SMALL, MEDIUM and MICRO ENTERPRISES (SSME) STRATEGY 2021-2025

JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

Policy Resolution Number: 6.6.28/05/2021	**Approved Date:28 May 2021**
Effective Date: 1 July 2021	**Review Date: As and when required**

SIGNATURE OF THE MUNICIPAL MANAGER

Ms P Q Mogatle

Speaker

SIGNATURE OF THE SPEAKER

John Taolo Gaetsewe District Municipality

Small, Medium and Micro Enterprises (SSME) Strategy

2021-2025

Ms P Q Mogatle

Speaker

Table of Content

Ms P Q Mogatle

Speaker

1. INTRODUCTION

The role played by small businesses is being increasingly recognized all-over the world. The perceived potential of small businesses to create employment has caused governments in many countries to pay the small business sector more attention. Although, almost everywhere, results have not matched expectations, available evidence indicates that the sector contributes meaningfully to economic growth, social development, and employment provision. In the European Union, for example, the small business sector accounts for much of total employment, and a large portion of the total gross domestic product (Ntsika, 1998).

A factor of major importance, for the transformation of South African society, is job creation, wealth generation and improved standards of living for all South Africans. High unemployment rate and poor socio-economic conditions have highlighted the need for reconstruction and development. The existing large firms and public sector have been unable to cope with solving these problems and hence the focus has been placed on the small business sector as an intricate part of solving the economic crisis (Business Development Services, 1996)

The White Paper on a *National Strategy for the development and promotion of small business in South Africa* states: "The stimulation of small, medium and micro enterprises must be seen as part of an integrated strategy to take the South African economy onto a higher road – one on which is diversified, productivity enhanced, investment is stimulated and entrepreneurship flourishes" (Ntsika, 1997).

As stated in the *National Strategy for the development and promotion of small business in South Africa,* the creation of an enabling environment for the development of small businesses needs to happen at both national and a local level. On a local level, opportunities and resources need to be identified and utilized in a way that takes into account the local characteristics and resources (Ntsika, 1997). Thus, the developmental role of local government has undergone a transformation, in terms of which local government has come to be seen as a key agent of economic development. These development initiatives place increasing emphasis on the small, medium and micro enterprise sector and how to strengthen it; and SMME support increasingly becoming a local (rather than national or provincial) priority.

Ms P Q Mogatle

WHY STRATEGIC SUPPORT FOR SMME's

Speaker

The case for employment creation and wealth distribution through small business is based on sound economic sense. Small businesses have been identified as labour-intensive, have the need for little capital and make use of the local resources available. By channeling these resources to the small business sector, particularly in a growing and developing economy like South Africa's, employment opportunities can be maximized and people are given the opportunity to contribute to the development of the economy. A research conducted by Ntsika identified that the small business sector contributes approximately 32.7% to South Africa's gross domestic product (GDP). In fact, in 1998, the small business sector accounted for about 41% of the country's gross domestic product.

Governments worldwide have assisted SMME's for various reasons, which include:

- SMME's have shown a remarkable capacity to absorb labour, albeit largely unskilled. *In 1997, the small business sector's contribution to employment in South Africa amounted to 50.3% (Ntsika, 1998).*
- SMME's are usually locally owned and controlled, and can strengthen the extended family and other social systems and cultural traditions.
- In South Africa, where non-whites were historically discouraged from owning businesses, the first attempts are likely to be informal, small, micro or medium.
- SMME's provide a 'nursery' and a proving ground for entrepreneurship and innovation.
- The products of SMME's tend to reflect local technology and are arguably more likely to satisfy the needs of poor people than are the products of large enterprises and foreign technology.
- Because the profits of small enterprises are not dependent on long production runs, small firms can manufacture smaller quantities of products, which have a regional or even a local market only.
- SMME's satisfy local needs not only by making differential products but also by being scattered throughout the country. This ensures a more equitable distribution of employment opportunities and that raw material producers are more likely to find local markets.
- Local technology is more likely to use locally produced raw material and equipment, saving foreign exchange.
- SMME's provide employment for and sometimes expand the entrepreneurial talents of women.
- SMME's tend to use less capital, a scarce resource, than large firms. They also (arguably) require appropriate management skills, which are scarce in Third World situations.
- Comparative studies of large and small businesses, carried out in countries at all stages of development, confirm that small firms generally employ more labour per unit of capital and require less capital per unit of output, than do large ones (Harper, 1984:16).

