



Department: Planning, Monitoring and Evaluation

Programme Four: National Planning Commission

Research on the Limited Success of Entrepreneurial Activity by Locals in Townships and Rural Areas

Seven Dialogue Locations: Townships, Rural and Informal Settlement

RESEARCH REPORT

Final

October 2017

Abbreviations

BBBEE	Broad-Based Black Economic Empower
BBSDP	Black Business Supplier Development Programme
BDS	Business Development Support
BEE	Black Economic Empowerment
CD	Compact Disc
CIDB	Construction Industry Development Board
CIPC	Companies and Intellectual Property Commission
CoGTA	Department of Cooperative Governance and Traditional Affairs
CIPRO	Companies, Co-operatives and Intellectual Property Rights
CPFP	Capital Projects Feasibility Programme
CPI	Corruption Perceptions Index
CSD	Central Supplier Database
DoL	Department of Labour
DFI	Development Finance Institution
DBSD	Department of Small Business Development
DPME	Department of Planning, Monitoring and Evaluation
dti (the)	Department of Trade and Industry
FICA	Financial Intelligence Centre Act (Act No.38 of 2001)
FMCG	Fast-Moving Consumer Goods
FNB	First National Bank
GDP	Gross Domestic Product
GDED	Gauteng Department of Economic Development
GEM	Global Entrepreneurship Monitor
GEP	Gauteng Enterprise Propeller
GIBS	Gordon Institute of Business
HBS	Harvard Business School
HSRC	Human Science Research Council
ICT	Information and Communications Technology
IDP	Integrated Development Plan
KDF	Khayelitsha Development Forum
LED	Local Economic Development
MTEF	Medium Term Expenditure Framework
M&E	Monitoring and Evaluation
M&G	Mail & Guardian
N-Ach	People with high achievement
NCR	National Credit Regulator
NDP	National Development Plan
NEDLAC	National Economic Development and Labour Council
NEF	National Empowerment Fund
NGO	Non-Government Organisation
NPC	National Planning Commission
NYDA	National Youth Development Agency
OECD	Organisation for Economic Co-operation and Development
PII	Partnership in Industrial Innovation
PnP	Pick n Pay

PTO	Permission to Occupy
R&D	Research and Development
SA	South Africa
SAIPA	South African Institute of Professional Accountants
SALGA	South African Local Government Association
SAPS	South African Police Service
SARS	South African Revenue Service
StatsSA	Statistics South Africa
SBP	Small Business Project
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SETA	Sector Education and Training Authority
SLA	Service Level Agreement
SMEs	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
TEA	Total Early-Stage Entrepreneurial Activity
THRIP	Technology and Human Resources in Industry Programme
UIF	Unemployment Insurance Fund
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax

Executive Summary

Introduction

Research on the limited success of entrepreneurial activity by locals in townships and rural areas was undertaken as part of the National Planning Commission's (NPC's) economy work-stream's task of prioritising township and rural economies as vehicles for achieving nationwide objectives of transforming and growing the economy, as well as addressing youth unemployment. The purpose of the research was to enable the NPC and its stakeholders to:

- Gain deeper insights into the context of and challenges faced by township and rural economies;
- Inform the processes for reviewing and assessing existing strategies for developing and supporting these economies; and
- Formulate new and/or refine existing strategies aimed at addressing these challenges as envisioned in the NDP.

A multi-method approach was undertaken to collect a range of qualitative and quantitative data. Emphasis was placed on the qualitative data emanating from six of the seven dialogue sessions conducted. Evidence was obtained from various sources including:

- a literature review; and
- mini-survey conducted at six of the dialogue sessions in Khayelitsha, Diepsloot, Mamelodi, Uitenhage, Hluhluwe and Thohoyandou.

Key research findings and conclusion

The need to improve the survival of small businesses in South Africa and especially those in the townships and rural areas is of paramount importance to realise the NDP vision 2030. The alarming statistics the 2016 Global Entrepreneurship Monitor (GEM) survey on entrepreneurial activity, ranks South Africa 61st out of the 65 countries that participated in the survey. This confirms that the country is in a worst position in terms of entrepreneurial activity even though substantial amounts of money and effort is being invested in small business development by the government, private and non-government sectors.

This research on the limited success of entrepreneurial activity by locals in South Africa's townships and rural areas in the context of these entrepreneurial activities, and prevailing high unemployment, poverty, and inequalities, was conducted to further enquire and gain deeper understanding as to why township and rural enterprises find it difficult to survive, or for their entrepreneurial activities to succeed.

The method and approach used to gather the information included a desktop literature review and seven (7) dialogue sessions spread across three (3) townships, three (3) rural areas and one (1) informal settlement in South Africa. This revealed a number of limitations that impact on entrepreneurial activities in those localities. A mini-survey was conducted as part of the dialogue sessions, and triangulated with literature, and the key themes coming out of the dialogue sessions. The data gathered and triangulated are categorised into four dimensions:

- **Business Development Services:** Lack of access to finance and entrepreneurial skills accounts for the most cited limitations.
- **Local Economic Development:** Challenges included ineffective local business development institutions, which was validated through findings emanating from the mini-survey and literature review. This suggests that government interventions are not effective. The other limiting factors include forced entrepreneurship by government that does not necessarily leads to small business growth and forced cooperatives that found it difficult to survive without government support. Captured in a number of studies, including this one, are the limitations related to dominance of large and foreign-owned enterprises which outperform and force local townships and rural enterprises to close. Other critical challenges which negatively diminish entrepreneurial activities in the business environment are allegations of political and public sector corruption.
- **Social Capital:** The inability of local enterprise to survive over multiple generations limits the success of entrepreneurial activities. Family businesses that have traded for generations and are seen as a pillar of success in other economies are limited or non-existent in rural areas of South Africa, especially in non-farming enterprise activities.
- **Infrastructure:** The spatial inequalities which are a legacy of apartheid persist in the townships and rural areas. These inequalities are shown as township and rural enterprises are adversely affected by the lack of accessible (i.e. inexpensive), suitable and convenient business infrastructure including premises and land ownership. Within government control is bulk infrastructure such as roads, ITC infrastructure, water and energy. However, this is unreliable or lacking, and this limits the chances of township and rural areas enterprises succeeding.

Recommendations

The summary of findings outlined above and the proposed recommendations seek to inform processes for Small Business Development policies and strategies implementation. South Africa has a number of well-developed policy imperatives and strategies; the missing gap is the ability to translate existing policies and strategies into effective implementation for the growth and development of small businesses in South Africa. Enterprise development is affected by numerous factors both within (internal) i.e. at micro level of an enterprise (e.g. managerial competencies); and outside (external) to the enterprise. The external aspects firstly, include meso level that encompasses targeted interventions to address temporary and persistent market failures (e.g. interventions addressing lack of access to finance and enabling institutional framework for SMMEs); secondly, macro level i.e. markets and macro-economic framework conditions (e.g. regulatory business environment); and meta level which addresses the capability of actors at the local, provincial and national level to create favourable conditions for industrial dynamism (e.g. capacity to implement policies).

The suggestions offered by the participants were not circumscribed to government initiatives alone, but also included interventions that can be carried out from an individual perspective (micro level); involve community participation, as well as involving the engagement of business.

However, the recommendations proposed are limited to those which government can directly enact as well as indirectly influence; as this research project was commissioned by government to improve entrepreneurship in these areas.

A. Institutional Small Businesses Development Support: Increase the effectiveness and reach of business development services across all local municipalities in South Africa.

- Prioritise the presence of financial and non-financial services in all townships (including informal settlements) and rural areas.
- Improve the quality of business development services (e.g. professionalise consulting services for small, medium and micro enterprises (SMMEs). The Sector Education and Training Authorities (SETA) model has professionalised the skills training sector, and this could be a starting point).
- As part of the institutional system:
 - The regulatory impediments to small businesses should be reviewed annually to identify areas of improvement, including enforcement and education on existing regulations, and there should be a special focus on illegal foreign-owned trading enterprises.
 - Enhance the development of government officials' competence, capability and confidence of enterprise development practices.
 - The capacity to gather and disseminate relevant and reliable information should be enhanced within the public sector (national, provincial and local). The partnership and involvement of existing institutions should be nurtured and maintained.
 - As part of increasing information management capacity, the Monitoring and Evaluation (M&E) capabilities across all enterprise development institutions should be enhanced.

B. Decentralise Local Economic Development: A common practice on most small business programmes and interventions is to design, develop and implement them from head offices based in major cities such as Johannesburg, Tshwane (Pretoria), Cape Town and Durban, among others. Decentralise these mandates and competencies to local municipalities to enable them to deliver business development services in partnership with provincial and national institutions, mandated to maintain an aggregated institutional system outlined in point A.

C. Enabling Infrastructure and Technology Development: In partnership with existing institutions operating in the space of infrastructure and technology development, ensure the implementation of an intervention targeting all local municipalities. Such an intervention should target bulk infrastructure, small businesses facilities, and technology transfer, among others.

The implementation of these recommendations can be realised through interventions (e.g. additional funding) that occur in the short term, while others can only be implemented in the medium (e.g. amendment of legislation) to longer term (e.g. improving infrastructure).

Consequently, interventions, due to policy and financial constraints, will have to be prioritised. Some of the proposals will require different departments to work together, although one department will have to lead the initiative. Accordingly, the table below maps out the recommendations, the departments responsible, and the timeframe for implementation.

Recommended Interventions

Dimension	Recommendation	Lead Department	Secondary Department/Entities	Timeframe
Business Development Support	More funding and financial services	DSBD	SEDA, SEFA, NT	Short to medium term
	Improve the provision of non-financial services e.g. SARS, SEDA	DTI	DSBD, SEDA, SARS, NYDA	Medium to long term
	Improve responsiveness of government institutions such as SEDA/SEFA	DSBD	SEDA, SEFA	Short to medium term
	Training and support (skills development) of entrepreneurs	DSBD	SEDA, the dti	Short to medium term
	Elimination of credit profiling and blacklisting of entrepreneurs	The dti	DBSD, National Credit Regulator, BASA, SARB	Long term
	Monitoring and Evaluation of funded projects	DSBD	SEDA, SEFA, the dti	Short to medium term
	Introduce entrepreneurship into curriculum in schools	DSBD	DBE, the dti	Medium to long term
	Implement and lead a visible "Buy Local Campaign" favouring local enterprises	the dti	DSBD	Medium to long term
	Decentralise local business programmes to local municipalities	DSBD	SEDA, CoGTA	Medium to long term
	Improve access to LED officers and SEDA at local level	CoGTA	DSBD, LED offices	Short to medium term
	LED/SEDA to improve its SMME support offerings to the local community	Local Municipality	CoGTA, DSBD	Short to medium term
	Intensify LED initiatives aimed at entrepreneurial development	Local Municipality	DSBD, CoGTA	Short to medium term
Infrastructure	Local government should make premises and land available for SMMEs to conduct their businesses	Local Municipality	CoGTA, DSBD	Medium to long term
	Provide enabling infrastructure and technology development	Local Municipality	CoGTA, DSBD	Medium to long term
	Simplify procedures to access and use rural land - Rural land rights to be reviewed - Establish a legal framework for accessing title deeds in tribal land	Department of Rural Development and Land Reform	CoGTA, DSBD	Medium to long term
Social Capital	Strict enforcement on national immigration laws to prevent the influx of illegal foreigners	Department of Home Affairs	the dti, South African Police Service (SAPS)	Short to medium term
	Regulate and restrict the number of foreign businesses - Licences should be mandatory to operate in these areas - Limit business activity to that which is not currently within the area	the dti	DSBD, SAPS	Short to medium term
	Compel foreign companies to form at least 30% partnership with local businesses	The dti	DSBD	Short to medium term

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1. Introduction and Background

Research has conclusively demonstrated that Small, Medium and Micro Enterprises (SMMEs) are vital for developing and transforming an economy. SMMEs and entrepreneurs create employment and foster growth in developing countries. Studies commissioned by the World Bank found that SMMEs are not only providers of informal employment, but formal SMMEs contribute up to 45% of total employment and to almost 33% of national income in emerging economies (World Bank, 2015). Hence, SMMEs and entrepreneurship are necessary to eradicate unemployment through the creation of jobs in small and expanding firms as advocated by the National Development Plan (NDP). The NDP further asserts that SMMEs and entrepreneurship are crucial to reduce unemployment and create 11 million jobs by 2030.

Realising the goals of the NDP is the responsibility of the National Planning Commission (NPC). Specifically, it is mandated “*to promote and advance the implementation of the National Development Plan across different sectors of society*”. To achieve its long-term objectives, the NPC must inter alia:

- Conduct regular engagements with various sectors of society on all matters pertaining to the long-term development of the country; and
- Facilitate stakeholder engagements aimed at forging a social compact towards more effective implementation of the NDP.

To give effect to these objectives, the NPC is configured into several work-streams and subsequent task teams. These structures initiate relevant research to inform policy discourse and subsequent socio-economic transformation imperatives. Accordingly, the economy work-stream commissioned this research to understand and appreciate the limitations SMMEs confront in townships and rural areas.

International research has been undertaken to unearth the underlying causes of SMME failure and the absence of entrepreneurial enthusiasm among rural and township residents. Such barriers are not unique to South Africa and resonate in all developing countries. Empirical studies have found that SMMEs contend with multiple challenges and barriers to succeed (World Bank, 2014).

The 2014 World Bank study on the *Economics of South African Townships: Special Focus on Diepsloot* profoundly affirms and authenticates the outcomes of international studies pertaining to SMMEs in township and rural areas. That is, SMMEs struggle to access finance to establish and operate their entities. However, these studies, based on both qualitative and quantitative research, predominantly appraise the tangible influences (such as lack of finance, skills shortage, business management skills, poor infrastructure, and crime).

Often other behavioural and socio-cultural factors impede SMMEs and entrepreneurship growth, development and success. These aspects have received limited attention within academic and policy dialogue, particularly in South Africa. These include factors such as the

absence of social capital, low threshold for risk and stigma for failure, the limitation of communal property and the growing presence of foreign businesses. These dimensions are normally overlooked or ignored altogether. Consequently, the inattention of such dimensions blunt governments' strategies to improve informal and formal small businesses in townships and rural economies.

This study was therefore commissioned by the NPC to delve into limitations and barriers encountered by SMMEs in townships and rural areas. Specifically, to ascertain if barriers encountered by SMMEs are unique to their environment and circumstances; or, do they confront obstacles which are analogous to those encountered by SMMEs in urban and rural areas and other developing countries. As part of this study, a comprehensive literature review was undertaken to interrogate pertinent research within this domain. The findings of the literature review were the reference point that underpinned the fieldwork of the project. That is, it served as a blueprint to compare whether the actual limitations and barriers enunciated by SMMEs and entrepreneurs in these areas are congruent with findings emanating from the literature review.

The fieldwork consisted of seven dialogues with SMMEs across South Africa to solicit their views and opinions on the challenges that these businesses were confronting. It is notable that the sites for the dialogues were pre-selected by the NPC and not randomly chosen by the service provider. Hence, it is probable that the limitations and barriers articulated by the participants of the dialogues may not be representative of SMMEs in similar environments in other parts of the country. Only three rural areas, three townships and one informal settlement were selected for this project and any extrapolation of findings to represent all such areas should be cautiously done and judiciously interpreted. Nonetheless, the issues raised in the dialogues engender deeper insight into on the ground, personal and daily travails that confront SMMEs in these locations. Some of challenges pronounced by the participants were universal and could be the basis to inform policy; other issues were regional and geographic specific that will require targeted interventions.

Furthermore, the dialogues were supplemented with a mini-survey of participants to elicit individuals' sentiments about the barriers that they confront and which may be unique to their business, sector and/or environment. The mini-survey afforded all participants an equal opportunity to contribute, as some may have been reticent to express their opinions during the plenary and breakaway sessions. Moreover, the mini-survey allowed researchers to quantify issues per location, geography and theme. The questionnaire was designed with both quantitative (Likert Scale) questions to enable objective comparisons, as well as qualitative questions to authenticate the requisite findings.

Report Structure

This report represents the most pertinent results emanating from engagements with SMMEs through seven dialogues in townships, rural areas and an informal settlement across South Africa. It also includes a review of international and local literature to elucidate the key limitations and barriers affecting SMME growth, development and success.

To facilitate the readability of the report, it refrains from documenting an extensive set of detailed results. These are attached as an Annexure at the end of the report. The research instruments which were employed to collate the qualitative and quantitative data, as well as the literature review documents, were downloaded on a compact disc (CD) and made available to the Department of Planning, Monitoring and Evaluation (DPME) for future use. Accordingly, the report is structured as follows:

- i. Section 1, introduces the research and deliberates on the background together with the purpose of the research;
- ii. Section 2, provides a literature review of the factors which limit the growth, development and success of SMMEs and entrepreneurship;
- iii. Section 3, describes the methodology and approach employed to achieve the main goal of the research;
- iv. Section 4, distils the findings as it relates to the limited success of SMMEs in townships and rural areas; and
- v. Section 5, formulates conclusions and offers recommendations.

2. Literature Review

There is no single universal definition of an SMME in both academia and policy deliberation. Defining SMMEs within the South Africa context is sometimes confusing as there is divergence between the definitions used in the public and private sectors. The common characteristics espoused by most classifications proclaim that SMMEs are diverse, range in size from micro, small to medium businesses, and operate in all sectors in the economy such as manufacturing, information and communications technology (ICT), retail, tourism, business services and agro-processing.

The National Small Business Amendment Act (Act No. 29 of 2004) thereof refer to SMMEs in general as “small enterprise” and defines the former as follows: “Small Enterprise” means a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more, predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the adapted Schedule (SA Government, 2004)

Irrespective of the definition used, the government has recognised the importance of SMMEs and entrepreneurship for economic growth and employment. Specifically, SMMEs have the potential to foster social inclusion, poverty alleviation and equitable access to opportunities in society. The lack of jobs leads to poverty, crime and social instability. The informal sector in South Africa is under developed and has vast potential to grow if allowed through applicable policies. Barriers to enter the business market need to be removed and SMME and entrepreneurship need to be encouraged and supported (Meyer, 2014). SMEs are expected to be central to job creation efforts, in line with international trends (Business Report, 2014). As indicated by Department of Small Business Development Minister Lindiwe Zulu in a Business Report newspaper article, the research conducted by GEM shows that SMMEs create more than 50% of all employment opportunities in South Africa. Currently, they contribute more than 45% of the country’s Gross Domestic Product (GDP (Business Report, 2014). The figure is estimated to be much higher when micro-enterprises in the informal sector (often excluded in official figures) are included.

The South African government has therefore committed to growing and supporting SMMEs through policies, strategies, incentives and funding programmes. Although South Africa has made many efforts to assist SMMEs, the current atmosphere is one in which running a small business is difficult and risky, and the failure rate is high. Trade and Industry Minister Rob Davies acknowledged that five out of every seven small businesses in South Africa fail within one year. By comparison, in the United States 70% of small businesses survive at least two years, according to the U.S. Small Business Administration (Maye, 2014). SMMEs, particularly in the rural area and townships, continue to languish in the informal economy with little chance of graduating into the mainstream economy despite (or maybe because of) government’s interventions. Many discontinue after a few years. Statistics indicate that small businesses in South Africa have only a 37% chance of surviving for four years and a 9% of surviving 10 years; 70% to 80% of small businesses fail in their first year, and only about half of those remain in business for the next five years (Adeniran and Johnston, 2011). According

to the 2015/2016 GEM, entrepreneurial intention in South Africa has dropped by almost 30% (from 15.4% to 10.9%) when compared to 2013 and almost halved when compared to 2010 (GEM, 2016).

Notwithstanding, the low success rate of SMMEs and entrepreneurship, 70% of South Africans still believe that entrepreneurship is a good career choice (GEM, 2016). Hence, the need to investigate the underlying causes that are limiting the success of SMMEs and entrepreneurship is of paramount importance. A complete deliberation of the common barriers and the limiting success factors can be gleaned from the literature review submitted as part of this research project. The ensuing deliberations provide a summation of the main findings to substantiate and affirm (or dispute) the findings emanating from the fieldwork.

2.1. Common barriers encountered by SMMEs

There are a multitude of barriers that prevent SMMEs from thriving. The challenges are not confined to South African SMMEs and entrepreneurs but are found in several developing countries. Academic literature abounds with the constellation of impediments that all businesses, not only SMMEs encounter. These inter alia include:

- Poor infrastructure
- High levels of crime
- Lack of management skills
- Finance and obtaining credit
- Access to markets and developing relationships with customers
- Appropriate technology and low production capacity
- Recognition by large companies
- Government bureaucracy development (BANKSETA, 2017).

All these factors to some extent influence the ability of SMMEs to become established and develop. For instance, the lack of adequate infrastructure (roads, electricity) limits an entity's ability to conduct business and amplifies the cost of doing business. Similarly, the high crime level increases security costs, undermining the profitability of enterprises.

Nonetheless, the following narrative focuses on those factors that have received extensive attention in academic and policy discourse.

2.1.1. Access to finance and credit

The government has implemented several programmes to provide both financial and non-financial support. But it seems that most SMMEs cannot readily access or qualify to leverage off such interventions. A study conducted by the National Credit Regulator (NCR) found that only 20% of SMMEs are registered with the Companies and Intellectual Property Commission (CIPC) and have a bank account. Of the formal SMMEs, less than 100 000 (27.3%) successfully apply and receive funds from the formal financial sector. Most SMMEs

are not registered and operate informally and are financially excluded. That is, they do not have access to the formal financial markets. Thus, the total financing gap¹ (both formal and informal SMMEs) is estimated at around 45%-48% of all SMMEs in South Africa (NCR, 2011). This state of affairs is magnified in townships. SMMEs in townships are 12 percentage points less likely to use a bank account than SMMEs in non-township urban areas. (World Bank, 2014)

And while credit penetration is generally very low (less than 5% of SMMEs in either townships or non-township urban areas report any borrowing), most credit in townships originates from family and friends, whereas in non-township urban areas it stems from banks (World Bank, 2014). Money-related matters such as sourcing money and cash flow are the most frequently cited (39%) challenges by South African business owners which also disproportionately affects businesses in townships (World Bank, 2014).

It has also been noted that South African Banks are conservative and risk averse when lending to start-up SMMEs and are predisposed to supporting SMMEs only in the latter stages of development (SEDA, 2016a). Moreover, there is also a propensity towards financing SMMEs in urban areas vis-à-vis rural townships. FinScope's Small Business Survey revealed that SMMEs in Gauteng had greater access to finance relative to SMMEs in the other provinces, which in part could be responsible for the higher concentration of SMMEs in this province (Finmark Trust, 2010).

The lack of, and access to, finance has been a major determinant of SMMEs failure, particularly rural and township businesses. A report by SEDA cited a GEM 2014 report that declared that lack of access to finance and poor profitability are among the chief reasons for business discontinuance in South Africa. The report also notes that poor profitability, cited as a reason for discontinuance, was steadily increasing, and noted that the common obstacles related to SMMEs acquiring finance include insufficient collateral; absence of a credit history; failure to produce an adequate business plan required by financial institutions; limited market research and the concomitant lack of a feasible business ideas; and the lack of access to dynamic markets (SEDA, 2016a).

