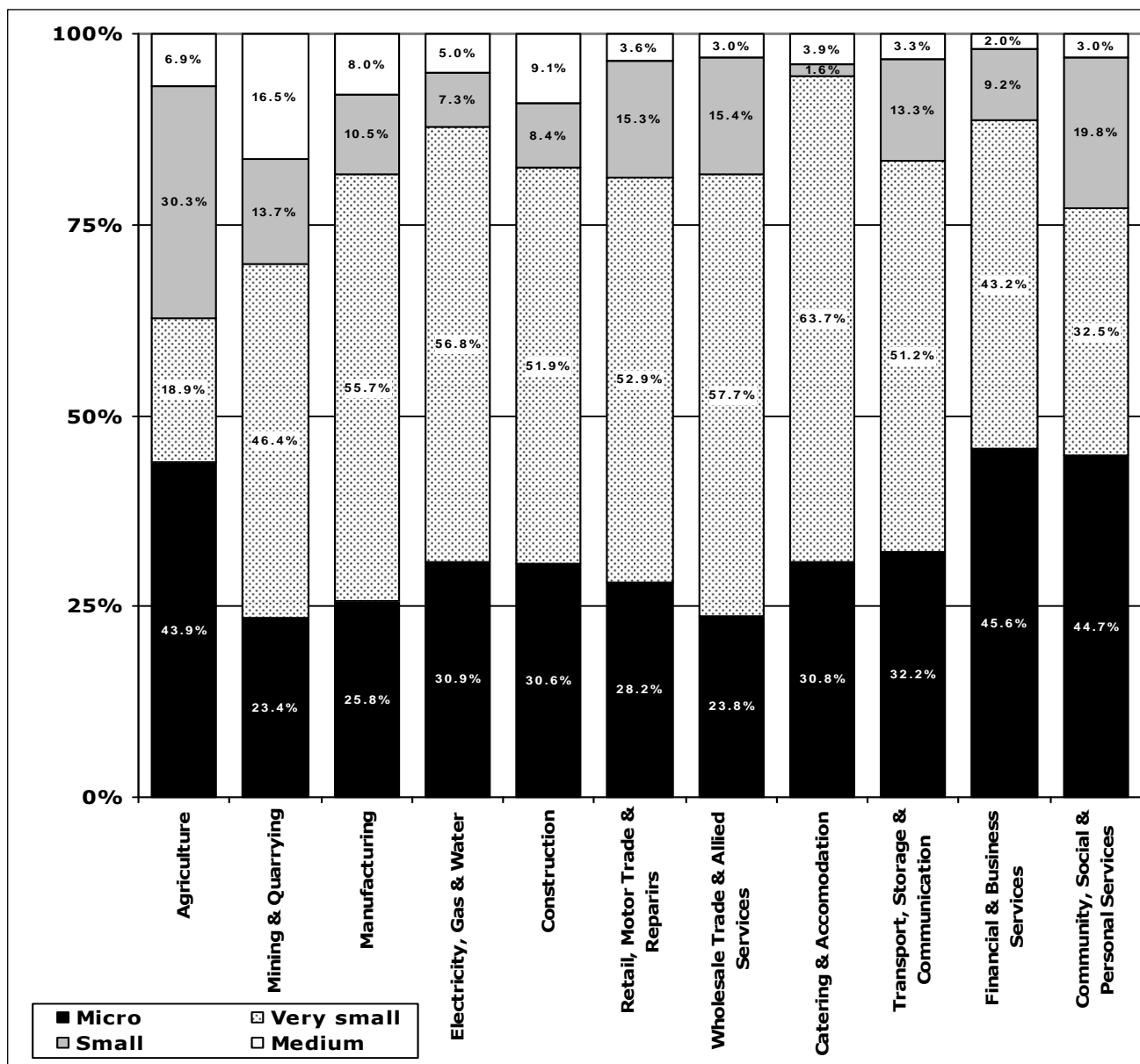
Figures for the formal sector refer to the number of active SMMEs per industry whereas figures for the informal sector refer to the number of owners of non-VAT registered businesses per industry

Table 3.10 supplements the figures for the formal sector, by disaggregating the industry broadly labelled as 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants' in terms of its three sub-sectors. Table 3.10 adds additional value by disaggregating the formal SMME sector in terms of size categories, based on annual turnover. As can be seen in this table, as well as in Figure 3.1, micro enterprises have relatively large shares among three industries: Agriculture, Hunting, Forestry and Fishing (44%), Financial Intermediation Insurance, Real Estate and Business Services (46%) and Community, Social and Personal Services (45%).

Table 3.10: Distribution of economically active SMMEs in the formal sector, by Standard Industrial Classification and SMME size category based on annual turnover

SIC Major Division	SMME size category				Total
	Micro	Very small	Small	Medium	
• Agriculture, Hunting, Forestry and Fishing	7,995	3,435	5,512	1,252	18,194
• Mining and Quarrying	529	1,049	309	373	2,260
• Manufacturing	15,543	33,480	6,328	4,803	60,154
• Electricity, Gas and Water Supply	380	699	90	61	1,230
• Construction	11,868	20,137	3,254	3,536	38,795
• Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants	33,643	68,259	16,205	4,268	122,375
Wholesale Trade, Commercial Agents and Allied Services	7,321	17,747	4,744	922	30,734
Retail and Motor Trade and Repair Services	2,0544	38,579	11,165	2,607	72,895
Catering Accommodation and other Trade	5,778	11,933	296	739	18,746
• Transport, Storage and Communication	5,895	9,379	2,434	596	18,304
• Financial Intermediation Insurance, Real Estate and Business Services	10,8307	102,678	21,728	4,720	237,433
• Community, Social and Personal Services	16,015	11,644	7,080	1,077	35,816
Unspecified SIC	202	1,160	253	64	1,679
Total	200,377	251,920	63,193	20,750	536,240

Source: Stats SA Integrated Business Register, March 2007

Figure 3.1: Size category distribution of economically active SMMEs in the formal sector, by Standard Industrial Classification

Source: Stats SA Integrated Business Register, March 2007

3.2.3 In which provinces are small businesses located?

The provincial profile of small businesses differs strongly depending on whether one considers formal or informal businesses. Table 3.11 illustrates the difference between registered enterprises (formal sector) and non-VAT registered businesses (informal sector). The following should be noted from the table:

- Not surprisingly, Gauteng is the leading province for both informal and formal businesses, but while it accommodates 48% of formal enterprises, it only accounts for a quarter of informal enterprises.

- The Western Cape, the second-biggest province where formal enterprises are concerned (19%), is the second-smallest province for informal businesses, accommodating only 6% of such businesses.
- On the other hand, provinces with large rural populations, such as KwaZulu-Natal (19%), Eastern Cape (13%) and Limpopo (14%), accommodate higher proportions of informal businesses.

Table 3.11: Provincial distribution of SMMEs in the formal and informal sectors

Province	Formal sector (March 2007)	Informal sector (Sept 2005)
Eastern Cape	5.3%	13.4%
Free State	3.2%	6.6%
Gauteng	48.3%	24.6%
KwaZulu-Natal	13.0%	18.8%
Limpopo	2.9%	14.3%
Mpumalanga	4.1%	7.7%
North West	3.2%	8.0%
Northern Cape	1.2%	0.7%
Western Cape	19.0%	5.9%
Total	100% (512,518)	100% (1,747,578)

Sources: Stats SA Integrated Business Register, March 2007

Stats SA (2005d:xi), Table 3

Notes:

‘Unspecified provinces’ excluded in the formal sector

Figures for the formal sector refer to the number of active SMMEs per province whereas figures for the informal sector refer to the number of owners of non-VAT registered business per province

Table 3.12 estimates the business density of each province by comparing the number of enterprises to the working age population of the province. It shows that the proportion of formal businesses to the provincial population is highest in Gauteng and the Western Cape (about 4% and 3%), while the ratio of informal businesses to population is highest in Limpopo (8%), Mpumalanga (7%) and Gauteng (7%). The Western Cape has the smallest discrepancy in terms of the number of enterprises in both the formal and informal sector expressed as a percentage of the working population (about 3% in both instances). What needs to be stressed though is that the number of SMMEs per province in the informal sector is an under-estimate to the extent that the figures represent the number of business owners and some owners may run more than one informal business.

Table 3.12: SMMEs as percentage of population of working age, by province and formal/informal sector

Province	SMMEs		Population of working age (15-65 years)		SMMEs as % of population of working age	
	Formal (2007)	Informal (2005)	March 2007	Sept 2005	Formal (2007)	Informal (2005)
Eastern Cape	26,992	234,443	4,039,000	3,986,000	0.7%	5.9%
Free State	16,480	115,687	1,927,000	1,913,000	0.9%	6.0%
Gauteng	247,316	429,515	6,595,000	6,454,000	3.8%	6.7%
KwaZulu-Natal	66,389	328,210	6,084,000	6,057,000	1.1%	5.4%
Limpopo	14,748	249,615	3,215,000	3,162,000	0.5%	7.9%
Mpumalanga	20,784	134,948	2,015,000	1,967,000	1.0%	6.9%
North West	16,226	139,472	2,460,000	2,416,000	0.7%	5.8%
Northern Cape	6,352	12,471	591,000	567,000	1.1%	2.2%
Western Cape	97,231	103,217	3,270,000	3,117,000	3.0%	3.3%
Unspecified province	23,722	0	–	–	–	–
Total	536,240	1,747,578	30,195,000	29,697,000	1.8%	5.9%

Sources: Stats SA Integrated Business Register, March 2007;
 Stats SA (2005b, 2007a), Table 2.4 [for population estimates];
 Stats SA (2005d: xi), Table 3

Notes:

Figures for the formal sector refer to the number of active SMMEs per province whereas figures for the informal sector refer to the number of owners of non-VAT registered business per province

3.3 A biographical profile of SMME owners

This section utilizes three data sources to profile the biographical information on SMME owners. The data sources and the biographical variables covered are shown in Table 3.13. It is important to note that only the SESE data and the informal sector data of the LFS can be considered as having an exclusive SMME focus. In all other instances the focus also includes large enterprises.

Moreover, although the 2006 GEM survey also reports on the population group and gender profiles of entrepreneurs, these statistics are not considered here for two reasons. Firstly, the other data sources already comprehensively cover the population group and gender distributions of business owners and, secondly, because of the limited sample size of entrepreneurs in the GEM survey (only 143 respondents). However, statistics based on the GEM survey are reported for age group and education level because the latter two biographical variables are not covered by any of the other data sources.

Table 3.13: Data sources used to compile biographical profile of SMME owners

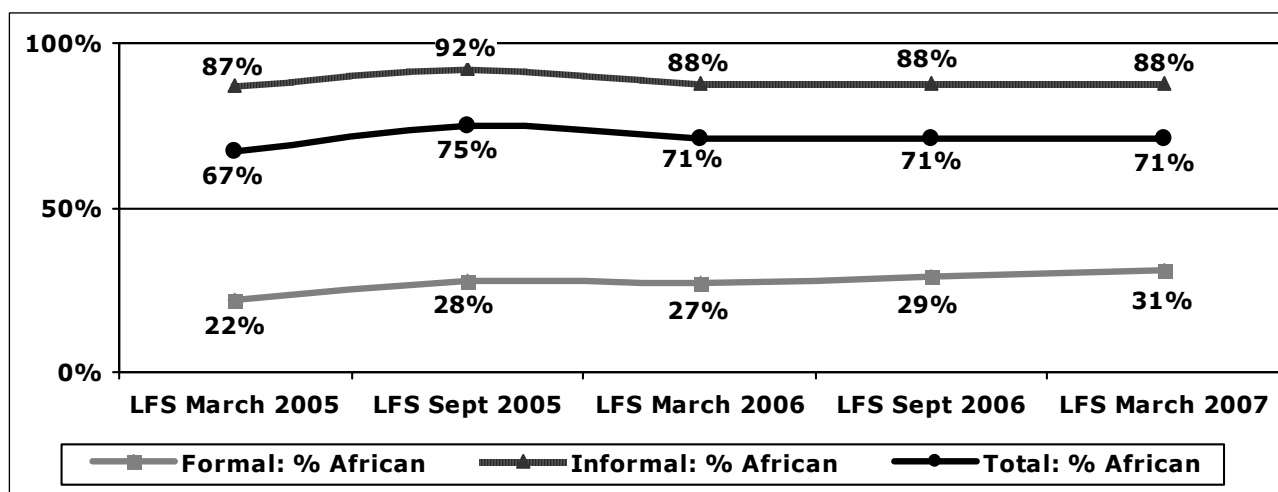
Data source		Biographical variable covered by data source?				SMME specific
		Population group	Gender	Age group	Educational level	
LFS (March 2005-Sept 2007)	Formal	Yes	Yes	No	No	No
	Informal	Yes	Yes	No	No	Yes
SESE (Sept 2005)		Yes	Yes	No	No	Yes
GEM (2006)		Yes (but not reported here)	Yes (but not reported here)	Yes	Yes	No

3.3.1 Population group

Since March 2005 the Stats SA LFS does not give a detailed breakdown of business owners in terms of population group – the breakdown is only for Africans and Other, where 'Other' includes Coloureds, Indians/Asians and Whites combined. Figure 3.2 shows that, in March 2007, Africans represented about 71% of the country's business owners, meaning that the other groups represented 29%. However, the figures hide a great disparity between formal and informal businesses.

For that reason Figure 3.2 also shows the share of African owners of both formal and informal businesses. The participation of Africans in formal sector businesses appears to have increased between March 2005 and March 2007, from 22% to 31%. The share of Africans owning and managing informal business, however, remained more or less constant at 88%. The exception was September 2005, when the figure stood at 92%.

The Survey of non-VAT registered businesses (SESE), conducted in September 2005, also reveals that 91% of the owners of such businesses were African. This corresponds with the 92% of African owners of informal businesses reported by the LFS in September 2005.

Figure 3.2: Africans as a percentage of all business owners of working age (15-65 years), by sector (formal/informal) and survey period (2005-2007)

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 3.11.2

Notes:

Business owners are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

'Total' means formal and informal combined.

Table 3.14 relates the number of business owners in the two population categories (Africans versus Other) to the corresponding economically active population for the period March 2007. Africans' representation as business owners (10.7%) is slightly below the national average of 11.4%. Also, the ratios probably hide a significant disparity between population groups in the 'other' category. This cannot be highlighted, however, due to the fact that the LFS combines the remaining three population groups because of their small group sizes.

Table 3.14: Business owners as percentage of economically active population, by population group (March 2007)

Population group	Business owners (Employers and self-employed)	Economically active population	Business owners as % of economically active population
African	1,356,000	12,684,000	10.7%
Other	564,000	4,273,000	13.2%
Total	1,933,000	16,984,000	11.4%

Source: Stats SA (2007a), Tables 2.3 & 3.11.2

Notes:

People owning and managing a business (business owners) are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

Only business owners of working age (15-65 years) are included.

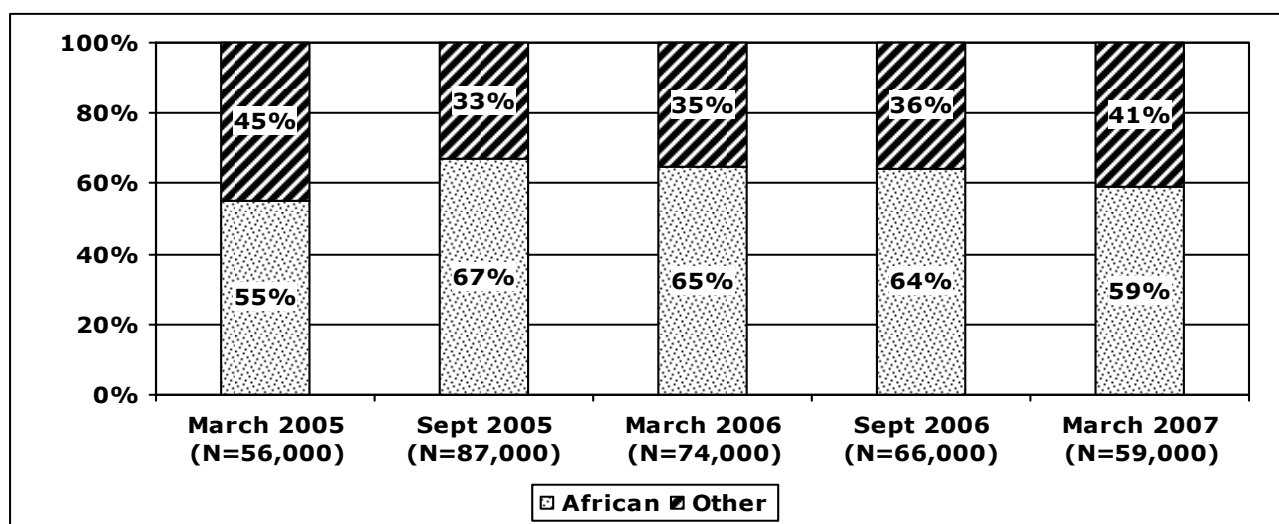
Business owners represent both the formal and informal sectors.

Totals include unspecified population groups. The population group-specific figures also do not add up due to rounding.

'Other' population groups include Coloureds, Indians/Asians, and Whites. They are combined in the LFS due to their small group sizes.

Whereas Figure 3.3 and Table 3.14 presented figures for persons of working age who are owning and managing a business, Figure 3.4 does so for older persons (66 years or older). The share of African elders who are owning and managing a business shows a steady decrease (from 67% in September 2005 to 59% in March 2007).

Figure 3.3: Population group distribution of older persons (66+) who are owning and managing a business, by survey period (2005-2007)



Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 6.2

Notes:

People owning and managing a business are defined as those who 'Run or do any kind of business, big or small, for himself/herself'.

'Other' population groups include Coloureds, Indians/Asians, and Whites. They are combined in the LFS due to their small group sizes.

Lastly, among subsistence farmers, another category of informal business activity, more than 90% of such farmers are African (Table 3.15).

Table 3.15: Africans as a percentage of all subsistence farmers (15-65 & 66+ years), by survey period (2005-2007)

	Sept 2005	March 2006	Sept 2006	March 2007
Africans as % of subsistence farmers of working age (15-65)	97%	99%	97%	95%
Africans as % of older subsistence farmers (66+)	93%	96%	93%	95%

Source: Stats SA (2005b, 2006a, 2006b, 2007a), Table 3.11.2 & Table 6.2

Notes:

For the population of working age, subsistence farming is defined as 'Working on his/her own small farm/plot or collecting natural products from the forest or sea'.

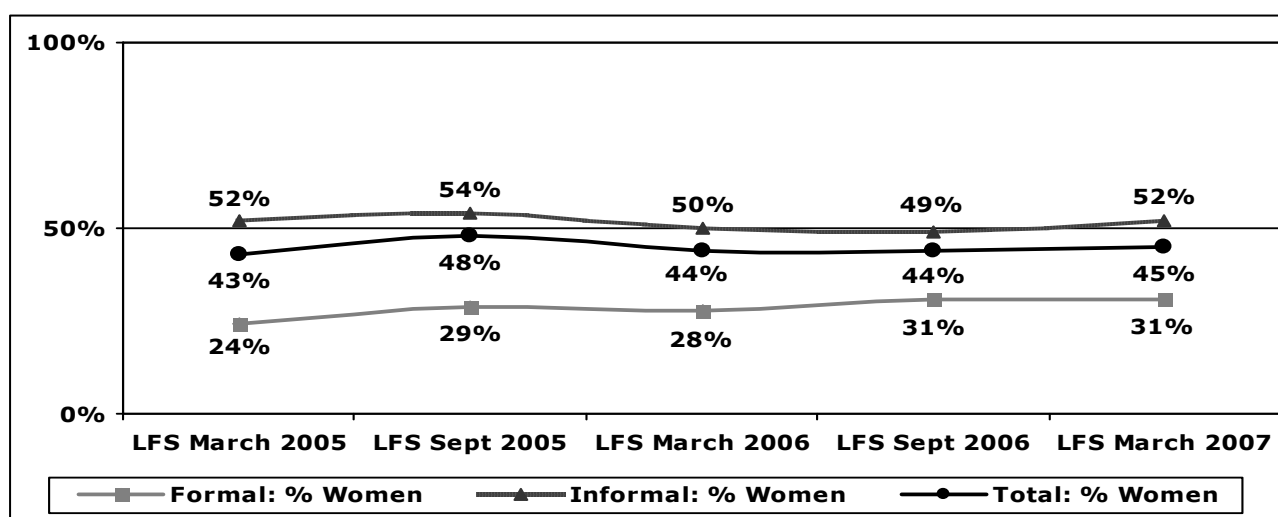
For the elderly, subsistence farming is defined as those who 'Do any work in his/her own or the family's plot, farm, food garden, cattle post or kraal or help in growing farm produce or in looking after animals for the household'.

3.3.2 Gender

Figure 3.4 shows the percentage of female business owners, according to the LFS. On average, in March 2007, about 45% of women were owning and managing a business. It is clear that the share of female entrepreneurs is far higher in the informal sector than in the formal sector (52% versus 31% in March 2007). The share of female business owners in the formal sector, however, has increased since March 2005, when it was 24%.

Table 3.16 shows that although the female economically active population is smaller than the male, the proportion of persons owning and managing their own business (expressed as a percentage of the economically active population) is more or less the same for women and men (11.3% and 11.5%). Thus, women are probably as likely as men to engage in entrepreneurial activity. These figures are based on the March 2007 LFS, and include both the formal and informal sectors. If one were to recalculate these figures only for informal businesses, the 2005 SESE data should be used. Doing so, Table 3.16 shows that female entrepreneurship in the informal sector (specifically non-VAT registered businesses) represents 12% of the economically active population, which is markedly higher than the 9% male entrepreneurship in the informal sector.

Figure 3.4: Women as a percentage of all business owners of working age (15-65 years), by sector (formal/informal) and survey period (2005-2007)



Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 3.11.2

Notes:

Business owners are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

'Total' means formal and informal combined.

Table 3.16: Business owners as percentage of economically active population, by gender (September 2005 & March 2007)

Gender	SESE – September 2005			LFS – March 2007		
	Business owners (Non-VAT registered businesses)	Economically active population	Business owners as % of economically active population	Business owners (Employers and self-employed)	Economically active population	Business owners as % of economically active population
Women	922,000	7,669,000	12.0%	876,000	7,769,000	11.3%
Men	771,000	9,112,000	8.5%	1,058,000	9,215,000	11.5%
Total	1,693,000	16,788,000	10.1%	1,934,000	16,984,000	11.4%

Source: Stats SA (2005b), Table 2.3, & Stats SA (2007a), Tables 2.3 & 3.11.2

Notes:

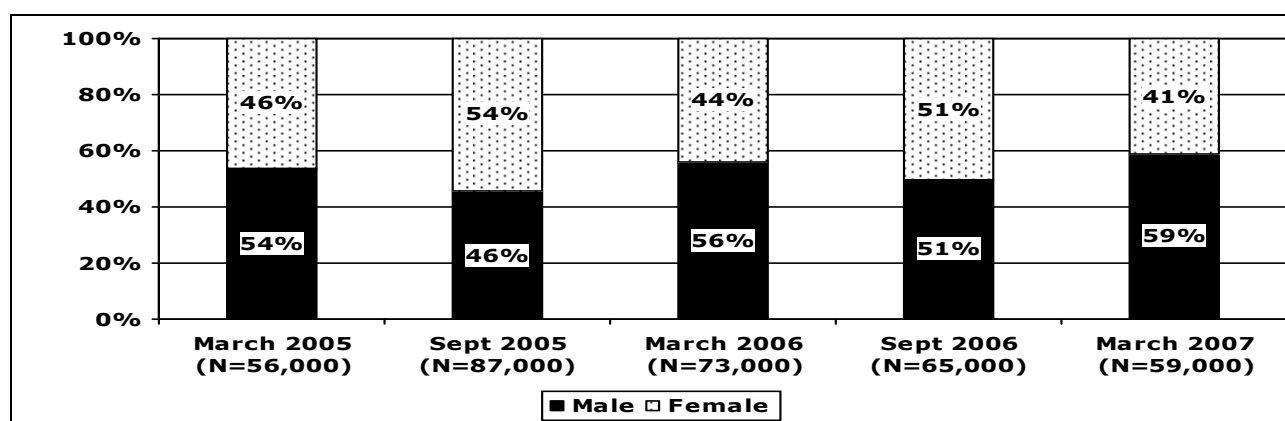
People owning and managing a business (business owners in the LFS) are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

Business owners in the case of the LFS represent both the formal and informal sectors.

Only business owners of working age (15-65 years) are included.

Totals include unspecified gender. The gender-specific figures also do not add up due to rounding.

Among persons of non-working age (66+), a larger percentage of women than men own and manage businesses (59% of women versus 41% of men in March 2007 – Figure 3.5). A breakdown in terms of formal/informal sector is not possible in the case of the elderly, simply because the LFS does not allow for the data to be disaggregated as such.

Figure 3.5: Gender distribution of older persons (66+) who are owning and managing a business, by survey period (2005-2007)

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 6.1

Note:

People owning and managing a business are defined as those who 'Run or do any kind of business, big or small, for himself/herself'.

Women are also well-represented among subsistence farmers of working age (about 53% in March 2007) and have a clear presence among older subsistence farmers (49% in March 2007) (Table 3.17).

Table 3.17: Women as a percentage of all subsistence farmers (15-65 & 66+ years), by survey period (2005-2007)

	Sept 2005	March 2006	Sept 2006	March 2007
Women as % of subsistence farmers of working age (15-65)	53%	58%	57%	53%
Women as % of older subsistence farmers (66+)	48%	48%	45%	49%

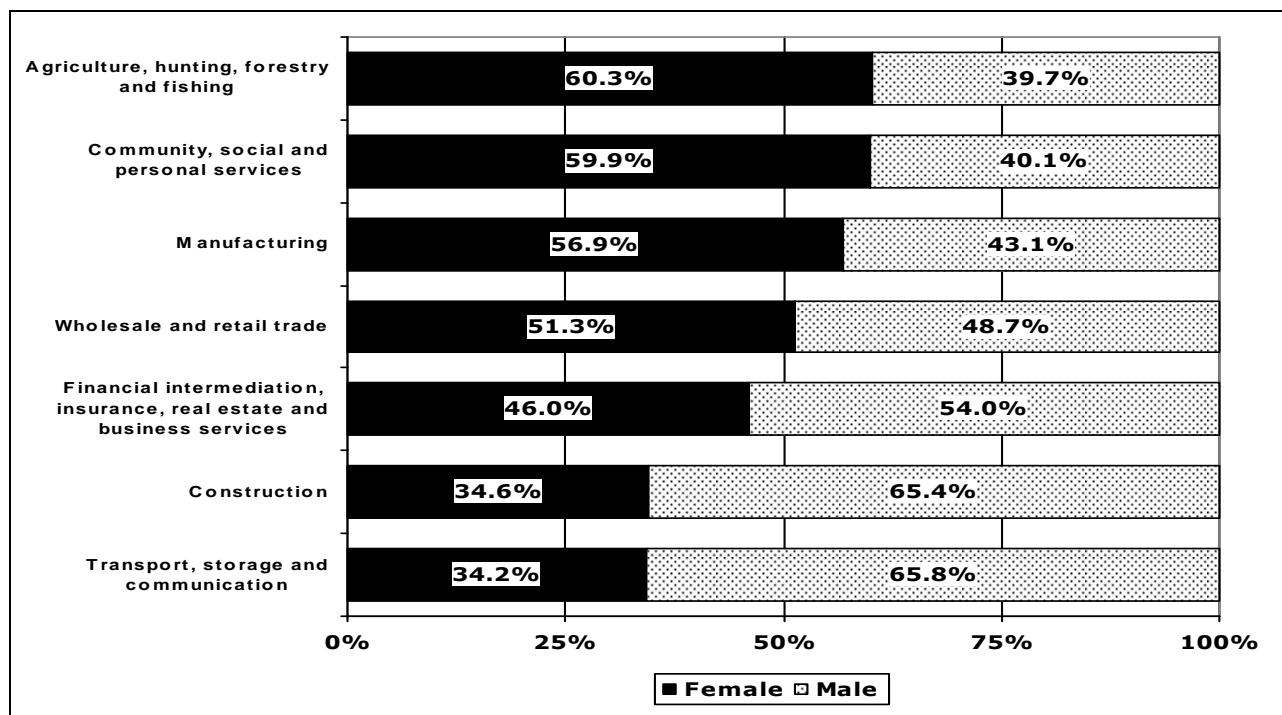
Source: Stats SA (2005b, 2006a, 2006b, 2007a), Table 3.11.2 & Table 6.1

Notes:

For the population of working age, subsistence farming is defined as 'Working on his/her own small farm/plot or collecting natural products from the forest or sea'.

For the elderly, subsistence farming is defined as those who 'Do any work in his/her own or the family's plot, farm, food garden, cattle post or kraal or help in growing farm produce or in looking after animals for the household'.

Lastly, the SESE provides information on the share of female entrepreneurs per industry in the informal sector (non-VAT registered businesses). As Figure 3.6 shows, women in this sector are particularly well represented in three industries: Agriculture, hunting, forestry and fishing (60%), Community, social and personal services (60%) and Manufacturing (57%). Male entrepreneurs in the informal sector, on the other hand, are largely concentrated within the industries of Transport, storage and communication (66%), Construction (65%), and Financial intermediation, insurance, real estate and business services (54%).

Figure 3.6: Gender distribution of persons owning and managing at least one non-VAT registered business, by industry (2005)

Source: Stats SA (2005d:3), Table 1.3

Note:

No gender-based figures are reported for two industries in the source document (Mining & Quarrying, and Electricity, Gas & Water Supply) because their group sizes are too small.

3.3.3 Gender by population group

This section looks at the interaction of gender and population group among business owners of working age (15-65), as reflected in the LFS data. Table 3.18 gives the sector distribution (formal/informal) of respectively male Africans, female Africans, male non-Africans and female non-Africans.

- Between 92-94% of all female African business owners are concentrated in the informal sector. Among male African business owners the figure is somewhat lower (between 81-87%) but nevertheless still relatively high compared to the non-African population groups.
- Male non-African business owners are largely to be found in the formal sector (69-78%). Female business owners of the same population groups are also strongly represented in the formal sector (61-72%).

Table 2.19 shows the gender-by-population group distribution of business owners in the formal and informal sector respectively.

- Business owners in the informal sector, for any survey period, are dominated by female and male Africans. In March 2007 this sector comprised 48% female Africans and 40% male Africans.
- Moreover, whereas male non-African business owners dominated the formal sector in March 2005 (at 61%), the figure has subsequently decreased to 48%.
- Concomitantly, the share of both female and male African business holders in the formal sector seems to be increasing – respectively from 7% in March 2005 to 10% in March 2007 (female African) and from 15% to 21% (male African). The share of non-African female business owners has also increased over this period (from 17% to 21%).