For the economy as a whole, Harper (1984:16) argues: "Small businesses are likely to be more resilient to depression and to offer a steadier level of employment than large ones; their activities and locations are diverse, they depend on a wide variety of sources and types of raw material, and their owners, if only for the want of any alternative, are likely to stay in business and maintain at least some activity and employment in conditions where foreign investors would have closed their factories".

Although it is too early to correctly assess the impact of government policy and programmes on the development of the small, medium and micro enterprises sector in South Africa, available statistics indicate that the SMME sector is already playing an important role in the South African economy. And, in all probability, its role will become crucial in the country's socio-economic development in the years that lie ahead.

2. SOUTH AFRICAN CONTEXT

2.1 NATURE OF SMME's

The *National Small Business Act of 1996* gives national definitions of various categories of the elements of the small business sector in South Africa. First, it notes that the enterprise must be a separate and distinct business entity, and must be managed by its owner/s. Four categories are then distinguished according to employment, turnover and assets. Essentially these are as follows (Ntsika, 1997)

Micro-enterprises
Annual turnover is less than the VAT registration limit (then R150 000); no more than 5 paid employees. These generally lack formality in terms of registration for tax, labour law, premises, or accounting procedures (e.g. minibus taxis, spaza shops, home industry). The category subsumes the survivalist group of enterprises, which generate income less than the poverty line, have no paid employees and minimal asset value.

Very small
Fewer than 10 paid employees, except in mining, electricity, manufacturing and construction, where the upper limit is 20. Enterprises operate on the formal market and have access to modern technology. Lower limit: self-employed e.g. artisans, professionals (Limits are rather fluid).

Small
Fewer than 50 employees. Enterprises are generally more established than the very small class, with more complex business practices. They have often outgrown direct supervision by the entrepreneur and developed a secondary coordinating mechanism.

Medium
Maximum of 100 employees, except in mining, electricity, manufacturing and construction, where the upper limit is 200. Enterprises are still owner-managed and controlled, but have more complex structure, often an additional management layer.

Ms P Q Mogatle

Speaker

SMME's, EMPLOYMENT AND ECONOMIC GROWTH IN SOUTH AFRICA

Small and medium sized businesses are an important part of the economy. This is borne out by their significant contribution to GDP and employment in the country. Estimates for 1998 indicate that small enterprises accounted for 28% of GDP, and medium enterprises 13%. Together the small and medium enterprises category accounted for about 41% of GDP in 1998 (Ntsika, 1998).

In 1997, small enterprises absorbed approximately 36% of total employment. Medium enterprises accounted for about 14%. Together, the small and medium enterprises' contribution employment in the country amounted to 50.3% in 1997 (Ntsika, 1998).

Based on the definitions stipulated in the Act, small enterprises are concentrated in agriculture, wholesale trade, catering and accommodation. It is also noticeable that micro enterprises are widely dispersed across sectors whilst very small firms are largely found in wholesale trade, finance and business services, catering and accommodation, manufacturing and community, social and personal services.

An estimated 11% of the 836 850 enterprises in South Africa are located in the Eastern Cape Province. The figures for numbers of enterprises in all sectors are not available for Port Elizabeth-Uitenhage. East Cape figures show that 17% are survivalist, 28% are micro, 6% are small, 6% are medium and 7% are large (Ntsika, 1997).

Overall it is clear that the small, medium and micro enterprises (SMME) sector plays and could play an even more significant role than it currently does in terms of contribution to employment and gross domestic output, but also in helping to combat unemployment, encouraging wealth distribution and improving the quality of life for all sectors of the city's population.

PROBLEMS FACING SMME s IN SOUTH AFRICA

In order to develop an appropriate support framework for SMME's, it is necessary to review what we know about the main problems faced by SMME 's. While no primary research has been undertaken for this paper other than desktop research and consultations, a number of other South African studies can be drawn on to identify common problems. Key problems were discovered as follows:

Financial constraints

Lack of working capital is the major constraint at start-up, while a lack of investment funds becomes more significant as time passes. Savings of the owner and friends and family are still the major source of finance. Access to finance from formal lenders is scarce before a firm is at least three to five years old. There is substantial unmet demand for finance among young firms.