2.1.2. Access to markets

SMMEs access to local, national and international markets is crucial for their growth and development. SMMEs need to gain access to various markets and form part of the broader supply chain of major industries. This contributes to building sustainable small businesses which could then become larger enterprises (Lowe, 2015). Demonstration of access to markets is often a pre-requisite of financial institutions to grant funding as well as provide support to SMMEs.

¹ The term "financing gap" refers to a situation in which a sizeable proportion of economically significant SMEs cannot obtain financing from banks, capital markets or other suppliers of finance. Furthermore, it is often alleged that (i) many entrepreneurs or SMEs that do not currently have access to funds would have the capability to use those funds productively if the funds were available; (ii) but due to structural characteristics, the formal financial system does not provide finance to such entities (NCR, 2011)

The inability to access markets inhibits the establishment of SMMEs and threatens sustainability of the existing SMMEs. The townships/rural SMMEs are disadvantaged due to their relatively smaller size and location that prohibits them from organising to enhance their bargaining power. Subsequently, these entities cannot influence government and private institutions to serve their needs (SEDA, 2016a).

2.1.3. Skills shortage

The NDP advocates the development of firms and small businesses in order to attain the employment target by 2030. Although unemployment remains stubbornly high, businesses are finding it increasingly difficult to attract and fill positions of skilled workers. In 2014, the Manpower South Africa's 10th annual Talent Shortage Survey found that 31% of South Africa employers surveyed reported difficulty in filling job vacancies compared to 8% in the previous year (Steyn, 2015).

SMMEs' inability to find suitable employees in specialist sectors suppresses entrepreneurship and growth (SEDA, 2016b). Consequently, the Small Business Project (SBP) SMME Growth Index in 2014 revealed that SMMEs in South Africa are not reflecting the same levels of job formation as their counterparts internationally (M&G, 2015). SMMEs are also reluctant to employ low-skilled workers due to the relatively stringent labour laws and wage entitlements (minimum pay, family responsibility leave, maternity leave, sick leave, overtime, shift and night pay). In 2015, the Information and Communications Technology (ICT) sector was struggling with skills and the cost of labour, while the impact of wage agreements was afflicting the manufacturing sector (M&G, 2015).

Moreover, budding entrepreneurs themselves lack the skills to operate a business, contributing to the demise of their enterprises. Tashmia Ismail (former Head of the Gordon Institute of Business [GIBS] Inclusive Markets Programme) claims that many entrepreneurs lack the basic skills required to run a business (Thulo, 2015a). These relate to management skills and financial knowledge. Some entrepreneurs even start businesses in sectors that they have no knowledge and experience in.

Experts assert that the education system in South Africa does not empower people with the requisite skills that are essential for entrepreneurship. The education system is marks driven and does not prepare learners for the entrepreneurship world (South African Institute for Entrepreneurship, 2017). Targeting learners at school will instil and develop entrepreneurial mind-sets, uncover entrepreneurship qualities and develop business skills thus helping them become contributors towards sustainable economic development and wealth creation in South Africa.

2.1.4. Regulation and red tape

Governments have implemented strategies and policies to support and bolster SMMEs. Legislation has been enacted to promote accountability and good governance (e.g. payment of taxes), ensure basic conditions of service (e.g. maximum working hours) are adhered to, promote sector norms and standards (e.g. health and safety) and prevent SMMEs from

engaging in criminal activities (e.g. drug smuggling and money laundering). The policies confronted by SMMEs are not only those imposed by government, but also by the private sector (e.g. banking) often at the directive and behest of some government prescription e.g. Financial Intelligence Centre Act (Act No.38 of 2001) (FICA).

While the intentions of such policies are aimed at aiding both the SMME and the consumers, these policies inadvertently raise the regulatory burden, thereby constraining entities. The legislation and regulations are often ascribed for the failure of SMMEs. These regulations sometimes result in unplanned consequences for both the business and the consumer which it is aimed to protect. For instance, the administrative compliance to tender for work for government is interpreted by some businesses (big and small) as too onerous, causing them not to consider doing work for government. Hence, better service providers could be excluded from providing goods and services. Government could end up not providing the same quality of products and services as the private sector.

The cost of compliance often exceeds the benefits of registration resulting in businesses not registering and/or exiting the industry; and more importantly, deterring SMMEs from being established. Consequently, numerous businesses do not formally register with the authorities to remain beyond the prying watchfulness of the state; and even flagrantly disregard the prescriptions as the punitive costs and consequences are relatively inexpensive.

Government imposes regulation through various laws and regulations to address market failures (inefficient allocation of resources in a market economy). Regulation is necessary to maintain some standards and even protect consumers. It underpins economies and subsequently impacts on the welfare of society. But there are costs to regulation, from the drafting to the implementation and enforcement and subsequent sanctions. Hence, compliance to regulation imposes costs and even deters businesses from being established and entering the market (barriers to entry). This provokes the debate of whether regulation is necessary and raised the question of whether it is the primary reason for SMMEs remaining informal in the townships.

Most importantly, it is not regulation itself, but rather red tape which encumbers SMMEs. These include an ambivalent and sometime deliberate obstructive bureaucracy, solicitation of bribes, insufficient state administrative capacity and inadequate infrastructure.

Red tape stifles businesses (both formal and informal) and is caused by a host of factors including people's values; archaic or inappropriate policies and rules; inefficient processes and systems; ineffective management; and staff skills shortages (SA LED Network, 2017).

2.1.4.1. Impact of red tape and regulation

Notwithstanding the sector specific requirements that businesses need to adhere to, the general compliances confronting SMME pertain to the following:

- South African Revenue Service (SARS)

- Registering as a provisional taxpayer if the SMME is going to operate as a sole proprietor or in a partnership.
- In addition to the owner registering as a taxpayer the company needs to register with SARS if it is registered as a company with CIPC.
- The business needs to register, collect and pay Value Added Tax (VAT) if the business has an annual turnover in excess of R1 million.
- The SMME must also deduct tax from employees and pay it monthly to SARS.
- National Treasury – Central Supplier Database (CSD)
 - Compulsory registration if SMMEs want to transact and do business with and for government.
- Labour legislation
 - Acquaint themselves with the Basic Conditions of Employment Act (Act No75 of 1997). The law governs the relationships between companies and employees, specifying the rules relating to working hours, overtime, leave, and the processes that need to be followed should you need to dismiss an employee.
 - Register with the Department of Labour (DoL) and contribute to the Unemployment Insurance Fund (UIF) which is collected by SARS.
- Health and safety regulations
 - The Occupational Health and Safety Act (Act No85 of 1993) grant workers' rights in terms of health and safety in the workplace. The regulations in the Act provide guidelines for workplace safety such as first aid, protective clothing, machinery, ladders, fire-fighting equipment, ventilation, lighting, temperature and noise.
- Municipal by-laws
 - SMMEs are covered by laws governing zoning, noise levels and hygiene. For instance, SMMEs need approval to operate a noisy manufacturing operation or a night club in a quiet suburban street.
- Consumer protection
 - Laws such as the Consumer Protection Act (Act No. 68 of 2008) have been promulgated to offer consumer protection from lax business practices and shoddy service. SMMEs need to be aware of what these laws have to say about how they advertise their goods, structure their contracts with consumers, handle customer data, deal with merchandise returns under warranty, and so on (SAIPA, 2015).

The common themes from Western Cape Government research highlight issues identified by businesses in their interactions with all tiers of government. These are:

- Attitude of strict compliance rather than assistance by officials
- Lack of co-ordination among agencies and departments
- Lack of clarity about the governments' objectives, processes and timeframes
- Lack of transparency in decision-making
- Inconsistency in interpretation of rules
- Disconnect between regulator and business
- Lack of accountability and ownership of decision-making (Western Cape Government, 2016)

A SBP survey report cited in Funding Connection titled Counting the cost of red tape for business in South Africa which was conducted in 2012 with 500 SMEs in Cape Town, Durban and Johannesburg found that SMEs spend “eight working days per month” dealing with red tape. This included frequent changes in the regulatory environment, lack of access to information and South African Revenue of Services inefficiencies (Funding Connection, 2016).

The World Bank study on the *Economics of South African Townships: Special Focus on Diepsloot* revealed that about 15% of businesses indicated that excessive regulation of business transactions were a hindrance. The complaints were highest for permit and licencing requirements (World Bank, 2014). Specifically, the research found that:

- Better-educated business owners and those who make or process products were more likely to complain of excessive regulation.
- Businesses were also more likely to report having needed permits from government agencies as they grew and became more established.
- African business owners – indigenous as well as migrants from other African countries were more likely than Asian business owners to report having needed permits; but they were also less likely to complain of excessive regulation.

Several SMMEs, particularly informal and township businesses, find the current labour legislation too burdensome and restrictive. All businesses that employ staff have to register with the DoL and the SARS. The rights of workers are firmly embedded in employment legislation which make the dismissal of workers onerous, particularly if the business is experiencing financial hardship or if the workers are unproductive. Labour market regulation in South Africa decreases employment turnover and wage flexibility, restricting the ability of SMMEs to grow and adapt against competition arising from regulatory changes and lower trade barriers (OECD, 2015). Consequently, South Africa’s labour laws are a major regulatory hindrance to business establishment and growth. Collectively, unnecessary regulations cost the South African economy R79 billion each year (SA Government, 2017a).

2.1.5. Government interventions

Government has committed to eliminating red tape at all levels of government to enable SMMEs to enter and thrive within the economy. The Department of Trade and Industry (the dti) together with the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the South African Local Government Association (SALGA) have produced guidelines for the reduction of municipal red tape in support of small, medium and micro enterprises (SMMEs) in 2013.

The primary objective of the guidelines was to diminish local government red tape to stimulate the business environment with a specific emphasis on SMMEs. Moreover, the guidelines endeavoured to strengthen municipal official’s capacity and capabilities to improve the local business environment through Local Red Tape Reduction (SA Government, 2016). By May 2015, Red Tape Reduction guidelines workshops were

conducted in 102 municipalities across the country in partnership with the Provincial Departments of Economic Development as well as District and Local municipalities (SA Government, 2015). However, there have been no studies of the impact of this initiative.

The Western Cape Government established a Red Tape Reduction Unit in 2011 to assist businesses cut through or get around red tape. Unsurprisingly, one of the most common queries lodged at the Red Tape call centre is from people wanting to know how they can start their own business (Western Cape Government , 2017).

By 2015, the Unit had received 3 733 cases with a resolution rate of over 90% (Western Cape Government, 2017). It is notable that between February and May 2015, most cases arose from Bellville, Mitchells Plain and Khayelitsha. The 11 categories of concern were:

- Building plans and certification
- Business infrastructure
- Business regulation
- Business support
- Business registration
- Customs regulation
- Health and environment
- Land use management
- Permits and licences
- Tax matters
- Tenders and procurement (Western Cape Government, 2017)

Besides Bellville, it is noteworthy that most cases relating to red-tape emanate from two township economies. These findings affirm proclamations that SMMEs in township are mired in red tape that hinders their growth and development, and are interrogated as part of this research study.

2.1.6. Lack of innovation and research and development

Innovation underpinned by research and development (R&D) can be stymied for a host of reasons, such as high costs. Moreover, fledgling entrepreneurs are often at a disadvantage as he/she is unaware of the gaps in the market that need to be filled. This is compounded by the lack of resources to undertake empirical research to quantify the demand for a particular product or service, which can readily be acquired by established firms and corporates. Hence, the entrepreneur may find it onerous to disrupt an imperfect market.

2.1.7. Political climate

The political climate may not be conducive and may even be hostile to business. Political uncertainty (such as in Zimbabwe) will discourage entrepreneurs from making long-term investments as their enterprises may be exposed to legislation and regulation (e.g. compulsory national ownership) that will be burdensome. Entrepreneurs may fear that their businesses will be misappropriated. Sanctions (freezing of bank accounts) against an

individual in a country will discourage investment or place a premium in doing business in that country. South Africa's vibrant, but stable polity together with a developed regulatory system and progressive legal framework fosters a conducive environment for investments for both national and foreign investors (Brand South Africa, 2013). The United Kingdom (UK) Department of International Trade asserts that although South Africa's business environment is challenging, it is still one of the best in the developing world (UK Department of International Trade, 2015).

Also as a result of the political climate, potential entrepreneurs may fear that they have to be politically connected or aligned to advance their enterprises. Several entrepreneurs may find it arduous to compete with incumbent businesses whose social networks extend to the political elite which can assist them as well frustrate (through red-tape and regulation) new entrants to the market.

Public procurement which was meant to bring black entrepreneurs into the mainstream economy has become a target for wealth creation by Black fortune hunters and Black Economic Empowerment (BEE) moguls (Ntingi, 2015). Mr Blade Nzimande Chairperson of the South African Communist Party and former Minister of Higher Education laments that BEE is just becoming an aide to the very same non-transformed, colonial-type economy, in which many White-owned companies are simply chased politically connected individuals to secure more business (Business Report, 2010).

2.1.8. Economic impediments

Numerous studies with an economic flavour have identified the following economic barriers as those that can smother entrepreneurs:

- Availability of bank credit.
- High capital formation with a good flow of savings and investments.
- Supply for loanable funds with a lower rate of interest.
- Limited market access.
- Availability of productive resources.
- Efficient fiscal and monetary economic policies.
- Lack of communication and transport facilities.

Reducing such impediments is a necessary but not a sufficient condition for the development of business. Several other less tangible (e.g. family support) but just as important elements are required to stimulate entrepreneurship in South Africa

2.2. Behaviour and socio-cultural constraints to entrepreneurship

Entrepreneurship is not meant for everyone; and requires a certain type of character. But identifying and isolating such traits is not so simple. Despite research into understanding what motivates entrepreneurial leaders, the answers are far from clear. Most studies present contradicting findings. Entrepreneurs, it seems are still very much a black box waiting to be opened (HBS, 2017).

Entrepreneurs need to embrace risks and be willing to accept and learn from failure, even facing possible social stigma for not succeeding. Entrepreneurship culture needs to be promoted to make entrepreneurship a valid and respected career choice. Repeat entrepreneurs who have previously failed have been shown to have higher rates of success than first-time entrepreneurs (EY, 2014a). Research on Entrepreneurship culture of 20 countries found that 70% of South Africa's entrepreneurs surveyed believe that their culture encourages entrepreneurship (EY, 2014b).

But a survey of entrepreneurship of six Sub-Saharan African countries (Ethiopia, Ghana, Kenya, Nigeria, South Africa and Tanzania) conducted by the Omidyar Network found that, for the most part, African entrepreneurship culture is defined by necessity – entrepreneurship as a means of survival, a last resort, not the pursuit of opportunity or aspiration. Only 44% of South African respondents (the lowest) agreed that “most people consider becoming an entrepreneur a desirable career choice” (Omidyar Network, 2013).

The 2012 GEM report ranked South Africa the worst against eight countries (Uganda, Ghana, Malawi, Nigeria, Zambia, Namibia, Ethiopia and Botswana) – when it came to “how the youth rate their entrepreneurial capabilities”. In South Africa, 40% of youth believe they have the capacity to start a business, against an average of 69% in the other countries (Omidyar Network, 2013). Mike Herrington (Director of the University of Cape Town Graduate School of Business's Centre for Innovation and Entrepreneurship) feels that a culture of entitlement is gripping young people, who also misunderstand what it means to be an entrepreneur, believing it is a quick route to easy wealth, while in reality it often takes years for a business to take off (Timm, 2013).

Government policy may be inadvertently stifling Black entrepreneurship. Broad-Based Black Economic Empowerment (BBBEE) policies were implemented to assist and favour Black entrepreneurs. According to the GEM report published in 2016, increasingly stringent BBBEE requirements for corporates are making it less easy for skilled non-Black individuals to find jobs in the corporate sector. Talented Africans, by contrast, opt for well-paid formal sector jobs opportunities as there is little incentive to become entrepreneurs. The study found that while Africans account for most of the early-stage entrepreneurs in the country, their proportion shrunk from 85% in 2013 to 68% in 2015. In contrast, the level of entrepreneurship among the three minority groups has proliferated. Among Indians it has doubled, while among Whites it has tripled (Kane-Berman, 2016).

Denied appointment in the government and the private sector on racial grounds, minority groups have little choice but to become entrepreneurs, even though racial requirements now often mean that non-African are less favoured to obtain government and other contracts, which in turn encourages "fronting" (Kane-Berman, 2016).

Social networks provide valuable resources which facilitate economic activity, allow entrepreneurs to be more efficient; access exclusive business opportunities, and improve innovation. Social networks enhance success by fortifying the entrepreneur's status and image of power (Fornoni, Arribas, & Vila, 2012).

Very often African businesses do not have as strong social network as other race groups and foreign nationals. These entrenched networks have been able to out-manoeuvre and displace African businesses in the townships. For instance, the Somali shopkeepers' clan-based social networks in South African townships play a key role in enabling a more competitive business model. The networks provide various services, including:

- Access to cheap labour (recruited from Somalia).
- Enforcement of contractual agreements by the network, with clan elders overseeing business deals.
- Strategic investment in geographical areas to establish Somali strongholds.
- Group purchasing to secure discounts and operational economies of scale; and
- Facilitating microfinance by organising investments and business partnerships (Liedeman, Charman, Piper, & Petersen, 2017).

The World Bank study of Diepsloot found that there was a lack of local social-capital networks even though networks were strong among foreign national communities (World Bank, 2015). The South African shopkeepers function within a weak social network that is limited to members of the immediate family who provide labour but little else. They often don't have sufficient "cultural capital" – the practical knowledge and the intangible qualities that accrue to individuals who are embedded in households and communities where entrepreneurship is an integral part of daily existence (Robinson, 2014).

2.2.1. Socio-cultural constraints

Social context is critical in fostering entrepreneurship in any society. While numerous societies openly encourage entrepreneurship and interpret failure as a learning experience, other societies do not. The fear of failure deters potential entrepreneurs who would rather seek secure formal employment. Society's views, religious beliefs, customs and taboos will influence citizens' behaviour and subsequent risk propensity.

A society's religious and theological leanings can influence entrepreneurial spirit, particularly the motivation to establish an enterprise. Africa's socio-cultural framework that is premised on the Ubuntu philosophy resonates with general principles surrounding business ethics and corporate governance (Khomba, Bakuwa, & E., 2013). Moreover, Ubuntu can be applied to embryonic businesses in the search for growth by forming alliances and joint efforts not only for the good of themselves but also for the good of African communities (Moyo, 2015).

Some societies do not produce entrepreneur models that can arouse the entrepreneurial spirit of its members. This is compounded by individuals who are deemed successful if they are formally employed and well remunerated by corporates, or pursue politics as a vocation. The 2013 GEM survey revealed that 67% of youth respondents replied in the affirmative to the statement "Where I live, working for the government is the best way to earn a good living" (Allan Gray, 2014).

Individuals who go to university do not choose entrepreneurship as their career of choice; and those who make it through university face massive familial and societal pressures,

making entrepreneurship much less enticing (Thomas, 2016). South African society is not supportive and less tolerant of entrepreneurs that fail. In the United States of America (US), it is seen as a badge of honour. Silicon Valley venture capitalists often seek out and support individuals who have tried and failed. Entrepreneurs in South Africa that have failed are shunned by society, banished by financial institutions and often maligned by the media (Network, 2009).

2.2.2. Personality traits

Establishing and operating an enterprise does not require an individual to be an intellect or an over-achiever, although entrepreneurs do have particular traits. Chief among them is risk aversion. Other characteristics that are common among entrepreneurs are passion, resilience and creativity which allow them to excel in comparison to their peers. Successful entrepreneurs are not inspired solely by financial gain. People with high achievement (N-Ach) are motivated by doing and getting things done (Wordpress, 2017). But political, social and economic environments are often not agreeable for entrepreneurs to thrive and flourish.

2.3. Barriers specific to township enterprises²

In addition to the challenges detailed in the previous section, which may be more acute for township entrepreneurs, research has indicated that there are specific barriers which also restrict and limit township enterprises.

2.3.1. Lack of entrepreneurial and productive activity

Several studies and concomitant entrepreneurial indices have highlighted the low entrepreneurial activity in South Africa, especially among the youth. According to the 2014 GEM Report, South Africa's rate of entrepreneurial activity is very low for a developing nation – a mere quarter of that seen in other sub-Saharan African countries (Ineng, 2015). The World Bank study on the *Economics of South African Townships: Special focus on Diepsloot*, has affirmed the low rate of entrepreneurial activities in townships in South Africa (The World Bank, 2014).

Entrepreneurial activity in the townships in the apartheid era was discouraged, suppressed and even criminalised. Moreover, the education and training (lack of basic financial or economic literacy) for Black people was not geared toward developing entrepreneurial ethos.

2.3.2. Limited appreciation of capabilities and value of township enterprises

There is an over-emphasis on the promotion of SMMEs in policy and academic discourse with limited attention paid to township enterprises. Besides the businesses and their networks in the township, there is limited appreciation of their capabilities and value. This has resulted in:

² Note: This section is largely drawn from the [Gauteng Township Economy Revitalisation Strategy 2014-2019 \(GDED, 2014\)](#)

- Policymakers not considering township enterprises as a potential solution to a variety of social and economic problems affecting township communities;
- Enterprise support providers targeting township enterprises often not being able to offer appropriate advice;
- Financiers being unsure of the risk and appropriateness of lending models and insurance to the township enterprises; and
- Mainstream businesses not seeing the potential for new partnerships or supply linkages emanating from township businesses.

2.3.3. Limited evidence to demonstrate the impact and value-add of townships

As data on the size and growth of township enterprises is limited at present, these businesses remain mainly 'invisible' – and it is assumed that most of them are informal. Township enterprises have financial and social impacts which are difficult to quantify. Consequently, policymakers, enterprise support providers and financier providers (banks) cannot easily measure the economic and social value generated by township enterprises.

2.3.4. Peculiar characteristics and needs of township enterprises

The atypical characteristics of township enterprises such as cooperative and solidarity practices (e.g. stokvels, burial societies, etc.), are often ignored by current financial, legal, and regulatory frameworks and in procurement protocols. These features are not compatible with government and private sector models of SMMEs and are therefore ignored or dismissed. As a consequence, township enterprises such as spaza shops and burial societies cannot benefit from government interventions.

2.3.5. Complexity and lack of coherence within the sector combined with widely varying skills and knowledge bases

Notwithstanding a few exceptions, township enterprises have not always been able to collectively and coherently organise themselves to advocate their plight and causes to policy-makers, financiers, and enterprise support providers. Their influence is further weakened because they are not formally registered and operate informally, making them difficult to identify and target.