Table 3.18: Sector distribution of persons of working age (15-65) who are owning and managing a business, by gender-and-population group and survey period (2005-2007)

Survey period	Male African			Survey period	Male Other		
	Formal	Informal	Total		Formal	Informal	Total
March 2005	15%	85%	580,000	March 2005	77%	23%	452,000
September 2005	13%	87%	701,000	September 2005	78%	22%	364,000
March 2006	13%	87%	695,000	March 2006	73%	27%	418,000
September 2006	16%	84%	748,000	September 2006	69%	31%	418,000
March 2007	19%	81%	663,000	March 2007	74%	26%	383,000
Survey period	Female African			Survey period	Female Other		
	Formal	Informal	Total		Formal	Informal	Total
March 2005	6%	94%	636,000	March 2005	65%	35%	155,000
September 2005	7%	93%	837,000	September 2005	68%	32%	138,000
March 2006	8%	92%	708,000	March 2006	61%	39%	164,000
September 2006	7%	93%	735,000	September 2006	72%	28%	185,000
March 2007	8%	92%	693,000	March 2007	69%	31%	181,000

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 3.11.2

Notes:

People owning and managing a business are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

'Other' population groups include Coloureds, Indians/Asians, and Whites. They are combined in the LFS due to their small group sizes

Table 3.19: Gender-by-population group distribution of persons of working age (15-65) who are owning and managing a business, by sector (formal/informal) and survey period (2005-2007)

Gender x Population group	March 2005		September 2005		March 2006		September 2006		March 2007	
	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal
Female African	7%	48%	11%	51%	11%	45%	9%	46%	10%	48%
Female Other	17%	4%	18%	3%	18%	4%	22%	3%	21%	4%
Male African	15%	40%	17%	40%	16%	42%	20%	42%	21%	40%
Male Other	61%	8%	54%	5%	55%	8%	48%	9%	48%	7%
Total	100% (573,000)	100% (1,250,000)	100% (522,000)	100% (1,518,000)	100% (556,000)	100% (1,429,000)	100% (596,000)	100% (1,490,000)	100% (589,000)	100% (1,331,000)

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 3.11.2

Notes:

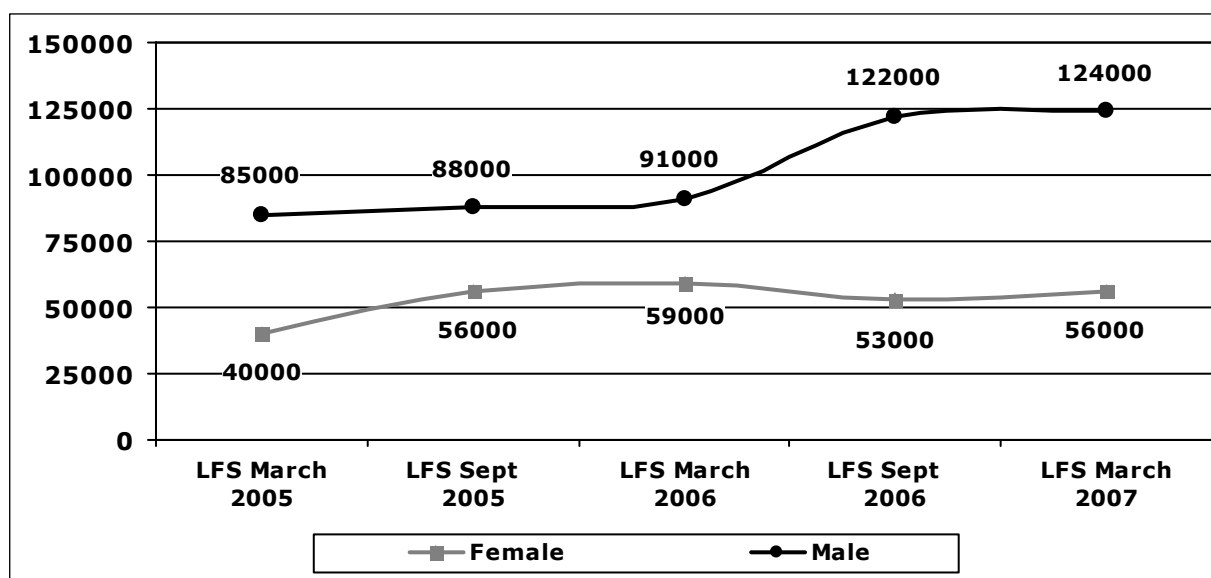
People owning and managing a business are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

'Other' population groups include Coloureds, Indians/Asians, and Whites. They are combined in the LFS due to their small group sizes.

Lastly, given that Coloureds, Indians/Asians and Whites are combined within an 'other' or 'non-African' group, it makes sense to do an analysis specific for the African group. Figure 3.7 presents the headcounts of both female and male Africans in the formal sector, whereas Figure 3.8 does the same for female and male Africans in the informal sector.

African business owners in the formal sector comprise significantly more men than women. In the informal sector, however, the trend is reversed with women rather than men who comprised the majority among African business owners. Also, in the formal sector, the gap between male and female business owners appears to have widened since September 2006.

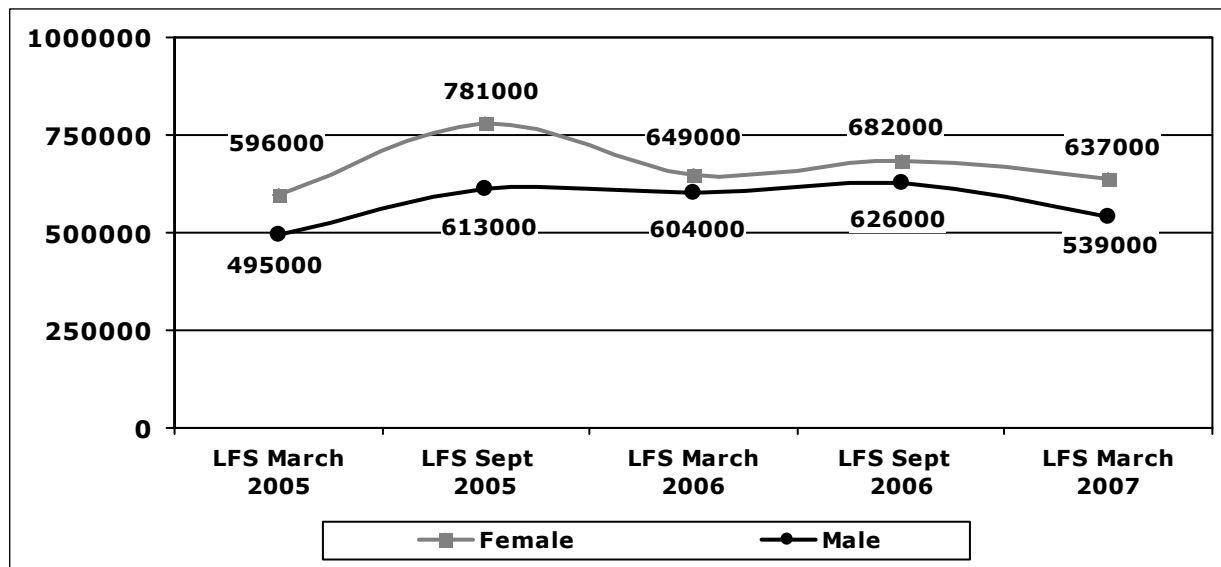
Figure 3.7: Number of Africans of working age (15-65) who are owning and managing a business in the formal sector, by gender and survey period (2005-2007)



Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 3.11.2

Note:

People owning and managing a business are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

Figure 3.8: Number of Africans of working age (15-65) who are owning and managing a business in the informal sector, by gender and survey period (2005-2007)

Source: Stats SA (2005a, 2005b, 2006a, 2006b, 2007a), Table 3.11.2

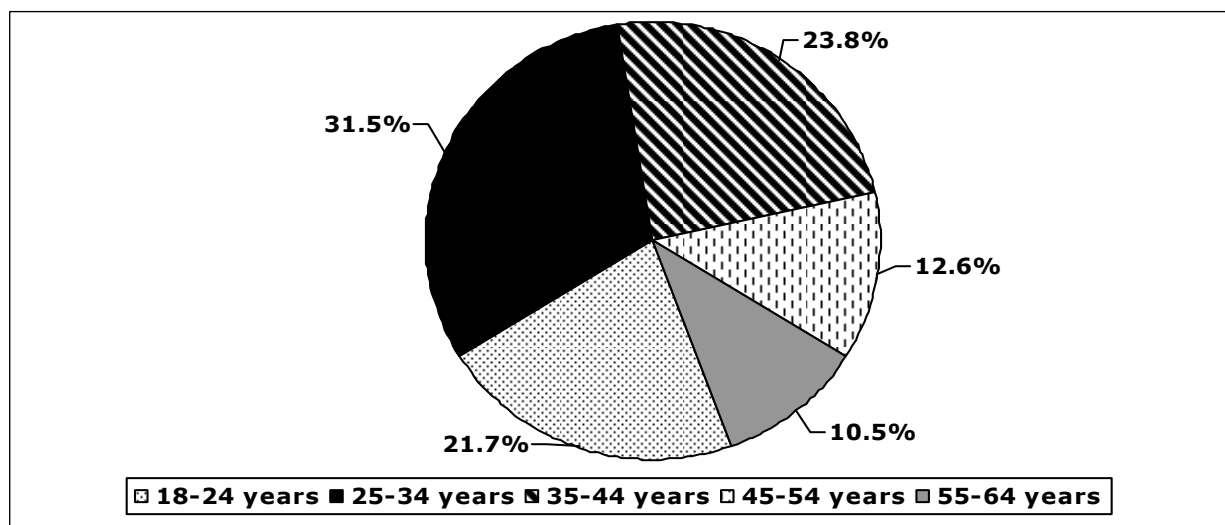
Note:

People owning and managing a business are defined as those 'Working on his/her own or with a partner, in any type of business (including commercial farms)'.

3.3.4 Age group and educational level

As explained in Section 3.1.2, the GEM's principle measure of entrepreneurial activity is the Total Early-stage Entrepreneurial Activity (TEA), which estimates the percentage of people aged between 18 and 64 years who are actively involved in starting or managing a business which they wholly or partly own and which is less than three-and-a-half years old. The 2006 GEM Survey provides an age profile of respondents who are categorised as entrepreneurs within the TEA definition. The majority of respondents (32%) are in the age group 25-34 years (Figure 3.9). The GEM survey argues that, if one takes into account that South Africa has a relatively young population where 43% is below 20 years of age and a further 19% between the ages of 20 and 29, the figures in Figure 3.9 represent a positive situation where a larger number of younger entrepreneurs are entering the market (Maas & Herrington, 2006:19).

Figure 3.9: Age profile of entrepreneurs in the 2006 GEM survey

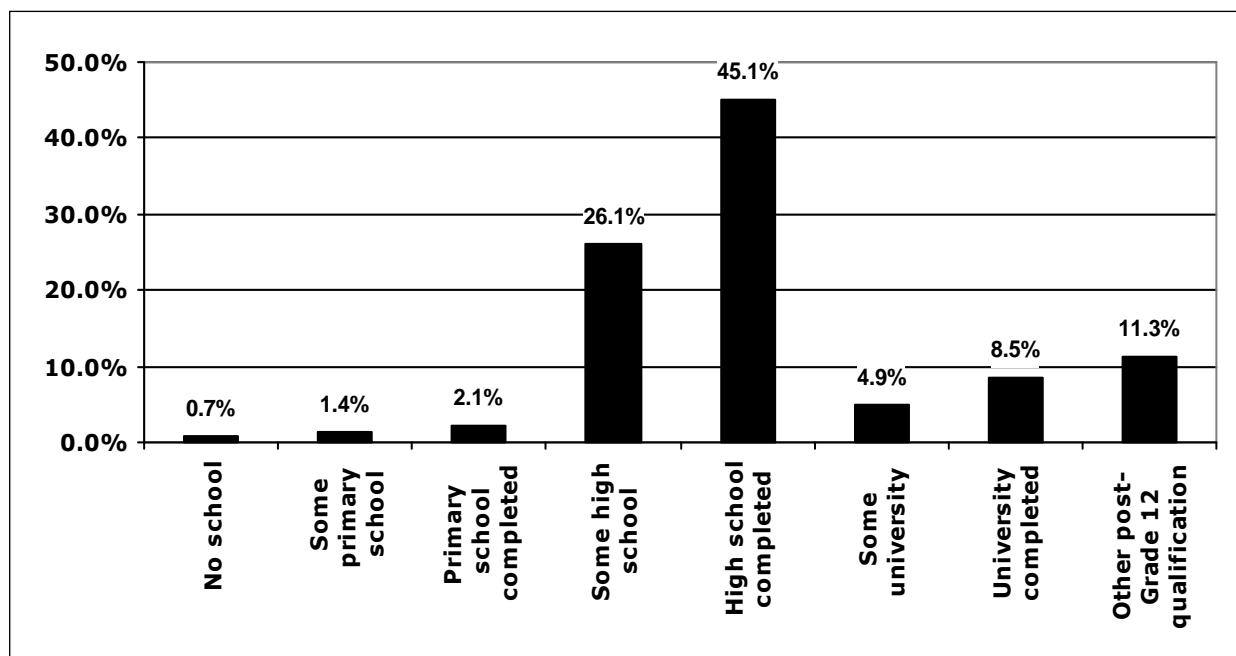


Source: Maas & Herrington (2006:19), Table 10

Moreover, 45% of the TEA respondents are in possession of a Grade 12 qualification, with only 9% having completed a university qualification (Figure 3.10).

Figure 3.10: Education level profile of entrepreneurs in the 2006 GEM survey

Source: Maas & Herrington (2006:20), Table 14



3.4 New enterprise registrations in the formal sector

3.4.1 Overview

This section is devoted to a discussion of new enterprises registered with the CIPRO. The data source is the CIPRO New Enterprise Register, which means that the discussion is confined to new enterprise registrations in the formal sector. *However, as previously stated, it does not cover the total formal SMME sector of South Africa because it excludes sole proprietors and partnerships. Also, co-operatives are excluded.*

Table 3.20 presents the number of new enterprises registered with the CIPRO by enterprise type, for six financial year-periods, starting with 1 April 2001 and ending with 31 March 2007. In 2001-2002 there were just more than 120 000 new enterprise registrations and in 2006-2007 the number has increased to almost 280 000 new enterprise registrations.

The increase in new enterprise registrations over the period 2001 to 2007 is due largely to a sharp increase in close corporations. Close corporations grew at an average rate of 22% over the total period. The other enterprise types all show relatively small average growth of new registrations (between 2-10%), with incorporated enterprises recording an average negative growth rate of -4 %.

Table 3.20: Number of new enterprises registered with the CIPRO by enterprise type, and period of registration, 2001-2007

Enterprise type	Period of registration						Average annual growth
	Between 1/4/01 and 31/3/02	Between 1/4/02 and 31/3/03	Between 1/4/03 and 31/3/04	Between 1/4/04 and 31/3/05	Between 1/4/05 and 31/3/06	Between 1/4/06 and 31/3/07	
Close corporations	90,364	107,857	116,087	135,436	199,555	240,400	21.8%
Private companies	27,811	29,570	30,670	34,564	41,504	35,666	7.0%
Non-profit (Section 21)	1,303	1,768	1,912	1,777	2,221	2,189	9.6%
Incorporated (professionals)	756	522	415	419	593	528	-3.9%
Public companies	244	245	261	242	275	291	3.3%
External companies	127	142	144	147	141	150	2.4%
Limited by guarantee	2	0	0	1	0	0	--
Total	120,607	140,104	149,489	172,586	244,289	279,224	18.7%

Source: CIPRO New Enterprise Register

Sections 2.4.2 to 2.4.4 contain various breakdowns for only four enterprise types in Table 2.20: close corporations, private companies, non-profit companies and incorporated enterprises (professionals). The reasons for selecting these four enterprise types for further analyses are two-fold.

- These are the only enterprise types with at least 500 new registrations in any year-period since 1 April 2005.
- The figures presented in Table 3.20 also include large enterprises – SMMEs cannot be extracted on the basis of the information provided in the CIPRO New Enterprise Register. The Stats SA Integrated Business Register, however, allows the number of active enterprises to be disaggregated in terms of enterprise size based on their annual turnover. The latter breakdown showed that only four enterprise types almost exclusively consist of SMMEs – close corporations (99%), incorporated enterprises (professionals) (97%), non-profit companies (95%), and private companies (92%). Thus, since the focus is on new registrations in the SMME sector, it makes sense to highlight only these four enterprise categories.

3.4.2 Industrial sector and provincial distribution of new enterprise registrations

The industrial and provincial distributions (Tables 3.21 and 3.22) of new enterprises registered between 1 April 2006 and 31 March 2007 reveals the following:

- The sector that is broadly defined as 'Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants' accounts for significant shares of new registrations in the case of close corporations (30%) and private companies (41%).
- New registrations for private companies (50%) and incorporated enterprises (professionals) (57%) largely occurred in the 'Financial Intermediation Insurance, Real Estate and Business Services' sector.
- The 'Community, Social and Personal Services' sector almost exclusively characterizes new registrations for non-profit companies (90%), and also accounts for relatively large shares of new registrations for close corporations (35%) and incorporated enterprises (professionals) (40%).
- The provincial breakdown of new enterprise registrations shows the prominence of Gauteng across enterprise types (from 48% in the case of close corporations to 82% in the case of private companies). The Western Cape also accounts for a significant share of new registrations across enterprise types (between 13-22%), whereas KwaZulu-Natal has a relatively strong presence, mostly in the case of close corporations (15%).

Table 3.21: Industrial distribution of new enterprises registered between 1/4/06 and 31/3/07 within four enterprise types

SIC Major Division	All enterprises	Four enterprise types comprising largely SMMEs			
		Close corporations	Private companies	Non-profit (Section 21)	Incorporated (Prof)
Private Households, Extraterritorial Organisations, Representatives of Foreign Governments and Other Activities not Adequately Defined	1.6%	1.8%	0.0%	0.1%	0.0%
Agriculture, Hunting, Forestry and Fishing	0.8%	0.8%	0.7%	0.2%	0.0%
Mining and Quarrying	0.4%	0.3%	1.2%	0.0%	0.6%
Manufacturing	2.0%	2.1%	1.7%	0.0%	0.2%
Electricity, Gas and Water Supply	0.4%	0.5%	0.1%	0.0%	0.0%
Construction	7.8%	8.8%	1.5%	0.1%	0.2%
Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants	31.2%	30.0%	41.2%	0.1%	1.7%
Transport, Storage and Communication	3.2%	3.5%	1.7%	0.3%	0.0%
Financial Intermediation Insurance, Real Estate and Business Services	21.9%	17.7%	49.9%	9.3%	57.0%
Community, Social and Personal Services	30.7%	34.5%	2.0%	89.8%	40.3%
Total	100% (279,224)	100% (240,400)	100% (35,666)	100% (2,189)	100% (528)

Source: CIPRO New Enterprise Register

Table 3.22: Provincial distribution of new enterprises registered between 1/4/06 and 31/3/07 within four enterprise types

Province	All enterprises	Four enterprise types comprising largely SMMEs			
		Close corporations	Private companies	Non-profit (Section 21)	Incorporated (Prof)
Eastern Cape	2.1%	2.4%	0.1%	0.0%	0.0%
Free State	3.3%	3.7%	0.8%	1.2%	7.4%
Gauteng	52.8%	48.2%	82.4%	77.8%	61.9%
KwaZulu-Natal	13.7%	15.4%	3.1%	5.3%	8.9%
Limpopo Province	5.1%	6.0%	0.1%	0.0%	0.0%
Mpumalanga	6.0%	7.0%	0.1%	0.0%	0.0%
North West	3.0%	3.5%	0.1%	0.0%	0.0%
Northern Cape	0.4%	0.5%	0.0%	0.0%	0.2%
Western Cape	13.4%	13.4%	13.3%	15.6%	21.6%
Total	100% (278,946)	100% (240,122)	100% (35,666)	100% (2,189)	100% (528)

Source: CIPRO New Enterprise Register

Note:

278 close corporations not included because their location in terms of province is not specified

3.4.3 Directors of newly registered enterprises

The following can be said of the number of directors and the ages of these directors in the case of the four enterprise types that are largely classifiable as SMMEs:

- The share of newly registered enterprises comprising a single director is highest among close corporations and incorporated enterprises (professionals) – respectively 51% and 56% of all new registrations between 1 April 2006 and 31 March 2007 were single-director enterprises (Table 3.23). In both cases these figures represent an increase over figures for the previous financial year (respectively 44% and 48%). On the other hand, private companies and non-profit companies largely comprise three or more directors.
- Also, in both close corporations and incorporated enterprises (professionals) a substantial proportion of directors are 35 years old and younger (Table 3.24). In the case of close corporations the figure is about 44%.

Table 3.23: Number of directors of newly registered enterprises, 2005-2007

Period of registration	Number of directors			Total enterprises
	One	Two	Three or more	
Close corporations				
1/4/05 to 31/3/06	44.4%	30.4%	25.1%	100% (199,543)
1/4/06 to 31/3/07	50.6%	29.5%	19.9%	100% (239,146)
Private companies				
1/4/05 to 31/3/06	17.8%	28.0%	54.2%	100% (41,493)
1/4/06 to 31/3/07	23.2%	28.3%	48.5%	100% (35,624)
Non-profit (Section 21)				
1/4/05 to 31/3/06	0.5%	33.3%	66.2%	100% (2,220)
1/4/06 to 31/3/07	1.0%	38.2%	60.8%	100% (2,189)
Incorporated (professionals)				
1/4/05 to 31/3/06	47.7%	28.3%	23.9%	100% (593)
1/4/06 to 31/3/07	56.4%	28.2%	15.3%	100% (528)

Source: CIPRO New Enterprise Register

Note:

In the case of close corporations the word 'directors' should be replaced by 'members'

Table 3.24: Age distribution of directors of newly registered enterprises, 2005-2007

When registered	Age categories of directors					Total directors
	≤35 yrs	36-45 yrs	46-55 yrs	56-65 yrs	>65 yrs	
Close corporations						
1/4/05 to 31/3/06	43.7%	27.0%	20.5%	7.8%	1.1%	100% (331,829)
1/4/06 to 31/3/07	43.6%	26.7%	20.3%	8.1%	1.3%	100% (271,048)
Private companies						
1/4/05 to 31/3/06	24.3%	30.7%	33.1%	10.5%	1.5%	100% (127,259)
1/4/06 to 31/3/07	23.1%	29.4%	34.7%	11.2%	1.7%	100% (99,941)
Non-profit (Section 21)						
1/4/05 to 31/3/06	29.4%	28.5%	27.4%	11.5%	3.2%	100% (10,855)
1/4/06 to 31/3/07	30.0%	27.8%	26.7%	11.9%	3.5%	100% (9,554)
Incorporated (professionals)						
1/4/05 to 31/3/06	42.3%	29.5%	21.6%	5.8%	0.8%	100% (1,222)
1/4/06 to 31/3/07	40.0%	32.2%	18.9%	7.8%	1.1%	100% (1,034)

Source: CIPRO New Enterprise Register

Notes:

Age of directors at time of enterprise registration.

For close corporations the word 'directors' should be replaced by 'members'

3.4.4 De-establishment of newly registered enterprises

The following can be said regarding de-establishment:

- About 0.9% of close corporations registered between 1 April 2005 and 31 March 2006 were de-established or were in the process of de-establishment by September 2007 (Table 3.25). The highest de-establishment rate, covering the same period, is associated with private companies (1.3%).
- Overall, about 1% of enterprises registered between 1 April 2005 and 31 March 2006 lasted only between 1.5-2.5 years.

Table 3.25: Percentage of newly registered enterprises (registered between 2005-2007) that are in the process of de-establishment or de-established

Period of registration	Number registered	Status of enterprise as at end-September 2007			Total de-establishment	Total de-establishment as % of registrations
		Deregistration in process	Deregistered	Other de-establishment		
Close corporations						
1/4/05 to 31/3/06	199,555	1,393	349	61	1803	0.9%
1/4/06 to 31/3/07	240,400	286	173	10	469	0.2%
Private companies						
1/4/05 to 31/3/06	41,504	179	239	122	540	1.3%
1/4/06 to 31/3/07	35,666	73	32	20	125	0.4%
Non-profit (Section 21)						
1/4/05 to 31/3/06	2,221	4	19	0	23	1.0%
1/4/06 to 31/3/07	2,189	3	3	0	6	0.3%
Incorporated (professionals)						
1/4/05 to 31/3/06	593	3	3	1	7	1.2%
1/4/06 to 31/3/07	528	2	1	0	3	0.6%

Source: CIPRO New Enterprise Register

Note:

Other de-establishment = Liquidation (voluntary/provisional/final) & dissolving of enterprise

3.5 Enterprise liquidations in the formal sector

3.5.1 Compulsory and voluntary liquidations of close corporations and companies

This section reports the liquidation statistics of close corporations and companies, as summarised in Statistical Release P0043 of Stats SA. The figures in the Statistical Release have been re-computed to correspond to six financial year-periods (1 April 2001-31 March 2002 until 1 April 2006-31 March 2007). SMMEs cannot be separated from large enterprises within these statistics.

A distinction is made between voluntary and compulsory liquidations and the definitions are as follows:

A compulsory liquidation takes place when the affairs of a company or close corporation are wound up by order of the court.

A voluntary liquidation takes place when a company or close corporation, by own choice, resolves to wind-up its affairs (Stats SA, 2007b:12).

The actual numbers of liquidations are shown in Table 3.26, respectively for close corporations and companies as well as for the two enterprise types combined. It is not exactly clear what Stats SA classifies as 'companies' in the Statistical Release but according to the interpretation of the previous *Annual Review* it is private companies only.

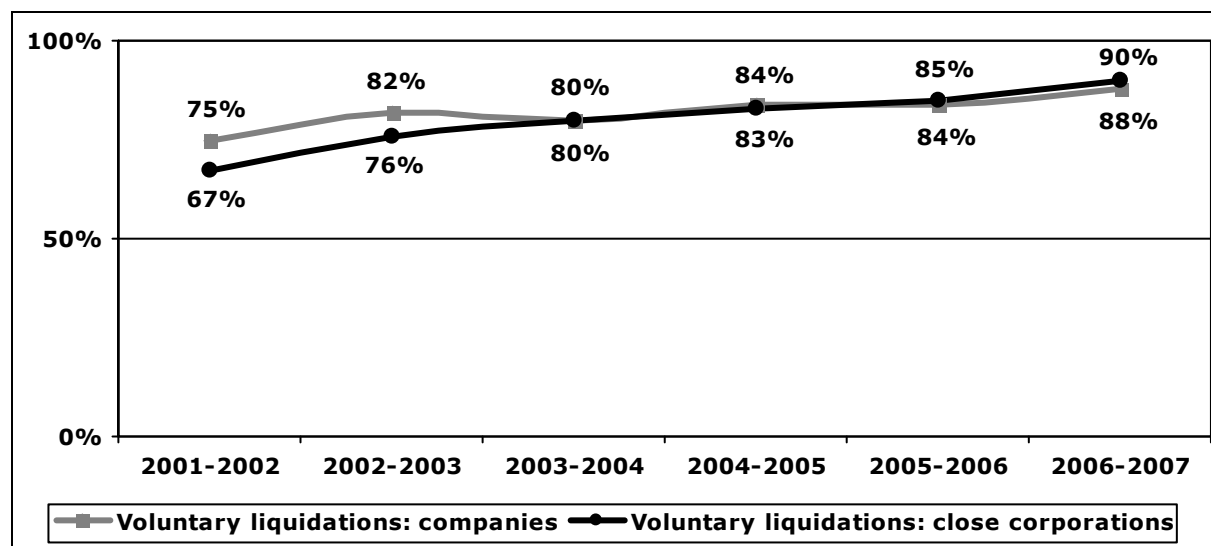
As can be seen in Table 2.26, the numbers of liquidations of close corporations decreased between 2001-2002 and 2006-2007 (from 2,469 to 1,438 liquidations). However, the share of voluntary liquidations sharply increased over the total period, as is shown in Figure 3.11. Voluntary liquidations comprised about 67% of all liquidations of close corporations in 2001-2002 and this has steadily and linearly increased to 90% in 2006-2007.

A different trend can be observed for liquidations of companies. Although the numbers of liquidations of companies also decreased when comparing figures for 2001-2002 and 2006-2007 (1,838 versus 1,572), since 2004-2005 there actually has been a steady increase in the number of liquidations (Table 3.26). Moreover, Figure 3.9 shows that the majority of liquidations of companies, as is the case for close corporations, are voluntary liquidations (84-88% between 2004 and 2007).

Table 3.26: Liquidations of enterprises by year period, disaggregated in terms of enterprise type and voluntary/compulsory liquidations, 2001-2007

Liquidations	Period of liquidation						Average annual growth
	Between 1/4/01 and 31/3/02	Between 1/4/02 and 31/3/03	Between 1/4/03 and 31/3/04	Between 1/4/04 and 31/3/05	Between 1/4/05 and 31/3/06	Between 1/4/06 and 31/3/07	
Close corporations							
Voluntary	1,666	1,410	1,654	1,589	1,246	1,293	
Compulsory	803	455	403	330	224	145	
Total	2,469	1,865	2,057	1,919	1,470	1,438	-9.5%
Companies							
Voluntary	1,377	1,524	1,662	1,236	1,268	1,386	
Compulsory	461	324	404	232	248	186	
Total	1,838	1,848	2,066	1,468	1,516	1,572	-4.8%
Close corporations and companies							
Voluntary	3,043	2,934	3,316	2,825	2,514	2,679	
Compulsory	1,264	779	807	562	472	331	
Total	4,307	3,713	4,123	3,387	2,986	3,010	-7.3%

Source: Stats SA (2007b) (March 2007, pp.6-8)

Figure 3.11: Share of voluntary liquidations of close corporations and companies, 2001-2007

Source: Stats SA (2007b: 7-8)

The reasons for the steady increase in company liquidations are not clear and require further investigation – particularly the lifespan of liquidated companies would need to be examined in order to draw meaningful conclusions. Moreover, voluntary liquidations are not necessarily 'negative'; they might well reflect entrepreneurial dynamism (eg a director or group of directors voluntarily closing a company in order to start a new enterprise that is better aimed at current market needs and opportunities).

3.5.2 Industrial sector distribution of liquidations of close corporations and companies, compared to new registrations of close corporations and companies

Table 3.27 shows that the two industrial sectors with the highest share of liquidations are:

- Wholesale and retail trade, catering and accommodation
- Financing, insurance, real estate and business services.

These are also the industrial sectors with the highest shares of new registrations.

Comparisons between the figures for the two financial year periods show the following:

- The Financing and business services sector is characterised by a significantly larger share of liquidations compared to its share of new registrations (40% versus 22% in the 2006-2007 financial year). However, this applies to only close corporations (37% versus 18%) because for private companies the share of new registrations exceeds that for liquidations (43% versus 50%). This may indicate a relative vulnerability of close corporations in the Financing and business services sector.
- The Manufacturing sector is also characterised by a higher share of liquidations than new registrations – about 6% versus 2%.
- However, whereas the previous *Annual Review* reported that the Community, social and personal services sector seems to be suffering because the sector's proportion of total liquidations exceeded its share in total registrations, the results of this report show the opposite. Only in the case of private companies the share of liquidations is significantly higher than the share of new registrations (15% versus 2% in the 2006-2007 financial year). In the case of close corporations there appeared to be an unabated stream of new registrations between the 2005-2006 and 2006-2007 financial year periods.