Ms P Q Mogatle

Speaker

Market constraints

A lack of customers, increasing competition, and the rising cost of supplies are felt most acutely by micro-enterprises. These firms tend to operate in small, location-specific, low-income niche markets; broader markets were found to be virtually closed to them.

Business premises and infrastructure

The provision of basic facilities for emerging enterprises needs serious attention. These include the supply of electricity to businesses, basic services and the road infrastructure in commercial and industrial areas (Department of Trade and Industry, 1995)

Laws and regulations

Amongst micro-enterprises, there are municipal concerns (especially street traders), and problems with regards to health, safety, and labour codes for the workplace and taxation.

Information

This is an important element of empowerment for the business owner, and particularly for the emerging entrepreneur. A study in the Gauteng area in 1999, amongst 200 black entrepreneurs found that one of the most important problems is the lack of basic information, not for only small businesses, but about small businesses in the historically disadvantaged areas (Frankel, 1999).

Equipment and technology

The acquisition of efficient and reliable tools and access to technology represents the gap between survivalist and real sustainable expansion. It is critical that appropriate technology is developed in an effort to promote the development of smaller businesses whose owners may not possess the skills to operate more sophisticated technology.

PROBLEMS FACING SMME'S IN THE JOHN TAOLO GAETSEWE DISTRICT AREA

A number of surveys and research studies have been undertaken both recently and in the past five years to understand the complexity of problems faced by SMME's in the Kuruman and Kathu areas. These studies further extend to reveal the nature and composition of SMME's in this region.

Some of the work done by the Institute for Development Planning and Research at the includes the work done in 1994 on employment creation strategies and the reports completed in the course of 1996, namely:

- *Towards identifying and encouraging black entrepreneurial potential in the Kuruman, Kathu and Hotazel*
- *The nature of black unemployment in the John Taolo Gaetsewe : What options for self-employment?*

Ms P Q Mogatle

Speaker

- *The formal manufacturing sector in the John Taolo Gaetsewe: Its relationship with labour, the unemployed and the self-employed.*

A recent study conducted in the Kuruman – Kathu and Hotazel region, *Entrepreneurial Development Strategies in Kuruman Kathu* was done by SEDA Regional Office. The study is part of a long-term process to generate information that would facilitate planning for the development of the entrepreneurial or SMME sector in the John Taolo Gaetsewe region. To be precise, the main objective of the project was to investigate and make recommendations about entrepreneurial development strategies and actions plans in this region. The methodology employed in the project involved personal interviews with 65 small business support institutions, 30 small manufacturing businesses and retail.

Flaming from these studies were the following key problems:

- **Lack of access to finance**, i.e. lack of appropriate finance such as venture capital, start-up and bridging funding. Lack of innovative products from commercial banks and stringent lending criteria of financial institutions presents another dimension of this challenge.

- **Lack of access to markets**. Accessing market and outsourcing opportunities from both private and public sector companies is identified as a problem area. This can be extended to lack of business linkages between small and big companies

- **Inadequate access to information.** Sharing of information, access to markets, opportunities and ideas as well as exposure to other service providers and SMME 's were some of the main perceived benefits of networking

- **Skills development.** Access to proper business and technical skills is seen as one of the greatest areas of need in the region, particularly by emerging entrepreneurs

- **Lack of policy and co-ordination from local government.** The local SMME support strategy suggested in the highest number of responses was a strategy involving co-operation, co-ordination and centralization of support provision

- **Lack of a unified vision and support structure** – causing unnecessary duplications in the support system of SMME's in the region. The result is a fragmented support system that lacks capacity to deliver a meaningful, integrated holistic SMME support.

Ms P Q Mogatle

Speaker

Ms P Q Mogatle

Speaker

3. POLICY ENVIRONMENT

3.1 THE NATIONAL SMALL BUSINESS ACT AND INSTITUTIONS

Passed in 1996 by Parliament, the act is known as the National Small Business act of 1996.

- The formal establishment of Ntsika Enterprise Promotion Agency (Ntsika) and the now defunct National Small Business Council (NSBC) as key player institutions of the national small business strategy.
- A structure to review the legal and regulatory environment that impacts on the development of the SMME sector; and
- A comprehensive and quantitative definitions of SMME's and small business, differentiating between sectors and sub-sectors of the Standard Industrial Classification system.