2.4. State of entrepreneurship in South Africa

Entrepreneurs disrupt the market by innovating and creating new products and services. Innovation and research and development are an integral element and cornerstone of entrepreneurship. This in part could explain the relatively low levels of entrepreneurship, despite the high levels of unemployment, in South Africa. The 2014 GEM report stated that, in terms of Total Early-Stage Entrepreneurial Activity (TEA), a mere 7% of 18-64 population in South Africa are starting or running new businesses (BusinessTech, 2015). Of Sub-Saharan African counterparts surveyed, Uganda recorded the highest youth entrepreneurs with 55.6% of the youth population involved in nascent, new or established businesses followed by:

Zambia	–	Nigeria	–	Ghana	–	Malawi	–	Namibia	–	Angola	–	Botswana	–
53.4%		52.7%		40.6%		37.9%		32.9%		26.5%		21.6%	

Most worrying was that South Africa had the lowest youth entrepreneurship participation with only 12.8%. Furthermore, the level of business discontinuance still exceeds that of business start-ups (BusinessTech, 2015). The report identifies the most common factors which are deliberated in this report (see section 2.1) including corruption at all levels of government and high levels of crime.

A Road to the Global Entrepreneurship Summit held in 2016 asserted that the innovative skills that fuel entrepreneurship is sorely lacking among the youth and not taught in schools. These do not relate exclusively to technical competencies but also to other soft skills (communication, presentation, creativity, working in a team). This is more severe among young people from impoverished backgrounds with no role models of entrepreneurs (Thomas, 2016).

Large corporates can work and encourage the formation of smaller enterprises (Mother ship Model). For instance, Anglo Zimele, Anglo American's enterprise development fund, is one of the most successful enterprise development initiatives. From 2008 to the end of 2012, Zimele's four funds³ have provided R708 million in funding, supported 1 393 companies and completed 1 972 loan transactions. (Bugan, 2014). Moreover, some corporates are encouraging and mentoring employees to innovate and develop their own products ("intrapreneurship").

Similarly, in terms of BBEEE legislation, corporates can stimulate transformation and also enhance entrepreneurship by stimulating small business development (External Trigger Model). However, these are successful when the participants are willing to be entrepreneurs on their own volition and not compelled to participate in such programmes. Too often, people are selected (or elect to participate) as a result of corporate and government programmes that have to be seen to be doing something (adverse selection), and not because people are driven to become entrepreneurs. Occasionally these initiative are undertaken to fulfil social corporate responsibility imperatives. Adherence to BBEEE codes, however, should not be construed as a compliance exercise, rather as an incentive to bolster their businesses by supporting SMMEs.

There is lack of collaboration between the South African universities and leveraging of each other's strengths by converting key innovations into commercially available products (SimMODiSA, 2015). Innovation and R&D is the currency of the global economy and the country needs to support and grow these to compete in the 21st century (Brand South Africa, 2015). And while innovative products have been developed, many have not and will not reach full-scale adoption as there is no market beyond their small villages. That is, these

³ Note: Zimele consists of five separate funds, namely the Supply Chain Fund, the Anglo American Sefa Mining Fund, the Community Fund, the Green Fund and the Sebenza Fund.

break-through ideas do not get marketed further, which could benefit the founder and the community.

Nonetheless, while South Africa is behind on its investment in R&D compared to developed countries like the US, it is ahead of most African countries. South Africa is one of only three countries – alongside Malawi and Uganda – that spends around 1% of its GDP on R&D (Douglas, 2013). In 2012, the South African government implemented incentives for increased investment in the form of an additional 50% tax deduction that can be claimed on eligible R&D spend. The incentive aims to entice South African firms to undertake innovation and invest in R&D (Douglas, 2013).

Furthermore, government has various incentives and grants available for investing in the creation, design and improvement of new products and processes. These include Support Programme for Industrial Innovation and Partnership in Industrial Innovation (PII) for small and large projects, grants for feasibility studies, Technology and Human Resources in Industry Programme (THRIP), Small Enterprise Development Agency (SEDA) Technology Programme, Technology Venture Capital Fund and R&D in the automotive industry (Thulo, 2015b). In 2012/13, South Africa spent R23.871 billion on R&D of which 44.3% was spent by business (HSRC, 2014).

But these incentives are sometimes not available for the potentially unexploited sectors. South African SMMEs are neither encouraged nor incentivised to develop and innovate profitable solutions for socio-economic and environmental problems, such as solving water portability problems in rural areas and providing off-grid alternative energy power (SimMODiSA, 2015)

2.4.1. Small business development in South Africa

Enterprise development is affected by numerous factors both within (internal) and outside (external) of the business. These can be delineated into micro, meso, macro and meta components within a “systemic competitiveness” (Altenburg, Hillebrand, & Meyer-Stamer, 1998) paradigm.

2.4.1.1. Micro Level

The lack of skills (e.g. marketing, account, human resources) to establish and operate an SMME follows inadequate training (through the education system) and the lack of mentoring of embryonic enterprises. Moreover, SMMEs are finding it extremely burdensome to find and retain skilled employees in specialised fields (e.g. coding in ICT). This is heightened by rigid labour laws and restrictive regulations around employing foreign workers, which elevates the salary bill and subsequently diminishes the competitiveness of the business.

Although competitiveness is good for the consumer by providing a wider variety and lower prices, it can also impact on the survival and profitability of enterprises. Too many businesses are entering low-value sectors such as retail (Spaza shops) where there is an oversupply out of necessity and as a survivalist strategy. Consequently, the market is super-

competitive with very low profit margins, with many businesses barely surviving or exiting the market after a short period.

Furthermore, the market for regular products and services is dominated by larger and established businesses (especially in the fast-moving consumer goods environment), constraining smaller businesses from accessing and supplying the value chain. For instance, the supply and distribution to stores require firms to continuously have stock to achieve a 95% delivery target which is complicated as distribution is at a regional or national level. Small firms cannot supply only one of two big local stores. Moreover, enterprises have to pay for in-store and out-of-store marketing costs (Wood & Mdlalose, 2015).

Managing the cash flow in such an environment is critical. Providing a credit term (60 to 90 days) is often necessary (when dealing with larger suppliers) which can cause liquidity challenges when there are late deliveries. Consequently, businesses that do not have access to credit facilities struggle to remain in operation. A study of SMMEs in the Vaal Triangle revealed that these enterprises found it difficult to raise funds as well as secure credit on favourable terms from microlending institutions (Worku, 2016)

Lack of marketing is one of the top 10 reasons why small businesses fail in South Africa. Small business often lack the resources to hire professional marketers to sell their products and entrepreneurs embark on a “suicide-mission” to aggressively market their own business (SME South Africa, 2012). Although certain marketing platforms (television advertising) may be relatively expensive and out of reach of many firms, SMMEs could engage with their customers through social media such as websites, email and Facebook. Moreover, these media platforms allow entrepreneurs to network with like-minded individuals and mentors.

SMMEs also network with other entrepreneurs, policymakers and industry roleplayers at roadshows. For instance, the Department of Small Business Development hosts SMME Opportunity Roadshows to showcase opportunities, provide focused guidance for SMMEs to mainstream their competitive advantage as effectively as possible and network with key players in every economy sector (DSBD, 2017).

A study found that increasing transportation costs, the quality and service of infrastructure, lack of skilled and educated human resources, and labour relations pose the biggest risks for supply chains and constrain their competitiveness (Badenhorst-Weiss & Waugh, 2014)

2.4.1.2. Meso Level

SMMEs receive support through numerous initiatives from local, provincial and national government, public entities, non-government organisations (NGOs) and the private sector. An EY study noted that entrepreneurs report better access to various support structures, including business incubators, mentor programmes, industry-specific training programmes, entrepreneurial workshops and corporate engagement with start-ups (EY, 2014b).

The business development support (BDS) provider may be individuals, private for-profit firms, NGOs, parastatals, national or sub-national government agencies or industry

associations. They may also be firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship (SALGA, 2017).

There are a plethora of grants and incentives which the SMMEs can access. Among the products available are the Black Business Supplier Development Programme (BBSDP) – the dti offers non-repayable grants of up to R1 million to bolster current business and improve their sustainability. The Capital Projects Feasibility Programme (CPFP) contributes to the cost of feasibility studies which will become projects that will boost local exports and stimulate the market for South African capital goods and services.

Gauteng Provincial Government promotes the procurement of key services and goods through SMMEs, BBEEE and local content as well as encouraging the private sector. Gauteng Provincial Government announced that it would allocate about R300 million in support of township enterprises and cooperatives over the 2015/16 financial year (Thulo L. , 2015a).

Local governments, in terms of the National Framework for Local Economic Development 2012-2016 (LED) in South Africa, are responsible for creating a conducive environment for SMMEs to thrive. Specifically, Strategy 3 aims at “Intensifying enterprise support and business infrastructure development in local areas”. This is executed through the Business Development Services to boost SMMEs. The Business Development Services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion (SALGA, 2017).

The eThekweni municipality has dedicated units to serve and assist various types of businesses. The Arts and Craft Development Programme hosts sector specific arts and crafts empowerment workshops to equip SMMEs with sector specific information and aid SMMEs to access markets through exhibitions (eThekweni Municipality, 2017a). The city also has a Business Linkage Programme in which SMMEs are screened and vetted and subsequently linked with corporate companies based on need. The SMMEs that do not get through the selection phase are advised on the necessary interventions that need to be implemented to improve the enterprise advantage going forward, and the necessary business development support is provided (eThekweni Municipality, 2017b).

The City of Cape Town through its Business Support Programme supports engagements with various Chambers of Commerce and Business Representative Organisations that provide BDS for SMMEs. The City provides SMMEs with preferential procurement as well as assists start-ups which wish to transact with the City of Cape Town to meet regulatory requirements (City of Cape Town, 2015). It must be noted that the policy is not township specific, whereas Gauteng provincial governments’ initiatives are targeted solely at township enterprises.

SEDA provides business development and support services for small enterprise partnerships with other role-players in the small enterprise support field. It also implements programmes targeted at business development in areas prioritised by the Government

(SEDA, 2017). In 2014/15, SEDA disbursed R256 million on projects to fulfil its mandate of providing BDS for SMMEs (SEDA, 2015).

The Small Enterprise Finance Agency (SEFA) helps develop sustainable survivalist, micro, small and medium enterprises through providing finance. The National Empowerment Fund (NEF) is a national development finance institution (DFI) set up to promote economic growth and industrial development. It is owned by the South African government under the supervision of the Economic Development Ministry. NEF's mandate and mission is to be the catalyst of BBBEE. (SA Government, 2017b).

Transnet Enterprise Development Hub is a pilot project in collaboration with (SEDA), National Youth Development Agency (NYDA), SARS, and Gauteng Enterprise Propeller (GEP) to encourage and develop enterprises. Services offered include financial support and procurement of advisory services (Transnet, 2013).

Endeavour South Africa is an NGO organisation that supports high-impact entrepreneurs in South Africa with financial support from South African corporates, most notably First National Bank (FNB).

SiMODiSA Association is an industry association "by entrepreneurs for entrepreneurs", which seeks to enhance the success rate of innovative and job-creating entrepreneurial ventures in South Africa. It represents key stakeholders from both the public and private sector, and finds ways to remove obstacles that SMEs and start-ups face. The association enhances business growth by engaging with relevant role-players to remove critical barriers (such as access to capital, access to markets, access to talent, and the lack of a supporting enabling environment) (SimMODiSA, 2015).

2.4.1.3. Macro Level

At a macro level policy perspective, government's macro-economic policies are sometimes ignored by SMMEs when determining their critical success factors. For example, higher inflation erodes the purchasing power of local businesses and renders exports expensive. Moreover, businesses, especially SMMEs in townships/informal/rural areas, will not be able to easily to pass the price increases onto their customers as they function in hyper-competitive sectors where consumers are price sensitive.

The elevation of interest rates could dampen demand as well make credit more expensive. Notwithstanding higher payment on personal (home and car) loans, small businesses proprietors that are exposed to loans will have to pay more interest with less cash flow to operate and maintain business.

It is difficult to find the optimal exchange rate as exporters favour a depreciating currency while importers suffer higher costs. However, a declining Rand hurts SMMEs more as they cannot easily afford to hedge against a declining currency. Taxation (VAT and Corporate) are often seen as a stumbling block to growth, creating perverse incentives for businesses to operate informally.

2.4.1.4. Meta Level

There needs to be good cooperation between all actors within the economic sphere to arouse the entrepreneurial spirit and engender economic growth and development. Forming partnerships between the public sector, business and labour to facilitate, direct and promote investment in labour-intensive areas is seen as one of the main instruments to achieve a further 11 million jobs by 2030 (GIZ, 2013).

The NDP espouses a social compact to achieve its objective to eliminate poverty, reduce inequality and create jobs and this needs greater trust between the state and business (NPC, 2013). This emanates from the preceding diagnostic report to the NDP that found the lack of trust between government and business as a stumbling block towards faster economic development (NPC, 2013).

It is notable that there are formal social impact accords which are designed to facilitate cooperation among the social partners. The National Economic Development and Labour Affairs Council (NEDLAC) is social dialogue institution comprising labour, business and government. The traditional three-party structure was also expanded to include community organisations. But the lack strategic engagement among the social partners, focus on immediate sector interests, and general questioning of each other's "bona fides", has yielded an ineffective partnership (NPC, 2013).

Nevertheless, society and businesses have other formalised structures to inform policy debates and challenge government transgressions. The Constitution and the subsequent Bill of Rights explicitly denote the fundamental rights of citizens in the country. The national and provincial legislature provides the platform (through the portfolio committees) for all citizens to engage and contribute (orally and written submissions) to policy formulation.

The country has a vibrant judiciary to protect the rights enshrined in law. For instance, the Promotion of Administrative Justice Act (Act No. 3 of 2000) [PAJA], "give effect" to the right to just administrative action in the Bill of Rights. Everyone has the right:

- To fair, lawful and reasonable administrative action; and
- To reasons for administrative action that affects them negatively (Department of Justice and Constitutional Development, 2001).

These components of the South African polity are kept in check by a robust civil society and free press which holds them accountable and keeps the public informed.

3. Research Methodology

The main intention of this research on the limited success of entrepreneurial activity in townships and rural areas was to generate a body of knowledge and information which could be used to formulate new strategies and/or refine existing strategies aimed at addressing these limitations. The research was commissioned by the NPC to acquire inputs from SMMEs and entrepreneurs in townships, rural areas, and informal settlement.

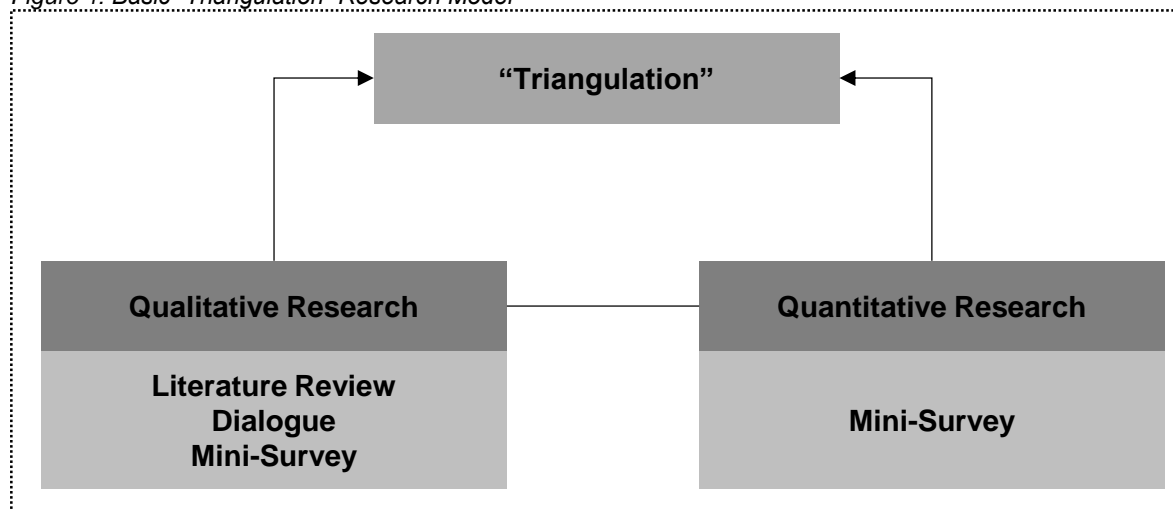
Previous research undertaken by DPME has shown that SMMEs and enterprises in these areas are crucial to stimulate growth and development in these communities and need to be prioritised. The rationale of the research was to obtain direct feedback and responses from SMMEs within these communities. Specifically, to explore, enquire and astutely engage with SMMEs to uncover the real limitations that constrain enterprises and entrepreneurs.

Data was collected and collated from a wide range of sources including a literature review, dialogues with SMMEs and entrepreneurs in townships, rural towns and informal human settlement, and a mini-survey of SMMEs and entrepreneurs during these engagements. The dimensions that were explored inter alia included business development support, social capital, local economic development and infrastructure. Subsequently, these themes were explored through four levels of analysis, that is, micro, meso, macro and meta levels. The findings were substantiated through triangulation between the sources.

3.1. Research Triangulation Framework

Triangulation was used as a research strategy to increase the validity of the research findings, as denoted in Figure 1 below.

Figure 1: Basic "Triangulation" Research Model



Source: Adapted from Yeasmin & Rahman, 2012

It was used to combine the advantages of both the qualitative and the quantitative approach (Yeasmin & Rahman, 2012). This ensures that the research has a more holistic view of the challenges encountered experienced by SMMEs and entrepreneurs.

3.2. Synopsis of literature review

Studies have clearly shown that SMMEs and entrepreneurship are not flourishing in South Africa. Government has heeded the findings and implemented policies and strategies to foster entrepreneurship and assist SMMEs. These have included providing access to finance through grants, reducing red tape, and establishing institutions which are mandated to assist new and fledgling businesses. More importantly, the government has created the Department of Small Business Development (DSBD) to promote and support SMMEs and entrepreneurship.

Despite these interventions, SMMEs and entrepreneurship performance have been lacklustre. Hence, there is a need to further investigate and probe deeper into the issues that are hindering SMMEs and afflicting entrepreneurs. It appears that past research into the factors that are impeding SMMEs and entrepreneurs may not be completely capturing the challenges that SMMEs and entrepreneurs are confronting. Moreover, the barriers encountered by SMMEs and entrepreneurs in townships and rural areas may be different to those in other areas. Furthermore, the impediments may also be unique and vary between different townships.

A comprehensive literature review was conducted as part of this research. It inter alia focussed on:

- a) Clarification of the universal definitions of SMMEs and entrepreneurship.
- b) Entrepreneurship and enterprise theoretical perspectives.
- c) Limiting success factors of township and rural enterprises.

An overview of the main aspects of the literature review is deliberated in section 2. Suffice to note that the literature research was conducted to identify relevant international and local themes using various key search terms aligned to the conceptual and theoretical analysis framework. This included accessing academic literature (journal articles), grey literature (United Nations publications), and government publications (policy and strategies) to inform the research. The literature was then electronically analysed using qualitative data analysis software called ATLAS.ti. The literature review informed the design of the dialogues as well as the mini-survey conducted during the dialogues.

3.3. SMME Dialogues

The dialogues commenced with an introduction about the National Development Plan and its main goal of stimulating the economy through SMMEs and entrepreneurship development. Subsequently, the NPC presented on the importance of the research and the need to hear the voices and concerns of the people on the ground. Participants were subsequently given an opportunity to seek clarification and ask questions.

The participants were then allocated into four groups where they discussed the challenges and solutions to SMME development and entrepreneurship in their area. The discussions began with the overall challenges that they encounter. Consequently, each group focussed on a particular dimension (i.e. Business Development Services or Social Capital or Local

Economic Development or Infrastructure dimension). Moreover, participants were encouraged to not only confine their solutions to what government could do, but also what they as well as the community and businesses could do to mitigate the challenges or success limitations. Subsequently, rapporteurs from each group reported back to the plenary session on the main findings from their respective engagements.

The dialogues were undertaken to ascertain the limitations confronting entrepreneurs at these geographic areas as well as potential solutions that could be implemented to assist entrepreneurial activities. The aim of the exercise was to allow the participants to identify the limitations and not for the researchers to pre-empt the engagements with barriers that were commonly identified in the academic studies and other research.

This enabled the researchers to go beyond the numbers and provided them with greater insight into more contextual realities of participants and their experiences. This allowed the study to explore the root causes of the limitations (e.g. poor credit records impede ability to gain finance).

3.4. Research Data

The data was gathered and organised according to a conceptual framework encompassing a systemic competitiveness regiment that informed the dialogue and mini-survey. The empirical data that was used to explore the reasons that limit the success of entrepreneurial activity by locals in South Africa's townships and rural areas was obtained mainly from a qualitative interaction with SMMEs through dialogue sessions.

3.4.1. Dialogue

The dialogues were conducted in seven (7) geographic locations, i.e. "areas of study". It is notable that the geographic focus for the dialogues were pre-selected by the NPC and not chosen by the service provider. The sites were informed by prior research which indicated the effectiveness of such locations to provide adequate and optimal information.

Table 1: Research sites

Province	SMME Dialogue Session location	Targeted SMMEs Location
Eastern Cape	• Uitenhage (Nelson Mandela Bay)	Township
Gauteng	• Diepsloot	Informal Settlement
	• Mamelodi	Township
KwaZulu Natal	• Hluhluwe	Rural
Limpopo	• Thohoyandou	Rural
Northwest	• Lehurutshe (Zeerust)	Rural
Western Cape	• Khayelitsha	Township

Source: Camissa Institute

Moreover, the categorisation of the locations as either a township, rural economy or informal settlement was specified in the Terms of Reference. Nonetheless, the demarcation of the

categories is not mutually exclusive. A suitable classification is provided by Statistics South Africa. Accordingly, an informal settlement is defined as “an unplanned settlement on land which has not been surveyed or proclaimed as residential, consisting mainly of informal dwellings (shacks)” (Statistics South Africa, 2001). They are often found on the outskirts of town or as small pockets of “infills” inside towns. Informal areas can be found in tribal areas, rural areas and in urban townships (Statistics South Africa, 2001).

The important distinction of an informal settlement, in contrast to a township, is that the informal settlement is not pre-planned by the authorities. Township development harks back to the apartheid era or planning and development for Black migrants to urban areas. These were planned dormitory towns built at a distance from economic activity near the boundary of periphery of the city. They consisted of rows of uniform houses, lacking basic amenities such as tarred roads, sanitation, water, or electricity (World Bank, 2014).

These townships were created for the three race groups, known as Black townships, Coloured townships and Indian townships. In contrast, the White population resided in suburbs which had were in close proximity to the city centre and had superior services (Statistics South Africa, 2001).

Statistics South Africa recognises an area as rural if it is not classified as urban. An area is classified as urban depending on the main settlement type and land use. Accordingly, cities, towns, townships and suburbs will be deemed typical urban settlements (Statistics South Africa, 2001).

It is noteworthy that the barriers expressed by the participants of these deliberations may not be reflective of SMMEs in similar environments in other parts of the country. Only three rural areas, three townships and one informal settlement were chosen for this project. Any inferences from findings from only seven pre-selected locations to all such areas should be prudently considered.