Table 3.27: Industrial distribution of enterprise liquidations and new enterprise registrations, within two periods (1/4/2005-31/3/2006 and 1/4/06-31/3/07)

SIC Major Division	Close corporations		Private companies		Total	
	New registrations	Liquidations	New registrations	Liquidations	New registrations	Liquidations
Period: 1/4/2005-31/3/2006						
1. Agriculture, hunting, forestry and fishing	0.9%	1.3%	0.9%	0.9%	0.9%	1.1%
2. Mining and quarrying	0.3%	0.5%	1.1%	1.5%	0.5%	1.0%
3. Manufacturing	2.6%	6.5%	2.2%	5.6%	2.5%	6.1%
4. Electricity, gas and water	0.7%	1.0%	0.1%	0.1%	0.6%	0.5%
5. Construction	11.5%	12.0%	1.7%	3.4%	9.8%	7.6%
6. Wholesale and retail trade, catering and accommodation	35.6%	36.1%	34.9%	25.5%	35.4%	30.7%
7. Transport, storage and communication	4.1%	5.4%	1.8%	3.2%	3.7%	4.3%
8. Financing, insurance, real estate and business services	23.0%	34.1%	54.9%	38.5%	28.5%	36.4%
9. Community, social and personal services	21.4%	3.1%	2.3%	21.2%	18.1%	12.3%
Total	100% (197,057)	100% (1,470)	100% (41,492)	100% (1,516)	100% (238,549)	100% (2,986)
Period: 1/4/2006-31/3/2007						
1. Agriculture, hunting, forestry and fishing	0.8%	1.2%	0.7%	0.8%	0.8%	1.0%
2. Mining and quarrying	0.3%	0.3%	1.2%	0.6%	0.4%	0.5%
3. Manufacturing	2.1%	5.5%	1.7%	7.0%	2.1%	6.3%
4. Electricity, gas and water	0.5%	0.9%	0.1%	0.1%	0.4%	0.5%
5. Construction	9.0%	10.1%	1.5%	4.3%	8.0%	7.0%
6. Wholesale and retail trade, catering and accommodation	30.6%	35.8%	41.3%	26.3%	32.0%	30.9%
7. Transport, storage and communication	3.6%	5.8%	1.7%	2.2%	3.3%	3.9%
8. Financing, insurance, real estate and business services	18.0%	37.2%	49.9%	43.3%	22.2%	40.4%
9. Community, social and personal services	35.1%	3.2%	2.0%	15.4%	30.8%	9.6%
Total	100% (235,959)	100% (1,438)	100% (35,654)	100% (1,572)	100% (271,613)	100% (3,010)

Sources: CIPRO New Enterprise Register Stats SA (2005c, 2006c, 2007b)

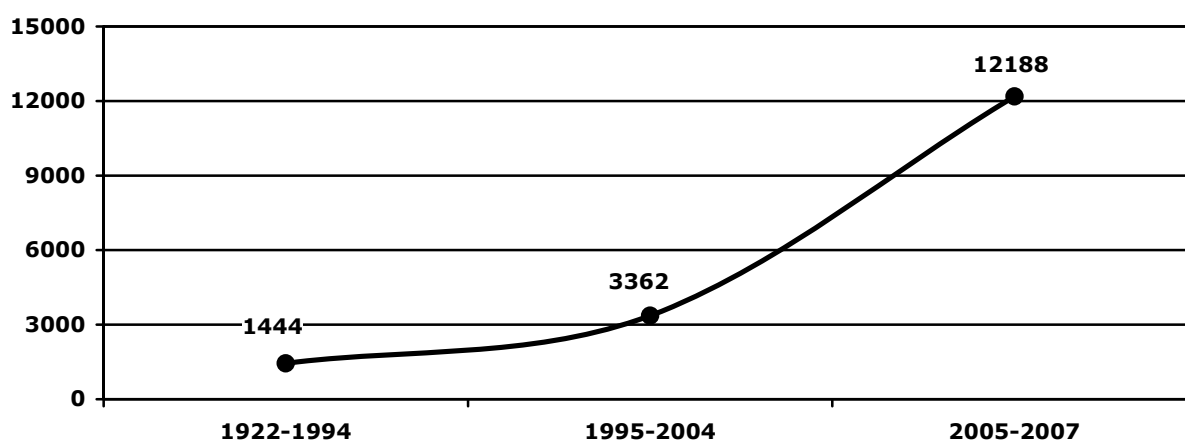
Note:

The percentage distributions for new registrations between 1/4/2006 and 31/3/2007 differ from those in Table 3.21 because SIC Major Division 0 ('Private households') has been excluded.

3.6 Profile of co-operatives

Figure 3.12 shows a significant increase in the number of registered co-operatives in South Africa over the period 1922 to 2007. During the period 2005-2007 there were 12 188 new co-operatives registered on the CIPRO database altogether. This represented a significant increase compared with figures for the previous two (historical) year-periods. Moreover, the increase in the number of co-operatives can be attributed to new and enabling legislation and the various institutions set up by Government to support it, such as Khula Enterprise Finance and the SEDTA.

Figure 3.12: Number of registered co-operatives over three year-periods (1922-2007)



Source: CIPRO (2007), in G'Lab (2008:26)

Table 3.28 provides a breakdown of registered co-operatives by individual financial year since 2003/4. In 2006/7 the total number of registered co-operatives stood at 13 920, which is significantly more than the corresponding figure for 2005/6 (ie 7 355). Also, the period 2006/7 witnessed a significant increase in the number of new co-operative registrations (6 765 in 2006/7 versus 2 829 in 2005/6).

Table 3.28: Number of newly registered and de-registered co-operatives (2003/4 to 2006/7)

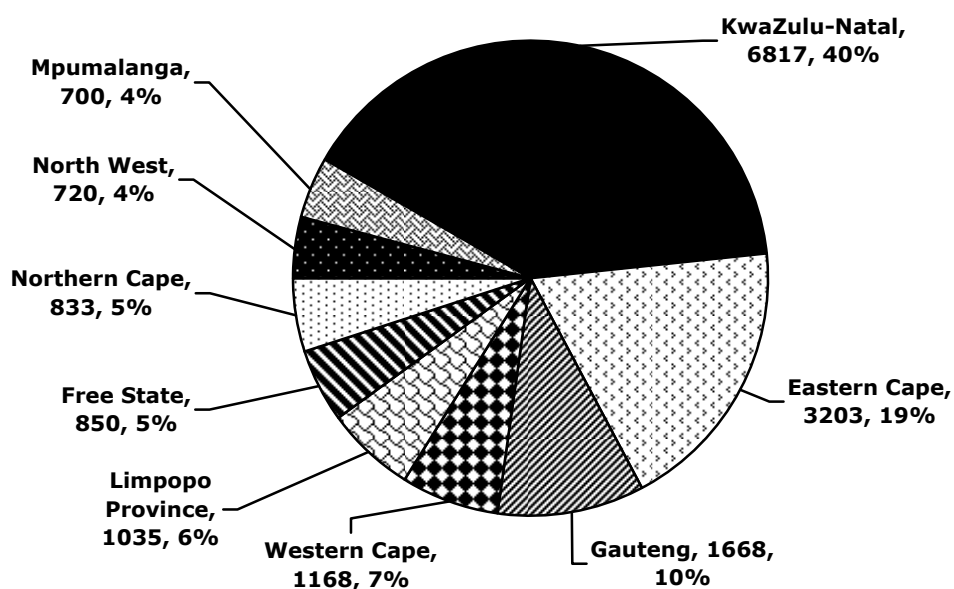
Financial year	2003/4	2004/5	2005/6	2006/7
New registrations	299	511	2,829	6,765
De-registrations	220	69	126	200
Total registered	4,210	4,652	7,355	13,920

Source: CIPRO (2007)

As of 2007, co-operatives were largely concentrated in KwaZulu-Natal (40%), followed by relatively large percentages also in the Eastern Cape (19%) and Gauteng (10%) (Figure 3.13). Sector-wise the co-operatives operated mainly in three sectors:

Agriculture (27%), multi-purpose, i.e. across sectors (25%) and in Services (19%) (Table 3.29).

Figure 3.13: Number and percentage of co-operatives per province, in 2007



Source: CIPRO (2007), in G'Lab (2008:26)

Table 3.29: Sector distribution of co-operatives in 2007

Sector (purpose)	Number of co-operatives	Percentage
Agriculture	4,567	27%
Multi-purpose	4,282	25%
Services	3,247	19%
Trading	1,325	8%
Manufacturing	1,067	6%
Construction	646	4%
Textiles	350	2%
Arts	279	2%
Financial	237	1%
Fishing	189	1%
Bakery	155	1%
Consumer	148	1%
Housing	132	1%
Development	129	1%
Worker	125	1%
Timber	55	0%
Retail	21	0%
Mining	13	0%

Source: Registrar of Cooperatives, in *the dti* (2008)

Lastly, Table 3.30 gives the value of co-operatives in terms of turnover figures. In 2005 the total turnover amounted to R6,7 billion, which is less than the R13,4 billion recorded in 2004. However, these figures are based only on a small number of co-operatives that submitted their financial statements to the Registrar (eg 78 co-operatives in 2005) and also largely represent co-operatives owned by whites. Hence the figures are not totally reliable.

Table 3.30: Value of co-operatives by year (2002 to 2005)

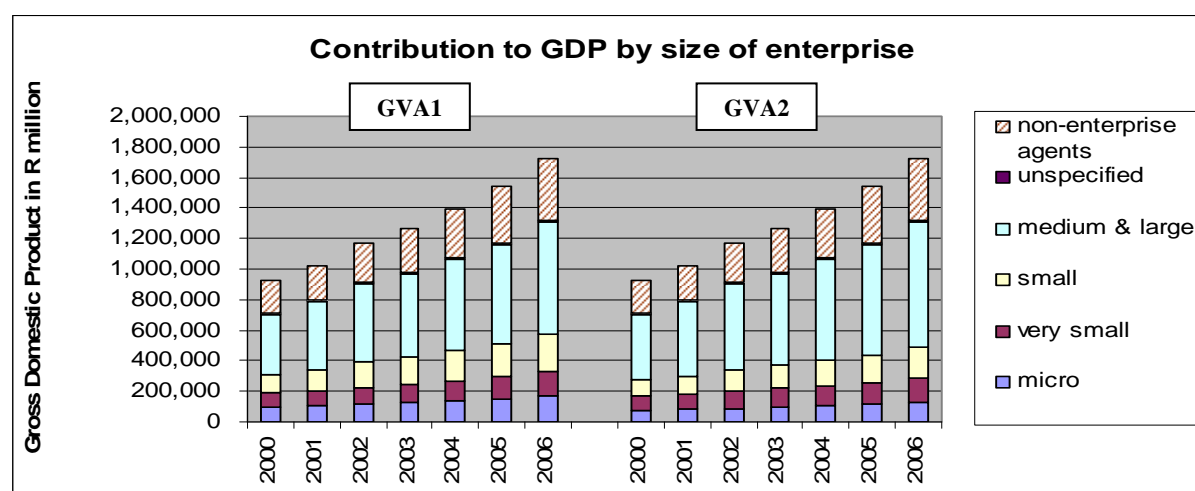
	2002	2003	2004	2005
Number of co-operatives that submitted financial statements	171	170	163	78
Assets (Billion Rand)	6.9	5.4	6.5	5.4
Turnover (Billion Rand)	10.2	11.4	13.4	6.7
Membership	202,226	211,114	207,811	203,207

Source: Registrar of Cooperatives, in *the dti* (2008)

3.7 Contribution of SMMEs to the South African Economy

Considering the economy as a whole, under the model presented in the SEDA report (SEDA, 2007:49), the gross value added generated by micro, very small and small enterprises (ie entities employing less than 50 regular staff) amounts to R572 billion (assumption GVA1) or to R493 billion (assumption GVA2) in 2006, which is up from R313 billion or R274 billion in 2000. The breakdown is illustrated in Figure 3.14.

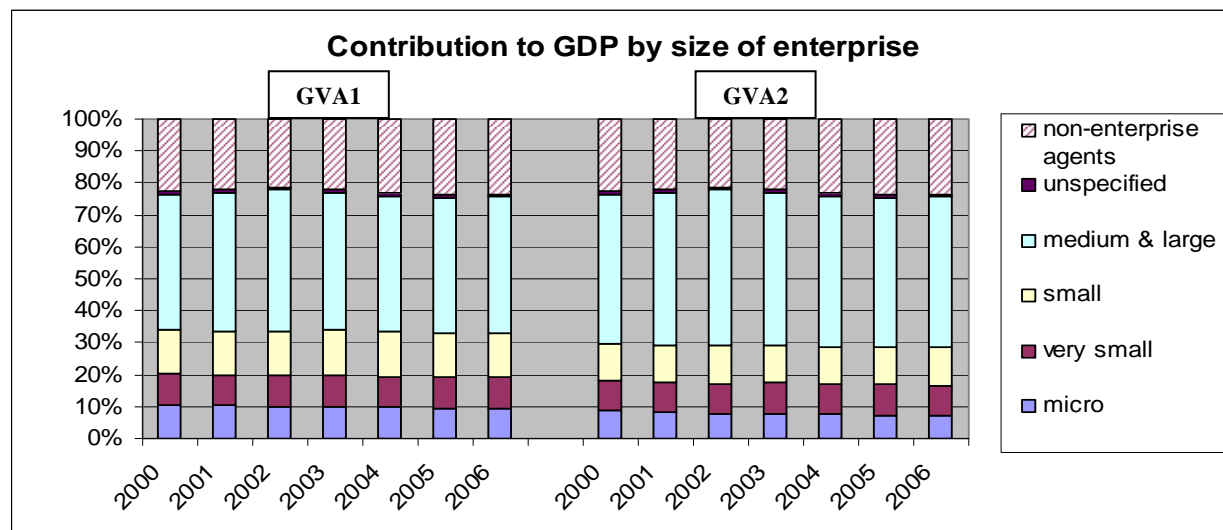
Figure 3.14: Contribution to GDP by size of enterprise, aggregated across all industries



Source: Figure 39 in SEDA (2007:49)

Percentage-wise, micro, very small and small businesses account for 27% to 34% of total GDP (Figure 3.15). Their share, as modelled, is relatively constant across the period 2001-2006.

Figure 3.15: Percentage contribution of micro, very small, small and medium/large firms to GDP, 2001-2006



Source: Figure 40 in SEDA (2007:49)

The individual percentages per enterprise size category are summarised in Table 3.31.

Table 3.31: Percentage contribution of micro, very small, small and medium/large firms to GDP, 2006

	Enterprise size category	% of total GDP in 2006
Enterprise sectors	Micro (A)	8-10%
	Very small (B)	9-11%
	Small (C)	10-13%
	Total (A/B/C)	27-34%
	Medium or large	40-50%
Non-enterprise sectors		21-24%

Source: SEDA (2007:12)

Moreover, with regard to industry sector, the results of the SEDA report (SEDA, 2007:12) show that:

- in agriculture the contribution of small and micro-enterprises is about 40 per cent and fairly stable with approximately R18 billion value added in 2006
- in manufacturing, the SMME sector's value-added share is also about 40 per cent and stable, with gross value added of about R100 billion in 2006

- in the rapidly expanding construction sector, SMMEs contribute a far larger share of about 55 per cent to the value added, amounting to about R23 billion in 2006
- in the trade sector the share of (very) small and micro-enterprises is also about 55 per cent in 2006, with the micro-enterprise share larger than in the other sectors, and with total SMME value added about R120 billion in 2006
- in the transport and communications sector the SMME share is about 43 per cent (R61 billion in 2006), with the micro-segment also increasing fast
- in financial and business services the output of small and micro-enterprises was about R140 billion in 2006, which constitutes a share of 41 per cent
- in community and personal services the small and micro-enterprise share is also high at 62 per cent, but its GDP output is only about R50 billion.

PART 2

NON-REGULAR FEATURES: SELECTED FOCUS AREAS

CHAPTER 4

PROVINCIAL FOCUS: SMMES IN KWAZULU-NATAL

4.1 Introduction

KwaZulu-Natal is South Africa's largest province by population, and the second-largest contributor to the country's economy. It also has a very important place in the cultural and political life of South Africa. For these reasons, the success or failure of economic development efforts is of great significance to the entire country. While KwaZulu-Natal's economic performance has improved steadily, it remains a province characterised by two economies: one rural, primarily agricultural and relatively underdeveloped; the other urban and industrial, but not very competitive.

Nevertheless, there have been a number of significant successes in the province's Small Medium and Micro Enterprise (SMME) development efforts. Successes and failures, as well as the potential for future growth and the constraints to such growth, are reviewed in this chapter.

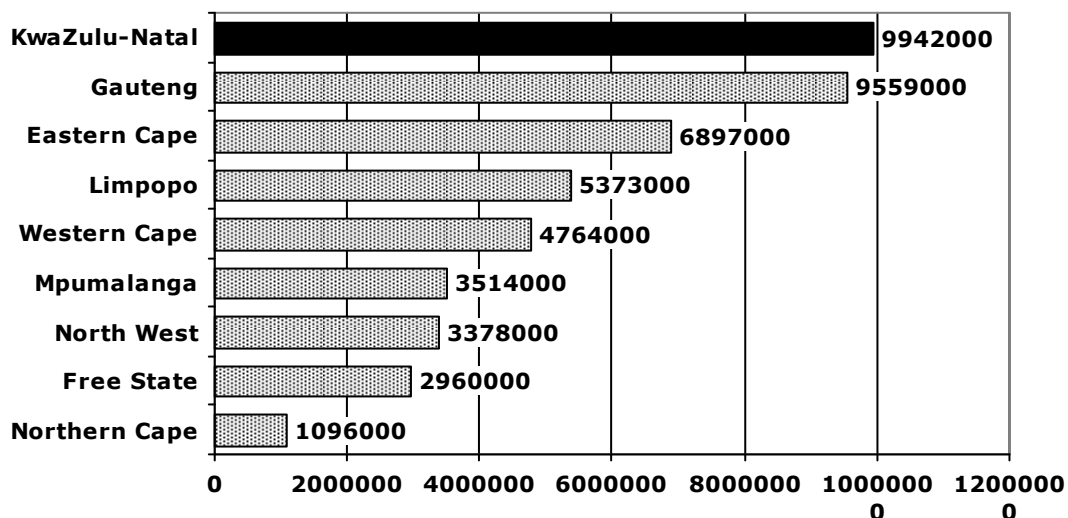
4.2 Economic environment and regional context

4.2.1 The regional economy of KwaZulu-Natal

KwaZulu-Natal tops the population figures amongst the provinces in South Africa, with a total population of about 9.8 million (Stats SA Labour Force Survey, March 2007). As can be seen in Figure 4.1, KZN and Gauteng are by far the most highly populated provinces.

84% of the KZN population is African, largely Zulu-speaking, 8% is Indian, 6% is White and 2% is Coloured (Stats SA LFS, March 2007).

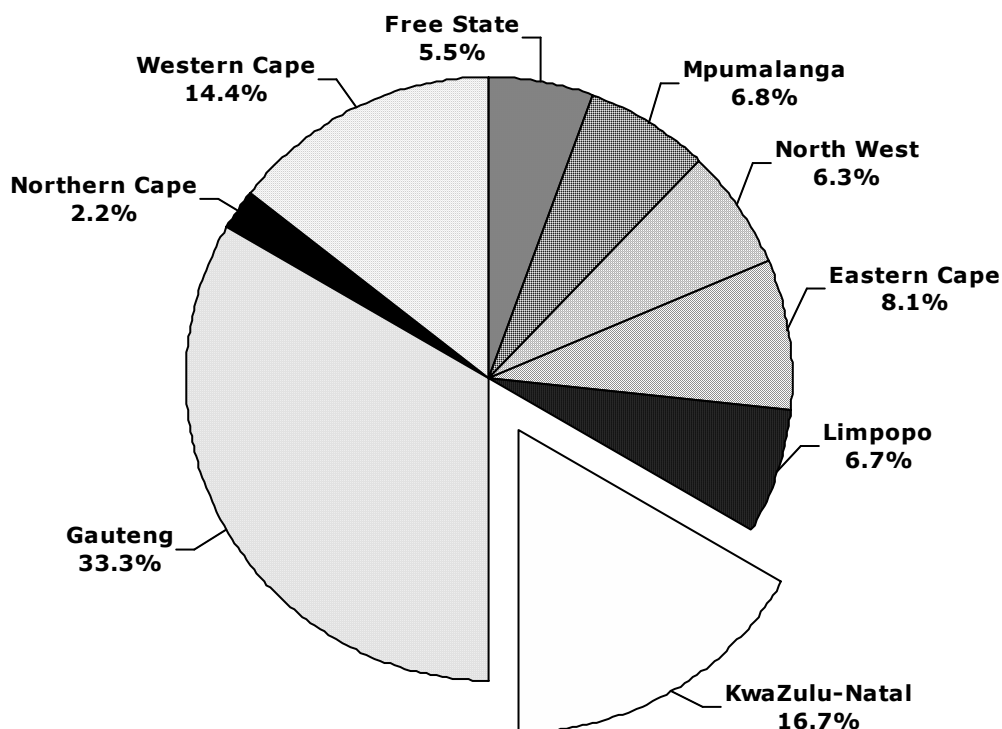
Figure 4.1: Population by province (September 2006)



Source: Stats SA (2006b)

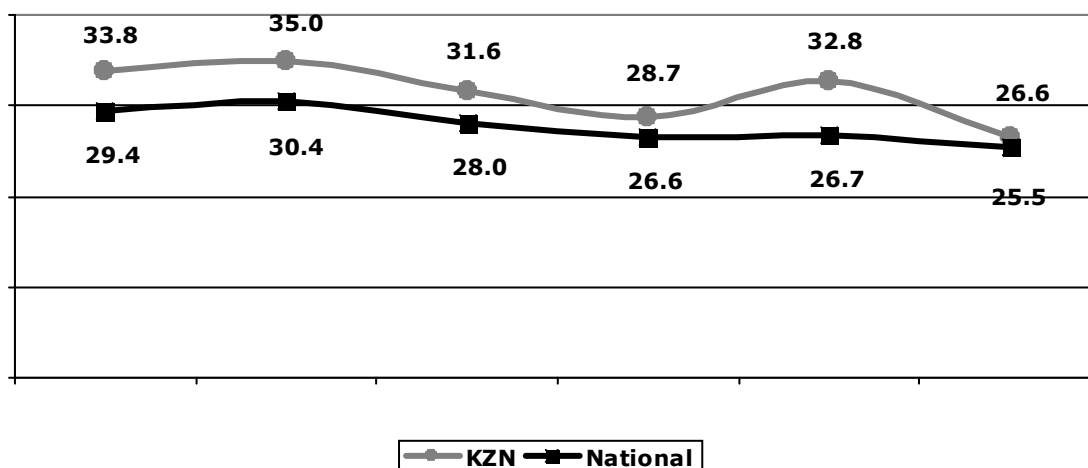
While there is a significant and fairly dynamic industrial economy centred around Durban/eThekweni and the KZN South Coast, a significant proportion of the province's urban and rural inhabitants live in poverty, and many are dependent on subsistence agriculture for their livelihoods. Unemployment is high and, as is the case throughout the country, small, medium and micro-enterprise development is considered a key aspect of economic development policy aimed at alleviating unemployment, poverty and inequality.

According to a statement recently released by the KwaZulu-Natal Provincial Government (2007), the province's economic growth has shown a steady increase over the past years. The highest growth of 14% was recorded in the Uthungulu district. The province is the second largest contributor to GDP after Gauteng, contributing about 16,7% of total output in South Africa (southafrica.info, 2007).

Figure 4.2: Provincial contributions to national Gross Domestic Product

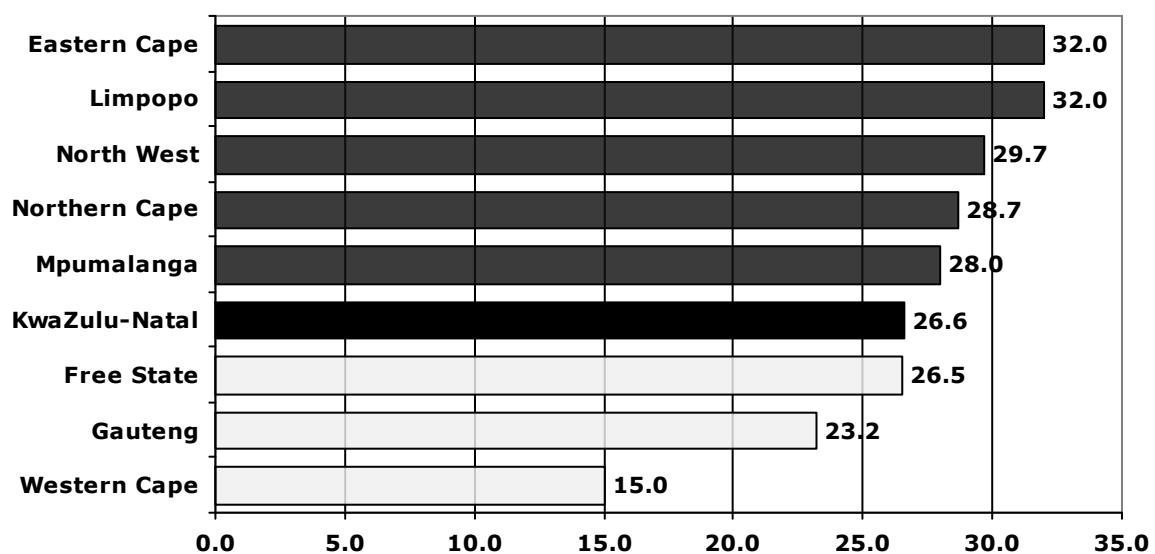
Source: southafrica.info (2007)

As is the case in every other province in South Africa, KwaZulu-Natal has a serious unemployment problem. While the unemployment rate has declined markedly in recent years, it remains higher than the average for South Africa. Figures 4.3. and 4.4. illustrate the reduction in unemployment and the relative position of KwaZulu-Natal respectively.

Figure 4.3: KwaZulu-Natal unemployment rate vs. the national unemployment rate (September 2001 to September 2006)

Source: Stats SA (2006b)

Figure 4.4: Provincial unemployment rates (September 2006)



Source: Stats SA (2006b)

However, a significant proportion of KwaZulu-Natal's economically active population (10.4%) consists of discouraged work-seekers. (This situation is similar in the country as a whole.) This indicates that the official unemployment rate underestimates the problem to a certain extent (Stats SA, 2006b).

As indicated earlier, agriculture is a significant employer in the province, and a relatively underdeveloped rural economy persists together with a sophisticated industrial economy (particularly in a number of key sectors). This is indicated by the large number of individuals employed in formal and informal agriculture (93 000 and 201 000 respectively). KZN and the Eastern Cape are the two provinces where agricultural employment is skewed in favour of informal agriculture, with KZN representing 15.3% of the total formal sector and 42.6% of the total informal sector of agricultural employment. Agricultural employment fluctuates greatly, but in the year from September 2005 to September 2006, LFS figures show that 88 000 additional people found employment in informal agriculture in the province, compared with only 1 000 in formal agriculture.

KwaZulu-Natal received 21% of the South African government revenue for its provincial budget in 2007, the largest share of all provinces. (Gauteng receives 17%.) The share amounts to R43,5 billion (Harris, 2007). The province allocated the biggest portion of the money to health and education.

4.2.2 The HIV/AIDS challenge

KwaZulu-Natal is the province worst affected by HIV/AIDS in South Africa. The main source of HIV seroprevalence data, the Department of Health's annual survey of public ante-natal clinic attendees, found a prevalence rate of 39.1% in KwaZulu-Natal, compared with a national rate of 29.1% (Department of Health, 2007:7). This finding is confirmed by the Human Sciences Research Council (HSRC)'s National Seroprevalence Study of 2005 as well as by the provincial estimates produced by the Actuarial Society of Southern Africa's ASSA2003 model, which estimate 21.9% (Shisana et al, 2005:39) and 26.1% (ASSA, 2006) respectively for adults aged 15-49 in KZN in 2005.

While KwaZulu-Natal is the province with the largest number of patients on the public sector antiretroviral treatment programme, the shortfall is also very great in this province, and the public health system seems to be seriously overburdened. It is likely that the impact of this shortfall is greatest on small businesses, since these, unlike larger enterprises, generally do not have the capacity to implement their own treatment or care programmes, and consequently suffer greatly through lost productivity. The situation is worst in rural districts where public health infrastructure is weak.

A study conducted from 2002-2004 by the Leonard Davis Institute of Health Economics aimed to analyse the economic impact of HIV/AIDS on small businesses in South Africa. The study focused on peri-urban Durban (see Chao et al, 2007). An assumption is that the impact of the epidemic is likely to be disproportionate on very small businesses, since these enterprises are labour-intensive and generally dependent on the owner's presence. The research is further motivated by the fact that, even though many economists speculate about the possible severe impact of HIV/AIDS on the informal sector, very little research has been done to estimate the impact.

The study found that poor baseline health and declines in health over time were both significantly associated with business closure (Chao et al, 2007:474). This confirms the common-sense conclusion that HIV/AIDS is likely to exacerbate poverty and unemployment and undermine development efforts.

Significantly, the authors' conclusion (Chao et al, 2007:481) has important policy implications for SMME development:

... the current results convey an important message for policy: Illness is harmful to the economic health of a large economically relevant but often neglected segment of the population. We found that the poor health of the owners of small businesses led to the closure of these businesses and that these businesses were not replaced by new ones. Hence, these services can be considered 'lost' in each community in

which the businesses previously existed. This suggests that there could be an economic case for investing resources in the prevention and treatment of disease in the lower-income informal sector in developing countries.

4.3 Provincial SMME policies, programmes and initiatives: an overview

4.3.1 Provincial SMME development policy in brief

As pointed out earlier, a substantial portion of the inhabitants of KwaZulu-Natal live in rural areas. A major Local Economic Development (LED) challenge for the provincial government is to enable these areas to compete with more affluent areas in attracting investment in order to make sustainable economic development possible (Mkhize, 2006).

The year 2005/2006 was a very productive year for the provincial government and indeed the local municipalities, as the Local Economic Development (LED) initiative, Gijima KZN, funded by the European Union (EU), was launched in the districts of uMkhanyakude, Ugu, uMgungundlovu and uThungulu. Work associated with this initiative will be discussed in detail later in this chapter.