3.1.1 KEY PLAYER INSTITUTIONS OF THE NATIONAL SMALL BUSINESS STRATEGY

The Small Enterprise Development Agency (SEDA) and Small Enterprise Finance Agency (SEFA) of the Department of Trade & Industry (DTI) and these are the key institutions of the national strategy. SEDA was created to form part of the implementing institutional framework of the national strategy. The SEDA concentrates on policy formulation, overseeing, monitoring and co-coordinating the national strategy, as well as co-coordinating donor funds for SMME development.
The former provides wholesale non-financial support services to SMME's and the latter wholesale financial support services.

The provincial SMME Desks were established, one for each province, to play the crucial role of ensuring provincial representation and participation, as well as grassroots involvement in the implementation of the national strategy. They were thus to work toward strengthening the bottom-up approach to service delivery. The obvious advantage of this approach is that it allows a much wider scope for grass root initiatives and diversified learning.

4. SMME SUPPORT IN THE NORTHREN CAPE PROVINCE

There seems to be no strategic approach that exists at a Provincial level to promote and develop the small, medium and micro enterprises in the Eastern Cape. Although an SMME Desk was established within the Provincial Economic Affairs and Tourism Ministry, no specific programmes or projects seem to have been rolled out to enhance SMME development at a provincial level. However, to address these disparities, a commitment by the provincial government to develop the SMME sector was recently affirmed by the restructuring of the provincial's government approach to promote small business development. This has seen the merging of the

Governments two delivery or implementing agencies, the Northern Cape Economic Development Agency (NCEDA) to drive SMME development at a Provincial level. The restructuring process involves developing an SMME strategy for the province of the Northern Cape, whilst also defining roles and responsibilities of Primarily, the SEFA provides loan finance to SMMEs whereas NCEDA would focus on attracting direct foreign investment into the Province.

It is hoped that all tears of government, at regional, provincial and national levels will collaboratively work in partnership to design programmes and products that would meet needs of SMME's at different levels.

5. INTER-RELATED SUPPORT INITIATIVES

To avoid duplication and maximize effectiveness, local policymakers should bear in mind the possible complementary and linkages of their SMME promotion efforts with other existing policies and initiatives. In addition to the national SMME support strategy relevant initiatives include the following:

- **Spatial Development Initiatives (SDI's) and Special Economic Development Zones (SEZ's).** The initiatives are intended to 'unlock' economic potential in specific areas of South Africa in order to create jobs, grow the economy of the area and contribute to restructuring ownership patterns in line with GEAR.

- **Local Business Services Centres (LBSC's).** These are community-based or non-government organizations that assist SMME's with various support services, varying from business advice, training, incubation of businesses and so forth. An accreditation of these institutions is done by NTSIKA. There are presently more than 30 accredited LBSC's in South Africa. Four of these LBSC's are located right within the John Taolo Gaetsewe District Area.

- **Manufacturing Advice Centre (MAC) Programme** of the Department of Trade & Industry. This programme is now represented across the country. The centres work with existing entrepreneurs and assist them in areas of global competitiveness, management, finance and technical support.

- **Business Referral and Information Network** (BRAIN) of the Department of Trade & Industry is one of the very latest programmes in the market for SMME development. The programme provides a wealth of business information by means of information technology to service various SMME needs. The MAC's (above have been mandated to manage and further development the BRAIN system).

Ms P Q Mogatle

Speaker

- **Provincial Growth and Development Strategy (PGDS).** One of the focal programmes of the PGDS is the enabling of local economic development, with SMME development being one of its aspects. All these initiatives illustrate national government's determination and commitment to facilitate SMME development.

It is therefore evident that local governments, such as the John Taolo Gaetsewe District Council should attempt to emulate and embrace these efforts with programmes of their own, suited and focussed to operating environmental factors.

6. SMME SUPPORT IN THE JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

In line with the goals of national government, it is evident that local support institutions are beginning to create a supporting environment for small enterprises, particularly those that were previously disadvantaged by apartheid policies. In terms of the plans laid out in the *White Paper,* there are five local business service centres (LBSC's) accredited by national government in the KURUMAN/ KATHU areas. These are:

- *Small Enterprise Development Agency (SEDA)*
- *Small Enterprise Finance Agency (SEFA) co-location with SEDA*
- Anglo American Small Business HUB
- *South 32 Business Centre*

Of these institutions, offer support to enterprise in the entire District and some services to the local people.