Nevertheless, the issues raised in the dialogue offers insight to on the ground, personal and daily struggles that confront SMMEs in these locations. Some of limitations proclaimed by the participants were common and could be the basis to inform policy; other concerns were region and geographic specific and will dictate targeted interventions

The SMME Dialogue sessions were attended by a total of 495 SMMEs participants across all sessions held between March and June 2017, as shown in Table 2.

Table 2: Dialogue sessions number of participants by date and duration

SMME Dialogue Session location	Number of SMME Participants	Dialogue Session Date	Average Dialogue Session Duration
1) Lehurutshe (Zeerust)	140	01 March 2017	5 hours
2) Diepsloot	88	10 March 2017	5 hours
3) Khayelitsha	56	29 March 2017	5 hours
4) Uitenhage (Nelson Mandela Bay)	30	20 April 2017	5 hours
5) Mamelodi	54	24 May 2017	5 hours
6) Hluhluwe	64	31 May 2017	5 hours
7) Thohoyandou	63	14 June 2017	5 hours

Source: Camissa Institute

All the dialogue sessions targeted local SMMEs specific to the respective location, i.e. a township or rural area in a local municipality, except the Uitenhage dialogue session. For this session, the invited SMMEs were from several townships across Nelson Mandela Bay Metropolitan Municipality.

Several criteria were used to select SMMEs. First, dialogue participants were chosen from the targeted geographic locations as shown in Table 2. Second, the sample of participants consisted of new and existing enterprises SMMEs including cooperatives. Third, the enterprises operated in the targeted township or rural area as informal or formal enterprises. Finally, the enterprises employed a maximum of 50 employees, i.e. micro and small enterprises.

It is notable that the participants for the dialogues were sourced from databases of the local businesses formations (i.e. business forums), regional SEDA offices and the local municipalities. Hence, only businesses that were on any of these databases could be identified and invited to participate in the dialogues. Unregistered businesses did not participate in these engagements; and their impediments and opinions do not find expression in these dialogues and subsequent analysis.

Some logistical challenges were encountered in executing the dialogues. These included too few (Uitenhage) and too many (Diepsloot, Zeerust) participants of some locations, inability to allow for breakaway discussion (Diepsloot), not many people returning after lunch (Khayelitsha) and proceedings not starting on time. However, the approach of each dialogue improved and was refined from the previous engagement. For example, it was discovered that it would be better to have lunch only after the days' proceedings to prevent people from absconding. The lessons garnered from the fieldwork will provide valuable information on the pitfalls to avoid in undertaking such research. The approach that was finally adopted could serve as a guide for such engagements in the future.

After each dialogue session, a mini-survey questionnaire was administered.

3.4.2. SMME Mini-Survey

To enrich the dialogue result data, a quantitative and qualitative mini-survey was also conducted to further extract and filter the main issues, and to compare with the main themes that came out of the literature review conducted prior to the dialogue session and mini-survey.

Six mini-surveys were conducted during the dialogue sessions. After each dialogue session, a mini-survey questionnaire was administered in six dialogue sessions excluding Lehurutshe (Zeerust) dialogue session. The mini-survey was completed by only 242 participants. Moreover, not all respondents completed all sections of the questionnaire as can be seen in Table 3.

Table 3: Non-responses to survey

Questions	Blanks
Amount spent to start business	46
Are there a social and/or cultural factors hindering SMMEs in your area	44
Business location	1
Business turnover per month	74
Disability	219
For your business do you get any assistance from family, friends and relative	34
Form of business	57
Gender	6
How would you rate Government support towards SMMEs in your area	28
How would you rate promotion for entrepreneurship culture within your community	35
Number of family members employed	0
Number of partners	0
Number of people employed	0
On a scale of 1-3 how integrated into the local and provincial/markets is your business	51
On a scale of 1-5 rate the support of the local government towards SMMEs in your area	27
On a scale of 1-5 what is the impact of large retail business on local businesses	35
On a scale of 1-5 what is the impact of 'red tape' on SMMEs in your area	45
On a scale of 1-5, rate the availability and adequacy of infrastructure (e.g. roads, water, electricity) to conduct business	33
Rank of 3 main barriers for entrepreneurship*	-
Type of business	65
What is the impact of foreign business on local businesses	25
What support do you get from local business association	32
Where is your business located	58

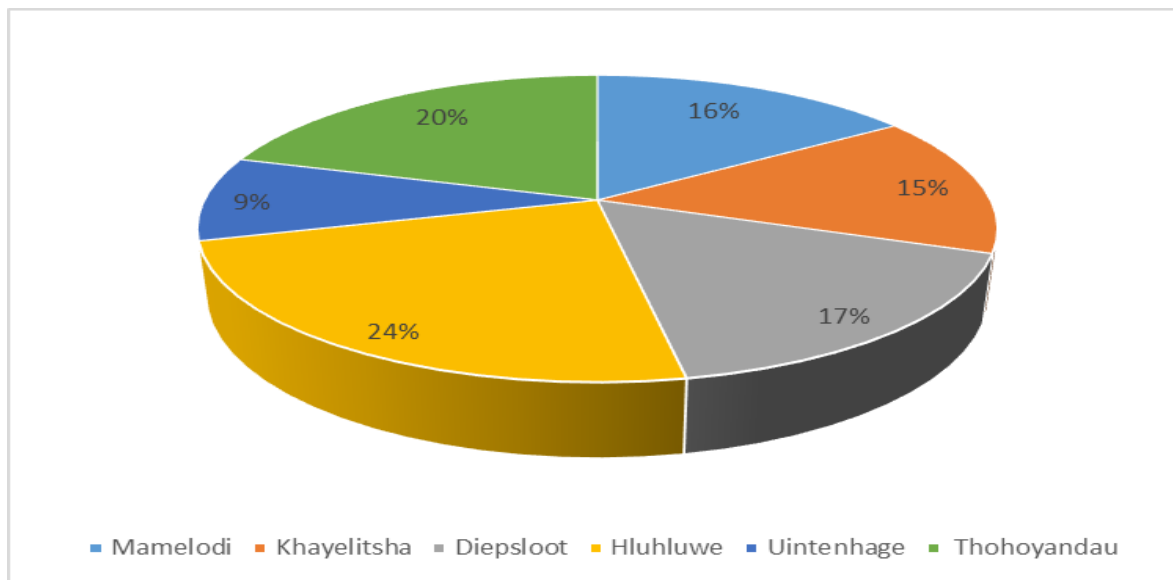
Source: Camissa Institute

* Blanks excluded as the participants had to rank the barriers

Many reasons could be advanced for this. *First*, some respondents may not have understood (language or complexity of question), although assistance was available. It can be observed that most recipients did not state that they were non-disabled, and rather elected to leave it blank. *Second*, participants may have felt that the information (such as location of business) was not pertinent or relevant. *Finally*, respondents may have felt the information was too personal and/or confidential to divulge. There were 74 respondents that elected not to provide information pertaining to the “Business turnover per month” question. Nevertheless, the mini-survey (excluding the blank data) provided sufficient information relating to some dimensions on SMMEs to augment the dialogues.

The delineation of the people attending the dialogue (excluding Zeerust) reveals that most attendees that fully completed the mini-survey were from Hluhluwe, as shown in Figure 2.

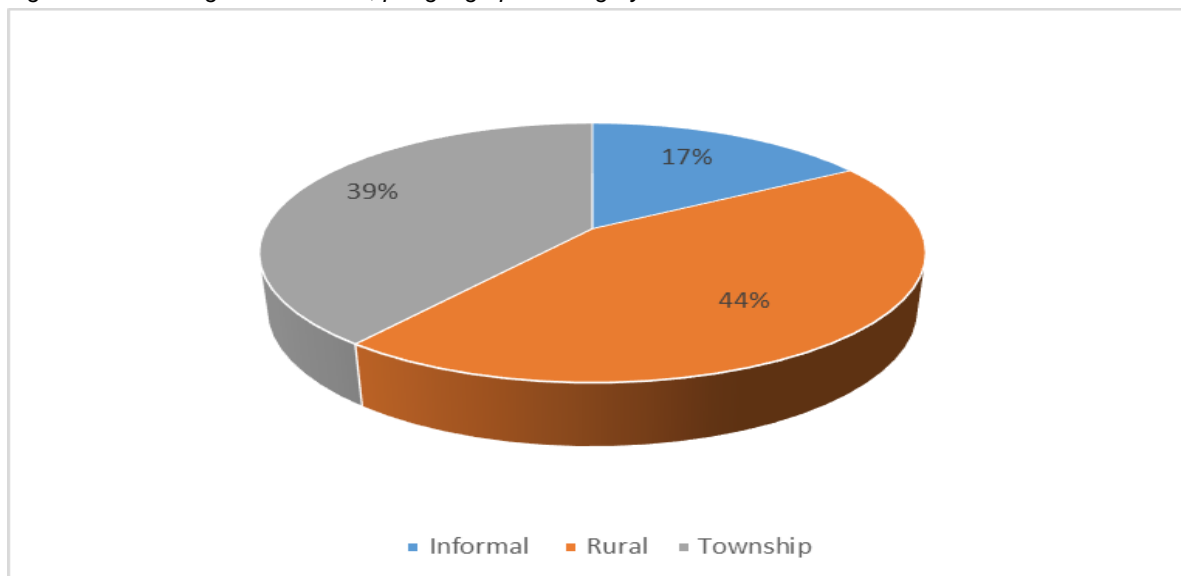
Figure 2: Percentage of attendees, per location



Source: Mini-survey (excluding Zeerust) - Camissa Institute

It is notable that only 9% of the sample came from Uitenhage. However, their contributions to the dialogues were valuable and robust in expressing the impediments they confront in the township. Consequently, a delineation of the participants into townships (Khayelitsha, Uitenhage, and Mamelodi), informal settlement (Diepsloot) and rural area (Hluhluwe, Thohoyandou and Zeerust), as per the Terms of Reference, reveals that most participants were from the rural areas, as observed in Figure 3.

Figure 3: Percentage of attendees, per geographic category



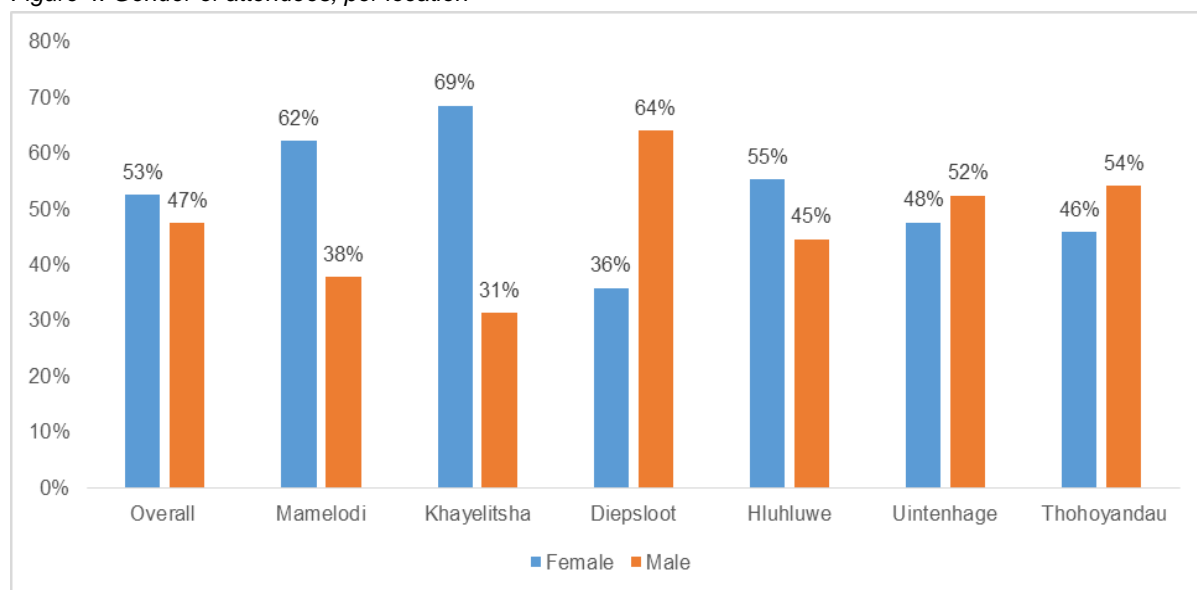
Source: Mini-survey (excluding Zeerust) - Camissa Institute

While most participants were from rural areas, it is not possible to infer that there are more SMMEs in rural areas. The sample merely demonstrates where most of the attendees

reside. The large attendance in these areas vis-à-vis the other areas could be attributed to the very few opportunities that businesses and residents in these rural areas get to engage directly with government. The interactions with communities in townships and informal settlements (as attested to by respondents in Khayelitsha and Diepsloot) reveal that they have had many such engagements with government. One participant in Khayelitsha proclaimed that he was “*tired of attending these engagements ... and nothing being done. This is the last one I will be attending and waiting [sic] to see if anything happens*”.

A delineation of the attendees revealed that most SMMEs at the dialogues were females, as shown in Figure 4

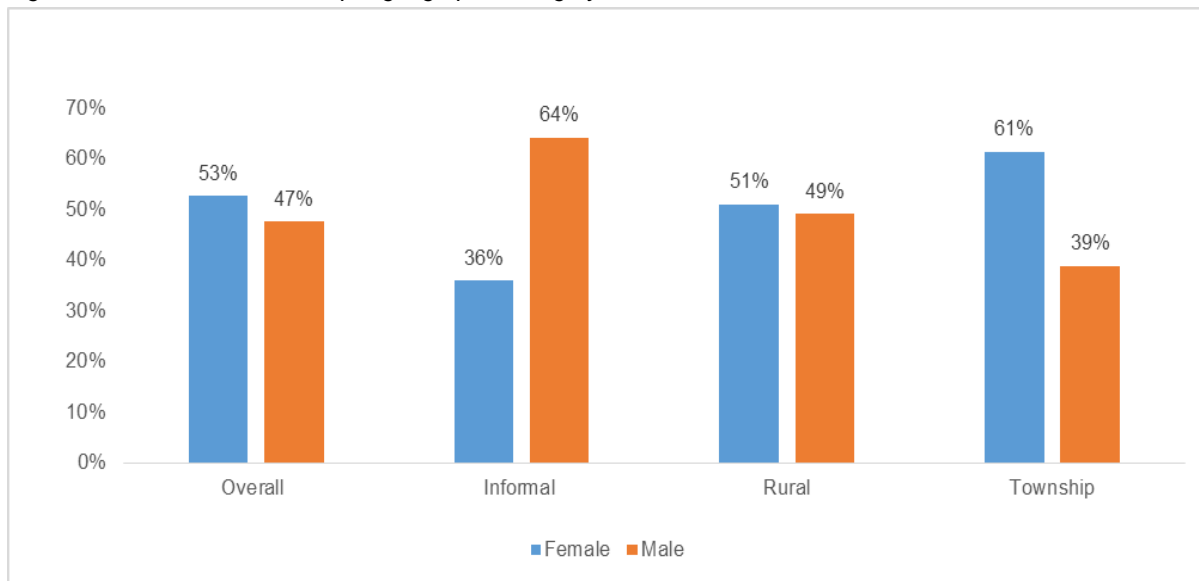
Figure 4: Gender of attendees, per location



Source: Mini-survey (excluding Zeerust) - Camissa Institute

It can be noticed in Figure 4 that there were more female entrepreneurs and owners of businesses that attended the dialogues, although there is variation among locations. A delimitation of gender per geographic category shows that there were more males than female at the informal (Diepsloot) dialogue session.

Figure 5: Gender of attendees, per geographic category



Source: Mini-survey (excluding Zeerust) - Camissa Institute

While there were fewer males than female, this does not imply that there are more female SMMEs operating in these areas, as this may not be a representative sample of SMMEs. Regardless, the attendees provided insight into the generic challenges they confront, as well as those specific to their businesses and environments.

4. Results and Discussions

The data gathered from SMME inputs and perceptions obtained during dialogue sessions inform the results and discussions. These contributions were used to glean valuable insights into the barriers and/or limitations confronting SMME success. However, participants were also given the opportunity to offer solutions. These were subsequently captured in terms of what considerations need to be taken into account by policymakers in government. The solution in terms of the dimensions and the various themes can be gleaned from the individual reports which are included in Annexure A. Furthermore, the individual reports captured all the issues and nuances of each dialogue – for instance, the impact of a large construction firm to the detriment of smaller firms in Diepsloot. This report does not enumerate every single issue that was raised, but rather focuses on the issues that are validated and verified through the mini-survey and literature review through triangulation.

This section presents the main results and analysis. The findings are complemented by the quantitative aspects of the mini-survey and substantiated by the literature review. The dimensions that were explored inter alia included: Business Development Services (BDS), Local Economic Development (LED), Social Capital and Infrastructure. Table 4 shows a consolidated summary of findings gathered at the dialogue sessions. Most notable is the relatively high number of the limitations associated with BDS and LED support. A large number of participants in ALL dialogue sessions professed that there were two main challenges that were limiting their enterprises and/or entrepreneurial success, (highlighted in green in Table 4) these were:

- 1) Lack access to finance (micro, meso and macro issue)
- 2) Ineffective local business development institutions (meso issue)

Table 4: Dialogue Sessions Summary Findings

Dimension	SMMEs Limiting Success Factors		Khayelitsha	Mamelodi	Uitenhage (townships) (Zeerust)	Hluluwe	Thohoyandou	Diepsloot
	Business Development Services	1	Limited access to finance	✓	✓	✓	✓	✓
2		Lack of entrepreneurial and management skills	✓	✓	✓	✓	✓	
3		Limited access to markets and procurement opportunities			✓	✓		✓
4		Limited access to information and advice	✓			✓	✓	
5		Limited access to appropriate technology			✓	✓		
6		Lack of skilled workforce	✓					
7		Lack of business feasibility assessment			✓		✓	
8		Lack of proper business marketing and promotion	✓	✓		✓	✓	
9		Distance from input suppliers				✓		
10		Lack of access to input material					✓	

Dimension	SMMEs Limiting Success Factors		Khayelitsha	Mamelodi	Uitenhage (townships) (Zeerust)	Hlululuwe	Thohoyandou	Diepsloot
Local Economic Development	11	Ineffective local business development institutions	✓	✓	✓	✓	✓	✓
	12	Lack of interventions monitoring and evaluation	✓				✓	
	13	Forced entrepreneurship and cooperatives				✓	✓	
	14	Lack of business competitiveness			✓			
	15	Impeding regulations and policies	✓	✓	✓	✓	✓	
	16	Lack of regulatory enforcement and compliance	✓		✓	✓	✓	✓
	17	Buyers late payment		✓				
	18	High level of public sector corruption		✓	✓	✓	✓	
	19	High crime rate	✓	✓		✓		
	20	Lack of supply chain networks	✓	✓				
	21	Large and foreign owned businesses dominance		✓	✓	✓	✓	✓
	22	Cost of doing business				✓		
Social Capital	23	Weak business networks			✓	✓	✓	
	24	Local buyers not buying/supporting local businesses			✓	✓	✓	
	25	Lack of trust (trust deficit)	✓		✓		✓	✓
	26	Lack of intergenerational succession in small businesses					✓	
Infrastructure	27	Lack of access to land and land tenure	✓			✓	✓	
	28	Lack of suitable business premises	✓	✓	✓	✓	✓	
	29	Unreliable electricity and water supply			✓	✓		

Source: Camissa Institute

The second set of challenges (highlighted in blue also in Table 4) expressed, although not as often as the challenges of finance access and poor intermediary support (meso issues), were:

- 1) Lack of entrepreneurial and management skills
- 2) Impeding regulations and policies
- 3) Lack of regulatory enforcement and compliance
- 4) High level of public sector corruption
- 5) Large and foreign owned businesses dominance
- 6) Forced entrepreneurship and cooperatives
- 7) Lack of intergenerational succession in small businesses

The third set of challenges (highlighted in yellow also in Table 4) voiced, were out of the ordinary challenges of Forced entrepreneurship and cooperatives and Lack of intergenerational succession in small businesses

The limitations alluded to in Table 4 is further deliberated in the sub-sections for the BDS, LED, Social capital and infrastructure dimensions. These sub-sections contemplate the dialogue statements against the mini-survey results and authenticate the information with limitation identified in prevailing literature.

4.1. Business Development Services (BDS)

Box 1: What is BDS?

According International Labour Organization (2005), business development services are formal and informal services that offer entrepreneurs:

- Training
- Consulting
- Marketing support
- Business information
- Access to technology
- Market access
- Business linkages
- Infrastructure development
- Other non-financial services

Among others benefits, BDS help businesses become more profitable by assisting them in:

- Developing and producing quality products effectively.
- Accessing higher-value markets
- Managing their business efficiently
- Generally improving and developing their business.

Source: (ILO, 2005)

4.1.1. Lack of access to finance

In the seven dialogue sessions, almost all participants raised lack of access to finance” as the main issue that limits entrepreneurial activity and business success. Below are examples of some of the utterances by participants on the lack of access to finance.

Even when you have a good idea, some funding institutions want half as collateral, about half the value of the loan – what is the point of asking for finance. (Thohoyandou Dialogue Session, 14 June 2017)

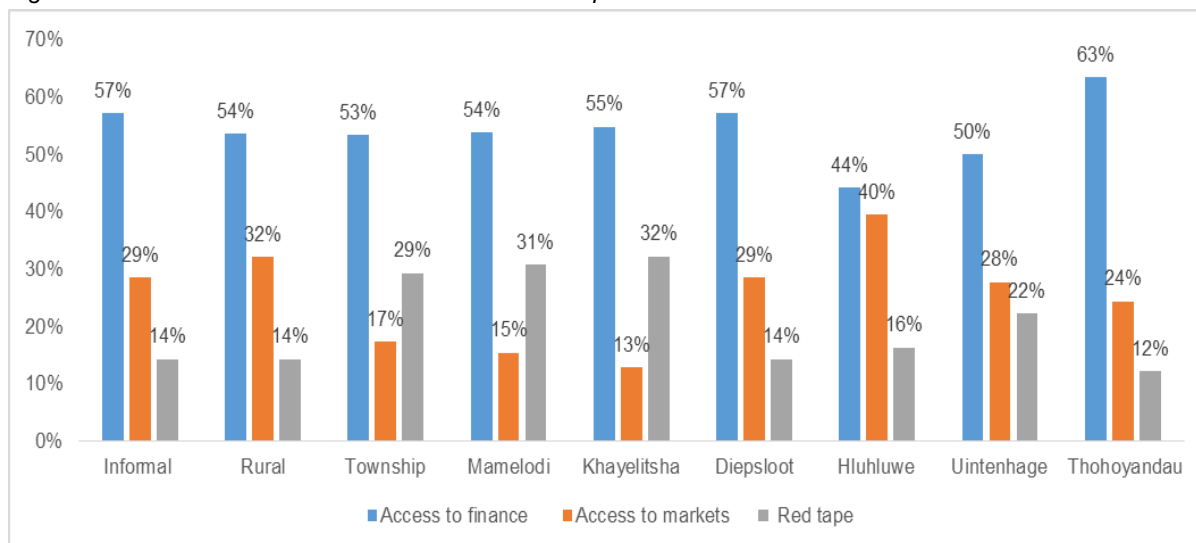
The ‘black-listing’ of individuals does not allow them and their businesses to access finance at all. Consequently, they cannot grow and develop. Even government institutions frown upon individuals that are black-listed. Often, this has led to businesses borrowing funds from the ‘loan-sharks’ at exorbitant lending rates rendering the business venture unprofitable. (Khayelitsha Dialogue Session, 29 March 2017)

There is little help from government with regards to funding of start-ups and providing finance. The main source of funding is from private funders. However, banks only assist when you have an actual contract (i.e. off take agreement). (Mamelodi Dialogue Session, 24 May 2017)

Struggle to get credit extension and subsequent end up with cash-flow challenges. (Zeerust Dialogue Session, 01 March 2017)

Participants were requested to rank the main barriers for entrepreneurship. Unsurprising, as shown in Figure 6, the inability to access finance was ranked as the main barrier.