In his budget policy speech in May 2006, the KwaZulu-Natal MEC for Finance and Economic Development, Dr Zweli Mkhize, emphasised the province's commitment to SMME development. The provision of business support to small enterprises had been improved in 2005/2006, partly because of the establishment of the province's SMME Support Service Delivery Network. Integration of small enterprise support programmes is continuously being undertaken in the province. A framework has been conceptualised 'aimed at improving the Department's direct involvement in the promotion of SMMEs especially in the provision of expert advice on the development of credible business plans to access financial support from financial institutions as lack of funds make it difficult for budding entrepreneurs to achieve their business dreams' (Mkhize, 2006).

In 2006, R200 million was allocated to the province's major development agency, Ithala Development Finance Corporation to fund SMME development. By the end of February 2006, Ithala had approved 678 SMME applications for loans, at the value of R471 million. The KZN local government planned on investing a further R400 million in business support in the form of SMMEs and co-operatives in 2006/2007.

Even though no mention was made of SMME development in the budget vote of the Office of the Premier delivered on 16 April 2007, Dr Mkhize's budget address of 2007 outlined the Provincial Spatial Economic Development Strategy (PSEDS) to be adopted by

the province. The strategy identified four sectors in the province with the greatest potential to 'drive growth and impact on poverty and unemployment', namely agriculture and agri-industry, industry and manufacturing, tourism and service sectors, including financial, social, transport, retail and government.

Investment in this and other provincial initiatives is supported by parastatals, Foreign Direct Investment (FDI) – over R27 billion was invested by foreign companies in KwaZulu-Natal between 2000 and 2005 – and foreign trade missions.

The 2007/2008 budget framework of the province is informed by three developmental strategies, namely:

- stimulating sustainable and shared economic growth through partnerships
- employment creation and empowerment initiatives
- improving service delivery.

Dr Mkhize (2007) also mentioned the SMME financing facilities established by the province to assist previously disadvantaged individuals to start and expand businesses. He explained that the National Small Industries Corporation (NSIC) of the Republic of India will be used to develop a strategy for KwaZulu-Natal to support SMMEs on a district basis. This will be a joint effort with the Small Enterprise Development Agency (SEDA).

4.3.2 The EPWP in KwaZulu-Natal

The Expanded Public Works Programme is a major national initiative to directly promote employment generation and stimulate economic growth through training. Together with skills development it is the primary active labour market policy pursued in South Africa. For a discussion of the national programme, see section 2.3.6 in Chapter 2.

Over the period of the Medium Term Expenditure Framework, R635 million has been allocated to the EPWP in KwaZulu-Natal, under the leadership of the Transport Department (Ndebele, 2007b). The National Treasury has allocated an additional R128-million grant to the province's infrastructure sector. Between April and December of 2006 alone, more than R56 million was spent on 173 projects in the Agriculture and Environmental sectors, which it was claimed created more than 10 000 jobs (Ndebele, 2007b). Most successful has been the Zibambeke project – a labour-intensive road-maintenance project, since it is aimed specifically at poor households:

[The Zibambeke project is] aimed at alleviating poverty and unemployment... Zibambeke means 'doing it ourselves'. Zibambeke targets women-headed households with an aim to provide sustainable job-opportunities. The Zibambeke contractors have savings clubs

which empower them to invest in business enterprises. Some of these contractors have, with the help of government, started projects like growing mushrooms, sewing reflector road safety vests and making tents (Ndebele, 2007b)

Launched in April 2007, the Siyazenzela community-based waste management project is still too young for its impact to be judged. The intention is to facilitate poor households' exchanging waste for food products, and it is being piloted in the Umgungundlovu and eThekweni municipalities on the Hibiscus Coast.

4.3.3 The Provincial Co-operative Development Programme

The view that co-operatives represent a business form that is particularly well-suited to poverty alleviation because of its applicability in South Africa's social conditions is reflected in the national co-operative development policy. The idea is that co-operative development will enable socially marginalised communities and individuals to engage in business activity and that co-operative development will support SMME development because some co-operatives will develop into successful SMMEs. (The comprehensive national strategy driven by the Department of Trade and Industry is discussed in section 2.3.8 of Chapter 2. See also the statistical profile of co-operatives in Chapter 3, section 3.6, where it is said that 40% of co-operatives nationally are found in KwaZulu-Natal.)

The KwaZulu-Natal Provincial Growth and Development Strategy (PGDS) has also identified co-operatives as being of significant policy interest for the province, implementing plans to:

- mobilise the community into forming co-operatives
- organise district secondary co-operatives to service the primary ones
- organise a provincial tertiary co-operative to work with business and others to benefit of the movement
- organise training and support for the co-operative movement.

The province's co-operative development followed a similar path to national development up to 2005. Since then, a new sense of urgency has been evident in the number of new provincial initiatives that have been launched. The provincial co-operative development programme was launched in 2005, with an initial R110 million invested. By October 2005 it was estimated that 25 000 potential co-operators had been trained, 488 loans valued at R53 million had been approved, while 90 co-operatives had been accepted into the provincial mentoring programme. By January 2007 the KwaZulu-Natal MEC for Finance and Economic Development had given the Ithala Development Corporation R220 million over the previous two years. The money financed 1 020 co-operatives that have created

about 1 000 jobs. The funded co-operatives include bakeries, agricultural projects, sewing, textiles and construction (Inggs, 2007).

The importance of co-operative enterprises growing into SMMEs was reiterated by the Minister of the Department of Economic Development (DED) stating that 'the aim is to assist co-ops to 'graduate' into Small to Medium Enterprises and to eventually become role players in the First Economy. The role is also for them to become an effective instrument to accelerate the concept of Black Economic Empowerment (BEE) – aimed at facilitating socio-economic equity in our society' (Gijima, 2006:23).

A Gijima report (2006:35) finds that there appears to be a bottleneck from the number of groups entering the process of co-operative development when the co-operative registration and loan processes start. The greatest bottleneck, however, appears to occur at the point when mentoring starts, where people should be getting advice on starting, managing and marketing a business. This highlights the critical importance of effective business mentoring. It is for this reason that the KwaZulu-Natal DED has implemented a system of compulsory incubation for newly formed co-operatives. In fact, guidance and assistance from the DED starts at the very moment of conception of a business idea, as outlined on the website of the DED (www.kznded.gov.za):

- People who have a business idea and are interested in forming a co-operative can come together to form a pre-co-operative group.
- The pre-co-operative group can contact their nearest FET college where they can apply to participate in a 4 week training programme. At least half of the members of the group must attend the training course. During this training they will be introduced to co-operatives and will get assistance to develop a business plan, draw up a constitution for their co-operative and fill in an application to register as a co-operative.
- The co-operative registration application is sent to the KwaZulu-Natal DED. The Department will forward the application to the Registrar of Co-operatives at CIPRO. Registration takes 4-6 weeks. The business plan is sent to Ithala with an application for funding for the co-operative. The co-operative completes an application form to be placed in the KZN provincial government list of service providers.
- If co-operative registration and funding applications are approved the co-operative must join the KZN Business Incubation Programme managed by Masifundisane Training and Development College. This incubation or mentorship programme provides support for the co-operative for up to 6 months. The new co-

operative begins to operate as a business with guidance and support from the Masifundisane mentors.

- After 3 to 6 months the co-operative moves out of the incubation programme, and becomes an independent business.

The role of provincial government itself as a provider of business opportunities for co-operatives cannot be underestimated. KwaZulu-Natal sets an example in this regard as its Department of Health has a framework in place that regulates the procurement of goods and services through co-operatives. The department has committed R5.1 million towards issuing tenders to co-operatives that are registered on the Provincial Suppliers database. The majority of co-operatives that were awarded tenders are owned and managed by women and some are from rural areas (www.kznhealth.gov.za/coop.htm).

4.3.4 Local Economic Development (LED) in KZN

Introduction

The informal economy received no state support until the 1980s, when it increasingly came to be seen as a substitute for state welfare (Skinner and Lund, 2004:433). Until the late 1980s, however, local governments did little to create an environment conducive to informal sector economic economy: it was very difficult to obtain a licence to trade, and laws required street traders to relocate on a regular basis. In 1991 the Business Act was promulgated by national government, limiting the powers of local governments to restrict trading. This resulted in the number of street traders in urban areas increasing dramatically.

The political transition of 1994 significantly enhanced the autonomy of local governments, with the 1996 Constitution providing that local governments are to promote social and economic development. The national government prioritised SMME development, as we have seen, which includes informal sector enterprises. All too often very small and informal enterprises are not reached by national policy initiatives, which according to Skinner and Lund (2004:434), means that these areas have become the de facto responsibility of local government.

Gijima KZN

Gijima KZN is the Local Economic Development Support Programme for KwaZulu-Natal (EPRD¹⁵, 2004:1). It is a six-year programme aimed at supporting the Department of

¹⁵ European Programme for Reconstruction and Development

Economic Development (DED) and other stakeholders in implementing LED more effectively. The main goal is to achieve equitable economic growth in the province. At its inception, the programme objectives were identified as:

- a reduction of unemployment of a least three percentage points
- a decrease by 10% in the number of households earning less than R800 per month
- economic growth and the increase in household income in the four learning areas exceeding that of the control area of Thabo Mofuntsanyana DM in the Free State Province (EPRD, 2004: 2-1 – 2-2).

A report prepared for the KZN Department of Economic Development (WFA and Graham Muller Associates, 2006:7) described Gijima's broad purposes as:

- promoting pro-poor local economic development
- building the capacity of local government in managing local economic development
- increasing local competitiveness through the building of partnerships. (See also the institutional outline in Chapter 2.)

The programme, which is to end in 2009, provides its support through four funds (WFA and Graham Muller Associates, 2006:8-9):

- *The Business Enabling Fund (BEF)*: provincial government and public entities are eligible for BEF funding. The purpose of the fund is to assist and strengthen skills development and capacity building in LED and government structures. It specifically aims at encouraging local councils to work with the private sector, NGOs and community organisations, chambers of business and trade unions.
- *The Local Competitiveness Fund (LCF)*: this fund intends to streamline and grow existing businesses through networking and partnerships. The fund wants to improve market access, products and output.
- *The Networking and Co-operation Fund (NCF)*: This provides funds for the marketing and communication of the program and establishes a provincial monitoring, learning and research facility (MLRF).
- *The Technical Assistance Fund (TAF)*: This fund provides assistance to those wanting to apply for funding from the BEF or LCF.

Local Economic Development initiatives in Durban/eThekweni

The Durban/eThekweni metropolitan area (as a major port and industrial area and home to almost half of the province's population) occupies a key position in the provincial economy of KwaZulu-Natal. Local Economic Development policy initiatives in eThekweni are therefore of critical importance to the province.

The Centre of Development and Enterprise (CDE) identified Durban in 1996 as potentially South Africa's best global competitor because of a 'combination of historical and geographical luck, political pragmatism, and the tight focus of local business leaders' (CDE in Maharaj and Ramballi 1998:134). This good luck was complemented by a relatively pro-active Durban City Council (DCC) that launched various initiatives to attract capital investment to the city. In partnership with the private sector, the DCC established The Greater Durban Marketing Authority to promote tourism and economic development in the Durban area.

Upgrading of informal settlements

Informal settlements and informal businesses often go hand in hand, therefore it is useful to have an overview of informal settlement development in the Durban area.

In the apartheid era, the numerous African areas around the city of Durban fell under the authority of the homeland KwaZulu. By the 1990s, there were no less than 60 different local authorities. This became the Durban Metropolitan Area (DMA). Boundaries were subsequently redrawn in the early 1990s to form a two-tier system comprising a metropolitan government and six local government structures. After the political transition, the boundaries were redrawn in 1996, culminating in the formation of eThekweni Municipality (Skinner and Lund, 2004: 434).

The upgrading of informal settlements has been practised in KwaZulu-Natal since before the end of apartheid, in contrast to other parts of the country. A significant number of upgrading projects has been launched over the last 14 years around Durban and Pietermaritzburg. More recently, national initiatives have been modelled on this approach, such as the National Housing Programme Upgrading of Informal Settlements in 2004 (Charlton, 2006:48).

The best-known example of such upgrading is Bester's Camp in Inanda, Durban. The area emerged informally in the 1960s, and during the 1970s was deemed part of the semi-independent homeland of KwaZulu. The political conflict of the 1980s had a significant impact on Bester's Camp. By 1989, the four informal settlements today known as Bester's Camp consisted of over 6 500 dwellings, accommodating about 50 000 people (Charlton 2006:53-54). In 1990 the Urban Foundation's Informal Settlements Division

initiated the first large-scale upgrading project in these settlements. The project, funded by the City of Durban and the Independent Development Trust (IDT), developed infrastructure and provided freehold tenure to the 6 500 households between 1990 and 1995. The project responded to the realities on the ground and was aimed at minimising the relocation of households.

Other informal settlements in the area that have been upgraded include

- Ntuthukoville
- Pietermaritzburg-Msunduzi
- Briardene
- Cato Crest.

Support for the informal economy in Durban

In 1999, the Durban local government started to develop a policy for the informal economy through consultation and participation (Skinner and Lund, 2004:432). The policy was adopted in 2000.

The process of policy formulation was unusual in that consultations with poorer people were actively conducted, primarily in their roles as workers (and prioritised over general categories of 'civil society'). Further, the process focused on deepening participation with the local government. Finally, the policy development process itself aimed to secure an integrative approach to the informal economy, wherein informal economic activities were mainstreamed into general urban and economic planning, and into the thinking of interest groups within local government and society as a whole (Skinner and Lund, 2004).

According to the authors, this process took place within a context where many of the officials and newly-elected politicians did not agree on the best approach to the informal economy. This disagreement reflected a debate that has not been settled in the country as a whole: while everyone agrees that creating employment opportunities must be the first priority, there is no general agreement as to how this could best be achieved. Skinner and Lund (2004:432) make the interesting point that, in Durban, the division of opinion reflected different views as to the ideal image that the city should portray. The 'Eurocentric' approach wanted an ordered city rid of street vendors, while the opposite argument backed an 'African' city with vibe and chaos. The opinion of the authors is based on the fact that they were external advisors to the local government at the time, and therefore had some inside knowledge of the underlying tension.

Skinner and Lund (2004: 438-439) identify the following important points as characterising the policy initiative of 2000:

- It commits the city to providing support services to very small enterprises, specifically suggesting the provision of basic business skills training, legal advice, health education and assistance in accessing financial services.
- This commitment is made proactively, with suggestions as to the possibility of the city's subsidising training etc.
- The policy suggests a sectoral or industry-by-industry approach to assisting those in the informal economy, including comprehensive analyses of different sectors.
- The important role of worker organisations in the informal economy is acknowledged.
- The improved management of economic activities is identified as a priority.

Identified constraints to informal sector activities in Durban

Skinner's (2006) study of informal sector enterprises in Durban identified two broad areas that require local government intervention:

- the provision of basic services like safety and security and transport
- business-related infrastructure and support services.

With regard to basic services, respondents indicated safety and security on the streets as a much-needed government intervention (Skinner, 2006:141-142). In addition, many people working in the informal sector in Durban have no access to water. Even though Durban has made progress in enhancing these basic services, there is still much to be done. The same can be said of public transport, where government would be able to serve the needs of the informal sector if costs were curtailed or access to transport improved. Skinner (2006:142) writes:

The delivery of these basic services falls outside the ambit of the local government departments that traditionally deal with the informal economy – those managing informal trade, or promoting small business specifically or economic development more generally. The fact that so many enterprise owners are identifying these kinds of issues as problems or potential areas of intervention, point to the importance of an integrated approach to the informal economy within, and between, local government departments.

With regard to business-related infrastructure and support services, the survey indicated that 67% of respondents complained of inadequate business space in Durban. Skinner deduced that a real need exists for government intervention to provide 'appropriately designed incubator spaces' (SACN, 2006:34), or permanent trading stalls not far from where these informal entrepreneurs live. The same could be said about the general need for storage space.

Skinner's (2006:143) data also suggests that research needs to be conducted in the Durban municipal area amongst intermediaries currently providing micro-finance to find out what their major challenges are. This is urgent, as it is clear that the informal economy drastically needs access to credit. Of the organisations that have had success in providing credit, Skinner mentions the Land Bank and non-governmental organisations such as the Foundation for International Community Assistance (FINCA). A major challenge remains concerning the dissemination of information from those credit providers that do exist, to the entrepreneurs who operate in the informal economy. Skinner suggests that the credit issue should be approached with caution, however. The need for credit is often symptomatic of another problem: that the business is not profitable, for example. Providing credit in such a situation would only exacerbate existing challenges. In this regard, Skinner reminds us that 'access to credit is access to debt' (Skinner, 2006:143).

Skinner's survey also indicated that the informal economy in Durban has little or no access to training and other support services, and it is suggested that the provision of credit should be accompanied by proper training in managerial skills. Staffing support centres are a suggested intervention: these would need to include both 'cross cutting' and sectoral knowledge (Skinner, 2006:144).

Infrastructure development for LED in the Durban region

In the light of the preceding discussion, it is interesting to note that a key aspect of efforts to improve the economic performance of the Durban region has been the initiation of several infrastructure-driven Local Economic Development (LED) efforts, particularly the development of the International Convention Centre (ICC) and the Point Redevelopment Area – two large-scale projects aimed at attracting mobile capital to the city (Maharaj and Ramballi, 1998:131-141). At the time, the consensus existed that these projects would create a wide range of employment opportunities in the Durban region, both from the initial construction boom and through increased tourism etc. However, Maharaj and Ramballi (1998:143) point out that these predictions took no account of the cyclical nature of the activities, and relied on the 'trickle-down' effect to reach the poor.

There is little or no evidence that these large-scale construction-driven LED efforts contributed significantly to employment generation in the local SMME sector, or to the sustainability of existing SMMEs.

Maharaj and Ramballi (1998:146) advocate 'linkage policies' to ensure that the benefits of LED projects are channelled directly to disadvantaged communities. Perhaps similar

policies (eg procurement) that aim to benefit larger numbers of local SMMEs, particularly those owned and operated by HDIs, should form an integral part of Local Economic Development policy.

4.3.5 SMME Development Institutions in KZN

In addition to the programmes and players already mentioned in 4.3.1 to 4.3.4, several institutions have important mandates with respect to developing SMMEs in KZN, briefly outlined below.

Small Enterprise Development Agency (SEDA)

The Integrated Small Enterprise Development Strategy is intended to act as a coordinating strategy for all small enterprise development efforts nationally. Entrepreneurship and small business promotion is a shared competency, and integration is therefore critical. **The dti** acts as the coordinating point, supported by SEDA (for non-financial support services) and SAMAF (for micro-finance) **as well as Khula for SME finance** (**the dti**, 2005:24). SEDA, launched in 2004, is intended to provide a single integrated mechanism for small enterprise development programmes – an important development that it was hoped would help address the lack of coordination between interventions and particularly the fragmentation in support services.

In KZN, SEDA maintains a provincial office in Durban, as well as smaller branch offices, at which various services are provided. Most of these services are informational in nature (ie helping entrepreneurs identify business opportunities, access financing, etc). SEDA has several dedicated Enterprise Information Centres in the province.

The SEDA Technology Programme (STP) supports technology SMMEs by promoting technology transfer and incubation. It currently operates mainly in the following sectors:

- biotechnology and life sciences
- medical devices
- bio-diesel
- essential oils
- chemicals
- construction
- floriculture
- furniture
- Information and Communication Technologies
- small-scale mining
- stainless steel, aluminium, platinum and metal beneficiation.

Several of these sectors have significant representation in KwaZulu-Natal, and in particular the chemicals sector is strategically important. The STP maintains an Emerging Contractors Centre in Durban, and a strategic Downstream Aluminium Centre for Technology (DACT) facility has been established in Richards Bay. The facility has been built as part of the DACT project, where trained students from the local Downstream Aluminium Pilot Project are able to set-up their own aluminium-related business ventures with the support of the centre.

Ithala Development Finance Corporation

Ithala Development Finance Corporation is seen as central to the economic transformation of the province. Ithala business centres are located mostly in urban areas, making the delivery of services to remote areas problematic. The following table plots sectors against certain (unspecified) geographical areas in KZN and provides an indication of which sectors currently benefit most from Ithala funding. As may be expected, textiles and services dominate. The clothing and textile SMME sector is a significant employer in KZN.

Table 4.1: Distribution of Ithala loans by sector

Sector	Number of loans
Textiles	80
Crafts	11
Agriculture	63
Poultry	66
Building	53
Catering	67
Manufacturing	50
Services	84
Other	14
Total	488

Source: Gijima, 2006:32

Umsobomvu Youth Development Fund (UYF)

The UYF is currently involved in a number of social and economic empowerment initiatives to support the youth of South Africa, described earlier in sections 2.3.3 of Chapter 2.

4.4 The informal SMME sector in KwaZulu-Natal

4.4.1 Introduction

The informal SMME sector has been touched on in the previous section, but will be discussed in greater depth in Section 4.4.

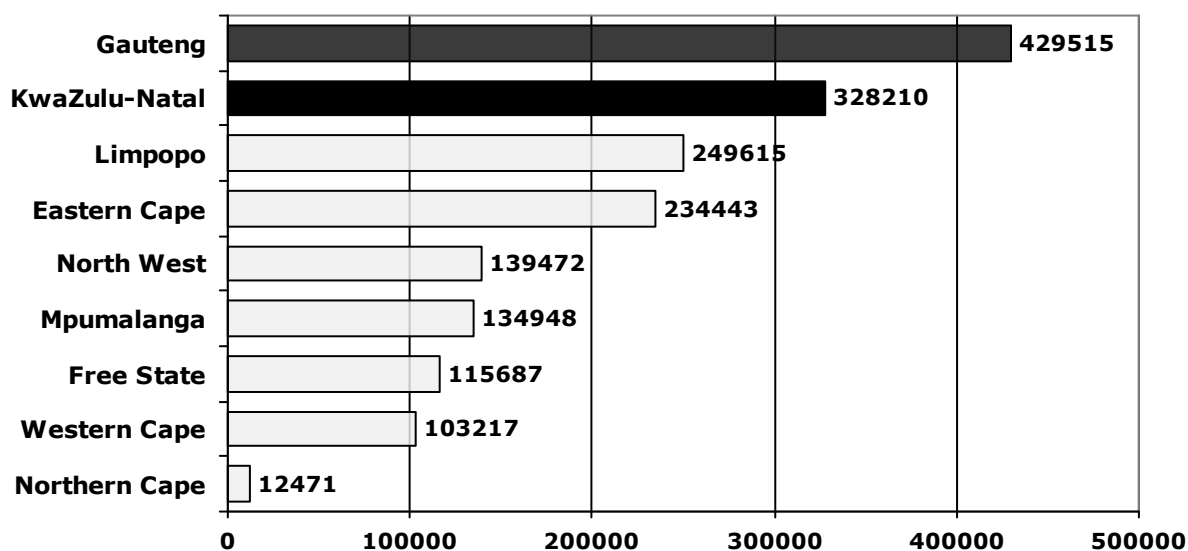
Official statistics on SMMEs in the informal sector are almost non-existent. The Labour Force Survey (LFS), conducted bi-annually by Stats SA, gives the number of workers in selected economic activities, some of which could also be classified as involving SMME activities. The figures, however, although disaggregated in terms of workers in the formal and informal sectors, are not reported in terms of province. Hence, the LFS results are of little value in this profile of SMMEs in KwaZulu-Natal.

The Survey of Employers and the Self-Employed (SESE), also conducted by Stats SA, is devoted to a study of non-VAT registered businesses that operate largely in the informal sector (Stats SA, 2005d). The SESE was first conducted in 2001 and again in September 2005 as part of the LFS. In the SESE, the number of persons owning and managing at least one non-VAT registered business – which generally means an informal small or micro-business – is disaggregated in terms of province.

As can be seen in Figure 4.5, in 2005, about 328 210 persons in KwaZulu-Natal owned or managed at least one non-VAT registered business. This puts KwaZulu-Natal in second place, below Gauteng. Moreover, the number of persons owning and managing such businesses in KwaZulu-Natal represents 19% of all non-VAT registered business owners in the country (Figure 4.6).

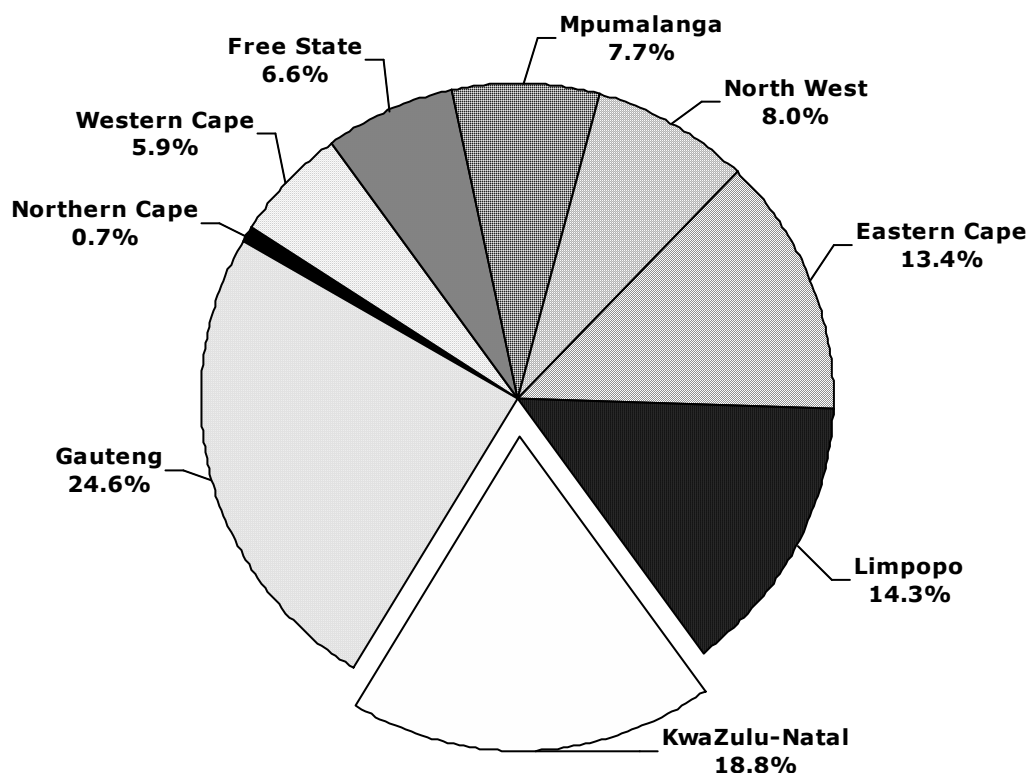
In September 2005 there were 6 057 000 persons of working age in KwaZulu-Natal, of which 3 241 000 were regarded as economically active (according to the September 2005 LFS, in Stats SA, 2005b:7). This means that in KwaZulu-Natal, 5% and 10% respectively of persons of working age and economically active workers own and manage informal, non-VAT registered businesses.

Figure 4.5: Number of persons owning and managing at least one non-VAT registered business, by province (2005)



Source: Stats SA (2005d), Table 3, p. xi

Figure 4.6: Provincial distribution of persons owning and managing at least one non-VAT registered business (2005)



Source: Stats SA (2005d), Table 3, p. xi

4.4.2. The urban informal SMME sector

Durban's critical position in the regional economy has already been mentioned. However, as a result of the legacy of the apartheid policies, the Durban region is characterised by rapid population growth, a slow economic growth rate, increasing poverty, high unemployment rates and an inadequate supply of basic services to the majority of the population (Maharaj and Ramballi, 1998:133), though there is some evidence that this is improving (Skinner, 2006:142). Durban is in fact sometimes regarded as one of the fastest-growing cities in the world, partly because the city accommodates almost half of the region's population (Maharaj and Ramballi, 1998:133). The State of the Cities Report of 2006 (SACN 2006:28) found that eThekweni was responsible for 10% of the National Gross Value Added (GVA).

By 1997, it was estimated that 19 000 street traders were operating in the Durban Metropolitan Area, a number that has probably increased substantially, according to Skinner and Lund (2004:436). Traditional medicine alone was estimated at providing employment to 14 000 people in the Durban area. The informal sector also manages a substantial turnover; in 1998, more than R170 million was spent on products in the Russell Street 'muthi' market, while it has been estimated that the Warwick Junction area of central Durban's inner-city streets has a turnover of R1 billion in 'mielie' season (Skinner and Lund, 2004: 437).

A 2000 study found that in terms of their street traders, Durban was making better progress regarding policy and practice than all the other major cities in South Africa (Skinner, 2000). This achievement was due in part to the fact that Durban managed to truly integrate its street traders into city plans, an initiative embodied in the development of Warwick Junction (Skinner and Lund, 2004: 437).

Skinner (2006) conducted a further survey in which she produced a detailed account of informal enterprises operating in Durban/eThekweni in nine different sectors. The study investigated the perceptions of these business owners with respect to the constraints to the growth of their enterprises (Skinner, 2006:125). As mentioned earlier, Skinner and Lund (2004:434) consider Local Economic Development policies and interventions most appropriate for the amelioration of constraints inhibiting growth in informal sector employment and that the two key interventions required are the provision of basic services and of business-related infrastructure and support services, both covered in the previous section. Skinner's (2006:129) survey also found that most people working in the informal economy in Durban have large numbers of people dependent on their income.

While the household subsistence level for Durban was calculated in 2001 to be R1 914,47, more than half of the respondents to Skinner's survey earned less than this amount in a month. She does warn, though, that income data should be treated with caution, as it is often difficult for respondents to be entirely honest about their income. The survey notably confirms that the informal sector is absorbing unemployed and retrenched people. In more than half of cases, the owner of the informal enterprise had been unemployed immediately prior to starting the business, which would make these owners 'necessity' entrepreneurs, in the terminology of the Global Entrepreneurship Monitor. Such enterprises often show little potential for growth, partly because these entrepreneurs generally lack the skills necessary for business growth. In this regard, it is interesting to note that only 6,3% of the respondents who had previously been employed in the formal sector were doing the same activity as they did in the formal sector (Skinner, 2006:130). This means that skills acquired in the formal sector are often not carried over into the informal sector, which is a worrying fact in the light of the lack of skills already identified in the informal economy and the SMME sector as a whole.

It has been shown that time in operation is an important indicator of an informal enterprise's market experience and capacity to survive (Chandra, in Skinner, 2006:130). Of the respondents interviewed by Skinner, 38% had established their businesses in the three years prior to their interviews with Skinner. Enterprise development has been quite dynamic in Durban since 1994. This is indicative of the apartheid business legislation in place before this time, which largely restricted the business activities of all race groups except the white group.

Skinner's survey further indicated that few informal enterprises had any valuable assets, with more than 66% of respondents valuing their assets at R10 000 or less (2006:131). Here, sectoral difference was quite significant, however. In the crafts, traditional medicine and hairdressing sectors, a large majority of entrepreneurs declared that they have assets of less than R5 000, while the majority of entrepreneurs in the metal industry, spaza shop owners and shebeen owners valued their assets at over R10 000.

Over half of those interviewed worked from home, with more than 60% of these being women (Skinner, 2006:132). A significant number of these respondents working from home would prefer to work somewhere else. A very small number of respondents had access to facilities provided by the municipalities. Skinner's survey further confirmed the prevalence of forward linkages into the formal economy and that the informal and formal economies are significantly linked in Durban (2006:133).