These institutions are also accredited by government and is a partnership between NTSIKA, the Council for Scientific and Industrial Research (CSIR) and the National Productivity Institute (NPI). It is aimed at providing assistance to all small, medium and micro-enterprise manufacturers in order to improve their competitiveness and growth in the market place. The objective of this organization is to provide advisory services, targeted at SMME manufacturers who have a workforce of under 200, with the aim of improving performance. The focus is on upgrading the capabilities of previously disadvantaged manufacturers. The services that they provide are as follows:

Ms P Q Mogatle

Speaker

- *Technology support*
- *Information support*
- *Business management support*
- *Marketing advice*
- *Human resources management and support*
- *Finance – access and management*

Most if not all of the abovementioned institutions provide non-financial support to local SMME's. To address the lack of financial support institutions at the lower end of the SMME scale, a number of retail financial institutions (RFI's) or intermediaries have been launched in the past three years at a local level. In fact, about 115 RFI's have been started up nationally in the recent years .

Commercial and traditional banks such as FNB, STD, ABSA, NEDBank and others also provide loan finance to SMME's. The Industrial Development Corporation (IDC), with its regional offices in Kimberley provides finance for big industrial projects and initiatives.

The way that these institutions interact and respond to the problems experienced by the various levels of business are captured in models that have been developed for the local area

In order to understand the way in which local SMME support institutions (also known as service providers) are responding to the problems of small business, and the effectiveness of the plans that have been made in this regard (particularly by the Department of Trade and Industry), it is necessary to survey the SMME institution in John Taolo Gaetsewe Regional area. On the other hand, a survey on SMME's perceptions on the quality of support they receive is also critical.

7. THE ECONOMIC DEVELOPMENT, TOURISM & AGRICULTURE DEPARTMENT

It is proposed that the role of the Economic Development, Tourism & Agriculture Department, through its SMME Division be adopted by Council as follows:

- Advise Council on issues affecting small business and community economic development.
- Develop and monitor policies and strategies that promote the growth of small businesses and the economic regeneration of disadvantaged communities.
- Facilitate, co-ordinate and monitor the implementation of Council projects and programmes to support small development.

To affect the above mandate and functions, the need for an integrated SMME Support Strategy cannot be over-emphasized. The purpose of the proposed framework is to provide a set of guidelines intended to highlight priority action areas and to align SMME development activities of local government with the existing local SMME support initiatives and programmes.

Ms P Q Mogatle

Speaker

8. TOWARDS AN INTEGRATED SMME SUPPORT STRATEGY IN THE JOHN TAOLO GAETSEWE DISTRICT AREA

The role of local government in SMME support should center on the creation of an "enabling environment", facilitating and promoting linkages rather than directly providing support services. Within this broad definition, there is much scope for customizing support to fit the conditions faced by local SMME' s; experience has proved that this type of problem-driven, specific intervention is most effective in promoting SMME development.

The Strategy of the JTGDM needs to address generic problems faced by both local SMME's and support institutions. In other words, problems relating to markets, finance, infrastructure and land, information and advice, and regulations and capacity issues are typical problems, which a local government's SMME Strategy must seek to address jointly with existing stakeholders. Thus it is recommended that an integrated SMME strategy in the John Taolo Gaetsewe Municipal area to include the following key components, each of which is discussed below in more depth:

- SUPPORTING LOCAL SMME SUPPORT SYSTEM
- FACILITATING ACCESS TO RESEARCH AND INFORMATION
- FACILITATING ACCESS TO MARKETS
- FACILITATING ACCESS TO FINANCE
- FACILITATING ACCESS TO LAND AND PHYSICAL INFRASTRUCTURE
- FACILITATING ACCESS TO TRAINING
- PROVIDING STRATEGIC SECTOR SUPPORT
- REVIEWING THE LEGAL AND REGULATORY ENVIRONMENT

9. CONCLUSION

The need for a developmental government to promote the development of the small, medium and micro enterprise sector cannot be over-emphasized. An overarching imperative is the need for local government, such as that of the John Area, to continuously support and facilitate the creation of an enabling social and economic environment in which small businesses can thrive and succeed. It is with this in mind that the proposed integrated SMME Support Strategy in the Nelson Mandela Metropolitan Area seeks to achieve – an entrepreneurial environment, through which social and economic burdens of the metropolitan region can be re-dressed.

Ms P Q Mogatle

Speaker