Figure 6: Access to finance as the main barrier to entrepreneurs



Source: Mini-survey (excluding Zeerust) - Camissa Institute

Access to finance is the main impediment despite government's several interventions. An in-depth exploration revealed several causes. First, banks were risk averse to lending to SMMEs in townships and rural areas, particularly if the loans were unsecured. People don't have collateral or surety to apply for finance. People do not have security of tenure of land (Zeerust; Hluhluwe and Thohoyandou) to offer as collateral. However, in some locations (Thohoyandou, Hluhluwe, Mamelodi), banks were willing to use the certificate of the award of a contract as surety, but in other locations (Khayelitsha) banks were less inclined and even denying finance after the enterprise had been awarded a contract.

Moreover, even when people had collateral, the blacklisting of people at Credit Bureaus dampens their creditworthiness, limiting their ability to access to finance from both private and government institutions (Khayelitsha, Uitenhage). Frequently, this has led to businesses (Khayelitsha) borrowing funds from "loan-sharks" at exorbitant rates, rendering the business venture unprofitable.

A study on the *Barriers faced by SMMEs in accessing finance* revealed that lack of collateral or business assets, lack of financial statements, excessive red tape by funders, administrative burden associated with applications, as well as unfair evaluation of risks and profitability of SMMEs by funders were the main barriers confronting SMMEs in accessing finance (Caga, 2012).

Furthermore, a meticulous and comprehensive business plan is often a key prerequisite required by financial institutions to consider financing SMMEs. However, SMME owners experience difficulties in formulating and following proper business plans. Most of SMME owners rely on other experts to prepare the business plans. Most of them have no idea about what a business plan entails and do not adhere to it (Caga, 2012).

It would seem there are other underlying causes that restrict access to finance. Lack of access to funding is a challenge that cannot be dealt with alone, as it is intertwined with other barriers. These impediments are deliberated in the following sections, particularly on the issue of skills.

4.1.2. Lack of entrepreneurial and management skills

Skills development and other forms of human capital are widely recognised as a key factor in economic growth. Creating entrepreneurs is not attained by merely bringing them together and lecturing them on the virtues and fruits of entrepreneurship. It is achieved by empowering and developing their entrepreneurship skills (Lyons, 2010).

To date, there has been remarkably little impetus given to the skills required for successful entrepreneurship. These skills seem to be taken for granted, a situation arguably fuelled by scholarly squabbles over the attribution for entrepreneurship success to innate traits, behaviours, attitudes and mental cognition as well as the confusion created by the misapplication of terms such as the corporate favourite: “competencies”. Ultimately, none of these factors capture the root cause of entrepreneurship success, which is the mastery of a skill set. And skill is the only factor that can truly be learned and developed. Skill is essentially applied knowledge. Through strategic, focused and intensive practice, with regular feedback on progress (via a coach), entrepreneurs can develop their skills (Lyons, 2010).

According to the EU Skill Panorama 2014, “entrepreneurial skills combine a range of technical, management and personal skills. As such, there is no established, simple definition of the entrepreneurial skillset. The OECD has identified three main groups of skills required by entrepreneurs”: These are:

- Technical – communication, environment monitoring, problem solving, technology implementation and use, interpersonal, organisational skills.
- Business management – planning and goal setting, decision making, human resources management, marketing, finance, accounting, customer relations, quality control, negotiation, business launch, growth management, compliance with regulations skills.
- Personal entrepreneurial – self-control and discipline, risk management, innovation, persistence, leadership, change management, network building, and strategic thinking.

“In addition, entrepreneurs require knowledge of the sectors in which they operate (i.e. an IT, construction or catering entrepreneur will require knowledge of those specific sectors or occupations)” (European Commission, 2015).

Recognising and affirming the crucial need for entrepreneurial skills and small business management skills is one of the key factors for entrepreneurial success. The SMME dialogue importance of skills resonated with several participants. The following declarations by participants lends credence to this perception.

Training that is provided is not sufficient, given that there is still lack of skills in marketing, finance, business skills and capacity development. Participants cited the following skills and support lacking:

- *How to choose the right business*
- *Financial management training*
- *Marketing skills training*
- *Workplace health and safety training*
- *Business statutory compliance*

- *Mentorship*
- *Legal support for business (Mamelodi Dialogue Session, 24 May 2017).*

Lack of business plan writing skills for funding requests. Poor access to technical skills e.g. construction skills (Thohoyandou, 14 June 2017), and butchery business skills (Zeerust Dialogue Session, 01 March 2017)

Lack of skills in the area due to low education levels. No training and skills development, especially of the youth. Need for mentorship. Lack of bookkeeping skills “cannot calculate profit and balance my books” (Hluhluwe Dialogue Session, 31 May 2017).

Financial literacy: Often people do not know how to manage money of their businesses. They sometimes recklessly spend funding obtained for their businesses (Khayelitsha Dialogue Session, 29 March 2017)

These assertions are congruent with research which highlights the lack of skills as a hindrance, especially among the Black youth, to development. The education system in South Africa, from basic education to universities, is far from optimal. A study by Statistics South Africa showed that the lack of progress in building the skills profile within the black African population impacted on skills development (Stats SA, 2014).

The South African labour force is made up of 15 million employed and 7.5 million unemployed people. Ninety percent of the unemployed are from the African population group. Unemployment is particularly high among youth (15 to 34 years) and this is increasing as more young people join the labour force. There are 11.75 million persons of the labour force that have less than a grade 12 certificate (Reddy, 2016). To address the “skills crisis”, the NDP advocates “improving the quality of education outcomes throughout the education system as one of the highest priorities over the next 18 years, and beyond” (Stats SA, 2014).

4.2. Local Economic Development (LED)

Box 2: What is LED?

According to the (World Bank, 2016), the purpose of local economic development is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and NGO sector partners work collectively to create better conditions for economic growth and employment generation. Local communities respond to their LED needs in many ways, and a variety of approaches can be taken that include:

- Ensuring that the local investment climate is functional for local businesses;
- Supporting small and medium sized enterprises;
- Encouraging the formation of new enterprises;
- Attracting external investment (nationally and internationally);
- Investing in physical (hard) infrastructure;
- Investing in soft infrastructure (educational and workforce development, institutional support systems and regulatory issues);
- Supporting the growth of particular clusters of businesses;
- Targeting particular areas of the city for regeneration or growth (areas-based initiatives);
- Supporting informal and newly emerging businesses; and
- Targeting certain disadvantaged groups.

In our local context, Melody & Zonyana (2015), stated that “municipalities in South Africa are

struggling to put in place good LED strategies and policies, so as to be able to fulfil the policy defined goals of a developmental local government. Cited (Travers, 2012) indicating that this is despite the fact that economic development has become a major local government activity in the past three decades” (Melody & Zonyana, 2015)

4.2.1. Ineffective local business development institutions

At an intermediary/meso level, professional and effective institutions are necessary to provide quality SMME business development services. Government has put in place the support structures, but these are not being efficiently managed. Consequently, there is high level of dissatisfaction with the government support that is received.

South Africa has numerous private and public small business development support institutions or intermediaries that form part of the institutional framework, with service points at various local municipals level. In the public sector such institutions are mandated to support SMMEs. The institutions include, among others SEDA, SEFA, NYDA, NEF, Provincial and Local economic development agencies; and non-government business formations such as business forums and chambers. However, there were perceptions among numerous SMME dialogue participants that these institutions provided ineffective financial and non-financial small business development service. Stories abound of the lack of empathy of government officials towards the plight of entrepreneurs and SMMEs. There were anecdotal claims of corruption and favouritism in some institutions.

Some of typical complaints from dialogue participants were:

No one-stop service: Service taken away from rural communities (Zeerust Dialogue Session, 01 March 2017).

Local government is not taking small business serious in the community. There is no sense or urgency of promoting small businesses importance (Khayelitsha Dialogue Session, 29 March 2017).

Business forums not empowering members but are self-serving (unsupportive business associations/forums) (Uitenhage Dialogue Session, 20 April 2017).

Various ineffective local business forums whose activities are uncoordinated (Hluhluwe Dialogue Session, 31 May 2017).

Little assistance from Department of Agriculture and Department of Rural Development and Land Reform have set aside funding but it is not reaching the SMMEs on the ground. No local centre for BDS services, the nearest one being in Richards Bay, more than 100 km away (Hluhluwe Dialogue Session, 31 May 2017).

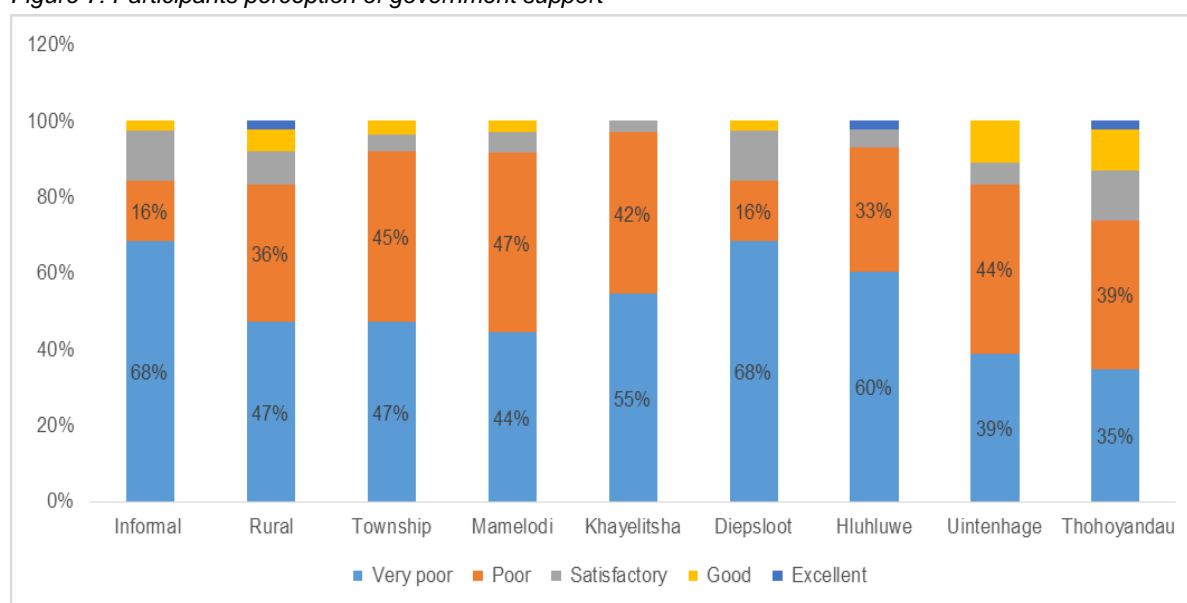
There are no community services centres for South African Revenue Service (SARS), Companies and Intellectual Property Commission (CIPC), Central Supplier Database (CSD) in Diepsloot. (Diepsloot Dialogue Session, 10 March 2017)

Expensive support services, i.e. high cost of private sector consultants (Mamelodi Dialogue Session, 24 May 2017).

LED offices lack empathy towards SMMEs and are not properly trained. SEDA and SEFA staff in not adequately trained to give information. Government officials not active in providing BDS services. No help from SEDA but SEFA is a bit better. Best assistance from GEP. However the roles of SEDA, SEFA and GEP are confusing. Lack of service collaboration and coordination amongst development agencies. Empty/unfulfilled promises by various government departments regarding their SMME support responsibilities (Mamelodi Dialogue Session, 24 May 2017).

The quality of advice from intermediary institutions is key in guiding business start-ups and cooperatives. Businesses deplore the lack of support that government provides; and the plethora of requirements that stifle entrepreneurship. When asked to rate government support towards SMMEs, more than 90% of respondents felt it was “below satisfactory” (“very poor” and “poor”), as shown in Figure 7.

Figure 7: Participants perception of government support



Source: Mini-survey (excluding Zeerust) - Camissa Institute

The level of dissatisfaction with government support was relatively high among all the locations, with Khayelitsha registering a 97% “below satisfactory”.

SEFA/SEDA (in Mamelodi respondents indicated that SEFA services were better than SEDA) are also reluctant and conditions too stringent to access finance. Several respondents bemoaned that, although these institutions were established to facilitate and expedite finance, they were often an obstacle due to their onerous and burdensome requirements. There was often confusion about the roles of these organisations (Mamelodi).

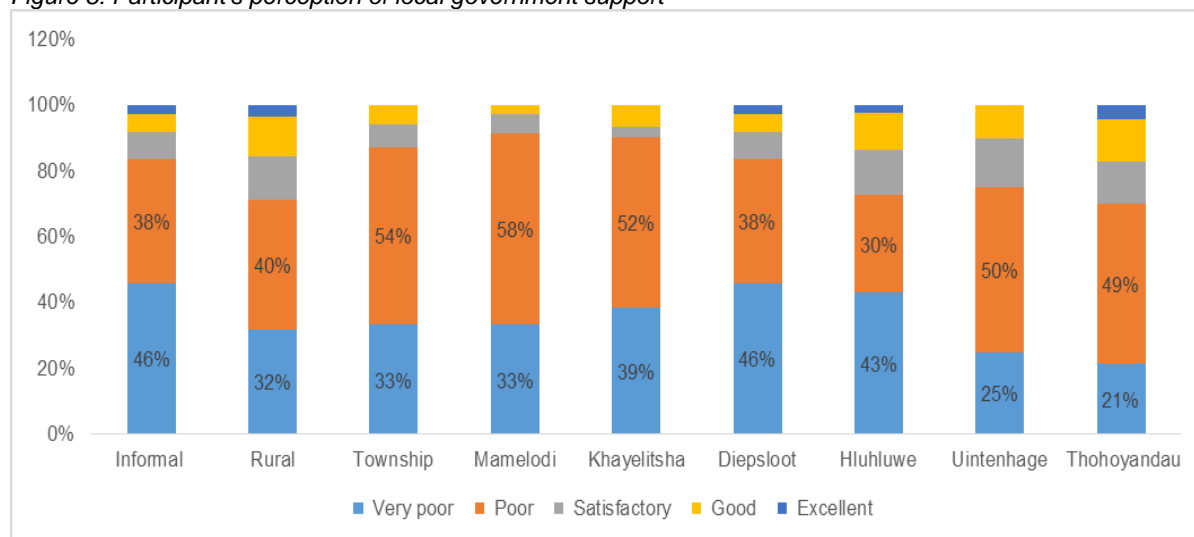
People were often confused about the role of the various institutions (SEDA/SEFA/the dti) Respondents (Zeerust) felt that there was a lack of integration among government departments to assist small businesses.

It would appear, from declarations of participants, that local small business development institutions are ineffective. That is, initiatives of government support agencies have been less successful than intended. It is near impossible to assess the gap between intentions and

outcomes of these entities with any accuracy, as there is a dearth of publicly available data, minimal impact assessments, and limited monitoring and evaluation reviews.

Participants also lamented the little assistance local government offices offered which were specifically established to directly assist SMMEs. There is a perception (Khayelitsha) that local government is not taking small business seriously in their community. There is no sense of urgency of promoting small businesses. In all locations, the respondents were dissatisfied with the services received at the local government offices, as shown in Figure 8 .

Figure 8: Participant's perception of local government support



Source: Mini-survey (excluding Zeerust) - Camissa Institute

The LED offices provided little support (Uitenhage, Mamelodi and Hluhluwe) and the bureaucrats did not always have the capacity and capability to assist the SMMEs. Moreover, the officers lacked empathy towards people, and only helped if there was a councillor present (Hluhluwe). There is too much red tape when seeking help and assistance in these offices. The local offices were not forthcoming with information on local economic projects. Most importantly, there appears to be no integrated and co-ordinated development plan for SMMEs (Mamelodi).

Government institutions established to provide support, which are critical for the success of these enterprises, do not provide it or when they do give limited training in finance, human resources and marketing (Zeerust)

Often there is no ancillary support and institutional support. People in some rural areas have to commute long distances to access support service. There is no SARS, Department of Home Affairs or SEDA offices in Zeerust. People have to travel far to access these services. Moreover, participants bitterly complained that it would have been better if they had these services within their municipalities instead of travelling to Mafikeng or Rustenberg.

More disappointing was that these services were once present and since been ceased (Zeerust). Similarly, there is no one-stop service in Uitenhage Participants complained that the staff at these places (SEDA, Eastern Cape Development Corporation, NYDA) have too

high expectations and people are turned away for frivolous reasons. These institutions (Khayelitsha) were sometimes perceived as a hindrance.

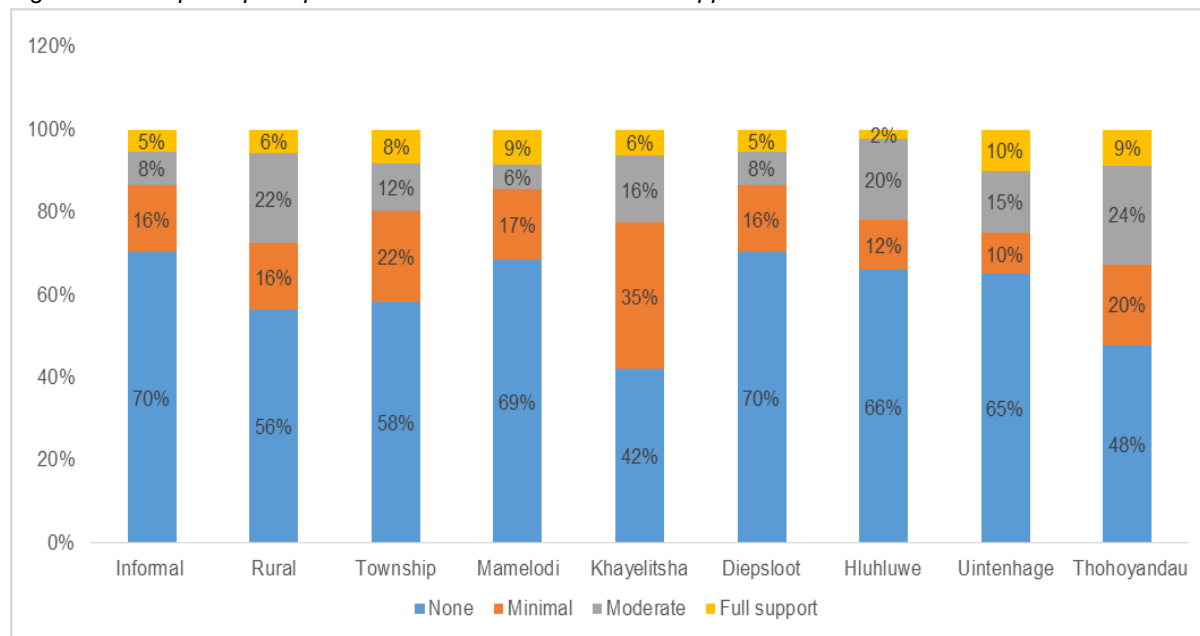
Also, there are no community services centres for SARS, CIPC, CSD in Diepsloot, that is there is a lack of access to entrepreneurial and financial support services in Diepsloot. Similarly, in Hluhluwe there is no one stop. People have to travel to Richard's Bay to engage with SARS and Pietermaritzburg to deal with the KwaZulu-Natal Department of Agriculture.

While government sometimes provide mobile services and satellite offices (Hluhluwe, Zeerust), residents and businesses are often unaware when they will be visiting these areas to benefit from these services. Often the only people who are aware of the visits are councillors and tribal chiefs (Zeerust) who do not readily disseminate the information. And while SEDA offer mentorship programmes, they are too expensive and unaffordable (Uitenhage). The impacts and achievements of the government's initiatives have fallen disappointingly short of aspirations (SBP Alert, 2009)

It must be noted that participants were not unhappy with government "per se", rather the failure and inability of institutions to effectively execute their mandate, and the processes which were incumbent on them, to the detriment of SMMEs in these areas.

Businesses that do not have access to government support can try to get assistance from other businesses as well as from friends and family/relatives. The business associations are largely ineffective in these areas, as shown in Figure 9.

Figure 9: Participants perception of local business association support



Source: Mini-survey (excluding Zeerust) - Camissa Institute

Respondents in Uitenhage echoed these sentiments by proclaiming that registration with an association does not offer much benefits, just increased the regulatory burden. Participants in Khayelitsha felt that the Khayelitsha Development Forum (KDF) and similar organisations did not assist the local formal and informal business community to mitigate challenges such

as poor access to business finance from SEFA, securing trading spaces, business networking and overall local business promotion. In some areas (notably Mamelodi) there were too many forums, with most participants not knowing all of them. In some areas there were only a few forums (Hluluwe [1], Thohoyandou [1]).

The government has dedicated significant resources to support small businesses. DSBDDSBD was granted a budget of R3.7 billion over the 2016 Medium Term Expenditure Framework (MTEF) to realise its mandate to *lead an integrated approach to the promotion and development of small businesses and cooperatives* (National Treasury, 2016).

Notwithstanding this sizeable budget, South Africa is lagging behind other developing countries in promoting the growth and sustainability of small businesses. South Africa's established business rate is disturbingly low – it has declined by 26% since 2015 and is the lowest since 2011. The average for the African region is almost five times higher than South Africa's rate of 2.5%, while the average for efficiency-driven economies is more than three times South Africa's rate. Of concern is that South Africa has one of the lowest established business rates of all the economies that participated in GEM 2016 (ranked 61st out of 65 economies); confirming South Africa's persistently low levels of entrepreneurial activity relative to other countries participating in GEM (Herrington, Kew, & Mwanga, 2017).

While there are numerous factors that can contribute to this situation, the lack of business support is intrinsically associated with SMME failure. Business support to an entrepreneur is akin to a parachute to a sky diver. The lack of these mechanisms can lead to the ultimate demise when it is not deployed at the most appropriate time (Mafoyané, 2015).

But business support has a wide definition as it means different things in different business spheres. Essentially, it can be broadly defined as “any function that imparts knowledge or resources to a business for its development, survival and success” (Mafoyané, 2015).