With regard to access to support services, Skinner's survey produced some alarming results. Of the 507 informal businesses interviewed, only 4% had ever had access to a

bank loan for business purposes (2006:138). The main reason for entrepreneurs not trying to obtain a bank loan was costs being too high. Other sources of credit also seem to be perceived as more easily accessible, which points to a major problem for entrepreneurs in the informal sector. It is surprising, then, that 58% of respondents indicated that they have bank accounts. Fewer than 40% of the respondents thought that having a bank account benefited their business, however.

An important point made by Skinner's survey is that training and other assistance programmes are not reaching people in the informal sector. A high percentage of 88% of respondents indicated that they had never had access to any training or assistance programmes. The assistance that had been received was largely in the form of training. Of those who had received training, only 14% had received it from the government, and in only one case the Sectoral Education and Training Authority (SETA) was involved. Of the 507 enterprise owners and the further 617 people working in the informal sector interviewed, only one was receiving business management skills training. The significance of management skills and its link to the potential of a business to survive and grow was indicated. Only 30 of the respondents were receiving any kind of training, the majority being trained in child-minding. Respondents did not rate this lack of training as nearly as significant a constraint as access to credit, further indication that the perception exists that training is not a significant aspect of business success.

As mentioned earlier, safety and security, access to water, electricity and public transport have been identified as critical services required by SMMEs in order to survive and thrive. It is encouraging to note that the South African Cities Network (SACN) reports that there have been some success stories (2006:34). One such story is that of the informal traders who used to sell cooked cattle heads from shops on the pavements of Durban. For many passers-by the sight was an unpleasant experience, as were the smells and vermin emanating from the area. At this point, the municipality stepped in and decided to help the head-cookers. A study was set up to investigate the impact of the practice on the environment and on the health of the people. The municipality found a new site for the cookers close to their original location, and each trader was given a cooking area, concrete counter and chopping table. Concrete shelters were designed to minimise the fire hazard, and provision was made for waste water to be conserved and filtered before it entered the sewers. Challenges remain, as the facility is still not equipped with electricity, the water bailiff system implemented does cause problems and not all cookers are paying rent. This example of success is encouraging, however, particularly as it reflects a positive attitude towards the informal economy on the part of the municipality.

Finally, Skinner concludes that support to the informal economy of Durban could significantly boost the income of the poorer households in the city, especially since the link between poverty and the informal economy is clearly established through the data obtained (2006:145).

4.4.3 The rural informal SMME sector

Mbhele and Aliber's (2005) study of the rural economy in KwaZulu-Natal (conducted in five areas: Skhonyana, Mcambini, Amahlubi, Amanyuswa and Umzumbe) focused on commercial agriculture, small-scale agriculture and rural micro-enterprises. While only the latter falls directly within the scope of this report, the rural economic context cannot be understood without reference to the agricultural sectors, which constitute the lifeblood of the rural economy. Formal agriculture, small-scale agriculture and micro-enterprise self-employment respectively employed 120 000 adults, 1 000 000 adults (in 580 000 households) and 175 000 adults. However, these figures are not mutually exclusive, since a given individual or household may pursue more than one of these activities at the same time (Mbhele and Aliber, 2005:71).

A large proportion of agricultural activity in KwaZulu-Natal occurs in the informal sector – according to the Labour Force Survey of September 2006, KwaZulu-Natal and the Eastern Cape provinces represented the bulk of national employment in informal agriculture (Stats SA, 2006b:xiii). The unemployment rate in rural KwaZulu-Natal is very high – 58% in 2003 (Mbhele and Aliber, 2005:70), compared with an overall provincial unemployment rate of 35% in September 2003 (Stats SA, 2006b:xvii).

Turning to rural micro-enterprises in specific, in March 2003, just over 100 000 individuals in rural KwaZulu-Natal operated micro-enterprises, representing about 6% of the economically active population (Mbhele and Aliber, 2005:70).

Table 4.2: Composition of the rural micro-enterprise sector in KwaZulu-Natal

Industry	Share of total	Share that are women
Agriculture, hunting, forestry and fishing	6	40
Manufacturing	15	82
Construction	7	0
Wholesale and retail trade, repairs and catering	55	64
Transport, storage and communication	6	0
Community, social and personal services	10	54
Other	2	48
Total	100	56

Source: Mbhele and Aliber, 2005: 70

As can be seen from the table above, women make up the majority of entrepreneurs in these rural micro-enterprises. The largest sectors, manufacturing (which includes crafts), retail trade, and social services (which includes child-care) employ a majority of women, with the largest category consisting overwhelmingly of women.

Micro-enterprises in the rural districts studied typically consist of general dealers and spaza shops, which compete with one another for a limited clientele, as well as with larger shops in the local centres. The sustainability of these enterprises are considered in all of these districts to be precarious, given the pervasive poverty and unemployment (Mbhele and Aliber, 2005:75,78,80).

Mbhele and Aliber (2005:71) point to the 'characteristic fluidity of the rural micro-enterprise sector', which is supported by their estimates of individuals moving into and out of self-employment in these micro-enterprises. The table below is reproduced in order to illustrate this fluidity.

Table 4.3: Estimated numbers of individuals moving into and out of self-employment in micro-enterprises in KwaZulu-Natal

Between self-employment in micro-enterprises and	In	Out	Net (in – out)
employment and other self-employment	3 662	30 141	-26 479
unemployment	54 769	30 073	24 696
not economically active	54 257	20 534	33 723
Total	112 688	80 748	31 940

Source: Mbhele and Aliber, 2005: 71

Mbhele and Aliber (2005:80) found a number of issues impacting upon the degree to which government assistance and support was accessible to the communities in which their study was conducted. For example, political divisions between the ANC and IFP, as well as between local government officials and traditional leaders, were seen in certain communities to be the major reason behind the (perceived) deliberate withholding of development assistance. (For example the example is cited of KwaSkhonyana, where authorities attributed the low number of food packets delivered to the fact that the region is an IFP stronghold.) Poor communication between community structures and the broader community resulted in communities remaining ignorant of available assistance and envisaged projects (Mbhele and Aliber, 2005:81).

In a study of ten non-metropolitan district municipalities across KwaZulu-Natal for the KZN Department of Economic Development (2006:62), it was found that large differences exist in the general characteristics and level of socio-economic development across the districts. uMgungundlovu and uThungulu were the largest economic centres in non-metropolitan KZN, the former generating GDP of R22 billion in 2004 and the latter

R15 billion in the same year. The smallest district economy was Unkhanyakude, generating R2.5 million in 2004.

4.5 The formal SMME sector in KwaZulu-Natal

Statistics pertaining to formal sector enterprises in KwaZulu-Natal are readily available. Two key data sources are the Stats SA Integrated Business Register, and the new enterprise register of the CIPRO.

4.5.1 Economically active SMMEs in the formal sector

As of March 2007, there were about 225 thousand formal business enterprises listed in the Integrated Business Register for KwaZulu-Natal (Table 5). About 70% of these were 'economically non-active' (ie not having experienced any financial activity during the previous five years). Thus, only 30% of the KwaZulu-Natal enterprises can be regarded as economically active, which translates into a count of 68 241 enterprises. Of the latter total, 66 389 are SMMEs.

Table 4.4: Distribution of KZN enterprises in Integrated Business Register, by enterprise size category and whether or not economically active (as at March 2007)

Enterprise size category	Economically active	Number of enterprises	% distribution of enterprises		
			All enterprises (active & non-active)	Active enterprises (Unspecified excl)	Active SMMEs
Micro	Yes	24161	10.7%	35.4%	36.4%
Very small	Yes	32008	14.2%	46.9%	48.2%
Small	Yes	7776	3.5%	11.4%	11.7%
Medium	Yes	2444	1.1%	3.6%	3.7%
Large	Yes	1852	0.8%	2.7%	–
Unspecified	Yes	290	0.1%	–	–
	No	156399	69.5%	--	--
Total		224930	100% (224930)	100% (68241)	100% (66389)

Notes:

'Economically active' refers to enterprises having some financial activity during the previous five years. The activity could be an income tax or a VAT return, even if the return reflects a loss.

'Enterprise classification' is based on turnover only.

According to Figure 4.7 (and the second last column of Table 4.4), altogether 97% of the economically active enterprises in KwaZulu-Natal can be classified as falling within the SMME sector (ie there are only 3% of large enterprises). Moreover, 82% of all economically active enterprises are either micro (35%) or very small enterprises (47%).

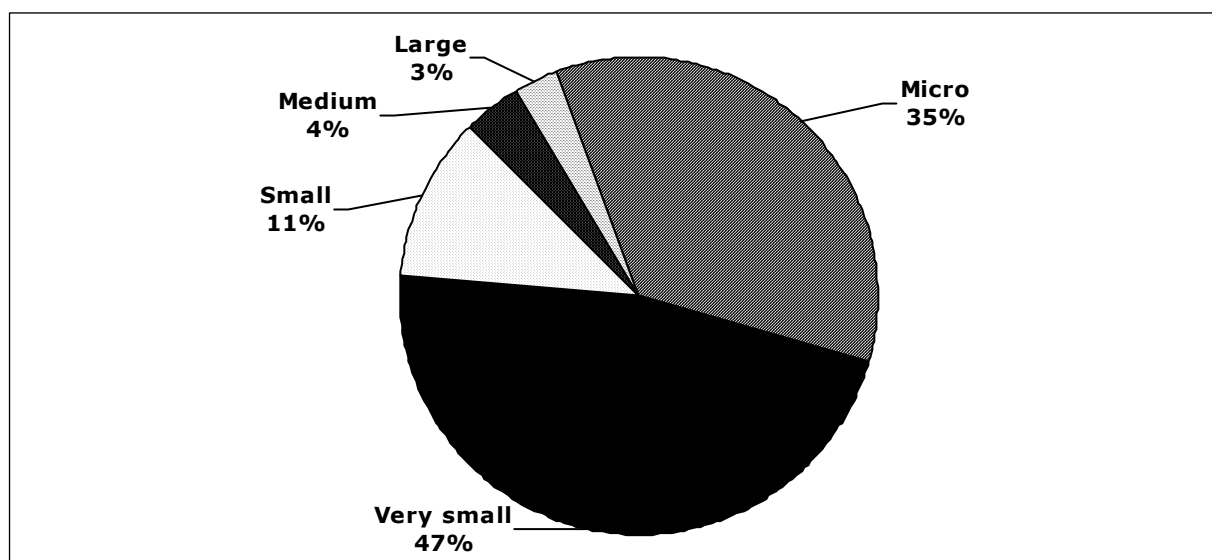
Figure 4.7: Distribution of economically active enterprises in KZN, by enterprise size category (N=68 241)

Table 4.5 disaggregates the SMME sector in terms of enterprise type. Close corporations comprise the single largest SMME enterprise type, accounting for 80% (ie 53 119/66 389) of all enterprise types. The second largest enterprise type is that of private companies, which comprises 19% (ie 12 304/66 389) of all enterprise types in the SMME sector. Moreover, in the case of both close corporations and private companies the majority of business entities are either micro or very small enterprises (Figure 4.8).

Table 4.5: Distribution of economically active SMMEs in KZN by enterprise type and SMME size category, and SMMEs expressed as a percentage of all economically active enterprises in the province

Enterprise type	SMME size category				Total SMME	All enterprises	SMME as % of all
	Micro	Very small	Small	Medium			
Close corporation	20099	26231	5342	1447	53119	53791	99%
Private company	3899	5352	2107	946	12304	13403	92%
Incorporated (professionals)	41	191	223	24	479	495	97%
Non-profit (Section 21)	94	113	64	15	286	299	96%
Public company	24	115	33	9	181	232	78%
External company	3	5	7	3	18	19	95%
Limited by guarantee	1	1	0	0	2	2	100%
Total	24161	32008	7776	2444	66389	68241	97%

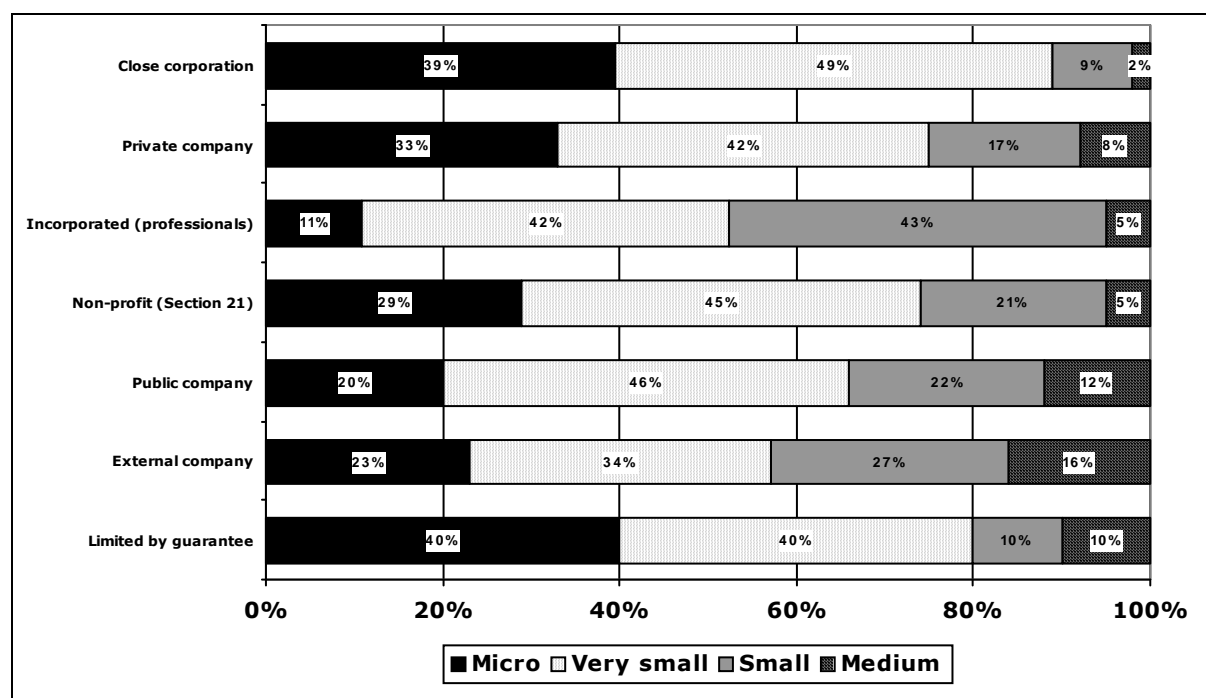
Figure 4.8: SMME size category classification (%) of economically active SMMEs in KZN, by enterprise type

Table 4.6 shows that KwaZulu-Natal represents approximately 12% of all SMMEs in the country. This figure is higher in the case of close corporations, with the province representing 14% of close corporations nationally. Within the category of 'very small' SMMEs, 18% of all public companies in the country are located in KwaZulu-Natal.

Table 4.6: Economically active SMMEs in KZN by enterprise type and SMME size category, expressed as a percentage of all economically active SMMEs in South Africa

Enterprise type		SMME size category				Total SMME
		Micro	Very small	Small	Medium	
Close corporation	KZN	20099	26231	5342	1447	53119
	RSA	149791	185292	35383	8944	379410
	KZN as % RSA	13%	14%	15%	16%	14%
Private company	KZN	3899	5352	2107	946	12304
	RSA	48947	62538	24591	11170	147246
	KZN as % RSA	8%	9%	9%	8%	8%
Incorporated (professionals)	KZN	41	191	223	24	479
	RSA	577	2270	2330	286	5463
	KZN as % RSA	7%	8%	10%	8%	9%
Non-profit (Section 21)	KZN	94	113	64	15	286
	RSA	675	1044	485	113	2317
	KZN as % RSA	14%	11%	13%	13%	12%
Public company	KZN	24	115	33	9	181
	RSA	281	629	297	172	1379
	KZN as % RSA	9%	18%	11%	5%	13%
External company	KZN	3	5	7	3	18
	RSA	90	131	102	61	384
	KZN as % RSA	3%	4%	7%	5%	5%
Limited by guarantee	KZN	1	1	0	0	2
	RSA	12	12	3	3	30
	KZN as % RSA	8%	8%	0%	0%	7%
Total	KZN	24161	32008	7776	2444	66389
	RSA	200373	251916	63191	20749	536229
	KZN as % RSA	12%	13%	12%	12%	12%

Note:

Nationally, a very small number of enterprises can be classified as 'Unlimited', and there are also a very small number of enterprises of unspecified type. These cases are not included in the RSA total above.

In Table 4.7 the SMME sector is disaggregated in terms of the Standard Industrial Classification (SIC). As can be seen, in all industrial sectors, with the exception of Agriculture, Hunting, Forestry and Fishing, more than 90% of business enterprises are SMMEs.

Table 4.7: Distribution of economically active SMMEs in KZN by Standard Industrial Classification (SIC) and SMME size category, and SMMEs expressed as a percentage of all economically active enterprises in the province

SIC Major Division	SMME size category				Total SMME	All enterprises	SMME as % of all
	Micro	Very small	Small	Medium			
Agriculture, Hunting, Forestry and Fishing	721	351	729	181	1982	2300	86%
Mining and Quarrying	36	67	16	21	140	151	93%
Manufacturing	2138	4942	884	595	8559	8830	97%
Electricity, Gas and Water Supply	40	88	10	3	141	141	100%
Construction	1812	2800	412	449	5473	5595	98%
Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants	3973	8812	2051	560	15396	15832	97%
Wholesale Trade, Commercial Agents and Allied Services	885	2202	588	121	3796	3900	97%
Retail and Motor Trade and Repair Services	2399	5101	1411	343	9254	9527	97%
Catering Accommodation and other Trade	689	1509	52	96	2346	2405	98%
Transport, Storage and Communication	879	1513	440	102	2934	3079	95%
Financial Intermediation Insurance, Real Estate and Business Services	11190	11372	2277	404	25243	25664	98%
Community, Social and Personal Services	3345	1894	922	124	6285	6408	98%
Unspecified	27	169	35	5	236	241	98%
Total	24161	32008	7776	2444	66389	68241	97%

Table 4.8 which is based on the figures in Table 4.7 shows that SMMEs in KwaZulu-Natal are largely concentrated within three industrial sectors: Financial Intermediation Insurance, Real Estate and Business Services (38%), Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants (23%), and Manufacturing (13%). In the case of Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants, the larger share of activities (14%) belong to the sub-sector of Retail and Motor Trade and Repair Services.

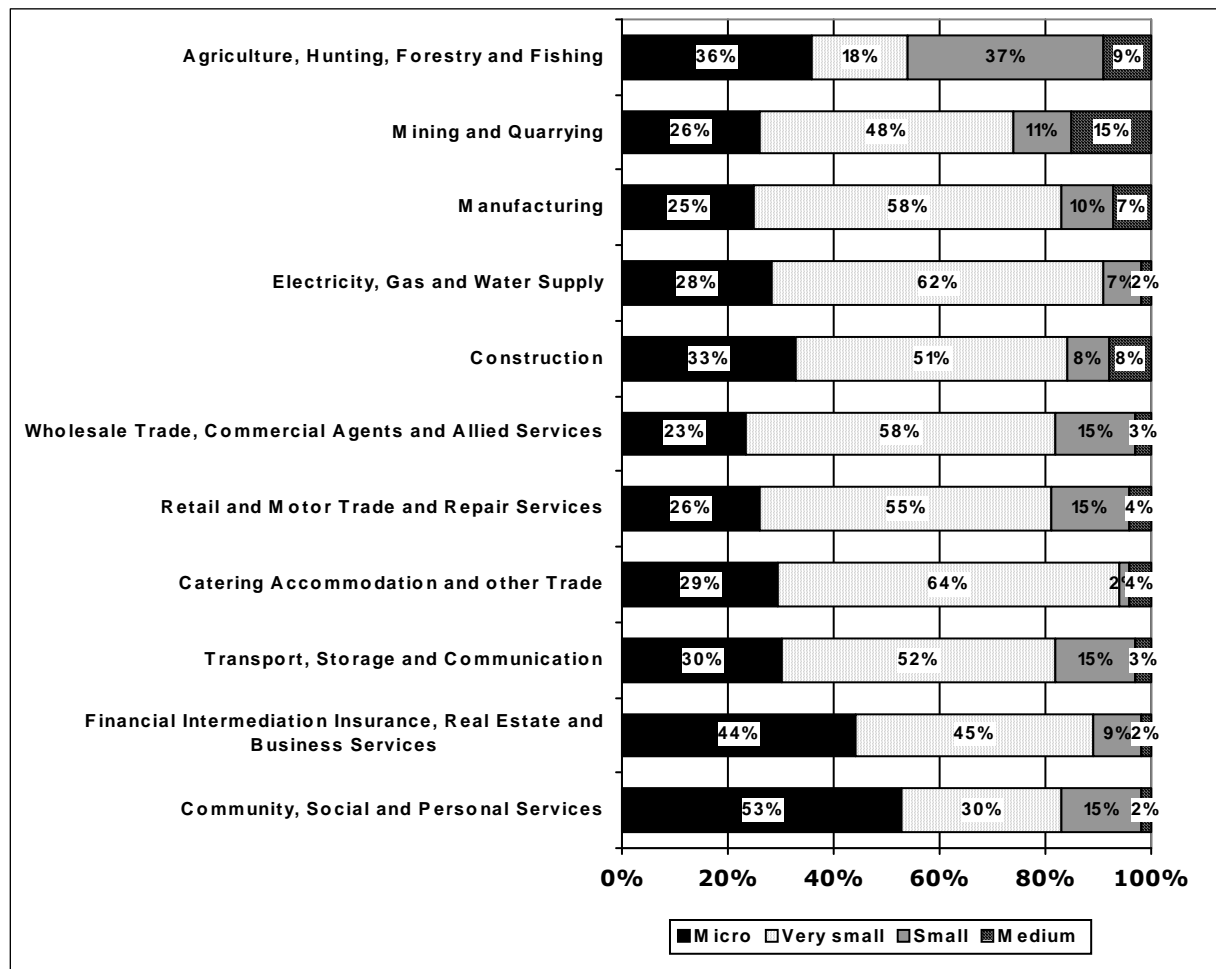
Table 4.8 further shows that the activities of micro enterprises largely fall within the Financial Intermediation Insurance, Real Estate and Business Services sector (46%). These activities are also characteristic of very small and small enterprises, although to a lesser extent (36% and 29%). Among medium-sized SMMEs, particularly four industrial sectors/sub-sectors are prominent: Manufacturing (24%), Construction (18%), Financial

Intermediation Insurance, Real Estate and Business Services (17%) and Retail and Motor Trade and Repair Services (14%).

Table 4.8: Standard Industrial Classification (SIC) distribution of SMMEs in KZN, by SMME size category

SIC Major Division	SMME size category				Total SMME
	Micro	Very small	Small	Medium	
Agriculture, Hunting, Forestry and Fishing	3.0%	1.1%	9.4%	7.4%	3.0%
Mining and Quarrying	0.1%	0.2%	0.2%	0.9%	0.2%
Manufacturing	8.9%	15.5%	11.4%	24.4%	12.9%
Electricity, Gas and Water Supply	0.2%	0.3%	0.1%	0.1%	0.2%
Construction	7.5%	8.8%	5.3%	18.4%	8.3%
Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants	16.5%	27.7%	26.5%	23.0%	23.3%
Wholesale Trade, Commercial Agents and Allied Services	3.7%	6.9%	7.6%	5.0%	5.7%
Retail and Motor Trade and Repair Services	9.9%	16.0%	18.2%	14.1%	14.0%
Catering Accommodation and other Trade	2.9%	4.7%	0.7%	3.9%	3.5%
Transport, Storage and Communication	3.6%	4.8%	5.7%	4.2%	4.4%
Financial Intermediation Insurance, Real Estate and Business Services	46.4%	35.7%	29.4%	16.6%	38.2%
Community, Social and Personal Services	13.9%	5.9%	11.9%	5.1%	9.5%
Total	100% (24134)	100% (31839)	100% (7741)	100% (2439)	100% (66153)

Figure 4.9 is also based on Table 4.7 and disaggregates each industrial sector, percentage-wise, in terms of enterprise type. As can be seen, very small enterprises assume relatively high percentages in each industrial sector (45-64%), with the exception of two sectors. These are Agriculture, Hunting, Forestry and Fishing (18%) and Community, Social and Personal Services (30%). The Agriculture, Hunting, Forestry and Fishing sector are largely characterised by micro (36%) and small (37%) enterprises, and the Community, Social and Personal Services sector by micro enterprises (53%).

Figure 4.9: SMME size category classification (%) of economically active SMMEs in KZN, by Standard Industrial Classification (SIC)

It was previously stated that KwaZulu-Natal represents about 12% of all formal SMMEs in the country. Table 4.9 shows that in especially four industrial sectors this share of SMMEs is exceeded. In the Community, Social and Personal Services sector, KwaZulu-Natal comprises 18% of all SMMEs nation-wide, followed by the Transport, Storage and Communication sector where the figure is 16%. In both the Manufacturing and Construction sectors the province represents 14% of SMMEs in those sectors in the country.

Table 4.9: Economically active SMMEs in KZN by Standard Industrial Classification (SIC) and SMME size category, expressed as a percentage of all economically active SMMEs in South Africa

Standard Industrial Classification (SIC)		SMME size category				Total SMME
		Micro	Very small	Small	Medium	
Agriculture, Hunting, Forestry and Fishing	KZN	721	351	729	181	1982
	RSA	7995	3435	5512	1252	18194
	KZN as % RSA	9%	10%	13%	14%	11%
Mining and Quarrying	KZN	36	67	16	21	140
	RSA	529	1049	309	373	2260
	KZN as % RSA	7%	6%	5%	6%	6%
Manufacturing	KZN	2138	4942	884	595	8559
	RSA	15543	33480	6328	4803	60154
	KZN as % RSA	14%	15%	14%	12%	14%
Electricity, Gas and Water Supply	KZN	40	88	10	3	141
	RSA	380	699	90	61	1230
	KZN as % RSA	11%	13%	11%	5%	11%
Construction	KZN	1812	2800	412	449	5473
	RSA	11868	20137	3254	3536	38795
	KZN as % RSA	15%	14%	13%	13%	14%
Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants	KZN	3973	8812	2051	560	15396
	RSA	33643	68259	16205	4268	122375
	KZN as % RSA	12%	13%	13%	13%	13%
Wholesale Trade, Commercial Agents and Allied Services	KZN	885	2202	588	121	3796
	RSA	7321	17747	4744	922	30734
	KZN as % RSA	12%	12%	12%	13%	12%
Retail and Motor Trade and Repair Services	KZN	2399	5101	1411	343	9254
	RSA	20544	38579	11165	2607	72895
	KZN as % RSA	12%	13%	13%	13%	13%
Catering Accommodation and other Trade	KZN	689	1509	52	96	2346
	RSA	5778	11933	296	739	18746
	KZN as % RSA	12%	13%	18%	13%	13%
Transport, Storage and Communication	KZN	879	1513	440	102	2934
	RSA	5895	9379	2434	596	18304
	KZN as % RSA	15%	16%	18%	17%	16%
Financial Intermediation Insurance, Real Estate and Business Services	KZN	11190	11372	2277	404	25243
	RSA	108307	102678	21728	4720	237433
	KZN as % RSA	10%	11%	10%	9%	11%
Community, Social and Personal Services	KZN	3345	1894	922	124	6285
	RSA	16015	11644	7080	1077	35816
	KZN as % RSA	21%	16%	13%	12%	18%
Total	KZN	24134	31839	7741	2439	66153
	RSA	200175	250760	62940	20686	534561
	KZN as % RSA	12%	13%	12%	12%	12%

Note:

Nationally as well as in KZN there is a very small number of enterprises with no SIC. These have been excluded in the KZN and RSA totals above.

4.5.2 New SMME registrations in the formal sector

Table 4.10 presents the number of new enterprises registered with the CIPRO by enterprise type. The period covered is from 1 April 2001 to 31 March 2007. Over this 6 year-period, the total number of new enterprise registrations consistently increased from 13 382 in 2001-2002 to 38 307 in 2006-2007. The increase represents an average annual growth of 25% over the 6 year-period.

Close corporations are the only enterprise type that demonstrated a positive growth between any two year-periods, as well as across all year-periods. As a result, their relative share significantly improved from a 'high' base of 84% in 2001-2002 to an even higher 97% in 2006-2007. Private companies, the second largest category of SMME, have experienced negative growth since mid-2005.

Table 4.10: Number of new enterprises in KZN registered with the CIPRO, by enterprise type (2001-2007)

Enterprise type	1 April 01 to 31 March 02		1 April 02 to 31 March 03		1 April 03 to 31 March 04		1 April 04 to 31 March 05		1 April 05 to 31 March 06		A April 06 to 31 March 07		Average annual growth
	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%	
Close corporation	11221	83.9%	12386	84.7%	15004	86.3%	20078	88.9%	29814	93.8%	37008	96.6%	28.9%
Private company	1928	14.4%	2023	13.8%	2198	12.6%	2326	10.3%	1800	5.7%	1120	2.9%	-8.2%
Nonprofit (Section 21)	129	1.0%	152	1.0%	125	0.7%	120	0.5%	128	0.4%	117	0.3%	-2.9%
Incorporated (professionals)	84	0.6%	55	0.4%	40	0.2%	31	0.1%	41	0.1%	47	0.1%	-10.9%
Public company	9	0.1%	6	0.0%	20	0.1%	7	0.0%	10	0.0%	6	0.0%	-4.3%
External company	11	0.1%	5	0.0%	8	0.0%	11	0.0%	8	0.0%	9	0.0%	2.1%
Total	13382	100%	14627	100%	17395	100%	22573	100%	31801	100%	38307	100%	25.1%

4.6 Sectors/sub sectors of significance for SMME development in KZN

From policy documents, the academic literature as well as economic data, the research team identified two sectors (tourism and ICT) and two sub sectors (general manufacturing and automotive manufacturing) that are of key importance in the KwaZulu-Natal economy and have particular significance for SMME development.

These are discussed below.

4.6.1 General manufacturing

The Manufacturing sector is discussed in depth in Chapter 5, therefore only a brief overview of the sector will be provided here, with specific reference to KZN.

KwaZulu-Natal contributes 22% of South Africa's manufacturing output (Valodia and Velia 2006:688). Manufacturing accounts for 23% of the province's GGP. Even though manufacturing is an important component of the Greater Durban Metropolitan Area's (GDMA) economy, it is not a very competitive sector. This is the result primarily of two factors:

- low local demand because of poverty and unemployment
- the fact that firms produce low value-added goods.

In addition, Durban seems to have an even bigger skills deficit than other big cities such as Johannesburg and Cape Town, with those workers who do have skills often migrating to other provinces.

Between 2002 and 2003, a survey was done amongst medium and large enterprises in the manufacturing sector in the GDMA aiming to establish the drivers and impediments to growth in the sector (Valodia and Velia 2006). The researchers found that medium-sized firms of 50-99 employees comprised the largest category (in terms of number of firms) in the sector. However, these firms absorb only 15.1% of employees in the sector, compared with 75.5% absorbed by larger firms. The largest sub-sectors are textiles and chemicals.

Almost 40% of the GDMA firms are owned by previously disadvantaged individuals (PDIs), compared with only 16% nationwide. Of the 225 PDI-owned firms surveyed, 149 are wholly owned by PDIs. This trend is consistent across all firm sizes.

The top five combined constraints to enterprise growth (as identified by respondents) were found to be:

- theft and crime (which 83% of firms mentioned)
- currency volatility (77%)
- HIV/AIDS (72.5%)
- corruption in government (64.5%)
- changes in government policy (61.7%).

Even though the majority of manufacturing firms in the GDMA are involved in international trade, there is a strong relationship between firm size and international trade. Most of the firms not engaged in international trade are small firms; 39.2% of smaller firms and 31.6% of medium firms do not engage in international trade. It is interesting to note, however, that in the period before September 2001, when the Rand steadily depreciated, smaller firms were able to export more than larger firms. This trend continued during the currency fluctuations after September 2001, but small firms started to adopt a more cautious approach. Despite this, around 38% of small and medium-sized firms purchased forward cover, compared with 52.3% of large firms (Valodia and Velia 2006).

4.6.2 Automotive manufacturing

After World War II, South Africa made a relatively big effort to create an environment within which a solid automotive manufacturing sector could emerge (Lorentzen et al 2004:6). This was all part of an industrial development framework central to apartheid-era economic policy, designed to substitute importation. During this era, automotive firms in South Africa operated at levels of production and quality far below international standards. Owing to its well-developed infrastructure and access to commercial ports, South Africa does have something of a competitive advantage in the automotive industry, however, and it is the only significant automotive manufacturer in sub-Saharan Africa (Finweek, 2006).

The early 1990s brought political change and with it economic change. The government committed itself to trade liberalisation in general. The Department of Trade and Industry (**the dti**) developed policy specific to the automotive industry – it was hoped that the industry could be developed to focus on exports (Lorentzen et al 2004:7). This policy initiative led to the Motor Industry Development Programme (MIDP), established in 1995. The impact of the policy matched its aim, with production of export of vehicles increasing

considerably since the 1990s. The period has also seen greater import penetration, however (Lorentzen et al, 2004:8).

KwaZulu-Natal is South Africa's third centre in the hierarchy of automotive sector activity (Lorentzen et al, 2004:10). Most automotive firms are based in and around Durban. In 2002, the Durban Automotive Cluster (DAC) was launched with the help of the Durban Metropolitan Council (Lorentzen et al, 2004:13). The Cluster is open to any automotive firm in KwaZulu-Natal. The DAC actually spun out of an academic research programme, which meant that the academic team served as a neutral provider of information and services, keeping overheads to a minimum and allowing smaller firms to participate (Lorentzen et al, 2004:16). It is believed that the joint action of the DAC has made a noticeable difference to the performance of automotive suppliers in KZN. This highlights the importance of establishing partnerships between industry and research.

4.6.3 Tourism

South African Tourism's market surveys have indicated that in 2005, 32% of all domestic tourism trips in South Africa were undertaken to KwaZulu-Natal, making it the biggest provincial destination in South Africa. The value of the province's domestic market for 2005 was estimated at R6.28 billion, 30% of the estimated total value of domestic tourism in South Africa (Tourism KZN 2006a:1-2).

Durban is the province's leading tourism destination, followed by the South Coast, the Midlands and Zululand. Despite its popularity as a destination, KZN derives a lower share of value of the market, as only a small percentage of visitors are holiday makers (most are visiting friends and family) and fall into the upper Living Standard Measure categories (Tourism KZN, 2006a:4).

With regard to international tourism, KZN attracted 21,5% of all foreign tourists to South Africa in 2005 (Tourism KZN 2006b:1). The value of the spending of these tourists to the province is estimated at over R4 billion. The most important markets for foreign visitors to the province were Swaziland (20%), Lesotho (15%), Botswana (10%) and the UK (7%). Germany, the USA, France and the Netherlands together account for 14% of tourists. The majority of international visitors came for holidays. The most popular destinations for foreign tourists were Durban, Zululand and the Drakensberg.

On the basis of this data, Tourism KwaZulu-Natal concludes that the industry in the province is still in a period of recovery. Land arrival and African markets are key to the province's tourism, and therefore cannot be ignored in terms of marketing.

In 2007, the MEC for Finance and Development in KwaZulu-Natal announced that R89 million was invested in extensive renovations and refurbishment over 2005 and 2006. The private sector invested R2,5 billion in new hotel infrastructure over the same period (Mkhize, 2007).

In two interesting case studies of towns in KwaZulu-Natal, Hill, Nel and Trotter (2006) describe how these towns managed to use tourism to 'save' their stagnating economies. The municipality of Utrecht has a population of 5 500 people. This was once a prosperous coal-mining centre, but when the industry collapsed in the early 1990s, the town suffered. The number of permanent jobs in mining dropped from 10 000 in the early 1980s to 140 in 2002 (Hill et al 2006:167). In this desperate situation, the idea was born to promote Utrecht as a 'town within a game park'. The municipal government obtained funds from the Local Economic Development (LED) Fund to pay for infrastructure development, including the establishment of a game reserve. In 1998, money was set aside for a second project, namely the Utrecht Community Game Farm and Wildlife Products project (Hill et al 2006:168).

With new facilities for accommodation developed, the town started to attract more visitors from 2000. Subsequently, the economic base of Utrecht shifted from being mine-based to being tourism-based. Importantly, this shift has resulted in people from the poorer communities being trained in skills specific to the tourism needs of the town. The occupancy rate of accommodation in the town is now 80% during most weekends, and during special events the town it is often fully booked. It is a reality that a mere 11 permanent jobs in game management were created by this initiative, although 2 619 temporary jobs were created. The authors specifically commend the co-operation between key stakeholders in achieving these outcomes.

Matatiele, by contrast, is a rural township of more than 16 000 people living in 23 villages in the foothills of the Drakensberg (Hill et al, 2006:169). The township has a high rate of unemployment. Joint initiatives from the local NGO Environment and Development Agency (EDA) and a private consultancy firm, Environmental and Rural Solutions (ERS), resulted in the town being promoted as the gateway to an innovative hiking trail through the terrain, which has a high level of biodiversity. The project was partly funded by the Poverty Relief Fund, money which was specifically used to develop the Hiking and Adventure Trail and to build guest houses in the local villages situated along the route. The KwaZulu-Natal provincial tourism board also assisted in planning, marketing and training guides and establishing small village-based businesses.

Within the first year, 50 hikers walked the entire route and another 50 finished parts of it (Hill et al 2006:170). Four villages in particular have benefited from the projects,

providing services such as catering, maintenance and cleaning to the guest houses. The project is further expected to encourage growth of the retail and wholesale industries in the area, as tourists provide new markets. The project created 800 temporary jobs, and a maximum of 160 permanent jobs are envisioned once the project is in full operation. Importantly, the initiative originated from and is run entirely by the rural village communities.

Hill et al (2006:172) believe that the evidence from these two examples illustrates the benefits of community-based tourism development, allowing host communities to function independently of large-scale tour operators. The model has great potential to stimulate the establishment and growth of new small, medium and micro-enterprises at the local level, and in this way to contribute to the sustainable creation of employment.

4.6.4 Information and Communication Technology

The Provincial Growth and Development Strategy (PG&DS) of 1996 established a 20 year vision for KwaZulu-Natal, based on RDP principles, notably the need to grow the economy and improve the quality of life for all (Arokium, 2006:15). The PG&DS identified the following strategic priorities for socio-economic development in the Province:

- Spatial Development Initiatives (SDI)
- Promotion of SMMEs
- Tourism Development
- Local Economic Development (LED).

The Digital Hub Strategy for KZN, South Africa: Action Plan and Proposed Projects) (James and Wolff, 2007), funded by the provincial Department of Economic Development (DED) in collaboration with Gijima, also highlights the critical role of ICT in developing the economy at a national and provincial level:

... the growth of the ICT sector has been identified as one of the key factors in stimulating economic growth in South Africa. The Province of KwaZulu-Natal has recognised the importance of this sector in its Provincial Growth and Development Strategy and the Industrial Development Strategy. Not only is the sector seen as a critical enabler for the creation of a knowledge economy, but also as a contributor to social development and participation of the wider community through ICT-enabled activities. For this reason, the provincial Department of Economic Development (DED), in collaboration with Gijima KZN, has identified the need to develop a provincial Digital Hub Strategy and Action Plan. (James and Wolff, 2007:1)

The goal of the ICT Strategy is:

To create access to ICTs for a broader range of citizens in KwaZulu-Natal, so that the benefits of increased communication and access to appropriate content and ICT-enabled services can be widespread throughout the province. (James and Wolff, 2007:1)

The objectives of the ICT Strategy are:

- to provide improved access to ICTs through public access points by a wider range of citizens
- to create an ICT infrastructure that will support the reliable and affordable delivery of ICT-enabled services
- to create relevant content which can be delivered through an increased number of public access points
- to create opportunities for the massification of ICT literacy through increased public access points and relevant ICT skills training
- to create a cadre of skilled entrepreneurs able to generate income through the provision of ICT-enabled services
- to create a cadre of youth who will be trained as Cybercadets to serve communities in KwaZulu-Natal (James and Wolff, 2007:1).

In order to achieve the above goal and objectives, six strategic interventions and three supporting activities have been identified in the Strategy document. These are summarised below.

Table 4.11: Strategic interventions

Intervention 1:	Establishment of an ICT-enabled agri-support network
Intervention 2:	Establishment of digital hubs and satellites within municipal offices
Intervention 3:	Creation of a small business support network
Intervention 4:	Expansion of school cyberlab activities to allow community access
Intervention 5:	Expansion of ICT access in libraries
Intervention 6:	Establishment of a network of kiosks in key locations for the 2010 World Cup.

As James and Wolff note (2007:2), the first three interventions are viewed as being critical priorities for the support of existing provincial strategies in KZN, whereas interventions 4-6 'seek to build on existing initiatives and strengthen them where required'.

The SmartXchange initiative has been launched in Durban – an effort to grow SMMEs through the provision of ICT support. A feasibility study is currently being conducted as part of the Gijima LED programme into the possibility of establishing a similar ICT enabled Technology Hub, incorporating a Business Support incubator, in the UGU District Municipality.

4.7 Concluding remarks

This review of SMMEs and the institutional, policy and economic environment within which they operate in KwaZulu-Natal has shown both successes and failures, and both potential growth areas and constraints to growth. If constraints are adequately addressed, it is to be expected that KZN will continue to accelerate its economic growth and that effective SMME development will contribute to the increased participation in the economy of previously marginalised people, and significantly improve the living standards of the province's poor. In many respects a sound foundation has already been laid for this.

One key constraint that has been found to be impacting very significantly on the success of new small businesses is ill health – and with KZN being the province worst affected by HIV/AIDS, it may be expected that this impact will worsen, despite the very significant progress in the roll-out of antiretroviral treatment. Since the SMME sector does not have the capacity, government must take responsibility for these interventions, and redoubled efforts at prevention of new infections and the improvement of both treatment for HIV and general health services must be made in order to reduce the negative impact on the potential of SMMEs to generate employment and wealth, particularly in rural KZN.

Provincial SMME development policy must focus on rural areas, in which a substantial proportion of the population resides. The province's SMME Support Service Delivery Network, the allocation of more funds to development agencies and the Gijima local economic development support programme are starting to make a greater impact on SMME development. Certain key policy successes, such as the integration of informal sector micro-enterprises into the Durban economic development strategy (in particular the policy towards street traders) also provide a solid footing for future interventions.

Major challenges remain, however. For example, LED efforts, particularly infrastructure development, have not been effectively leveraged to benefit local SMMEs. Also, as a Gijima report (2006) concluded, SMME and co-operative development remains a highly politicised area, plagued by poor implementation. Particularly in rural areas and informal

sector enterprises, support programmes and interventions often do not reach those they are aimed at, often as a result of inadequate information being available. Unless these constraints are addressed, potential for future growth will be severely curtailed.

Nevertheless the SMME sector is a significant contributor to employment in both the urban and rural economies. However, the potential to generate additional employment is limited, particularly in key sectors (such as automotive manufacturing) where large numbers of small and medium-sized businesses operate, but where the vast majority of employment exists in a small number of large enterprises (ie in non-SMMEs).

The general and automotive manufacturing sub sectors as well as the tourism and ICT sectors have been identified as having great potential for SMME growth. Tourism holds great potential, given the existence of a successful model for community-based tourism development that empowers micro-enterprises and self-employed small operators from local communities who were often not employed in the past. However, in the manufacturing sectors, large enterprises are most competitive and account for the majority of employment, limiting the potential to generate employment in SMMEs in these sectors. Specific interventions to overcome these challenges are needed if the potential of manufacturing is to be realised in KZN. With regard to ICT, the formulation of the KZN Digital Hub Strategy and the success of initiatives such as SmartXchange Durban indicate the significant potential of this sector for ICT development in the province.

CHAPTER 5

SECTORAL FOCUS:

SMMES IN

THE MANUFACTURING SECTOR

5.1 Overview

South Africa has a large and diverse manufacturing sector, which is a major contributor to achieving South Africa's macroeconomic objectives. Manufacturing contributes heavily to increased foreign direct investment (FDI), the creation and retention of sustainable jobs and an improved balance of trade for South Africa. Significant changes in technology in manufacturing, coupled with the increased mobility of manufacturing in an open trade world scenario, has meant that the pressure on South African manufacturing to become competitive or to retain competitive advantage has increased greatly (MERSETA, 2006:6). It is therefore of utmost importance that the manufacturing sector is able to garner support from government and other stakeholders.

National data from Stats SA and CIPRO was incorporated in an attempt to provide a national profile of manufacturing SMMEs. The figures reveal that in 2007 there were 60 154 registered manufacturing enterprises in the formal sector and in 2005 174 000 people who owned and managed at least one non-VAT registered manufacturing business in the informal sector. If we make the conservative assumption that the 174 000 individuals each ran only one manufacturing business and that the figure also holds for 2007, we end up with a total of more than 234 000 manufacturing enterprises in the country in early 2007. Moreover, 74% of the total enterprises exist in the informal sector. Mostly Black Africans (90%) and women (57%) own and manage manufacturing businesses in the informal sector, often for purposes of survival.

The figures mentioned above are encouraging; however, Rogerson (2005b) indicated that existing government SMME programmes were biased largely towards the groups of small and medium-sized enterprises, and to a large extent bypassed groups of micro-enterprises and the informal economy (Rogerson, 2005b:35). Government support programme networks also need to extend to a greater number of enterprises. The marketing campaigns of these support programmes need to improve, so that SMME

owners/managers are aware of the support programmes available to them. These programmes should also be hubs of new information and knowledge, which should then be made accessible to enterprises (Rogerson, 2005b:35).

5.2 The context of the South African SMME manufacturing sector

Within the context of the small and medium enterprise sector, most of the activities which take place are manufacturing activities. To be precise, at least 90% of the manufacturing sector is small and medium in terms of enterprise size in South Africa. For every five units produced in South Africa, one comes from the manufacturing sector. Similarly, more than 20% of exports are manufactured exports. It is also estimated that one of four economically active persons exists in the manufacturing sector in South Africa. From an international trade perspective, it is estimated that at least 80% of global export trade is made up of manufactured products (Gumede, 2004:379).

As of March 2007, there were 107 724 enterprises in the Manufacturing sector in the country, of which 42% enterprises were considered economically inactive (Table 5.1). This suggests 62 651 active Manufacturing enterprises (ie enterprises having some financial activity during the previous five years). Of these, the majority (53%) were very small enterprises, followed by 25% micro enterprises. Only 4% of enterprises in the Manufacturing sector were large enterprises (Table 5.1, second last column, and Figure 5.1).

Table 5.1: Distribution of Manufacturing enterprises in Integrated Business Register, by enterprise category and whether or not economically active (as at March 2007)

Enterprise category	Economically active	Number of enterprises	% distribution of enterprises		
			All enterprises (active and non-active)	Active enterprises (Unspecified excl)	Active SMMEs
Micro	Yes	15543	14.4%	24.8%	25.8%
Very small	Yes	33480	31.1%	53.4%	55.7%
Small	Yes	6328	5.9%	10.1%	10.5%
Medium	Yes	4803	4.5%	7.7%	8.0%
Large	Yes	2497	2.3%	4.0%	–
Unspecified	No	45073	41.8%	–	–
Total		107724	100% (107724)	100% (62651)	100% (60154)

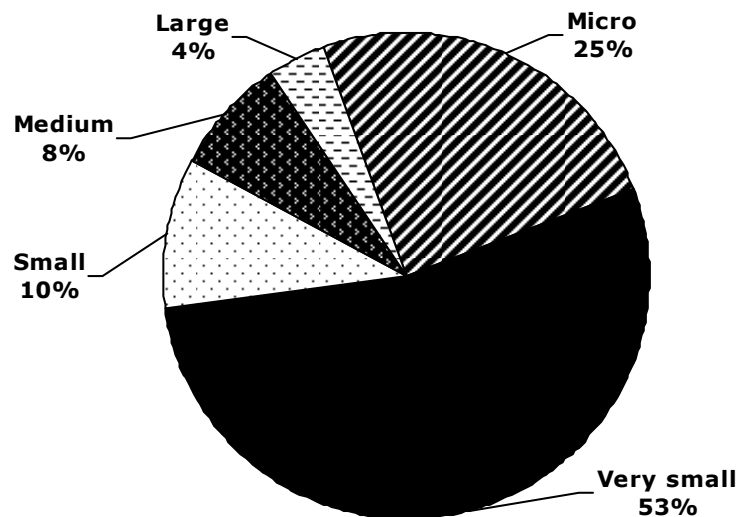
Source: Stats SA Integrated Business Register, March 2007.

Notes:

'Economically active' refers to enterprises having some financial activity during the previous five years. The activity could be an income tax or a VAT return, even if the return reflects a loss.

'Enterprise classification' is based on turnover only.

Figure 5.1: Distribution of economically active enterprises in Manufacturing, by enterprise category (N=62 651)



Source: Stats SA Integrated Business Register, March 2007.

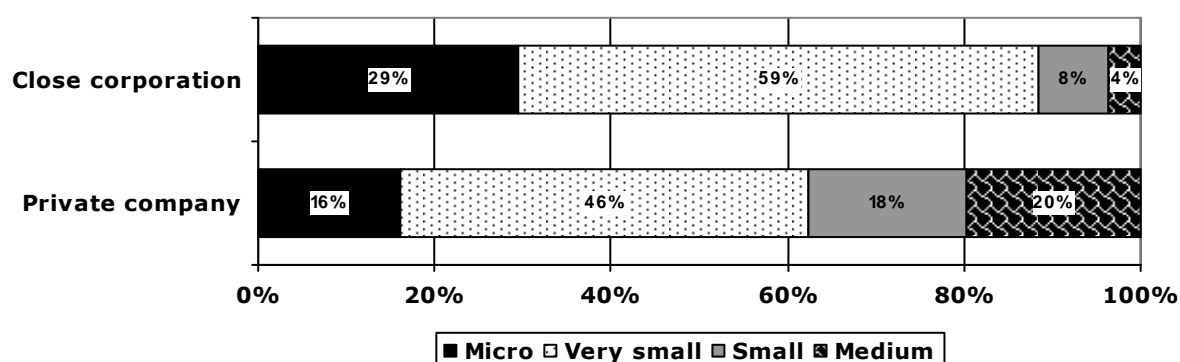
In the SMME sector (ie large enterprises excluded), there were 60 154 active Manufacturing enterprises in March 2007 (Table 2.1, last column, and Table 2.2). Close corporations and private companies almost exclusively represented the Manufacturing SMME sector in the country (43 985 and 15 933 of 60 154, which means 73.1% and 26.5%, giving a combined total of 99.6%).

Moreover, SMMEs dominated both these enterprise types (99% of all close corporations and 89% of all private companies were SMMEs in March 2007) (Table 5.2). If one only considers Manufacturing close corporations and private companies and looks at their internal structure in terms of enterprise category, it is evident that each of these two enterprise types largely comprised small enterprises (59% and 46% - Figure 5.2), as opposed to micro, very small or medium enterprises.

Table 5.2: Distribution of economically active SMMEs in Manufacturing by enterprise type and SMME category, and SMMEs expressed as a percentage of all economically active enterprises in Manufacturing

Enterprise type	SMME category				Total SMME	All enterprises	SMME as % of all
	Micro	Very small	Small	Medium			
Close corporation	12924	26018	3430	1613	43985	44306	99%
Private company	2580	7342	2871	3140	15933	17993	89%
Non-profit (Section 21)	28	37	3	4	72	74	97%
Public company	6	40	16	28	90	194	46%
External company	2	16	7	15	40	50	80%
Incorporated (professionals)	3	25	1	3	32	32	100%
Limited by guarantee	0	2	0	0	2	2	100%
Total	15543	33480	6328	4803	60154	62651	96%

Source: Stats SA Integrated Business Register, March 2007.

Figure 5.2: SMME category classification (%) of economically active close corporations and private companies in Manufacturing

Source: Stats SA Integrated Business Register, March 2007.

Table 5.3 expresses Manufacturing enterprises as a share of all enterprises nationally, within three classification systems (SMME category, enterprise type, and province). As can be seen, medium enterprises in Manufacturing comprise about 23% of all medium enterprises in the country. Moreover, only about 0.6% and 3% of all incorporated and non-profit enterprises nation-wide are Manufacturing enterprises. As far as province is concerned, about 10%-12% of enterprises in the provinces are Manufacturing enterprises, with the exception of KwaZulu-Natal and the Northern Cape, where 13% and 8% of enterprises respectively are involved in Manufacturing activities.

Table 5.3: Manufacturing enterprises as percentage of all enterprises (nation-wide), by SMME category, enterprise type and province

	Manufacturing	National	Manufacturing as % of national
SMME category			
Micro	15543	200377	7.8%
Very small	33480	251920	13.3%
Small	6328	63193	10.0%
Medium	4803	20750	23.1%
Enterprise type			
Close corporation	44306	379410	11.7%
Private company	17993	147246	12.2%
Public company	194	1379	14.1%
Non-profit (Section 21)	74	2317	3.2%
External company	50	384	13.0%
Incorporated (professionals)	32	5463	0.6%
Limited by guarantee	2	30	6.7%
Province			
Eastern Cape	3124	26992	11.6%
Free State	1638	16480	9.9%
Gauteng	28677	247316	11.6%
KwaZulu-Natal	8830	66389	13.3%
Limpopo	1454	14748	9.9%
Mpumalanga	2179	20784	10.5%
North West	1619	16226	10.0%
Northern Cape	518	6352	8.2%
Western Cape	11583	97231	11.9%

Source: Stats SA Integrated Business Register, March 2007

5.3. Employment and skills requirements in the SMME Manufacturing sector

In 1998, according to the Quantec database (2006), the manufacturing sector employed 1.2 million people, of whom 120 000 were defined as highly skilled, and 497 000 were defined as skilled. In 2005, 1,1 million people were employed, of whom 123 000 were defined as highly skilled and 468 000 defined as skilled. The majority of job losses in the sector occurred within the semi-skilled and unskilled categories, where employment dropped from 658 000 in 1998 to 595 000 in 2005. The manufacturing sector is driven largely by formal employers; however informal and smaller players also play a meaningful role and contribute positively to the sector (MERSETA, 2007).

Essential skills are in demand in small firms – although there are differences in weighting between chambers and relative to firm size. In some sectors, the need for technical skills

is paramount, combined with plant operators. The need for sales and retail staff is prominent in the Motor sector (see Table 5.4).

Table 5.4: Skills in demand - Small manufacturing firms 2005-2006

	Auto	New Tyre	Motor	Metal	Plastics
Senior Officials and Managers	0	0	44	21	10
Professionals	0	0	63	66	14
Technicians and Associated Professionals	0	0	472	432	50
Clerks	0	0	64	73	9
Service Workers, Shop and Sales Workers	4	0	752	442	49
Craft and Related Trade Workers (Artisans)	0	0	295	950	57
Plant and Machine Operators/Assemblers	0	0	236	446	329
Elementary Workers	0	0	261	220	40

Source: MERSETA Survey (2006)

The manufacturing sector typically relies on permanent employees, but in the last five years there has been an increase in either flexible employment, or the use of labour brokers to provide non-permanent staff for use during periods of high demand for labour. The use of labour brokers or outsourcing of non essential services is regarded as necessary to ensure that the organization is able to meet production demands without having to increase its overhead costs. This phenomenon is likely to increase as domestic demand for manufactured goods grows as a result of the government's Capital Infrastructure Programme (CIP) (MERSETA, 2006:12).

Because the SMME sector contributes substantially to the South African economy, it is widely held that the sector should also contribute to employment growth. The South African economy grew by 4.2 % in 2005 and has continued to grow at a significant rate, although it has not yet reached 6% – the growth rate needed to absorb new work seekers into the economy annually. This has been South Africa's eighth consecutive year of growth, the longest economic expansion since 1960. The manufacturing, retailing and wholesale sectors have benefited significantly – manufacturing grew by 2.7% in 2006, while wholesale and retail trade rose by 3.3% (MERSETA, 2007).

5.4 New enterprise registration in the SMME Manufacturing sector

Turning to new enterprise registrations, Table 5.5 shows that new enterprises in Manufacturing, expressed as a share of new enterprise registrations nationally, have systematically decreased over the last years. In 2001/02, manufacturing enterprises

comprised 3% of all new registrations, whereas in 2006/07 the figure was 2%. However, this does not mean that the absolute number of new Manufacturing enterprises has been decreasing. In fact, it is the opposite (3 989 in 2001/02 compared with 5 604 in 2006/07).

Table 5.5: New enterprise registrations in Manufacturing as a percentage of all new registrations (national), 2001-2007

	1 April 01 to 31 March 02	1 April 02 to 31 March 03	1 April 03 to 31 March 04	1 April 04 to 31 March 05	1 April 05 to 31 March 06	1 April 06 to 31 March 07
Manufacturing	3989	4344	4533	4466	5991	5604
National	120594	140088	149487	172585	244289	279224
Manufacturing as % of national	3.3%	3.1%	3.0%	2.6%	2.5%	2.0%

Note:

'Unspecified' SIC classifications are excluded in the national total

Source: CIPRO New Enterprise Register

Almost all new manufacturing enterprise registrations occurred among close corporations and private companies. New close corporation registrations showed a positive average annual growth rate for the period 2001/02 - 2006/07 (11%), whereas private companies recorded a negative growth (-7.5%).

In a study undertaken by Rogerson (2005), he points out that between 1994 and 2003 a considerable net increase in the total numbers of manufacturing establishments in the Free State occurred. He notes, however, that the near-doubling in the total number of establishments may in part be attributed to improved data collection procedures. It is recorded that between 1994 and 2003 the number of manufacturing SMMEs expanded from 318 to 845 enterprises. It is significant that the proportion of SMMEs of total manufacturing establishments rose from 69% in 1994 to 83% in 2003. (Rogerson, 2005b:38). Overall, it was shown that between 1994 and 2003 the largest growth in numbers of new SMME manufacturers occurred in the sectors of fabricated metals, followed by the sectors of food, clothing and other goods (mainly jewellery) (Rogerson, 2005b:39).

5.5 Formal Manufacturing enterprises: Close corporations vs private companies

In the formal manufacturing sector the following were observed:

- the relative importance of fabricated metal products as a key area of manufacturing activity in the SMME sector, together with the manufacturing of transport equipment
- the relatively large share of enterprises (6 741, translating into about 11% of manufacturing SMMEs) described as Manufacturing not elsewhere classified, which gives a sense of the unclassifiable nature of the activities of many SMMEs in manufacturing.

Moreover, close corporations and private companies almost exclusively characterise the formal manufacturing sector, with close companies increasing and private companies decreasing, based on the evidence generated by two indicators:

- Firstly, among the national pool of liquidations of close corporations in 2006/07, 5.5% of liquidations occurred in the manufacturing sector. This was less than the 6.5% recorded for 2005/06. However, among the national pool of liquidations of private companies in 2006/07, manufacturing enterprises represented 7% of such liquidations, which was higher than the 5.6% recorded in 2005/06.
- Secondly, close corporations grew positively at an average rate of 11% between 2001 and 2007, with private companies registering a negative growth of -7.5% over the same period.

One possible reason for the positive growth in close corporations is their attractiveness to young entrepreneurs as a preferred conduit for business. In 2005/06 and 2006/07 44%-45% of the members of newly registered close corporations in manufacturing were 35 years or younger (see Table 5.6 below). The comparative figure for private companies was 23%-24%. Further studies are required on the qualifications and skills levels of these young entrepreneurs, as well as their gender and race composition and the ways in which support programmes can be tailored to suit their specific needs. Moreover, the fact that the newly registered close corporations are also largely individually based enterprises (54% of enterprises in 2006/07 comprised a single member) can be interpreted as meaning that the business (at least initially) is seen as a conduit for self-employment or part-time activity, and not necessarily meant to be expanded in terms of number of employees.

Table 5.6: Age profiles of members of new close corporations and directors of private companies registered in Manufacturing, 2005-2006 and 2006-2007

Enterprise type and age of members/directors		1 April 05 to 31 March 06		1 April 06 to 31 March 07	
		Count	Percent	Count	Percent
Close corporations	≤35 yrs	3828	44.6%	3202	43.8%
	36-45 yrs	2506	29.2%	2129	29.1%
	46-55 yrs	1565	18.2%	1346	18.4%
	56-65 yrs	568	6.6%	512	7.0%
	>65 yrs	119	1.4%	118	1.6%
	Total	8586	100%	7307	100%
Private companies	≤35 yrs	605	22.5%	391	23.8%
	36-45 yrs	855	31.8%	519	31.6%
	46-55 yrs	797	29.6%	491	29.9%
	56-65 yrs	362	13.5%	215	13.1%
	>65 yrs	70	2.6%	26	1.6%
	Total	2689	100%	1642	100%

Source: CIPRO New Enterprise Register (Directors database)

Note:

Age of members at time of enterprise registration

5.6 Informal manufacturing enterprises

The discussion above has centred on manufacturing enterprises in the formal economy. The Survey of Employers and the Self-Employed (SESE), conducted by Stats SA, is devoted to a study of non-VAT registered businesses that operate largely in the informal sector. In the SESE, the number of persons owning and managing at least one non-VAT registered business – which generally means an informal small or micro-business – is disaggregated in terms of province. The few survey figures that exist (for manufacturing) are summarised in Table 5.7. As can be seen, business owners of informal manufacturing enterprises in 2005 comprised 12% of all informal business owners in the country. Moreover, about 90% of all persons who owned and managed an informal manufacturing enterprise were black Africans.