4.2.2. Forced entrepreneurship and cooperatives

This section discusses the issue of forced entrepreneurship and cooperatives that could impact on entrepreneurial success. At two of the dialogue sessions the participants raised two issues that led facilitators to probe the underlying motivations for self-employment. The statements from the dialogue participants were:

Forced into establishing cooperatives (Zeerust Dialogue Session, 01 March 2017).

Co-op start up with good intentions – Overwhelmed when get funding and members start to squabble (Thohoyandou Dialogue Session, 14 June 2017).

These dialogue participants' statements could be best described as forced entrepreneurship or forced cooperatives in relation to enterprise start-up plans, i.e. what motivated the start-up and how was the enterprise formed (form of ownership, i.e. individual or cooperative business). At a deeper level “the squabble” maybe deduced as a consequence of combining people with different motives to form a cooperative business. Subsequently, incompatibility

of members fostered disagreement and infighting, resulting in the failure of the business venture.

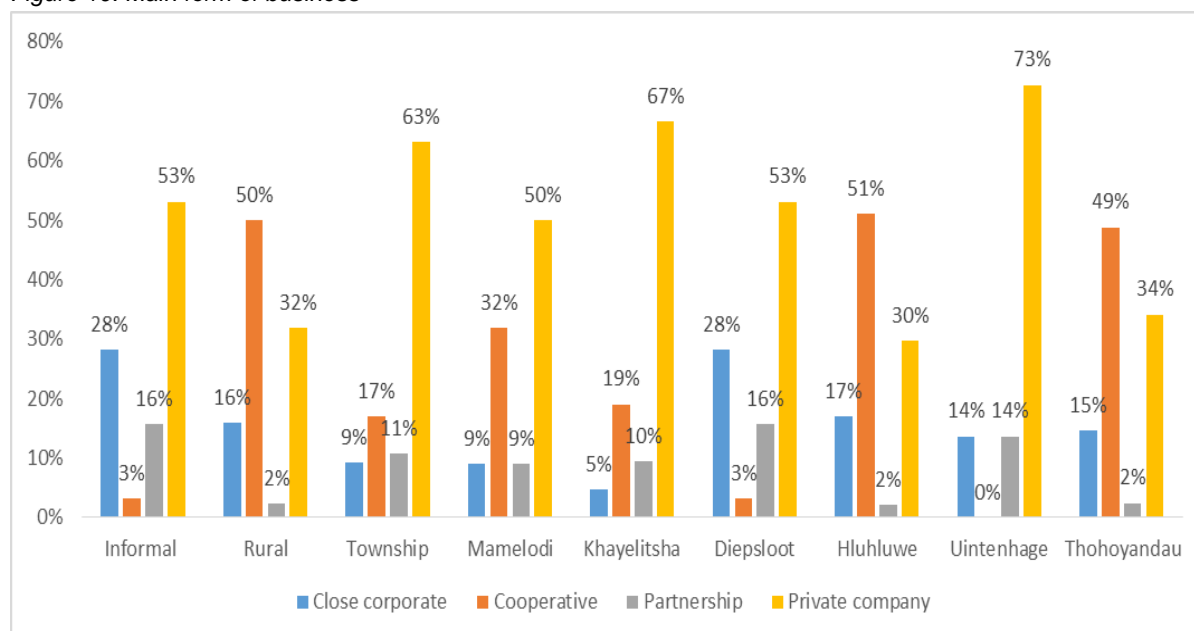
Forced entrepreneurship or equally known as “necessity” entrepreneurship is a term coined by GEM. GEM introduced two concepts, namely, necessity and opportunity entrepreneurship to explain why people become self-employed. “Necessity” entrepreneurs are pushed/forced into entrepreneurship as a survival strategy in the absence of alternative means of livelihood, and “opportunity” entrepreneurs are pulled into this endeavour more out of choice (Williams & Youssef, 2014).

Other factors that play a role in motivating individuals to start up a business include personal reasons (self-esteem) as well the environment (family and friends). The government can influence (through policy interventions) the environment, which could lead to an increased activity of business or cooperative start-ups.

In some countries cooperatives formations are forced, or “top down” cooperatives are imposed by the government (Anderson & Henehan, 2003). In contrast “bottom up” cooperatives are when grassroots members take the initiative to organise a cooperative. The former type is particularly common in developing countries and the latter in developed countries. In addition to forcing the cooperative on reluctant members, “top down” cooperation has other disadvantages. Managers and directors may be political appointees. The government may want the organisation to pursue a broader set of political objectives such as economic development, providing employment, or implementing government programmes (Anderson & Henehan, 2003). Often there are no other alternatives to government sanctioned cooperatives.

Cooperatives are a common form of business in South Africa, particularly in rural areas and the townships, as denoted in Figure 10.

Figure 10: Main form of business



Source: Mini-survey (excluding Zeerust) - Camissa Institute

While not the dominant form of business in all areas, cooperatives nevertheless constitute a significant proportion of businesses, particularly in rural areas (50%).

Some government departments (Thohoyandou, Zeerust) will only provide funding to cooperatives. Hence, people have to subsequently form a cooperative – even though they may not want to or it is not the best arrangement – to receive funding. Hence, it is unsurprising that most enterprises in the rural areas are cooperatives.

Moreover, many of these cooperatives will not advance to more sophisticated types of ownership as they risk losing funding from government. Similarly to cooperatives advance, empirical observations suggest that “the view of micro and small enterprises as being seedbed for future enterprises growth and upgrading is open to doubt. Only a minority of these firms manage to upgrade their businesses to the next level of productivity, assets and employment. Typically, few small enterprises pass the threshold of 20 employees. As a result, there is ‘mission middle’ between the poles of large and micro and small enterprises, respectively” (Reeg, 2013).

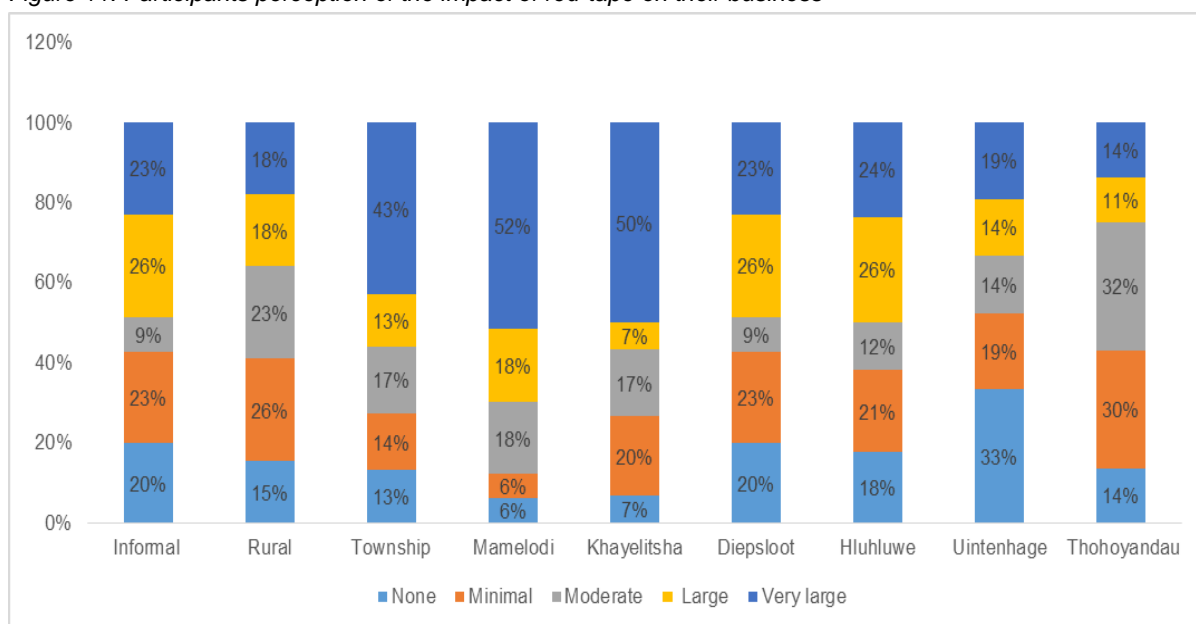
Research across countries indicates that only a few enterprises manage to upgrade and generate sustainable employment. This empirical observation has led to the use of enterprise labels (Necessity and Opportunity enterprises) for those enterprises that do not endeavour to expand their businesses. These enterprises are termed survivalist or necessity enterprises; whereas business owners that are motivated to respond to market opportunity with their business are termed “growth-oriented”, “gazelles” or “opportunity” enterprises (Reeg, 2013).

4.2.3. Impeding regulations and policies

Governments have implemented strategies and policies to support and bolster SMMEs. Legislation is enacted to promote accountability and good governance (e.g. payment of taxes), ensure basic conditions of service (e.g. maximum working hours) are adhered to, promotion of sector norms and standards (e.g. health and safety) as well to prevent SMMEs engaging in criminal activities (e.g. drug smuggling, money laundering). The policies confronted by SMMEs are not only those imposed by government, but also by the private sector (e.g. banking) often at the directive and behest of some government prescription such as FICA.

Businesses lament the red tape they encounter when doing business. These relate to compulsory regulatory fees (e.g. Annual Fees), permit registrations, CIPC registration and compliance as well as DoL and SARS annual submissions. Supply chain requirements for small businesses are onerous. There must be four quotations (Zeerust). The impact of the red tape on enterprises can be studied in Figure 11.

Figure 11: Participants perception of the impact of red-tape on their business



Source: Mini-survey (excluding Zeerust) - Camissa Institute

Interestingly, townships and informal settlements perceive the impact of red tape on their organisation more than those in informal settlements, particularly as these services are not readily available to people in informal areas.

SMME dialogue session participants voiced a number of issues related to regulatory and policy impediments that negatively impact on their business success. These include:

Construction Industry Development Board (CIBD) expiry renewal costs are high (documents renew), (Hluhluwe Dialogue Session, 31 May 2017).

Too much regulation to adhere to. Construction businesses compliance expensive to maintain a grade (Thohoyandou Dialogue Session, 14 June 2017).

Red-tape inhibiting delivery of economic opportunities and services in general (Hluhluwe Dialogue Session, 31 May 2017)

There is too much red-tape and regulations (registrations) to adhere to (Khayelitsha Dialogue Session, 29 March 2017)

Regulatory fees are prohibitive e.g. Annual fees. Red-tape e.g. permits, supply chain prescripts. Registration with association does not offer much benefits – increases regulatory burden (Uitenhage Dialogue Session, 20 April 2017).

The regulatory burden is particularly acute for the SMMEs. It is relatively more costly for SMMEs as they lack the administrative capacity of larger enterprises. The plethora of regulations and labour market prescriptions are formulated and aimed at addressing the concerns of unions and larger firms, which restrict SMMEs' ability to adopt (OECD, 2015). An OECD study of 37 countries, including South Africa, of the regulatory burden ranked South Africa as the fifth most restrictive economy, and seventh for entrepreneurship and the

highest regulation in network sectors (energy, transport and communications) (OECD, 2015).

Both the 2014 GEM and the 2015 World Economic Global Competitiveness Report (World Economic Forum, 2015) cited government bureaucracy as a significant obstacle to entrepreneurial and business activity in South Africa (SEDA, 2016a). Research undertaken by CoGTA and the dti in 12 municipalities across the country revealed that red tape issues at local government level affect the operation of SMMEs (SA Government, 2016).

4.2.4. Large and foreign-owned businesses dominance

In the dialogue sessions, the issue of dominance was mainly tackled in the context of townships and rural areas being dominated by large enterprises and foreign-owned enterprises. The statements outlining the negative effect of dominance to local township and rural enterprises included:

Unfair competition (foreign-owned businesses that have penetrated the local rural settlements. Price war and collusion issue) (Zeerust Dialogue Session, 01 March 2017)

Large construction companies like Lubbe dominate local development construction projects (Diepsloot Dialogue Session, 10 March 2017).

Foreign national nationals are finding it easier to establish businesses. Foreigners are supported more than RSA businesses (Hluhluwe Dialogue Session, 31 May 2017)

Lack of organised structure to build economies of scale – to compete with foreign-owned businesses in the area. (Hluhluwe Dialogue Session, 31 May 2017)

Large business is more competitive on pricing due to economies of scale and therefore kills small businesses. Foreigners (especially Somalis and Indian) traders are dominating and supply lower quality (Thohoyandou Dialogue Session, 14 June 2017)

There is a coordinated strategy to remove local businesses people. Local businesses cannot compete. Foreign businesses engage in predatory pricing where they reduce the price to below cost to force the local out of business only to raise it again once the local business have exited (Khayelitsha Dialogue Session, 29 March 2017)

Foreigners have easier access to finance from their association. Foreigners created a monopoly. Foreigners seem to have a better work ethic in comparison to the locals. Competition Commission only focuses on big business and not small and foreign businesses (Uitenhage, 20 April 2017)

Lack of support and guidance from big business. Big businesses obtain contract and exploit (squeeze) small businesses (Uitenhage, 20 April 2017)

Home affairs are too lax in allowing foreigners to enter South Africa. Destroying local businesses due to lower salaries and selling expired goods (Mamelodi, 24 May 2017)

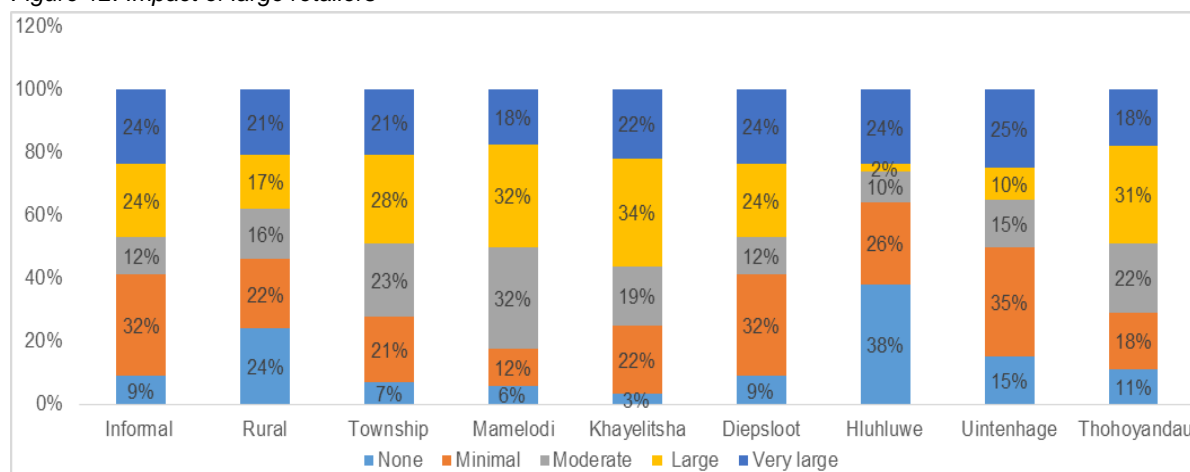
A firm is deemed to be dominant (possess market power) when it is able to influence the market price. Most often market dominance prevails when a firm has a large share of the market (usually 40%) and is classified as super-dominant if its share is greater than 50%

(Doyle, 2002). Market dominance is not a problem in itself and becomes an issue only when the incumbent firms abuse their position to the detriment of smaller firms and newer entrants. The abuse of such power emanating from market dominance, especially if it is employed to stifle competition by excluding rivals, necessitates intervention from competition authorities (OECD, 2017).

The South African Competition Second Amendment Act, (Act No. 39 of 2000), which is the enabling legislation of the Competition Commission, declares that “the abuse of a dominant position by a firm may include excessive pricing of goods or services, denying competitors access to an essential facility, price discrimination (unjustifiably charging customers different prices for the same goods or services) and other exclusionary acts (such as refusal to supply scarce goods to a competitor, inducing suppliers or customers not to deal with a competitor, charging prices that are below cost so as to exclude rivals, bundling goods or services and buying up a scarce input required by a competitor). The Act prohibits the abuse of a dominant position by firms in a market, but does not prohibit firms from holding a dominant position” (Competition Commission South Africa, 2017).

The characteristics of dominance featured prominently in the dialogues. Businesses attempting to penetrate certain markets were being hampered by incumbent and large retailers in this space. A common impediment (and even grievance) among SMMEs was the domination of big businesses/malls in these areas. Very often big businesses (large retail malls) enter these areas and displace local businesses, negatively affecting local enterprises, as shown in Figure 12 below.

Figure 12: Impact of large retailers



Source: Mini-survey (excluding Zeerust) - Camissa Institute

SMMEs (Zeerust) were finding it difficult to access local procurement opportunities. There were allegations that big businesses were colluding with certain forums to obtain contracts (Mamelodi). Local businesses couldn't match the bigger buying power of large businesses. Participants indicated that the lack of support and guidance from big business stifled small enterprises. That is, big businesses acquired multiple opportunities, crowding-out local enterprises. Often, they did not sub-contract and procure locally to the detriment of local enterprises; and when they did it was on unfavourable terms (squeezing their margins). There were limited or no existing partnerships between big and small businesses. It is

unsurprising that the main impact of the large retailers is in areas that have malls. The impact is larger in Thohoyandou (which has a mall in close proximity) than in Hluhluwe (does not have a mall) although both are rural areas.

Heated debates prevailed on the issue of foreign-owned enterprise dominance, which is also acknowledged as a challenge worldwide, as is illustrated in *Box 3*. Closer to home (South Africa), *Box 4* illustrates the dominance of large retailers operating in townships.

Box 3: How to dominate business ownership where blacks are the majority

As an example, Dr Claude Anderson in his book *Powernomics – The National Plan to Empower Black America*, asked a question:

“Why do Arabs, Europeans, and Asians dominate business ownership in Black communities, and what can we do about it?” and he further alludes to three major reasons why African American neighbourhoods are dominated by foreign businesses.

- **Foreigners have a strong cultural advantage over us:** The strongest advantage that immigrant groups have when it comes to saving from, starting, and investing is not tax breaks or rich parents back home, but it is their culture. Americans value individualism, consumerism, and competition – but most of our original cultures value collectivism, cooperation, and contribution. By comparison, immigrants arrive in the United States in groups, sleep in the same house together, carpool or rely on public transportation, and eat from one large shared table, all working menial jobs and saving to open a business. After a few short years, the group has saved enough to open a store selling items from home. Members of the group work together in the new business while also supporting it financially until it yields enough to support itself, its owners, and its employees – who all belong to the same group.
- **We refuse to compete with them (zero competition):** Black entrepreneurs have failed to compete with foreign owned businesses in their neighbourhood. For instance, most Black hair supply stores are owned by Koreans. Before the influx of Korean-American shop owners, there was no one serving the African American market in this way.” In other words, we have relied on others to provide us with goods and services important to us, leaving the door wide open for other entrepreneurs to enter and dominate our markets.
- **As entrepreneurs and customers, we abandon our communities leaving them vulnerable to exploitation (Brain drain and black flight):** Black entrepreneurs tend to seek out non-Black areas to establish their businesses. Citing excuses like ‘the crime rate is too high’ or ‘there is no money in the hood’, these entrepreneurs tend to take their goods and services to mixed or white areas. While we run from our own people, other groups move in, establish businesses, and skim the Black dollar out of the community. Black entrepreneurs and shoppers also tend to spend their money in mixed or white neighbourhoods, since there are so few Black owned businesses near them. Too few black entrepreneurs and too few Black customers supporting them leads to a loss of the Black dollar.

(Anderson, 2017)

Box 4: Township shops ‘bear brunt of unfair practices’ by dominant SA retailers

An article by Palesa Vuyolwethu Tshandu, in *Business Day* reported that, “SA’s top retailers were accused of anticompetitive behaviour in townships at the Competition Commission’s first public hearings on the retail market in Pretoria.”

Louis Greeff, the MD of independent buying group Elite Star Trading Africa, accused Pick n Pay, Shoprite, Spar and Massmart of profiteering from smaller independent players in the townships.

In his submission to the commission, Greeff claimed that the "big four" retailers each made profit of

about R50 million a year from the townships.

"There's a structural flaw in retail trading in SA, which has made the 'big four' too big, leaving independent stores [with] little leverage," said Greeff.

He said spaza shops in townships were disappearing because of the infiltration of the formalised retail players, which were taking market share.

Greeff claimed that retailers such as Pick n Pay and Massmart sold products at lower margins to independent wholesalers than they did in their stores, implying that "retailing in SA is about your ability to be price competitive".

(Tshandu, 2017)

Related to the issue of foreign-owned businesses in the township and rural areas, is the challenge of regulatory enforcement. The SMME dialogue participants voiced the following matters on the lack of regulatory enforcement and compliance that gave foreign-owned businesses in their areas an advantage.

Businesses operating without licences especially foreign-owned businesses (Zeerust Dialogue Session, 01 March 2017)

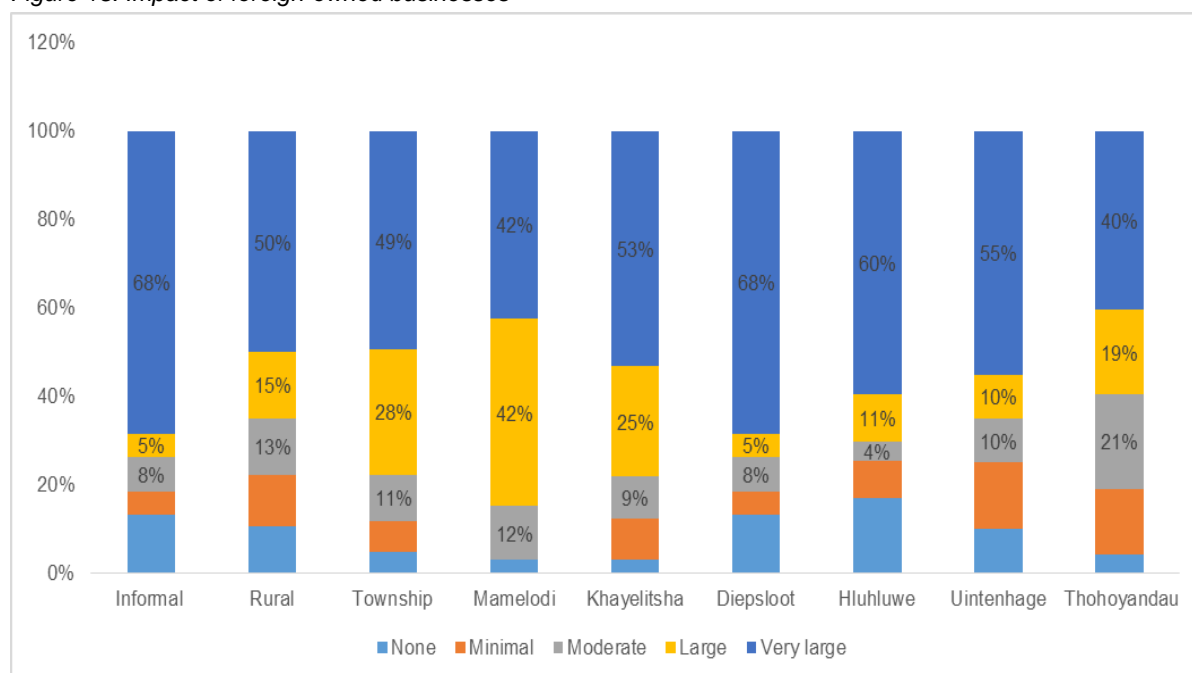
Foreigners operate illegal, untaxed businesses and compete unfairly. Large construction companies flout the BBBEE 30% local procurement spend rules because they are not monitored and rules are not enforced (Diepsloot Dialogue Session, 10 March 2017).