Table 5.7: Indicators based on the number of persons owning and managing at least one non-VAT registered business (informal sector businesses) (2005)

Indicators	2005 SESE figures
Persons owning and managing at least one non-VAT registered business in Manufacturing	174 000
Persons owning and managing at least one non-VAT registered business in Manufacturing as a percentage of all persons owning and managing at least one non-VAT registered business in the country	12.3%
Women owning and managing at least one non-VAT registered business in Manufacturing as a percentage of all persons owning and managing at least one non-VAT registered business in Manufacturing	56.9%
Black Africans owning and managing at least one non-VAT registered business in Manufacturing as a percentage of all persons owning and managing at least one non-VAT registered business in Manufacturing	89.7%
Persons owning and managing a non-VAT registered business in Manufacturing without a license as a percentage of all persons owning and managing at least one non-VAT registered business in Manufacturing	94.0%

Source: Stats SA (2005d)
(Table 1.3, p. 3; Figure 6, p. xv; Figure 10, p. xviii)

5.7 Education and skills training in the Manufacturing sector

Underpinning all competitive activity is the level of skill and capability that South African workers are able to bring to the manufacturing sector and its sub sectors. This is in turn dependent upon appropriate education and training – often a challenging factor in a world where technology changes daily and skills must keep up with technology (MERSETA, 2006:6).

It has been argued that those entrepreneurs with greater human capital, in terms of education and/or vocational training, are better able to adapt their enterprises to constantly changing business environments, not least in manufacturing (Rogerson, 2001:269). The conclusion of a recent wide-ranging investigation across Africa was that 'what evidence there is suggests that those who are successful entrepreneurs are likely to have had more education and training than is provided by primary schooling' (Rogerson, 2001:268). In addition to education and training, issues of sector and firm location emerge prominently as key determinants of enterprise success (Rogerson, 2001:269).

An important conclusion was that the most successful SMME manufacturing enterprises are generally run 'by highly educated and experienced entrepreneurs'. In turn, this finding suggests that in the immediate future a large number of strong manufacturing SMMEs are unlikely to emerge from the 'historically disadvantaged segments of the population' (Rogerson, 2001:270). Overall, the study emphasises the importance of

enterprise learning, facilitated by firms that are embedded in an information-rich environment - although a key channel for technical support for SMMEs is through buyer-supplier linkages (Rogerson, 2001:271). Of great significance too is the provision of collective technical support, which increases the pool of information available to SMMEs.

Issues of management training produced a markedly different response from emerging and established entrepreneurs in a study done by Upstart Business Strategies in 1999. The emerging entrepreneurs were more likely to have attended management-training workshops during the previous two years than the established ones. Overall, these findings are a strong indication that emerging manufacturers take their personal development very seriously (Upstart Business Strategies 1999, in Rogerson, 2001).

Currently there are also a variety of venture creation and business support programmes being initiated through the Umsobomvu Youth Fund and the MERSETA.

5.7.1 Entrepreneurial Education (Umsobomvu Youth Fund)

Through the Umsobomvu Youth Fund (UYF), an Entrepreneurial Education initiative is currently underway. The strategy is to facilitate the implementation of innovative skills development interventions that promote employment and self-employment. The objective is to provide entrepreneurial skills for youth to master competencies related to core entrepreneurial knowledge:

- skills
- attitudes
- practice.

This would contribute to socio-economic development and sustainable communities.

To date, for the last financial year (UYF, 2008), 14 771 learners in programmes have been involved in school activities such as market research, business scoping and the drafting of business plans.

5.7.2 Business Development Service Providers (Umsobomvu Youth Fund)

Through these service providers, potential and existing entrepreneurs are able to acquire the use of vouchers for business creation, improvement and sustainability. This service is delivered through one-on-one technical mentorship that is delivered by UYF-approved Service Providers.

The services include the development of:

- business plans
- marketing plans
- branding materials
- financial tools and information
- business feasibility
- due diligence.

The programme is implemented nationally through UYF approved Business Development Services Voucher Allocating Agents (UYF, 2008).

5.7.3 The New Venture Creation project (MERSETA)

The New Venture Creation (NVC) project is an initiative of the MERSETA to stimulate and support the incubation of small enterprises in the engineering sector through the implementation of the NVC learnership. The R5.8m project comprises two stages. The first stage is a 14-month learnership implementation period and is followed by a 12-month practical period, during which the learner is coached and mentored by participating employers. The project has signed agreements with six participating organisations (MERSETA, 2007).

5.8 Concluding remarks

The health and sustainable growth of the Manufacturing SMMEs sector depends on regular monitoring which, in turn, requires accurate information with regard to the size, structure and location of SMMEs, as well as the contribution to the economy of Manufacturing SMMEs. It is also important to know the SMME distribution across industries and across age categories (of both businesses and members of businesses), because enterprise needs tend to vary considerably according to these criteria. Furthermore, the potential of SMMEs for economic empowerment can be estimated only once the share of previously disadvantaged individuals in the ownership of SMMEs is known. Apart from these specific questions, more general information on the share of SMMEs in the economy could enlighten macro-economic policy on the impact of their actions on the sector (Berry et al, 2002:12).

Previous studies have underlined the need for the innovation of specific policy interventions, designed to enhance the successful growth and upgrading of small-scale

manufacturing enterprises, particularly in view of the difficult structural environment of large-firm market dominance (Rogerson, 2005b:35).

Another policy issue which the government will need to consider is that of creating more flexible labour law provisions or incentives as far as subcontracting and contracting are concerned. Essentially the government is in a 'Catch 22' situation in which it needs to protect the labour work force, while taking the situations of SMME owners/managers into consideration. This process can occur successfully only with proper consultation between all the relevant stakeholders.

Existing government SMME programmes have largely been biased towards the groups of small and medium-sized enterprises, and, to a large extent have bypassed groups of micro-enterprises and the informal economy (Rogerson, 2005b:35). Government support programme networks also need to extend to a greater number of enterprises. Government should improve the marketing and campaigning aspect of support programmes, so that SMME owners/managers are aware of what is available to them. These programmes should also be hubs of new information and knowledge, which is then made accessible to the enterprises (Rogerson, 2005b:35).

SMMEs within the manufacturing sector need to be given better and more innovative financial support. This will enable the growth of such enterprises and the development of the economy as a whole. Entrepreneurial training also needs to be available and accessible to a greater degree, because through better access to skills development, the enterprises will also grow (Rogerson, 2005b:35). Lastly, government needs to realise that the needs of SMMEs are different. Emerging and established enterprises encounter different problems on the road to development and therefore require different support programmes and solutions (Rogerson, 2005b:35).

CHAPTER 6

SECTORAL FOCUS:

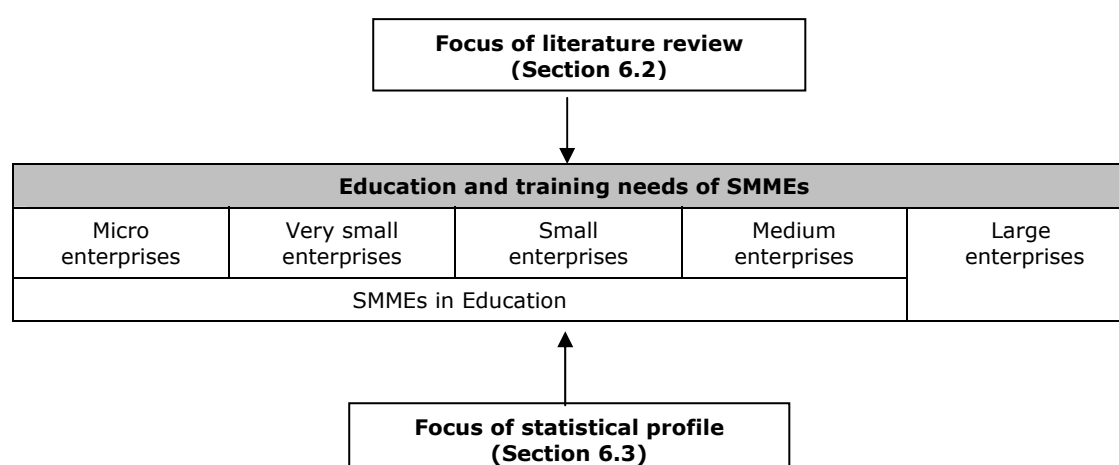
SMMES IN EDUCATION AND TRAINING

6.1 Overview

The SMMEs which focus on Education and Training fall within the Community, Social and Personal services sector. An important point to remember for this sector analysis, however, is that, within all the sectors of the economy, there are SMMEs that are involved in education and training. Within the manufacturing sector, for example, some SMMEs will focus on education and training and will be associated to the Manufacturing, Engineering and Related services SETA (MERSETA). Furthermore, each industrial sector has its own SETA with which education and training businesses are required to register.

A methodological note is necessary: because of the issues highlighted above, the qualitative review of the literature and the statistical components of this chapter approach the issue of training and education within the context of SMMEs from slightly different but complementary angles. The purpose of the diagram (Figure 6.1) is to link the literature review and the statistical profile and to create an understanding of the point of departure for each.

Figure 6.1: The link between the literature review and the statistical profile



Whereas the literature review focuses on the education and training needs of SMMEs, the statistical profile highlights a particular sub-group of SMMEs: those classifiable within the Education sector (ie SMMEs involved in activities that relate to education and training).

6.2 SMMEs focused on Education and Training

South Africa re-entered the world economy after 1994 with several disadvantages, of which a notably high unemployment rate and a low-skilled labour force were the most challenging. The need to address the problem of job creation is further aggravated by the fact that the South African labour force is predominantly low skilled (Erasmus, Steyn and Mentz, 2005:16).

Various innovative measures for enhancing the skills base in South Africa have been introduced since the first democratic elections in 1994. The new policies and strategies of the South African government are designed to deal with the country's lack of international competitiveness and the low rates of investment in the development of human capital and aim to create jobs in various sectors of the South African economy (Erasmus, Steyn and Mentz, 2005:16).

South African education and training policies have also undergone significant transformation since 1994 and have been given form in the National Qualifications Framework (NQF) (Table 6.1).

Table 6.1: The National Qualifications Framework

NQF Level	Band	Qualification type
8 7 6 5	Higher Education and Training	Post-doctoral research degrees Doctorates Masters degrees Professional Qualifications Honours degrees National first degrees Higher diplomas National diplomas National certificates
Further Education and Training Certificate (FETC)		
4 3 2	Further Education and Training	National Certificates
General Education and Training Certificate (GETC)		
1	General Education and Training	Grade 9; ABET Level 4

Source: SAQA

According to Gouws, in 2002, only one out of seven job seekers in South Africa was likely to find a job. Over the past few years the South African economy has lost more than 500 000 jobs. It is also estimated that more than five million people will remain permanently unemployed (Gouws, 2002:41).

6.3 The SMME Education and Training Sector

Education and Training Service Providers

The overarching body governing qualifications within the country is the South African Qualifications Authority (SAQA). The mandate of SAQA, together with its partners and stakeholders, is to create an integrated national framework for learning achievements in order to enhance the quality of education and training and to accelerate the redress of past unfair discrimination. Small businesses have a major role to play in the South African economy in terms of employment creation, income generation, and output growth. Many initiatives are currently underway to develop the SMME sector, but these initiatives are not necessarily focused on SMMEs that provide education and training (SAQA, 2004:7)

The role of SAQA, as promulgated in the SAQA Act¹⁰ of 1995, is to:

- oversee the development of the National Qualifications Framework; and
- formulate and publish policies and criteria for:
 - the registration of bodies responsible for establishing education and training standards or qualifications; and
 - the accreditation of bodies responsible for monitoring and auditing achievements in terms of such standards or qualifications (SAQA, 2004:11).

The South African Qualifications Authority (SAQA) is also involved in education and training SMMEs. Its particular concern is NQF-aligned training: the quality assurance of education and training that is not based on NQF qualifications or unit standards lies beyond SAQA's mandate. SAQA is also responsible for publishing policies and criteria for the accreditation of Education and Training Quality Assurors (ETQAs) (SAQA, 2004:13).

The role of ETQAs is, among other things, to:

- monitor and audit achievements in terms of national standards and qualifications;
- accredit constituent providers for specific standards and/or qualifications registered on the NQF;
- promote quality amongst constituent providers;
- monitor provision by constituent providers; and
- maintain a database acceptable to SAQA (SAQA, 2004:14).

ETQAs are accredited by SAQA for "...the purpose of monitoring and auditing achievements in terms of national standards or qualifications and standards". In turn,

ETQAs are responsible for accrediting providers whose primary focus coincides with the primary focus of the ETQA, provided that the body seeking accreditation:

- Is registered as a provider in terms of the applicable legislation;
- Has an effective and functional QMS as required by the ETQA regulations;
- Is able to develop, deliver and evaluate learning programmes, which culminate in specified registered standards and qualifications;
- Have the necessary financial, administrative and physical resources; (SAQA, 2004:25)
- Has the necessary policies, practices and reporting procedures as required by the ETQA regulations; and
- Has not already been granted accreditation by another ETQA (SAQA, 2004:26).

The current inability of many ETQAs to support SMME ETD providers is of concern. ETQAs need to be able to identify SMME ETD providers within their sector using fixed criteria (at least within the specific sector) so that these providers can be supported and enabled to comply with the current minimum criteria for accreditation (SAQA, 2004:14).

In 2004 SAQA and the ETQAs were involved in a number of processes relevant to SMME Education, Training and Development (ETD) providers. The most important of these are the four initiatives listed below.

Short course provisioning

According to the SAQA Short Courses and Skills Programmes, short course provisioning is one of the most dynamic features of the emerging education and training system of South Africa. It is considered a viable and common method for optimal workplace functioning and greatly facilitates access to learning in a manageable manner (SAQA, 2004:14).

It is common knowledge that many, if not most, SMME ETD providers offer short courses. Attempts to develop a unified approach to an accreditation model for short course provisioning have until recently not been successful and has led to suggestions made by SAQA to encourage ETQAs to accommodate non-NQF aligned short courses in an appropriate way, acceptable to the specific sector. As indicated earlier, SAQA's mandate to ensure the development and the implementation of the South African NQF does not include non-NQF aligned training (SAQA, 2004:15).

Recognition of Prior Learning

The SAQA Recognition of Prior Learning (RPL) Policy, which included a national advocacy campaign, has been completed. Various ETQAs have undertaken RPL initiatives. The implementation of RPL policy is an important issue for SMME ETD providers who are trying to be accredited. ETQAs would expect RPL policies and procedures to be included in the submissions for accreditation. (SAQA, 2004:15).

SMME support projects

Just as is the case with ETQA RPL initiatives, many ETQAs have been involved in National Skills Fund (NSF) projects to support small companies within their various sectors.

Examples of these include:

- *BANKSETA*: Microfinance Skills Transfer project
- *CETA*: Skill Upliftment project
- *CTFL SETA*: project focusing on the unemployed, employees of SMMEs, assessors and ETD practitioners
- *FOODBEV*: Export and Import Replacement project
- *THETA*: Integrated Nature-based Tourism and Conservation Management Development project
- *W&RSETA*: Retrenchees and Victory to Entrepreneurs project (SAQA, 2004:15).

Department of Education registration processes for private providers

A lack of coherence and cohesion in amendments to current legislation need to be resolved to enable equitable accreditation for SMME ETD providers. Private SMME ETD providers are legally required to register with the Department of Education (DoE). In cases where these requirements differ, and even contradict SAQA policy, intervention is required. Unfortunately, the necessary intervention is currently only taking place to a very limited extent (SAQA, 2004:15).

In an attempt to customise the accreditation process in various sectors, it is apparent that ETQAs are using different interpretations of the ETQA regulations. These interpretations generally improve the accessibility to accreditation for SMME ETD providers, but in some cases make the process more prohibitive and costly (SAQA, 2004:25).

SAQA prescribes only two forms of accreditation:

- *Provisional accreditation*: 'Granted for an agreed, limited period of time according to an agreed programme of development to enable full accreditation criteria to be met provided the interests of the learner are protected' (SAQA, 2004:26).
- *Accreditation*: 'The certification, usually for a particular period of time, of a person, a body or an institution as having the capacity to fulfil a particular function in the quality assurance system set up by the South African Qualifications Authority in terms of the Act' (SAQA, 2004:26).

The present variety of interpretations of SAQA policy with regard to provisional accreditation and accreditation has directly contributed to the barriers that SMME providers are facing (SAQA, 2004:26).

Although all providers should be supported (independent of size), survey findings suggest that SMME ETD providers should be made aware of the options that are specifically targeted at them, for example financial assistance. Some ETQAs are able to offer financial support to SMME ETD providers, specifically the survivalist and small groupings (SAQA, 2004:26).

When examining the Education and Training SMME landscape, it becomes clear that there are different lenses through which these service providers can be viewed and categorised. There are various entities- such as ETQAs and SETAs- to which these SMMEs are accountable. Differences across each industrial sector also determine the kinds of skills required and the skills development occurring within the education and training SMMEs. One way of obtaining a clearer view of education and training SMMEs would be to examine those in each industrial sector separately, ie focussing solely on that particular environment.

The skills development challenge in South Africa has not gone unseen by the government. The Department of Trade and Industry acknowledges that the skills base among entrepreneurs in remote (rural) areas is poor, as well as among those with lower literacy levels, and in some of the high-growth sectors where skills requirements change rapidly (Department of Trade and Industry, 2005:11).

According to **the dti**, the steps needed to deal with these needs should be addressed by:

- The SETAs and public-sector training institutions, including FET colleges and universities
- Business associations active in the respective areas or sectors

- Non-governmental Organisations (NGOs) or Community Based Organisations (CBOs) (working with private-training initiatives) focusing on social advancement in the particular areas
- Mentoring initiatives available in the area/sector.

Sector Education Training Authorities

To implement the National Skills Development Strategy the Government promulgated the Skills Development Act, 1988 (Act No. 97 of 1998). On 20 March 2000 the Minister of Labour established 25 sector education and training authorities (SETAs) in designated economic sectors in terms of Section 9(1) of the Act. The purpose of SETAs is to help implement the National Skills Development Strategy and to increase the skills of people in their designated sector (Prinsloo & Lategan, 2005:43). The SETAs were created through a consultative research process, to determine how the different sectors should be defined and what industries should be linked to each SETA. Their main function is to contribute to the raising of skills, to bring skills to the employed, or those wanting to be employed, in their sector. They have to do this by ensuring that people learn skills that are needed by employers and communities.¹⁶

SETAs are statutory bodies established in terms of an Act of Parliament. However, they function under the authority of a board that is made up of elected employer and trade union representatives from the relevant sectors, thereby making the SETA more relevant and responsive to the needs of the customers within the different sectors. In this way SETAs are similar to any organisation that operates and serves a specifically demarcated market segment (Prinsloo & Lategan, 2005:43).

Subsequent changes have reduced the number of SETAs to 23, listed in Table 6.2.

¹⁶<http://www.labour.gov.za/download/11535/Useful%20Document%20-%20NSF%20-%20Sector%20Education%20and%20Training%20Authorities.pdf>

Table 6.2: The list of Sector Education Training Authorities

	Acronym	SETA Name
1	AgriSETA	Agricultural Sector Education Training Authority
2	BankSETA	Banking Sector Education Training Authority
3	CETA	Construction Sector Education Training Authority
4	CHIETA	Chemical Industries Sector Education Training Authority
5	CTFL	Clothing, Textiles, Footwear and Leather Sector Education Training Authority
6	ESETA	Energy Sector Education Training Authority
7	ETDP	Education, Training & Development Practices SETA
8	FASSET	Financial & Accounting Services SETA
9	FIETA	Forest Industry SETA
10	FOODBEV	Food & Beverage Manufacturing Industry SETA
11	HWSETA	Health & Welfare SETA
12	INSETA	Insurance SETA
13	ISETT	Information systems, Electronics & Telecommunication technologies SETA
14	LGSETA	Local government and related services SETA
15	MAPPP	Media, Advertising, Publishing, Printing & Packaging SETA
16	MERSETA	Manufacturing, Engineering & Related services SETA
17	MQA	Mining Qualification Authority
18	PSETA	Public Service sector SETA
19	SASSETA	Safety & Security SETA
20	SSETA	Services SETA
21	TETA	Transport Education and Training Authority
22	THETA	Tourism & Hospitality SETA
23	W&RSETA	Wholesale & Retail SETA

Source: www.labour.gov.za/seta_offices

The SETAs have replaced the 33 Industry Training Boards but have greater powers and responsibilities. They cover every industry and occupation, whereas the Industry Training Boards covered some sectors only and focused mainly on apprenticeships. SETAs are concerned with learnerships, internships, learning programmes and unit based skills programmes.

SETAs form part of the broader South African skills development framework and receive their resources from the skills development levy. In 2007 the government conducted a review of the SETAs to assess their progress in terms of their objectives and found the following (http://www.skillsportal.co.za/skills_guide/944540.htm):

- the scope of the functions undertaken by the SETAs had become too broad and is in need of review

- the SETAs were aiming for generic targets, regardless of demography or occupational structure - as a result they ended up offering short-term training to achieve their targets to the detriment of more in-depth training that was needed in their particular sectors
- the alignment between trade and learnership qualifications would need to be improved
- governance and accountability needed to be improved and that the Department of Labour would need to take a firmer stance against underperforming SETAs
- the alignment of SETA programmes with the programmes provided through the FET colleges was also needed
- a lack of information was hampering the monitoring of SETAs, particularly with regard to investment in training by employers.

It is important to note that the SETAs are not the only entities which acknowledge the need for greater skills development and training, those individuals involved in SMMEs are also aware of these issues. The activities of the SMME economy are viewed as critical for addressing the goals of promoting economic growth, employment creation and poverty alleviation (Rogerson, 2005b:35). It has also been argued that those entrepreneurs with greater human capital, in terms of education and/or vocational training, are better able to adapt their enterprises to constantly changing business environments (Rogerson, 2001:269).

6.2.1 The distribution of SMMEs focused on education

As at March 2007, there were about 13 193 Education enterprises listed in the Integrated Business Register (Table 6.2). About 64% of these were 'economically non-active' (ie they did not experience any financial activity during the previous five years). Of the economically active enterprises in Education, almost 80% were either micro enterprises (41%) or very small enterprises (37%) (Table 6.2, second last column, and Figure 6.2).

Table 6.3: Distribution of Education enterprises in Integrated Business Register, by enterprise category and whether or not economically active (as at March 2007)

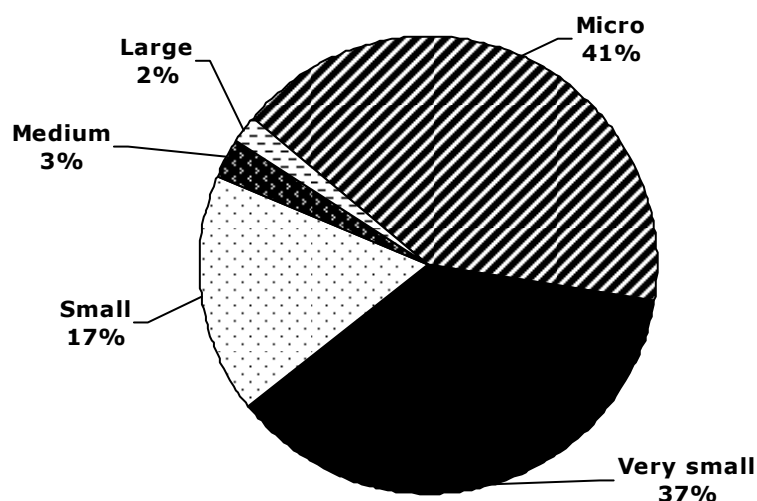
Enterprise category	Economically active	Number of enterprises	% distribution of enterprises		
			All enterprises (active and non-active)	Active enterprises (Unspecified excl)	Active SMMEs
Micro	Yes	1968	14.9%	41.3%	42.1%
Very small	Yes	1769	13.4%	37.1%	37.9%
Small	Yes	808	6.1%	17.0%	17.3%
Medium	Yes	128	1.0%	2.7%	2.7%
Large	Yes	93	0.7%	2.0%	--
Unspecified	No	8427	63.9%	--	--
Total		13193	100% (13193)	100% (4766)	100% (4673)

Notes:

'Economically active' refers to enterprises having some financial activity during the previous five years. The activity could be an income tax or a VAT return, even if the return reflects a loss.

'Enterprise classification' is based on turnover only.

Source: Stats SA Integrated Business Register, March 2007.

Figure 6.2: Distribution of economically active enterprises in Education, by enterprise category (N=4 766)

Source: Stats SA Integrated Business Register, March 2007.

The SMME sector in Education consists almost exclusively of close corporations (77.3%, or 3 612 of 4 673) and (18.3%, or 857 of 4 673). Whereas close corporations in this sector include mostly micro and very small enterprises (47%, 1 683 of 3 612, and 40%, or 1 441 of 3 612), private companies also include a significant share of small enterprises (35%, or 298 of 857). Medium-sized enterprises do not feature strongly in this sector.

More than half of all SMMEs in Education (55%) are located in Gauteng. The Western Cape and KwaZulu-Natal follow second and third, respectively, with 17% and 12% of enterprises. In addition, between 96%-100% of enterprises involved in Education across the different provinces are SMMEs.

The number of new enterprises steadily increased between 2001/02 and 2005/06, from 1 422 in 2001/02 to 1 954 in 2005/06, whereafter it declined significantly in 2006/07 to 1 559.

This section concludes the assessment of the distribution of SMMEs in Education in South Africa. The following section will highlight specific concerns and policy issues in respect of these SMMEs.

6.2.2 Concerns and policy issues

The changing world of work, induced by economic development, demands an increasingly flexible and highly skilled labour force as customary jobs, activities and occupations are disappearing and being replaced with new ones. As a result, in most innovation-driven economies there is a mounting tension between the requirements of the job structure and the structure of the qualifications of the employed population. These disparities manifest themselves in the excessive supply of unskilled labour or workers with obsolete qualifications (resulting in high unemployment rates), as well as in labour shortages in new skilled jobs (Erasmus, Steyn and Mentz, 2005:16).

Education and Training SMMEs and entrepreneurship

Education and training are viewed as critical to the success of establishing a culture of entrepreneurship in South Africa. Alongside finance, the need for training and the upgrading of skills is a critical theme for South African SMME policy (Rogerson, 2007c:28). With the increasing globalisation of economies around the world, including South Africa, the need is growing for 'smart', 'adaptive' and innovative entrepreneurs and enterprises (Rogerson, 2007c:29). A lack of technical and managerial skills can no longer be a reason for SMME business failure, and this should be addressed in policy development.

A number of studies support the theory that two of the most prevalent causes of general business failure amongst SMMEs in South Africa are a lack of management skills and training (Rogerson, 2007c:17).

Over the past decade a number of research contributions on training and skills development linked to the SMME economy in South Africa have been made. At the broadest level, there is a collection of investigations which confirm that a large segment of South Africa's SMME entrepreneurs have very limited skills, affirming the corresponding importance of training and the acquisition of skills for business development. Several studies indicate that the most successful, adaptive and innovative SMMEs are those in which entrepreneurs (and often also the workers) have good to high levels of education, technical/managerial skills and training (Rogerson, 2007c:16).

Kroon in Nieman (2001:446) states that entrepreneurship education should be directed at the preparation of individuals who can be change agents. Entrepreneurship and small business training can be approached from different perspectives, however. The main areas of concentration are business skills training, technical skills training, and entrepreneurial skills training (Nieman, 2001:446).

Education and Training SMMEs need to focus on training such as business skills training, technical skills training and entrepreneurial skills training. According to Perks and Struwig (2005: 171) there are certain skills necessary to turn micro enterprises into small enterprises. A literature review of skills, competencies or abilities reveals that four general categories exist. These are described further below.

Personal skills

These are:

- good organisational skills
- good problem-solving skills
- good communications skills
- an ability to deal with stress effectively
- good leaderships skills
- a high degree of independent decision-making ability
- good negotiation skills.

Technical skills

Most secondary sources define technical skills as the ability to use the tools, procedures and techniques of a specialised field. The five categories defined by Hirschowitz, Slabbert, Clark and van der Walt (in Perks and Struwig, 2005:171) which are quite broad, yet interrelated, are:

- product knowledge
- process knowledge

- knowledge of the service
- knowledge of the market
- knowledge of methods of communication

Business operations skills

These are:

- general business management
- record keeping
- financial management
- interpersonal relations
- customer relations (Perks and Struwig, 2005:172)

Management skills

Epstein and Rogers (in Perks and Struwig, 2005:173) describe the following competencies of a skilled manager:

- manages rewards by providing positive and constructive feedback, recognising achievement and rewarding good performance
- communicates effectively by soliciting ideas and feedback, presenting a clear vision of the future and seeking to inform, educate and inspire
- manages teams effectively by composing teams wisely and helping them to function smoothly and optimally
- manages the environment by maintaining and creating an attractive, functional work space and encouraging healthy relationships
- matches skills by identifying people's skills and assigning tasks appropriately
- identifies people who thrive on challenges and seeking to push them beyond their current limits.

According to King et al (2002) and King and McGrath (2002) (in Rogerson, 2007c:16), from international experience, globalisation raises the need for what has been termed 'learning-led competitiveness'. They also argue that in order to respond to the challenge of competitiveness under conditions of globalisation, important elements of response for both countries and enterprises are effective 'strategies to improve individuals' and enterprises' level of knowledge and skills' (King et al, 2002 in Rogerson, 2007c:16). Thus the role of training and skills development is seen as essential for SMME enterprises in order for them to 'learn to grow' (McGrath and King, 1999 in Rogerson, 2007c:16).

Nonetheless, other researchers have indicated and cautioned that skills are not the only solution for small enterprise development (Rogerson, 2007c:16).

Recent research on training for very small micro-enterprises highlights that it tends to take the form of on-the-job training and is not always linked to NQF-recognised training. Training must therefore move beyond generic issues and become more sector differentiated (Rogerson, 2007c:29).

Despite its acknowledged importance for business success, the role of training is not always acknowledged by entrepreneurs (Rogerson, 2007c:29). It is therefore imperative that government increase its drive towards skills training with regard to SMMEs (Gouws, 2002: 41).

The regulatory environment

Over the past five years, questions regarding regulations and the regulatory environment for SMME development have been increasingly acknowledged as critical issues for promoting entrepreneurship and the development of SMMEs in South Africa (Upstart Business Strategies, 2006, in Rogerson 2007c:21).

From the outset, however, a review on research on regulations must be prefaced by a reminder that most surveys of SMME entrepreneurs consistently report that market issues and demand for their products are the most important factors to positively influence enterprise growth (Mollentz, 2002, in Rogerson 2007c:21). As argued by Chamberlain and Smith (2006) in Rogerson (2007c:21), whilst issues of regulations are significant for long term development, reducing the burden of regulations 'is unlikely to result in dramatic development of the SMME market in the short term'. Overall, regulation is thus considered 'more likely to be a catalyst or facilitator of development rather than a driver of growth'. Furthermore, drivers 'will come from improvements in the general economic environment and demand conditions combined with initiatives to empower individuals to start their own businesses' (Chamberlain and Smith 2006:47, in Rogerson 2007c:21). These cautions are necessary, as the recent surge of writings on the topic of regulation sometimes project an exaggerated view of its over-riding significance, relative to other factors for SMME development.