Foreign businesses do not have to pay VAT (Hluhluwe Dialogue Session, 31 May 2017).

Locals felt that foreigners were illegal in the country and their businesses were not registered and they were not paying taxes (Khayelitsha Dialogue Session, 29 March 2017)

There was great animosity against foreign-owned businesses. Foreign-owned businesses are perceived as unfair competition. Respondents (Zeerust, Khayelitsha, and Uitenhage) complained that while they were compelled to comply with regulations such as SARS, labour laws and paying taxes, foreign-owned businesses largely ignored these. The assertion in Diepsloot is that foreigners operate illegally. They have an unfair advantage as they do not have to pay taxes (e.g. VAT). Subsequently, they were undermining local businesses, as shown in Figure 13.

Figure 13: Impact of foreign-owned businesses



Source: Mini-survey (excluding Zeerust) - Camissa Institute

There were allegations of collusion and predatory pricing (Khayelitsha, Uitenhage) to remove local businesses, after which they subsequently became more expensive. There was an assertion (Khayelitsha) that there was a co-ordinated strategy to remove local business people. Local businesses cannot compete. Foreign businesses engage in “predatory pricing” where they reduce the price to below cost to force the local enterprises out of business only to raise it again once the local businesses have exited the market. Such strategies by foreign-owned businesses have destroyed township enterprises.

Foreign-owned businesses in the township operated like cartels. Their enterprises are networked as a group of independent retailers with a goal of increasing their collective profits through price fixing (market dominance). Respondents (Uitenhage) lamented that the competition commission only focussed on big businesses and not small enterprises to the detriment of local businesses.

Local businesses complain that the Department of Home Affairs is complicit and lax in allowing foreigners to enter South Africa. Locals feel that that foreign nationals are finding it easier to establish businesses and that they are supported more than South African businesses. Moreover, foreign businesses seem to have the protection of the police (who appear to be corrupt) [Mamelodi, Khayelitsha]. The participants validated police corruption by the non-protection of whistle-blowers (Mamelodi). Some people want to allow foreigners as they can earn rental income, but the community is unhappy about the employment of foreigners (Mamelodi).

A research study was undertaken in the townships of Cape Town and Gauteng by the Sustainable Livelihoods Foundation’s Formalising Informal Micro Enterprises, titled “informal economy of township spaza shops” surveyed over 6 000 microenterprises in nine localities. The study maintained that “the dominance of foreign shop keepers in the grocery retail

sector could harm the livelihoods of South Africans operating tuck shops and house shops” (Sustainable Livelihoods Foundation, 2015)

“While the entrepreneurship of foreign investors in the township economy should be welcomed, the terms on which spaza shops operate needs to be formalised. All spaza shops should require a trading licence, and adhere to the laws of residence, employment, taxation and municipal regulations. Regulation should be made simple, based on recognition of the economic position of spaza shops within the township economy and their role in providing access to basic necessities for local consumers” (Sustainable Livelihoods Foundation, 2015).

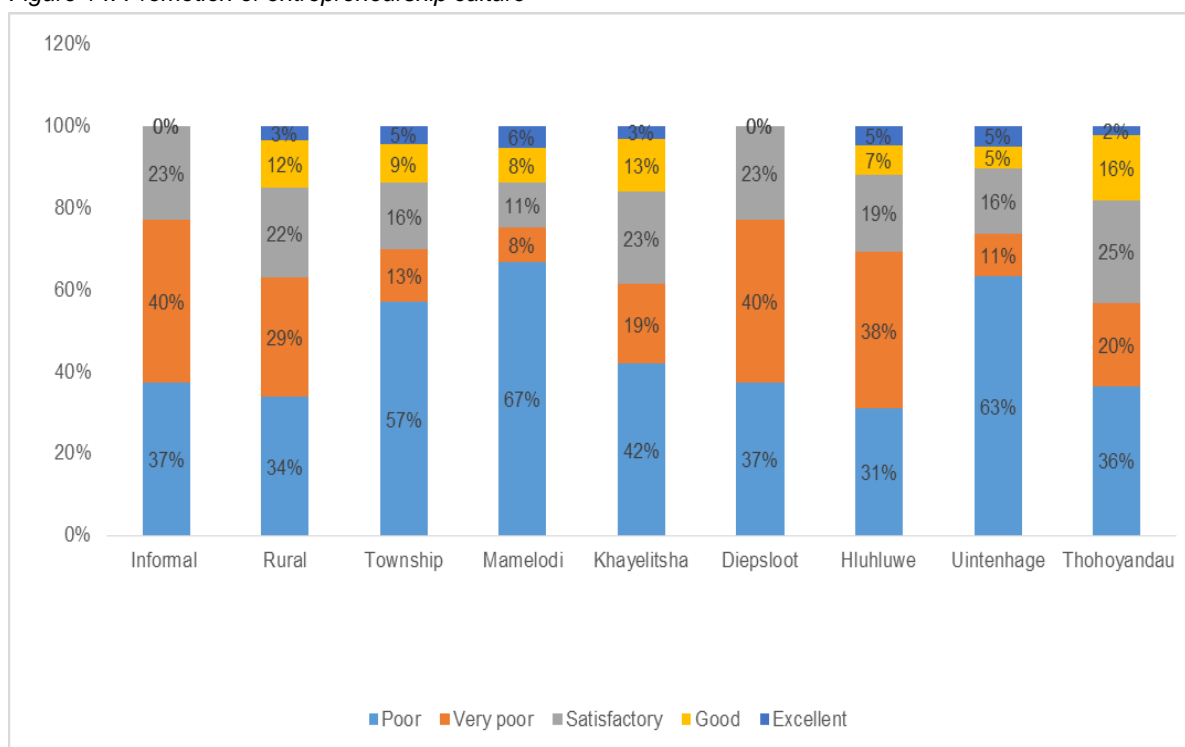
There actual number of foreigners in South Africa is largely unknown, as a significant proportion of foreigners are not documented. There are massive disparities between documented and estimated numbers. The United Nation’s Department of Economic and Social Affairs estimated that in 2015 there were more than 3.14 million international migrants living in South Africa (Chiumia, 2017).

South African statistical data from Stats SA indicates the number of permanent residence permits approved in 2013 were 6 801 among others including 176 business permits issued (Stats SA, 2014).

Nonetheless, some attendees conceded that the success of foreign businesses may be attributed to their kinship and support for each other. There was also a suggestion that the foreigners work harder and have a better work ethic (Uitenhage), and that social networks do not work in local business communities because of the lack of trust (Khayelitsha).

Local communities lack social cohesion and do not foster and promote an entrepreneurship culture, as evidenced in Figure 14

Figure 14: Promotion of entrepreneurship culture



Source: Mini-survey (excluding Zeerust) - Camissa Institute

The lack of support for local businesses is often due to the interpretation of entrepreneurship as a “zero sum game”. Participants complained that there is too much of copying of each other’s businesses.

“No vision” amongst “entrepreneurs”. Unfair Competition by “copy-cats”.

There was also widespread local community disunity manifesting in various and uncoordinated local SMME organisations (Diepsloot).

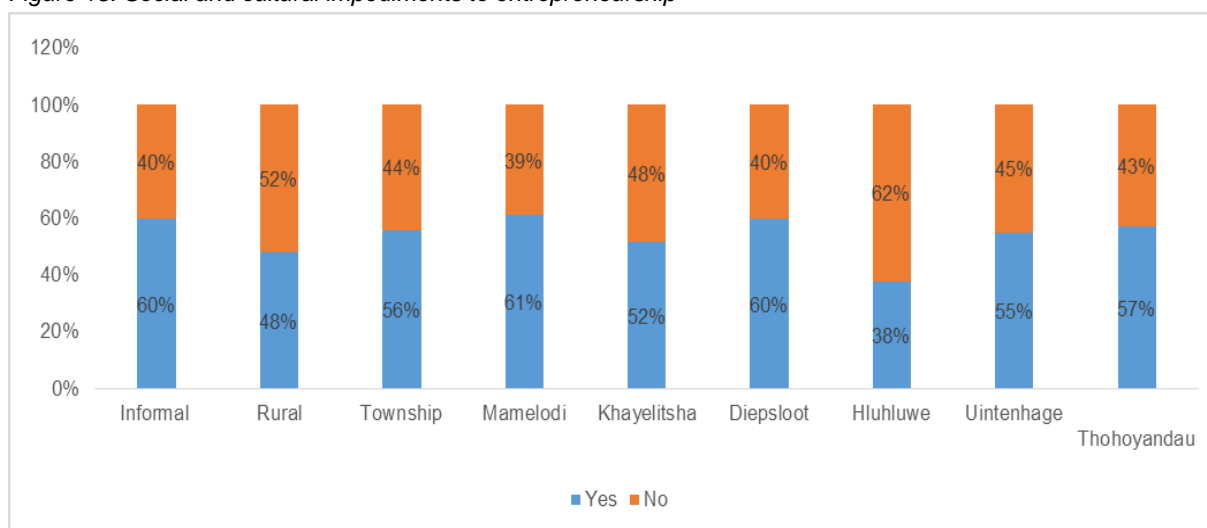
4.2.4.1. Lack of trust (trust deficit)

The disunity among members of these communities is rooted in the apartheid and colonial era; and is not unique to South Africa. Tribalism was employed by the colonialists as a strategy to divide and rule the population, fomenting distrust among homogenous ethnic groups. The political killings of the 1980s, when viewed through a racial lens, lend credence to the notion of distrust among the African people (Mangcu, 2017).

The liberation of the country does not automatically dilute people’s anxieties, fears and prejudices towards other African people. The psychological overhang caused by decades of apartheid-era segregation ordinances still seems indelible in the psyche of many South Africans, who may still subscribe to an “in-group” and “out-group” mentality (Nadvi, 2017). Hence, a “trust deficit” lingers in communities whereby people are reluctant to support their own kind and rather support the large retailers and even foreigners.

With the exception of rural areas (particularly Hluhluwe), most respondents felt that social and cultural factors hindered SMMEs, as shown in Figure 15.

Figure 15: Social and cultural impediments to entrepreneurship



Source: Mini-survey (excluding Zeerust) - Camissa Institute

Residents do not want to support local businesses, except when they want credit. Moreover, people are not forming alliances to promote their enterprises. There was an over-saturation of certain business sectors affecting the chances of success of township enterprises, e.g. many businesses are in retail trade such as food and beverages (Uitenhage, Thohoyandou).

Some entrepreneurs are enamoured by entrepreneurship and are overwhelmed when they receive monies. They have not have been exposed to large amounts of money and do not know how manage it. They have little appreciation of cash-flow and lack the long-term vision for their enterprises.

The previous section dealt with bureaucratic red tape, which this section concentrated on enterprise dominance and weak or lack of enforcement. The following section addresses the issue of corruption as a key challenge that negatively affects entrepreneurial activities.

4.2.5. High level of public sector corruption

Corruption is also more likely to happen when bureaucratic red tape is excessive, there is lack of enforcement of rules and regulations, and in cases of abuse by dominant enterprises. Moses Montesh of the University of South Africa (UNISA) College of Law, School of Criminal Justice Department found that “corruption is essentially the use of public power for private gain. The first obvious site for such corruption is the public sector”. Both the political and bureaucratic components of government could become sources and targets of corruption (UNISA, 2017).

A common occurrence of such political and bureaucratic corruption is when conflicts of interest are not managed, so that potential beneficiaries of projects or resource allocations are directly able to control or influence decisions about those projects or allocations. Institutional corruption is often – perhaps most commonly – associated with cases in which processes of decision-making are misused by those who have the power to waive rules (UNISA, 2017).

Engaging in corrupt practices also creates a very unfavourable business environment by encouraging unfair advantage and anti-competitive practices. As well as allowing organised crime to flourish, corruption is one of the primary obstacles to the economic development of a country (Irish Government, 2017).

A study by Dr Abdul Morlai Kanu titled *The effect of corruption on small and medium enterprises: perspective from a developing country* concluded that fraud negatively impacts SMEs in Sierra Leone. Kickbacks and bribery appear to be the most devastating corruptible practices affecting SMEs performance. The findings indicated that the greater the negative association between corruption and SMEs performance (growth, productivity and employment), the more corruption influences undesired changes on these variables. It is also interesting to note that corruption shows a non-statistical relationship with SMEs performance (profits and wages) (Kanu, 2015)

Overall, it is well established that corruption reduces efficiency and increases inequality. The Corruption Perceptions Index rated South Africa as the 64th least corrupt nation out of 175 countries in 2016. The corruption rank in South Africa averaged 49.43 from 1996 until 2016 and reaching an all-time high of 72 in 2013 (Trading Economics, 2017). The SMME dialogue participants were of the perception that acts of corruption in their localities affected their entrepreneurial activities. They stated government-related corruption actions as follows:

Foreign-owned businesses have protection of police – seems to be corruption with the police. Police are corrupt. No protection of whistle blowers (Mamelodi dialogue session, 24 May 2017)

Government corruption – Monies are allocated but not reaching the intended beneficiaries e.g. R2.6 million was earmarked for Co-op but was diverted to other activities (Hluhluwe dialogue session, 31 May 2017).

High levels of corruption by local government agents and services providers (Hluhluwe dialogue session, 31 May 2017).

The lack of M&E has resulted in wastage of resource and fostered corruption (Khayelitsha dialogue session, 29 March 2017)

High level of corruption by tribal leaders (Thohoyandou dialogue session, 14 June 2017)

There were even claims that government employees were not providing support, but also pilfering their ideas (intellectual property) and using them as their own in collaboration with others (Mamelodi).

Box 5: Cry beloved black business

Tiisetso Maloma wrote in article about corruption and government tenders that “Government tender have taken a lot of black entrepreneurs’ attention, it’s hurting new product developments. It seems the skill which is needed to conquer government tenders is not economic value based, but rather connections and kickbacks.

The older generation businessmen have neglected efforts in their old businesses, in chase of government tenders” (Maloma, 2012)

4.2.6. Political instability

The perceived level of corruption of government officials (e.g. police, LED officials) undermines the stability of the community. This is especially acute when locals feel that foreigners are receiving favourable treatment, thereby fomenting xenophobic biases. While the environment may be relatively stable at a macro level with regards to law and the application thereof (all equal before the law), the discrimination of locals incites tensions within otherwise harmonious communities. For instance, there were assertions in Uitenhage of councillors' political interference in the allocating of local business opportunities, especially in construction (conflict of interest by political structures). Government was sometimes inadvertently complicit in undermining political stability in some areas. There were claims in Zeerust (Luhurutshe) that government support for advertising was made known only to councillors and tribal chiefs to the detriment of the community.

4.3. Social Capital

Social capital is the combined value of all social networks and having the prospect to leverage off those networks and relationships. For entrepreneurs, this can range from having someone to make introductions to potential investors and clients, gaining access to an individual with specific knowledge and expertise, to even having a key person as a mentor (Thulo, 2016).

Social capital and social networks provided by extended family, community-based or organisational relationships are often theorised to supplement the effects of education, experience and financial capital (Urban, 2011). This section looks at the issues of succession in intergenerational social capital in family businesses and entrepreneurship, i.e. family social capital and networks.

4.3.1. Lack of intergenerational succession in small businesses

Succession planning refers to the deliberate and formal process that facilitate the transfer of management control from one family member to another. It is simply the preparation for succession events well before they happen. Such preparation is essential for capturing and maintaining the value of a small business for ensuring continuity of businesses (Terdpaopong & Farooque, 2013). Most large corporate businesses have official succession planning on board but that is not the case for small businesses in general. With SMEs, no clear indication of succession is literally evident. Notably, there is a deficiency of literature on succession planning of small businesses.

Family businesses are widely seen as the backbone of the economy – they create wealth, they provide jobs, they are locally rooted and connected to their communities, and they seem to be around for long periods of time. Yet, despite the many positive aspects of family businesses, there is also a darker side. Family conflicts, incompetent members of the next generation and flamboyant lifestyles are just some of the more frequent criticisms about family businesses (Schwass, 2015).

Ken Ude's presentation at the National Alliance on Mental Illness Conference in April 2016, indicated that 90% of all businesses in the US are family-owned businesses; Family-owned businesses represent 60% of the nation's jobs and 65% of the GDP; and mortality rate is extremely high – 40% pass to Generation 2, then falls to 12% to Generation 3, and 4% beyond (Ude, 2016).

Box 6: Intergenerational Soweto Enterprise

Growing township businesses

By Albert Pule

The Gauteng Department of Economic Development (GDED) and its agency Gauteng Enterprise Propeller in partnership with Pick n Pay (PnP) are changing the way of doing business in townships. As part of revitalising township economies, the GDED, GEP and PnP have partnered to empower spaza shops and help grow their businesses. The partnership involves spaza shops in townships buying stock from PnP in bulk and selling in townships using PnP's model, infrastructure, corporate branding and pricing.

The GEP's main objective is to develop small businesses. This includes financial and non-financial support to small, medium and micro-enterprises and co-operatives. "Government continues to create a conducive environment for businesses to thrive, but needs the private sector to collaborate with us for a greater impact".

The Pilot project: The department is currently running a pilot project in Diepkloof, Soweto, with Solly Legae, the owner of Monageng Market Store. When Legae and other spaza shop owners saw that their businesses were not growing, they spoke to the provincial government to get assistance. That's how the partnership with the GEP was started.

"He said at times it was difficult running his business because of stiff competition from other spaza shops, especially the foreign-owned spaza shops".

"It was then that we decided to come together and buy stock in bulk but still it was not enough. However, things started to improve with the help of GEP and PnP," he said.

"We remain astonished by the performance". For example, they have grown their sales to over 300 000 units per month. This has had a direct impact on their revenue as well. Further, PnP continues to provide support through weekly mentorship to ensure that this pilot succeeds," added Manenzhe.

Monageng Market Store is a family-owned business that has been operating since 1972 and has been passed on from generation to generation. From an early age, Legae knew that he was destined to become a businessman. Legae's mother sold amagwinga (fat cakes) and his father owned a butchery. It came as no surprise when he left his job as a teacher to focus on running his father's butchery.

"I don't regret leaving my job to focus on my first love, running a business," said the 58-year-old father of three.

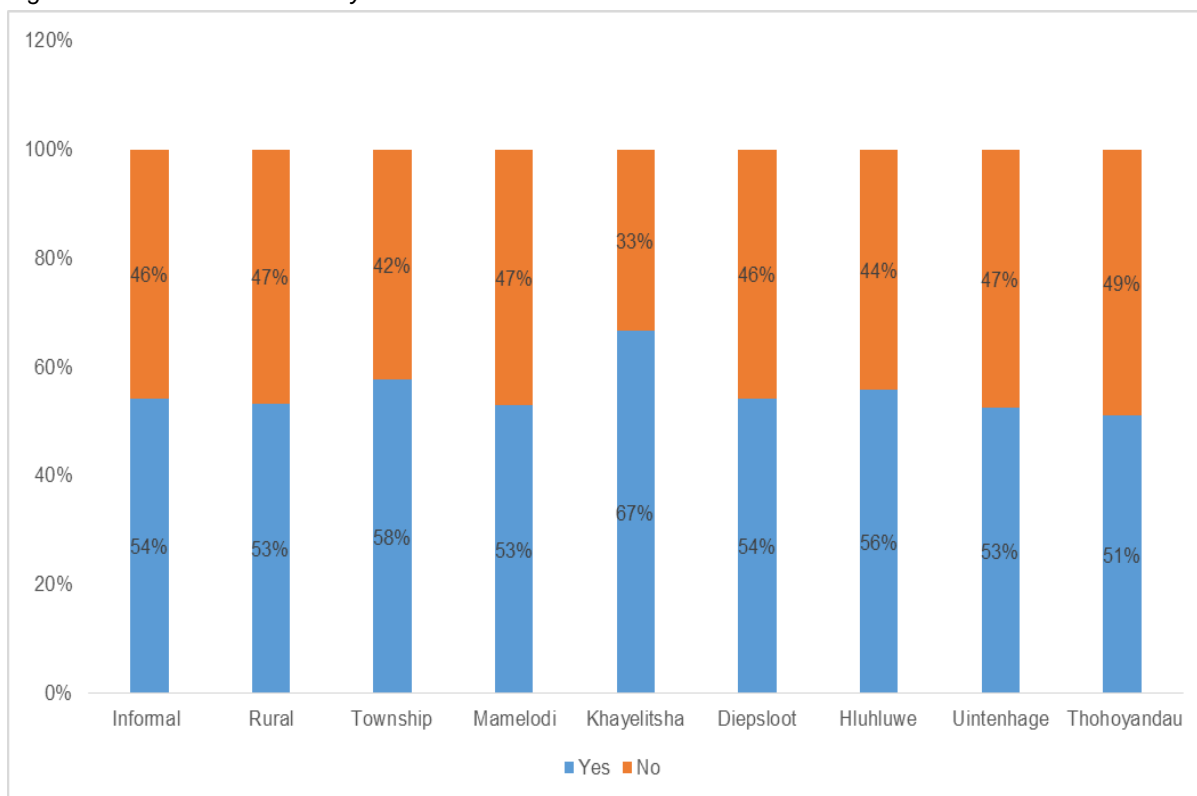
Source: <http://www.vukuzenzele.gov.za/book/export/html/3018>

At one of the dialogue sessions, this issue of succession planning in small businesses was voiced as factor that affects the long-term survival of family businesses and entrepreneurial activity:

There is no continuity of planning -successions for businesses; unlike the De-Beers. Rural businesses do not plan from one generation to the next. Businesses not sustainable in local areas (Thohoyandou dialogue session, 14 June 2017)

In the mini-survey conducted during the dialogue sessions, the intergenerational social capital issues were examined through the “assistance that participants obtained from family and friends”. Participants felt that they got better assistance from family and friends, as attested to in Figure 16.

Figure 16: Assistance from family and friends



Source: Mini-survey (excluding Zeerust) - Camissa Institute

Despite most businesses indicating that they get support from family and friends, significant proportions in all locations do not. Hence, the limited progress that these businesses are making is not surprising. Moreover, their plight is compounded by other impediments within the business environment such as crime.

There are high crime levels due to break-in and robberies (Zeerust). Crime is opportunistic and not perceived as a real problem in some areas (Khayelitsha), although there was a perception that the police are protecting and prioritising foreigners and not the communities. The crime is often fuelled by drug addictions (Khayelitsha). Undercurrents of corruption within the community police were noted. Crime and corruption is harming businesses in Hluhluwe. Even when perpetrator is caught, the assets are seized as evidence, which harms their businesses. High unemployment was spurring higher crime levels.