6.4 Concluding remarks

The success of the sector depends on all stakeholders including the state, private companies, teachers, parents and the learners co-operating and working together

(Gouws, 2002: 41). Given the above, and the potential contribution of education and training SMMEs to national initiatives such as JIPSA, it is important that government prioritises the support and growth of SMMEs operating in this area.

These needs should be addressed by the following:

- The SETAs and public-sector training institutions, including FET colleges and universities
- Business associations active in the respective areas or sectors
- NGOs or CBOs (working with private-training initiatives) focusing on social advancement in the particular areas
- Mentoring initiatives available in the area/sector (Jones, Cooper and Macmillan, 2006).

To facilitate co-operation around these tasks and possibly through the provision of co-funding, SEDA or other agencies may further support these initiatives (or provide the stimulus for new ones). In these efforts local business-information contact points should also play a supportive role.

It is only through the collaborative effort of all the relevant stakeholders; in a complementary and supportive manner; that effective education and training initiatives will succeed.

ELECTRONIC DATA SOURCES (DATASETS)

CIPRO (2007). *New Enterprise Register (Details of recently registered enterprises, April 2001 to March 2007)*. Pretoria: Companies and Intellectual Property Registration Office. (Data provided as delimited text files.)

CIPRO (2007). *New Enterprise Register (Directors of recently registered enterprises, April 2005 to March 2007)*. Pretoria: Companies and Intellectual Property Registration Office. (Data provided as delimited text files.)

Stats SA (2007). *Integrated Business Register, March 2007*. Pretoria: Statistics South Africa. (Data provided as a pivot table in Excel.)

REFERENCES¹⁷

- Actuarial Society of South Africa (2006). *Summary Statistics: ASSA2003 AIDS Model*. http://www.assa.org.za/scripts/file_build.asp?id=100000547&pageid=1000000050 [Accessed 8 August 2006.]
- Arokium, K (2006). *Ugu District Municipality LED: ICT LED Strategy Plan*. Unpublished draft report prepared by Urban-Econ Development Economists for the Municipal Manager, UGU.
- Bernstein, A (2007). 'Entrepreneurs in the wilderness'. In *Business Day*, 31 May 2007.
- Berry, A; von Blottnitz, M; Cassim, R; Kesper, A; Rajaratnam, B and van Seventer, DE (2002). *The Economics of SMMES in South Africa. Trade and Industrial Policy Strategies*. KwaZulu-Natal (TIPS).
- Bhorat, H and Cassim, R (2004). 'The challenge of growth, employment and poverty in the South African economy since democracy: An exploratory review of selected issues'. In *Development Southern Africa* 21(1) 7-29.
- Centre for Development and Enterprise (2004). *Key to Growth: Supporting South Africa's Emerging Entrepreneurs*. Research Report No 12. Johannesburg: CDE.
- Centre for Development and Enterprise (2007b). *Young Soweto Entrepreneurs: Organising for Small Business Advocacy*. Occasional paper. Pretoria: CDE.
- Chamberlain, D. and Smith, A. (2006). *Recent Findings on Tax-related Regulatory Burden on SMMES in South Africa*. Cape Town: Development Policy Research Unit, UCT.
- Chao, L; Pauly, M; Szrek, H; Pereira, NS; Bundred, F; Cross, C and Gow, J (2007). 'Poor Health Kills Small Business: Illness and Microenterprises in South Africa'. In *Health Affairs* 26(2): 474-482.
- Charlton, S (2006). 'Learning from the local: Experiences of informal settlement upgrading in KwaZulu-Natal'. In *South African Review of Sociology* 37(1): 48-65.
- Department of Health (2007). *Report: National HIV and Syphilis Prevalence Survey South Africa 2006*. Tshwane: Department of Health.
- Devey, R; Skinner, C and Valodia, I (2006). *Second Best? Trends and Linkages in the Informal Economy in South Africa*. Cape Town: Development and Policy Research Unit, UCT.

¹⁷ Both a Reference List and a Bibliography have been provided. The Reference List includes only those references referred to in the final published report. The Bibliography lists other sources that were consulted during the course of the research project. These are provided as 'additional resources' for the interested reader or researcher.

-
- Dockel, JA and Ligthelm, AA (2005). *South African Journal of Economic and Management Sciences* 8(1): 54-62.
- Department of Trade and Industry (2004). *A Co-operative Development Policy for South Africa*. Pretoria: The Department of Trade and Industry.
- Department of Trade and Industry (2005a). *Guide to the South African Co-operatives Act 2005*. Pretoria: The Department of Trade and Industry.
- Department of Trade and Industry (2005b). *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises: Unlocking the Potential of South African Entrepreneurs* (summarised version). Tshwane: **the dti**.
- Department of Trade and Industry. (2008). *Integrated Strategy on the Promotion of Co-operatives and Collective Entrepreneurship: Creating a Self-sustaining Co-operative Value Chain in South Africa*. Powerpoint presentation by the Co-operatives Unit, Enterprise & Industry Development Division (EIDD). Pretoria: The Department of Trade and Industry.
- Erasmus, JC; Steyn, SC and Mentz, PJ (2005). 'Expectations of the unemployed in South Africa: An education system perspective'. *Africa Education Review* 2(1): 16- 39.
- Finweek (2006). *Revving up regional economy: The motor industry is integral to province*. 25 May 2006.
- Gijima (2006) *KwaZulu-Natal LED Support Programme: Co-operative Development in KwaZulu-Natal* <http://www.gijimakzn.org.za/>. [Accessed 24 September 2007.]
- G'Lab (2008). *Co-operatives in South Africa: International benchmark – Draft Report*. Report produced for **the dti** by the Growth Laboratory. Johannesburg, South Africa.
- Global Entrepreneurship Monitor (GEM). See the references under Maas and Herrington.
- Gouws, E (2002). 'Entrepreneurship education: implications for teacher training South African'. In *Journal of Higher Education* 16(2): 41-48.
- Government Gazette (2005). *Co-operatives Act, 2005 (No. 14 of 2005)*. Vol. 482, Cape Town, 18 August 2005.
- Gumede, V (2004). 'Export Propensities and Intensities of Small and Medium Manufacturing Enterprises in South Africa'. *Small Business Economics* 22: 379-389.
- Harris, S (2007). 'Big budget, lots of people to pay'. In *Finweek* 15 March 2007.
- Hill, T; Nel, E and Trotter, D (2006). 'Small-scale, nature-based tourism as a pro-poor development intervention: Two examples in KwaZulu-Natal South Africa'. In *Singapore Journal of Tropical Geography* 27: 163-175.
- Inggs, M (2007). 'KwaZulu-Natal co-operatives get R220m'. *Business Report* (online). www.busrep.co.za/index.php?fArticleId=3654707 [Accessed 23 December 2007.]
-

- James, T and Wolff, M (2007). *A Digital Hub Strategy For KwaZulu-Natal, South Africa: Action Plan and Proposed Projects*. Unpublished report prepared for the KZN Department of Economic Development, July 2007.
- Jeppesen, S (2005). 'Enhancing competitiveness and securing equitable development: can small, micro, and medium-sized enterprises (SMEs) do the trick?' *Development in Practice* 15(3&4): 463-474.
- Karungu, P; Marabwa, E and Stettler, M (2000). *Development Co-operation Report: Evaluation of ODA to the SMME Sector*. Report for Department of Finance International Development Co-operation. Johannesburg: International Organisation Development South Africa.
- Kesper, A (2000). *Failing or not aiming to grow? Manufacturing SMMEs and their Contribution to Employment Growth in South Africa*. TIPS Working Paper. Tshwane: Trade and Industrial Policy Strategies.
- Khula (2008). Khula Annual Report 2007. <http://www.khula.org.za> [Accessed 23 December 2007.]
- Kingdon, G and Knight J (2007). 'Unemployment in South Africa 1995-2003: Causes, problems and policies'. In *Journal of African Economies* 16(5): 813-848.
- Kingdon, G. and Knight, J. (2005). *Unemployment in South Africa 1995-2003: Causes, Problems and Policies*. Paper presented at South African Economic Policy Under Democracy: A 10 Year review conference held in Stellenbosch, October 2005. http://akadweb.sun.ac.za/economics/econconf/papers/Kingdon_Knight.pdf [Accessed 29 July 2006.]
- Kirsten, M (2006). *Policy Initiatives to Expand Financial Outreach in South Africa. Development Bank of Southern Africa*. Paper delivered at World Bank/Brookings Institute Conference held in Johannesburg, 30-31 May 2006.
- Kraak, A (2003) 'HRD and 'Joined-up' policy'. In A Kraak and H Perold (eds) *Human Resources Development Review 2003: Education, Employment and Skills in South Africa*. Cape Town: HSRC Press.
- Kraak, A (2004a). 'Training policies under late apartheid: the historical imprint of a low skills regime'. In S McGrath, A Badroodien, A Kraak and L Unwin (eds) *Shifting Understandings of Skills in South Africa*. Cape Town: HSRC Press.
- Lorentzen, J; Robbins, G and Barnes, J (2004). *The Durban Auto Cluster: Global Competition, Collective Efficiency, and Local Development*. Working Paper No. 41. KwaZulu-Natal Centre for Development.
- Maas, G and Herrington, M (2007). *Global Entrepreneurship Monitor South African Report 2006*. Cape Town: GEM.
- Maharaj, B and Ramballi, K (1998). 'Local Economic Development Strategies in an Emerging Democracy: The Case of Durban in South Africa'. In *Urban Studies* 35(1): 131-148.
- Mbeki, T (2006). *State of the Nation Address*. Republic of South Africa.

-
- Mbhele, T and Aliber, M (2005). 'KwaZulu-Natal Case Study'. In M Aliber, C de Swardt, A du Toit, T Mbhele and T Mthethwa (eds) *Trends and Policy Challenges in the Rural Economy: Four provincial case studies*. Cape Town: HSRC Press.
- Manufacturing, Engineering and Related Services SETA (MERSETA) (2007). *Sector Skills Plan Review 2007-2010*.
- Mkhize, ZL (2006). Budget address by Dr ZL Mkhize, MEC for Finance and Economic Development, on tabling of the KwaZulu-Natal Budget in the Provincial Legislature, 6 May 2006.
- Mkhize, ZL (2007). Budget address by Dr ZL Mkhize, MEC for Finance and Economic Development, on tabling of the KwaZulu-Natal Budget in the Provincial Legislature, 1 March 2007.
- Ndebele, S (2007b). Speech by Premier of KwaZulu-Natal at the 12th ILO Regional Seminar on 8 October 2007. <http://www.kwazulunatal.gov.za/premier/speeches/premier/08-10-2007.pdf> [Accessed 14 August 2007.]
- Nieman, G (2001). 'Training entrepreneurs and small business enterprises in South Africa: a situational analysis'. *Education and Training* 43(8/9): 445-450.
- Perks, S and Struwig, M (2005). 'Skills necessary to grow micro entrepreneurs into small business entrepreneurs'. *South African Journal of Enterprise Management Studies* 8(2): 171-186.
- Presidency of the Republic of South Africa (2007b). *JIPSA Progress Report*. <http://www.info.gov.za/otherdocs/2007/jipsarep.pdf> [Accessed 2 February 2008.]
- Pretorius, M, Millard, SM; Kruger, ME (2005). 'Creativity, innovation and implementation: Manager experience, venture size, life cycle stage, race and gender as moderators'. In *South African Journal of Business Management*. 36(4): 55-68.
- Prinsloo, F.P.J. & Lategan, A.H. (2005) 'Identifying a National Leadership Skills and Development Strategy for Leaders within Sector Education Training Authorities (SETAs)'. In *South African Journal of Human Resource Management*, 3(1): 43-50.
- Radipere S and Van Scheers, L (2005). 'Investigating whether a lack of marketing and managerial skills is the main cause of business failure in South Africa'. *South African Journal of Economic and Management Sciences* 8(4): 402-411.
- Ramadiro, B, Mavundla, Z & Seohatse, L. (2004). *Youth participation in co-operatives in South Africa*. Research report commissioned by the Umsobomvu Youth Fund (UYF) and conducted by the National Co-operative Association of South Africa (NCASA).
- Roberts, B (2006). 'The happy transition? Attitudes to poverty and inequality after a decade of democracy'. In Udesch Pillay, Benjamin Robert and Stephen Rule (eds) *South African Social Attitudes: Changing Times, Diverse Voices*. Cape Town: HSRC Press.
-

- Rogerson, CM (2001). 'Growing the SMME Manufacturing Economy of South Africa: Evidence from Gauteng Province'. *Journal of Contemporary African Studies*, 19(2): 267-291.
- Rogerson, CM (2004). 'The impact of the South African government's SMME programmes: A ten-year review (1994-2003)'. *Development Southern Africa* 21(5): 765-784.
- Rogerson, CM (2005a). 'Unpacking tourism SMMEs in South Africa: structure, support needs and policy response'. *Development Southern Africa* 22(5): 623-642.
- Rogerson, CM (2005b). 'SMME Development in Peripheral Regions: Manufacturing in Free State Province, South Africa'. *Urban Forum* 16(1): 35-54.
- Rogerson, CM (2007a). 'Clusters, SMMEs and Regional Development'. Report for the Department of Trade and Industry.
- Rogerson, CM (2007c) *Finance, Training and the Regulatory Environment*. Report for the Department of Trade and Industry. Tshwane: **the dti**.
- Rogerson, CM (2007d). *The existing state of data on SMMEs*. Report for the Department of Trade and Industry.
- South African Qualifications Authority (SAQA) (2004). *Guidelines for the Equitable Accreditation of Small-, Medium and Micro Enterprise Providers of Education and Training*. South Africa: Pretoria.
- SEDA (2004). *Annual Review of Small Business in South Africa – 2004*. Pretoria: Small Enterprise Development Agency (SEDA) and the Department of Trade and Industry (**the dti**).
- SEDA (2007). *Review on Trends in Entrepreneurship and the Contribution of Small Enterprises to the Economy of South Africa, 2000-2006*. Pretoria: Small Enterprise Development Agency (SEDA) and the Department of Trade and Industry (**the dti**).
- Shisana, O; Rehle, T; Simbayi, L; Parker, W; Zuma, K; Bhana, A; Connolly, C; Jooste, S; Pillay, V et al (2005). *The South African National HIV Prevalence, HIV Incidence, Behaviour and Communication Survey, 2005*. Cape Town: HSRC Press.
- Skinner, C (2000). 'Getting institutions rights? Local government and street traders in four South African cities'. In *Urban Forum* 149: 71.
- Skinner, C (2006) 'Falling through the Policy Gaps? Evidence from the Informal Economy in Durban, South Africa'. In *Urban Forum* 17(2): 125-148.
- Skinner, C and Lund, F (2004). 'Integrating the informal economy in urban planning and governance: A case study of the process of policy development in Durban, South Africa in International Development'. In *Planning Review* 26(4): 431-456.
- Small Business Project (2006). *The Impacts of Sector-Specific Policies and Regulations on the Growth of SMEs in Eight Sectors of the South African Economy*. Cape Town: Development Policy Research Unit, UCT.

-
- South African Cities Network (2006). *State of the Cities Report 2006*.
http://www.sacities.net/2006/state_of_cities_2006.stm (Accessed 15 September 2007.)
- Stats SA (2005a). *Labour Force Survey, March 2005*. Statistical Release P0210. Pretoria: Statistics South Africa.
- Stats SA, (2005b). *Labour Force Survey, September 2005*. Statistical Release P0210. Pretoria: Statistics South Africa.
- Stats SA, (2005c). *Statistics of Liquidations and Insolvencies*. Statistical Release P0043. Pretoria: Statistics South Africa. (Monthly releases – April 2005 to December 2005.)
- Stats SA, (2005d). *Survey of Employers and the Self-employed, September 2005*. Statistical Release P0276. Pretoria: Statistics South Africa.
- Stats SA (2006a). *Labour Force Survey, March 2006*. Statistical Release P0210. Pretoria: Statistics South Africa.
- Stats SA (2006b). *Labour Force Survey, September 2006*. Statistical Release P0210. Pretoria: Statistics South Africa.
- Stats SA (2006c). *Statistics of Liquidations and Insolvencies*. Statistical Release P0043. Pretoria: Statistics South Africa. (Monthly releases – January 2006 to December 2006.)
- Stats SA (2007a). *Labour Force Survey, March 2007*. Statistical Release P0210. Pretoria: Statistics South Africa.
- Stats SA (2007b). *Statistics of liquidations and insolvencies*. Statistical Release P0043. Pretoria: Statistics South Africa. (Monthly releases – January 2007 to March 2007.)
- Stats SA (2008). *Labour Force Survey, September 2007*. Statistical Release P0210. Pretoria: Statistics South Africa.
- Tourism KwaZulu-Natal (2006a). *An overview of the Nature and Extent of KwaZulu-Natal's Domestic Tourism Market for 2005*. Occasional Paper no. 43.
- Tourism KwaZulu-Natal (2006b). *An overview of the Performance of KwaZulu-Natal's Foreign Tourism Market: July to September 2005*. Occasional Paper no. 42.

Umsobomvu Youth Fund (2008). *SMME Information*. Unpublished document provided by MERSETA for the purpose of this study. South Africa: Pretoria.

Valodia, I And Velia, M (2006). 'Macro-Micro Linkages in Trade: Trade, Efficiency and Competitiveness of Manufacturing Firms in Durban, South Africa' in *Journal of African Economies* 15(4): 688-721.

- Van der Walt, JL, Kroon, J and Fourie, BJ (2004). 'The importance of a vision and mission for small, medium-sized and large businesses'. In *South African Journal of Economic and Management Sciences* 7(2): 206-220.

Van Niekerk, A (2007). *Regulating Flexibility and Small Business: Revisiting the LRA and BCEA: A response to Halton Cheadle's Concept Paper*. Cape Town: Development and Policy Research Unit, UCT.

Vass, J (2005). 'The relationship between labour market dynamics and HIV/AIDS prevalence in South Africa – a literature review'. In *South African Journal of Economics* 73: 564-577.

Vass, J and Phakati, S (2006). *Managing HIV in the workplace: Learning from SMEs*. Cape Town: HSRC Press.

Von Broembsen, M; Wood, E and Herrington, M (2005). 'South African Report 2005'. *Global Entrepreneurship Monitor (GEM)*.

WFA and Graham Muller Associates (2006). *Economic Baseline Study for Ten Nominated Districts in KwaZulu-Natal*. Draft Report prepared for the Department of Economic Development KwaZulu-Natal. <http://www.gijimakzn.org.za/>. [Accessed 24 September 2007.]

World Bank (2007). *South Africa: Enhancing the Effectiveness of Government in Promoting Micro, Small and Medium Enterprise*. Report for the Department of Trade and Industry, Pretoria.

BIBLIOGRAPHY

- Adato, M; Lund, F and Mhlongo (2006). 'Methodological Innovations in Research on the Dynamics of Poverty: A Longitudinal Study in KwaZulu-Natal, South Africa'. In *World Development* 35(2): 247-263.
- African Response (2006). *FinScope Small Business Survey Report Gauteng 2006* (prepared for Gauteng Enterprise Propeller and FinMark).
- Barnett, T and Whiteside, A (2002). *AIDS in the Twenty-First Century: Disease and Globalisation*. New York: Palgrave Macmillan.
- Bologna, S (2006). *Partnerships for Small Enterprise Development*. UNIDO.
<http://www.thedti.gov.za/invitations/presentations/Day2Session1UnidoStefano.pdf> [Accessed 14 August 2007.]
- Bosscha, P; Coetzee, R; Terblanche, P; Gazendam, A and Isaac, S (2006). 'SmartFactory: the challenges of open and low-cost ICT in the small manufacturing industry'. *South African Journal of Science* 102 (July/August): 335-338.
- Bradford, WD (2007). 'Distinguishing Economically from Legally Formal Firms: Targeting Business Support to Entrepreneurs in South Africa's Townships'. *Journal of Small Business Management* 45(1): 94-115.
- Burger, L; Mahadea, D and O'Neill, C (2004). 'Perceptions of entrepreneurship as a career option in South Africa: An exploratory study among Grade 12 Learners'. In *SAJEMS NS* 7(2) 187-205.
- Business Monitor International (2007). *Macroeconomic Forecast: South Africa*.
<http://www.meamonitor.com/file/47516/macroeconomic-forecast-south-africa.html> [Accessed 12 August 2007.]
- Byren, CJ (2007). *Key success factors for an integrated Small Medium and Micro Enterprise (SMME) growth strategy in South Africa*. Unpublished dissertation. Submitted in partial fulfilment of the requirements for the degree of Master of Business Administration.
- Centre for Development and Enterprise (CDE) (2007a) *Round Table: Going for growth: Are ASGISA and JIPSA bold enough?* Pretoria: CDE.
- Cheadle, H (2006). *Regulated Flexibility and Small Business: Revisiting the LRA and the BCEA*. Cape Town: Development Policy Research Unit, UCT.
- Co, MJ (2004). 'Perceived institutional obstacles in doing business: a comparative study of South Africa and the Philippines'. In *SAJEMS NS* 7(1) 89-99.

- Damane, K. (2006). *Key Lessons for the Integration of Service Delivery for SMME Support*. <http://www.thedti.gov.za/invitations/presentations/Day2Session2WawaDamane.pdf> [Accessed 14 August 2007.]
- Daniels, R (2001). *Financial Intermediation and the Micro-finance Sector*. Cape Town: Development and Policy Research Unit, UCT.
- Davies, TA (2006). Unpublished working paper on Disability Interventions in South Africa. Durban: JOBWORX.
- Development and Policy Research Unit (2006). *The Impacts of Sector-specific Policies and Regulations on the Growth of SMEs in Eight Sectors of the South African Economy*. RU Working Paper. Cape Town: Development Policy Research Unit, UCT.
- European Programme for Reconstruction and Development (EPRD) (2004). *Local Development Support Programme in KwaZulu-Natal Province: Inception Report*. EuropeAid. <http://www.gijimakzn.org.za/>. [Accessed 24 September 2007.]
- Finweek (2007a). *RiverHorse Valley Mooted as Flagship Development: The estate contributes to the local economy*. 17 July 2007.
- Finweek (2007b). *Smart city boost for small IT companies*. 28 June 2007.
- Geffen, N; Natrass, N and Raubenheimer, C (2003). *The Cost of HIV Prevention and Treatment Interventions in South Africa*. CSSR Working Paper 03/28. Cape Town: Centre for Social Science Research, UCT. http://www.cssr.uct.ac.za/pubs_cssr.html [Accessed 8 August 2006.]
- Godfrey, S; Maree, J and Theron, J (2006). *Conditions of Employment and Small Business: Coverage, Compliance and Exemptions*. Cape Town: Development and Policy Research Unit, UCT.
- Jones, B; Cooper, L and McMillan, J (2006). 'Training for the future? A case study of emerging education, training and development practitioners in the South African clothing manufacturing industry'. *Perspectives in Education*, 24(3): 121-131.
- Kesper, A (2001). 'Failing or not aiming to grow? Manufacturing SMMEs and their contribution to employment growth in South Africa'. In *Urban Forum* 12: 171-203.
- Kraak, A (2004b). *An Overview of South African Human Resources Development*. Cape Town: HSRC Press.
- KwaZulu-Natal Provincial Government (2007). *Economic Growth in KZN on the rise*. <http://www.kwazulunatal.gov.za/>. [Accessed: 20 September 2007.]
- KwaZulu-Natal Provincial Government (2007). Media release 15 June 2007.
- KwaZulu-Natal Provincial Government (2007). Media release 16 April 2007.
- KwaZulu-Natal Provincial Government (2007). Media release 6 February 2007.

-
- Ladzani, WM and van Vuuren, JJ (2002). 'Entrepreneurship training for emerging SMEs in South Africa'. *Journal of Small Business Management* 40(2): 154-161.
- Levy, B (1996). 'South Africa: The Business Environment for Industrial Small and Medium Enterprises'. Informal Discussion papers on Aspects of the Economy of South Africa, No 11. Washington D.C.: The World Bank Southern African Department.
- Maharaj, B and Ramballi, K (1998). 'Local Economic Development Strategies in an Emerging Democracy: The Case of Durban in South Africa'. In *Urban Studies* 35(1): 131-148.
- Manufacturing, Engineering and Related Services SETA (MERSETA) (2005). *Annual Report 2004/2005*.
- May, J (2006) 'Poverty, asset accumulation and shocks in South Africa: Evidence from KwaZulu-Natal'. In *Poverty and Policy in Post-apartheid South Africa*. Cape Town: HSRC Press.
- McCarthy, C (2003). 'Manufacturing during the 1990s: Facing up to trade liberalization'. In *South African Journal of Economic History* 18: 157-187.
- McCord, A (2005). 'A critical evaluation of training within the South African national public works programme'. In *Journal of Vocational Education and Training* 57(4): 563-586.
- McCord, A and Bhorat, H (2003). 'Employment and labour market trends'. In A Kraak and H Perold (eds) *Human Resources Development Review 2003: Education, employment and skills in South Africa*. Cape Town: HSRC Press.
- McGrath, S (2004). 'The shifting understandings of skills in South Africa since industrialisation'. In S McGrath, A Badroodien, A Kraak and L Unwin (eds). *Shifting Understandings of Skills in South Africa*. Cape Town: HSRC Press.
- Meth, C (2004). *Half Measures: The ANC's Unemployment and Poverty Reduction Goals*. Cape Town: Development and Policy Research Unit, University of Cape Town.
- Meth, C (2006). 'Half measures revisited: The ANC's unemployment and poverty reduction goals'. In Haroon Bhorat and Ravi Kanbur (eds) *Poverty and Policy in Post-Apartheid South Africa*. Cape Town: HSRC Press.
- Meth, C (2007). *Sticking to the Facts: Official and Unofficial Stories about Poverty and Unemployment in South Africa*. Cape Town: Development and Policy Research Unit, University of Cape Town.
- Naidoo, GP; Van Aardt, CJ and Lighthelm, AA (2004). *Linkages between the formal and informal sectors in South Africa: an input-output table approach*. Bureau of Market Research: UNISA.
- National Skills Research Agency (NASRA) (2006). *Scarce and Critical Skills within the ETD sector*. Research study commissioned by the ETDP SETA.

- National Skills Research Agency (NASRA) (2007). *Supply and Demand of Skills within the ETD Sector*. Research study commissioned by the ETDP SETA.
- Nattrass, N (2004). 'Unemployment and AIDS: the social-democratic challenge for South Africa'. In *Development Southern Africa* 21(1): 87-108.
- Nattrass, N (2006). *South Africa's 'Rollout' of Highly Active Antiretroviral Therapy: A Critical Assessment*. Centre for Social Science Research Working Paper 06/158. http://www.cssr.uct.ac.za/pubs_cssr.html (accessed 8 August 2006).
- Ndebele, S (2007a). Budget vote address of the Office of the Premier. Delivered by Premier Sibusiso Ndebele, 16 April 2007.
- Niksice, G (2004). 'Difficult but not impossible: the ANC's decentralization strategy in South Africa'. In *Development and Change* 35(2): 353-374.
- October, L (2006). *National Government Plan for Enterprise Development: Small Business Annual Summit 2006*. <http://www.thedti.gov.za> (Accessed 14 August 2007.)
- Oosthuizen, M (2006). *The Post-Apartheid Labour Market: 1995-2004*. Cape Town: Development and Policy Research Unit, University of Cape Town.
- Orford, J (2005). *The Role of Provincial Governments in Supporting Small Enterprise Development*. Cape Town: Centre for Innovation and Entrepreneurship, University of Cape Town.
- Padayachee, V (2006). *The Development Decade? Economic and Social Change in South Africa, 1994-2004*. Cape Town: HSRC Press.
- Pahwa, S; Bester, J; Nieuwenhuyzen, H van, Dawood, G and Pieterse, D (2006). *Impact of Municipal regulations on SMMEs*. Cape Town: Development Policy Research Unit, UCT.
- Pollin, R, Epstein, G, Heintz, J and Ndikumana, L (2007). *An Employment-Targeted Employment Programme for South Africa*. Country study supported by the International Poverty Centre for the United Nations Development Programme. Cheltenham: Edward Elgar.
- Presidency of the Republic of South Africa (2006). *Accelerated and Shared Growth Initiative – South Africa (ASGISA)*. <http://www.info.gov.za/asgisa/> [Accessed 24 July 2006.]
- Presidency of the Republic of South Africa (2007a). *Development Indicators Mid-Term Review*. <http://www.info.gov.za/otherdocs/2007/developmentindicator/index.htm> [Accessed 2 February 2008.]
- Rogerson, CM (2006). 'The market development approach to SMME Development: Implications for Local Government in South Africa'. *Urban Forum* 17(1): 54-78.
- Rogerson, CM (2007b). *SMME Development in South Africa's Priority Sectors. Report for the Department of Trade and Industry*. Tshwane: **the dti**.

-
- Rogerson, CM (2007e). *Second Economy SMMEs: The Informal Economy and Home-Based Enterprises*. Report for the Department of Trade and Industry.
- Roskam, A (2007). *Cape Town: Development and Policy. An Exploratory Look into Labour Market Regulation*. Research Unit, University of Cape Town.
- SAQA (2000). *The National Qualifications Framework: An Overview*. <http://www.saqa.org.za/show.asp?main=structure/nqf/overview01.html&menu=home> [Accessed 29 July 2006.]
- Small Business Project (2005). *Investigation of the Possibilities for Regulatory Impact Analysis in South Africa: Phase 1*. Draft Report. Report for the Presidency and the National Treasury of the RSA.
- Small Business Project (2006). *Business Bridge for Business Growth*. Newsletter of the SBP, December 2006.
- South African Qualifications Authority (SAQA) (2004). *Guidelines for the Equitable Accreditation of Small-, Medium and Micro Enterprise Providers of Education and Training*. South Africa: Pretoria.
- southafrica.info (2007). *The nine provinces of South Africa*. http://www.southafrica.info/ess_info/sa_glance/geography/provinces.htm [Accessed 24 September 2007.]
- Suleman A and Naudé WA (2003). 'The competitiveness of South African manufacturing: a spatial view'. *Studies in Economics and Econometrics*, 27(2): 29-52.
- United Nations Development Programme (2003). *South Africa Development Report 2003: The Challenge of Sustainable Development in South Africa: Unlocking People's Creativity*. Pretoria: UNDP and Oxford University Press.
- Vass, J (2003). 'The impact of HIV/AIDS'. In A Kraak and H Perold (eds) *Human Resources, Employment and Skills in South Africa. Cape Development Review 2003*. Education Town: HSRC Press.
- Venter, JMP and De Clercq, B (2007). 'Tax Compliance Burden for Small, Medium and Micro establishments in the business services industry'. In *SAJEMS* 10(1): 72-88.
- World Wide Worx (2006). *SME Survey 2006: Executive Summary*. <http://www.smesurvey.co.za> [Accessed 13 December 2007.]