4.4. Infrastructure

Spatial inequality, in part, can be attributed to the differences and injustices in communities e.g. income, occupation, housing, uneven access to facilities; and infrastructure such as hospitals, schools and public transport (Jabou, 2014). Some communities have a greater

range of resources and services such as schools and shopping centres than those living in the townships, making it impossible to change this cycle.

Spatial inequality is a major geographical issue affecting the whole world, including South Africa. It primarily refers to a situation where resources and services are not distributed evenly within an area or location. Some communities have a greater range of resources and services than others. Spatial inequality is a concern that is getting worse and initiating possible problems for the future. It has multiple causes including religion, culture and race (Jabou, 2014).

4.4.1. Lack of suitable business premises

Most of the townships, as well rural areas and townships in South Africa were planned to be predominantly residential areas with limited spaces for economic activity. Conventional city suburbs are usually holistically planned where there are motorised transport, roads and utilities – on a scale designed to match and accommodate a particular population density. Conversely, the township environment has developed more spontaneously and on a much smaller, walking-distance scale contrary to town-planning principles or urban infrastructure considerations (Charman & Petersen, 2015). Here are some of the statements voiced in the dialogues in line with the issues place, space and premises:

No decent facilities/trading areas for small businesses. Difficulty procuring space/location/premises to do business. High rentals in malls (Mamelodi dialogue session, 24 May 2017)

No proper places and spaces to conduct business from only available in Shayandima (Thohoyandou dialogue session, 14 June 2017)

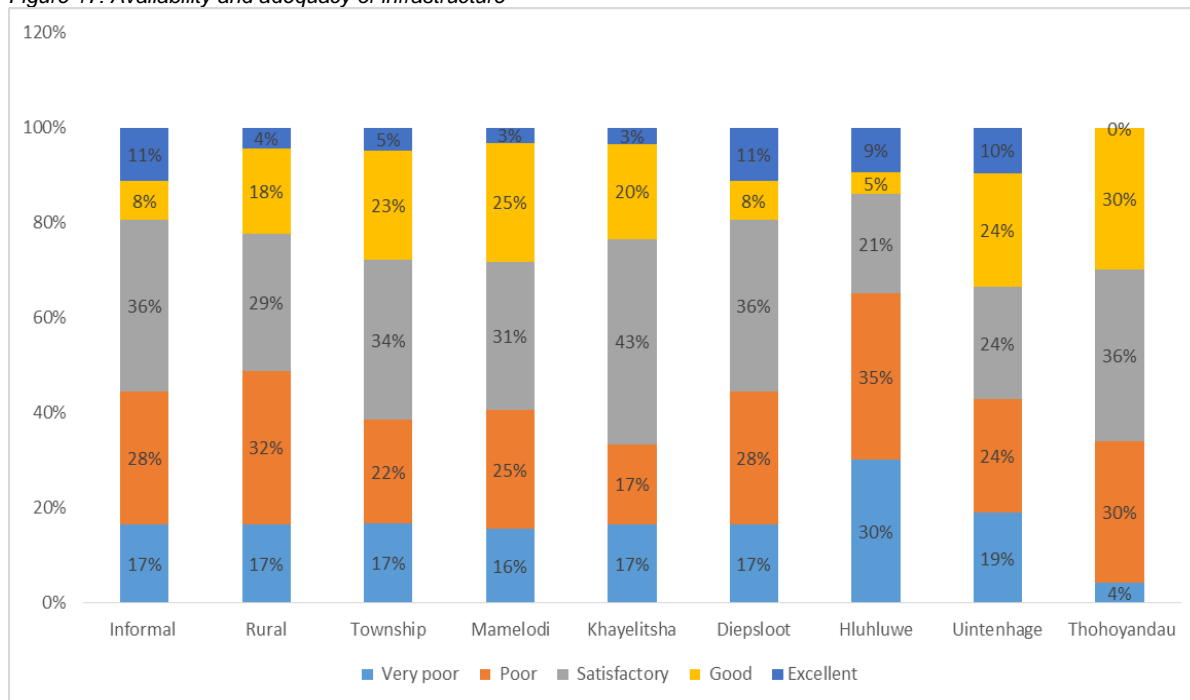
Coop promised factory that they currently use but ownership not provided. Lack of storage facilities for stock during business closure (Hluhluwe dialogue session, 31 May 2017)

Trading spaces limited to crowded main roadside spaces. Houses are extremely small and are in equally very yards and so paralyse home-based entrepreneurial activity. Khayelitsha comprises of very dense informal settlements that are always exposed to fire and storm disasters frustrating entrepreneurs. There are no premises to conduct business and those that are available attract expensive rentals (Khayelitsha dialogue session, 29 March 2017)

Home based work space inadequate and unsuitable. Difficulty in procuring space/location/premises to do business (Uitenhage dialogue session, 20 April 2017)

Participants were requested to rate, on scale of 1 to 5, the availability and adequacy of infrastructure (e.g. roads, water, electricity) to conduct business. most participants in all locations found the adequacy of infrastructure below satisfactory, as shown in Figure 17.

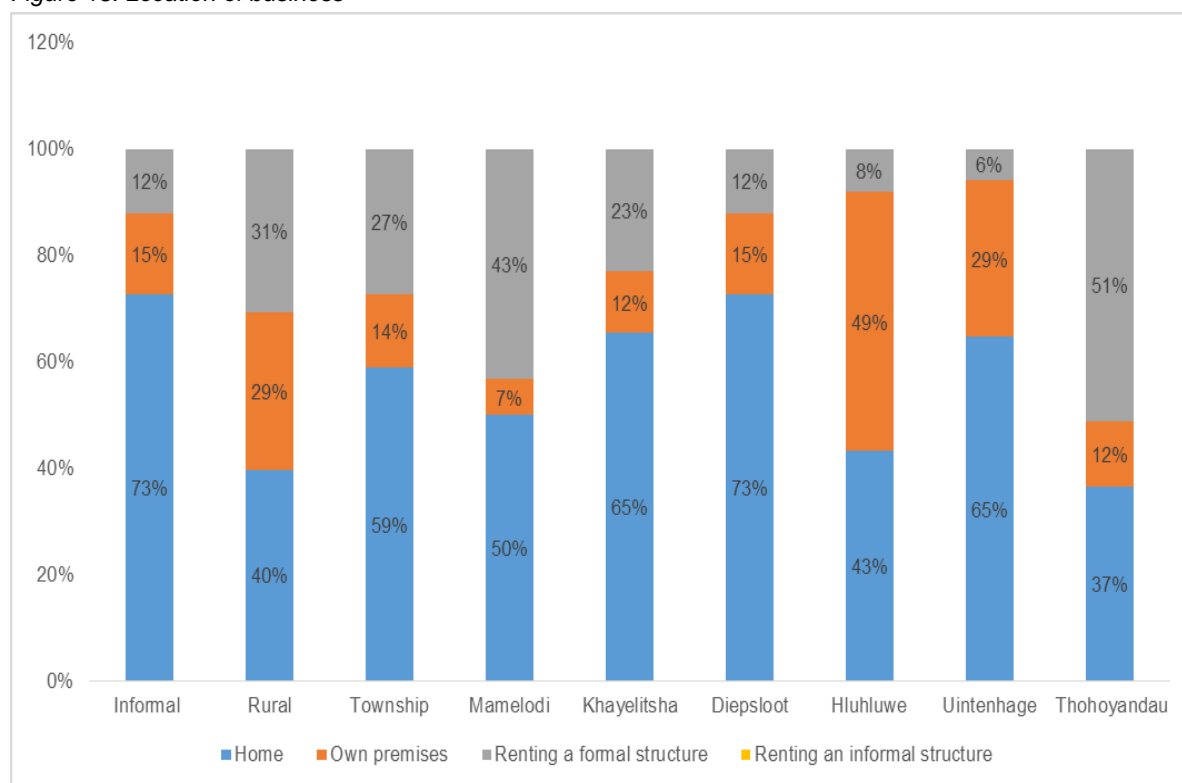
Figure 17: Availability and adequacy of infrastructure



Source: Mini-survey (excluding Zeerust) - Camissa Institute

Clearly, the state is unable to provide the basic level of infrastructure which is constraining businesses. The trading places at the road side were crowded and insufficient (Khayelitsha). Traders were not near to their customers. The lack of space/premises, particularly in Diepsloot and Khayelitsha, has culminated in enterprises operating from their homes, as seen in Figure 18.

Figure 18: Location of business



Source: Mini-survey (excluding Zeerust) - Camissa Institute

The public houses provided by government were not conducive (too small) for home-based entrepreneurial activity. Participants in Khayelitsha claimed that most of the area consisted of dense informal settlements that were exposed to fire and storm, endangering entrepreneurial activities.

Unreliable electricity supply sometimes (Hluhluwe, Uitenhage) harmed business operations. Enterprises frequently lacked suitable equipment (Hluhluwe, Thohoyandou) to do business.

The lack of proper infrastructure impacts negatively on the rural SMMEs and businesses. There was often lack of a regular supply of diesel and water (Hluhluwe). Also, land was unavailable. People, due to the lack of finance and funding, could not afford equipment (e.g. tractor) to plough their land.

A report on *The state of SA's township entrepreneurship* (Thulo, 2015a) indicated that the following township enterprise infrastructure needs are limiting the success of enterprise:

- Infrastructure: More spaces and business hubs are needed in the townships.
- Landownership and access to decent working premises is lacking.
- Challenges with public infrastructure: access to ICT (i.e. broadband); bad roads, incomplete road works, and lack of electricity, water, sanitation and poor waste management (Thulo, 2015a).

4.4.2. Lack of access to land and land tenure – Permission to occupy (PTO)

The land issue is equally important as it relates to the access to suitable business premises discussed in the previous section. In all the dialogue sessions in the rural areas (Zeerust, Hluhluwe and Thohoyandou) land was raised as major limiting factor. Below are some of the statements voiced in the dialogues in line with the issue of land:

Unable to get title deeds in tribal land (issued Permission to Occupy – PTO, which are not recognised by financing institutions). Lack of access to land for Entrepreneurial Use (Zeerust dialogue session, 01 March 2017)

Lack of land. The locals are being displaced from their land. Foreigners with more money are purchasing their land. There is no longer a plant/green corridor. (Khayelitsha dialogue session, 29 March 2017)

Rural/Traditional land for business uses is difficult to obtain because Traditional Leaders charge exorbitant amounts for it. Local municipality doesn't own land and therefore cannot create an environment that's conducive for small business growth. Locals excluded from participating in local tourism sector because they do not own game farms, (Hluhluwe dialogue session, 31 May 2017)

Lack of intervention by local government to provide access to land - prime tourist land given to whites only. Lack of access to prime tourist land – All coastal land occupied by Isimangaliso and a few white people. (Hluhluwe dialogue session, 31 May 2017)

Traditional Leaders extort huge monies from subjects for business land as well as for Proof of Address letters. Rural/Traditional land for business uses is difficult to obtain because Traditional Leaders charge exorbitant amounts for it. Tribal land access for business difficult. Process too long and expensive. (Thohoyandou dialogue session, 14 June 2017)

Often people do not have access to land to serve as collateral. Participants indicated that their properties (business properties and land) do not have value and cannot be used as collateral/surety at financiers for accessing credit. Participants argued that they had PTO documents that do not have any legal status. A PTO bestows on the occupant the right to use the land for personal nature. The property cannot be registered in a Deeds Registry.

SMMEs in Khayelitsha said that the locals are being displaced from their land. Foreigners with more money are purchasing their land. A PTO tenure is not an economically viable form of land holdership as it is not accepted as real security or collateral by any financial institution. That is, it cannot secure a debt nor can one take a home loan or mortgage against it). The lack of title deeds (use of existing business asset as collateral) is a major constraint on the development and growth of rural enterprises. These sentiments were expressed at all rural locations (Hluhluwe, Thohoyandou, and Zeerust). Converting the PTO was often met with resistance from tribal authorities and was an expensive and arduous task (Thohoyandou) [See Box 7]

Box 7: Permission to occupy communal land

According to Grain SA The former homeland areas cover 13% of South Africa which is in the region of 18 million ha (only a portion of this is arable land however). This land is owned by the government but managed through the tribal authority. Much of this system of tenure is to be seen in Mpumalanga, KwaZulu-Natal and the Eastern Cape. This system of tenure is usually characterised by a "permission to occupy" document which at this stage does not have any legal status although

it is common in the former homeland areas. Many farmers in these areas will refer to this as “own land” although technically it is not own land. Communal Land (Grain SA, 2015). The PTO is not registerable in a Deeds Registry, although it is registerable in several state departments, e.g. Agriculture, Local Government and Traditional Affairs (Ghost Digest, 2012).

PTO tenure is not a financial optimal form of land-ownership, as it is not accepted as security or collateral by financial institutions. Specifically, it cannot be used to obtain debt, a home loan or even to take a mortgage against it. The PTO lapses when the holder passes away and it cannot be transferred to the deceased's estate of the (Ghost Digest, 2012). Most PTOs are for occupation although some are issued for land use, e.g. irrigation rights (Ghost Digest, 2012).

Some critics argues that the PTO is enslaving people on their own land. Professor Lungisile Ntsebeza, from the University of Cape Town, claims that the PTO system does not provide rural inhabitants with a legally secure title comparable to a freehold title, although they have lived on the land for long periods of time and are the effective owners of the land. He further argues that that the insecurity of tender has created the conditions for the exclusion of rural inhabitants from the administration and management of what is essentially their land (Nicolson, 2012).

5. Conclusion

There is a dire need to develop and cultivate small businesses, especially in the townships and rural areas to realise the goals of the NDP. But entrepreneurship is not widely embraced in South Africa. A GEM 2016 report on entrepreneurial activity ranked South Africa 61st out of 65, underscoring the low level of entrepreneurship in the country, despite substantial investment by government, and the private and NGO sectors.

This research was conducted to investigate and gain a deeper understanding of challenges afflicting township and rural enterprises.

The method and approach used to gather information including a desktop literature review and seven (7) dialogue sessions spread across three (3) townships, three (3) rural areas and one (1) informal settlement in South Africa. This revealed a number of limitations that impact on entrepreneurial activities in those localities. Also included as part of the dialogue sessions, a mini-survey was conducted and triangulated with literature, and the dialogue sessions participants' voices; to validate the below outlined key critical challenges limiting township and rural areas entrepreneurial activities. The findings from the dialogue and the concomitant mini-survey largely corroborate the main findings arising from the literature. That is, SMMEs in townships, informal settlements and rural areas encounter comparable challenges as their counterparts in similar environments in developing countries and urban areas. However, the fundamental causes of these impediments differ. The unique circumstances and distinctive environments underpin the impediments confronted by enterprises in these locations. Furthermore, there were issues (e.g. personality traits) that received attention in the academic literature but did not prominently feature as a challenge with the participants.

Equally, concerns (e.g. monitoring and evaluation of funded projects) that were articulated in the dialogues received little attention in the literature. Nonetheless, the matter of M&E compares the issues arising from the dialogue with those emanating from the literature review. The inability to access finance and credit is emphasised both in the academic literature and this study. The academic literature asserts that banks' reluctance to provide finance is due to inadequate surety, lack of credit history, unsuitable business plans, and the lack of feasible business ideas. The finding of the dialogues substantiates these assertions and provides root causes for these impediments. Businesses lament that the requirements for surety are too stringent. Nascent businesses do not have collateral. And even when businesses do have a Service Level Agreement, they are not always given finance. Many businesses are on communal land and do not have title deeds, even though they have been on the land for years. Permission to occupy documents do not suffice as collateral at financial institutions.

Similarly, emerging and new businesses cannot have a credit history. People's past misfortunes and forays into businesses count against them. Individuals who are blacklisted find it extremely difficult to access finance. Many fledgling entrepreneurs lack the skills and knowledge to craft thorough business plans and articulate feasible business ideas.

Government has established institutions (such as SEDA) to assist entrepreneurs with these. however, it appears that this has not been taking place.

Moreover, the literature review chiefly focuses on the reluctance of private institutions to provide funding. Respondents were critical of government institutions (SEDA, SEFA) that were established to fund and assist entrepreneurs. SMMEs bemoan the inability of these institutions to consider and fund their businesses.

Often SMMEs have to demonstrate access to markets to qualify for funding. The literature review asserts that SMMEs need to form partnerships with larger established enterprises as part of the broader supply chain. Participants reveal that these large enterprises do not always procure locally, and are crowding them out from these areas. The establishment of malls have decimated local industries, as they are perceived to be cheaper, even though they are not. Moreover, the dominant incumbent firms stifle competition in some industries, most notably, in construction. All firms are treated equally when tendering for business which disadvantages smaller enterprises. The procurement requirements are often too onerous for small enterprises. Such issues are not elucidated in the academic literature.

The lack of suitable skills was recognised both in the literature and in the dialogues. However, respondents assert that government institutions (SEDA) were established to capacitate them in this regard. The inability of an entrepreneur to craft an adequate business plan is an indictment of the failure of these institutions to empower entrepreneurs with this competency. Participants indicated that these institutions should assist them in rendering their business plans acceptable when they find them lacking. Often, these institutions are perceived to be part of the problem rather than the solution.

There is consensus between the academic literature and the fieldwork that regulations and red tape are impeding enterprises. Compliance with the forms from the plethora of organisations such as SARS, DoL, municipalities and CIPC is burdensome for enterprises. Often this is not due to the numerous requirements, but the inaccessibility of these organisations in the areas. People have to travel long distances to obtain services. Moreover, the services are not in a centralised one-stop place. Participants acknowledge governments' efforts to bring these services closer to the people through mobile and satellite offices. But people are largely unaware when these mobile services will be in their municipalities. It is only a select (and connected) few that are informed of their services.

The situation is compounded by the apathetic staff in these institutions which fuels the notion that government has forsaken enterprises in townships. The lack of government support, rather the perception thereof, emanates from the poor service that is provided to enterprises in these areas. Government institutions (SEDA, SEFA) established to support these businesses appear to be unable to deliver satisfactory services to SMMEs in these locations. Hence, it is not the lack of government support as such, but rather the poor performance of these institutions that frustrate enterprises in these locations.

A major determinant for enterprise success is social capital. Academic literature is replete with evidence of social networks as an important ingredient for entrepreneurial success. In

South Africa, this is exemplified through the deep-seated foreign socio-cultural networks that thrive in townships, informal settlements and rural areas. However, there is great hostility toward foreign-owned businesses in these areas. Participants claimed that foreign-owned businesses flout rules and regulations (e.g. labour laws) which they are compelled to adhere to. Foreign-owned businesses are perceived to be cheaper as they engage in “predatory pricing” to eliminate local competition and then subsequently raise prices. Respondents accuse foreign-owned businesses of collusion and price fixing to the detriment of the local market.

But attendees did concede that foreign business success can be attributed to their kinship and support for each other; which was sorely lacking among the local community. There was also a lack of trust and social cohesion which stifled entrepreneurship culture in the community. The formation of business forums is normally associated with the promotion of businesses as averred in the literature; but not so in these areas. They are often seen as a source of patronage for a select few. Hence, businesses elect not to belong to these associations; although theoretically, it should enhance their business opportunities.

The literature provides evidence of the impact of infrastructure on SMMEs. Intuitively, the lack of infrastructure will constrain and retard business. Evidence from the dialogues supports the view that the lack of infrastructure, especially the availability of land, electricity and water, is inhibiting SMMEs in these areas.

The challenges are common, but the causes are to a large extent different. Hence, government needs to formulate policy and solutions which tackle the root causes of the challenges. The participants have offered solutions that will moderate the barriers they confront to make a success of their enterprises.

6. Recommendations

The ensuing recommendations emanate from the dialogues and were articulated by the participants. Some of the proposals are not new, or unknown, and have been enunciated in academic discourse and prior research. The suggestions offered by the participants were not circumscribed to government initiatives alone, but also included interventions that can be carried out from an individual perspective; involve community participation, as well as involving the engagement of business.

However, the recommendation proposed are limited to those which government can directly enact as well as indirectly influence; as this research project was commissioned by government to improve entrepreneurship in these areas.

The interventions (e.g. additional funding) can occur in the short term, while others can only be implemented in the medium (e.g. amendment of legislation) to longer term (e.g. improving infrastructure). Consequently, interventions, due to policy and financial constraints, will have to be prioritised. Some of the proposals will require different departments to work together, although one department will have to lead the initiative. Accordingly, Table 5 maps out the recommendations, the departments responsible, and the timeframe for implementation.

Table 5: Recommended Interventions

Dimension	Recommendation	Lead Department	Secondary Department/Entities	Timeframe
Business Development Support	More funding and financial services	DSBD	SEDA, SEFA, NT	Short to medium term
	Improve the provision of non-financial services e.g. SARS, SEDA	DTI	DSBD, SEDA, SARS, NYDA	Medium to long term
	Improve responsiveness of government institutions such as SEDA/SEFA	DSBD	SEDA, SEFA	Short to medium term
	Training and support (skills development) of entrepreneurs	DSBD	SEDA, the dti	Short to medium term
	Elimination of credit profiling and blacklisting of entrepreneurs	The dti	DBSD, National Credit Regulator, BASA, SARB	Long term
	Monitoring and Evaluation of funded projects	DSBD	SEDA, SEFA, the dti	Short to medium term
	Introduce entrepreneurship into curriculum in schools	DSBD	DBE, the dti	Medium to long term
	Implement and lead a visible "Buy Local Campaign" favouring local enterprises	the dti	DSBD	Medium to long term
	Decentralise local business programmes to local municipalities	DSBD	SEDA, CoGTA	Medium to long term
	Improve access to LED officers and SEDA at local level	CoGTA	DSBD, LED offices	Short to medium term
	LED/SEDA to improve its SMME support offerings to the local community	Local Municipality	CoGTA, DSBD	Short to medium term
	Intensify LED initiatives aimed at entrepreneurial development	Local Municipality	DSBD, CoGTA	Short to medium term
Infrastructure	Local government should make premises and land available for SMMEs to conduct their businesses	Local Municipality	CoGTA, DSBD	Medium to long term
	Provide enabling infrastructure and technology development	Local Municipality	CoGTA, DSBD	Medium to long term
	Simplify procedures to access and use rural land - Rural land rights to be reviewed - Establish a legal framework for accessing title deeds in tribal land	Department of Rural Development and Land Reform	CoGTA, DSBD	Medium to long term
Social Capital	Strict enforcement on national immigration laws to prevent the influx of illegal foreigners	Department of Home Affairs	the dti, South African Police Service (SAPS)	Short to medium term
	Regulate and restrict the number of foreign businesses - Licences should be mandatory to operate in these areas - Limit business activity to that which is not currently within the area	the dti	DSBD, SAPS	Short to medium term

Dimension	Recommendation	Lead Department	Secondary Department/Entities	Timeframe
	Compel foreign companies to form at least 30% partnership with local businesses	The dti	DSBD	Short to medium term

Source: *Camissa Institute*

The proposed recommendations pertain primarily to the main challenges confronting SMMEs in these areas. It is notable that government action itself will not necessarily remove the impediments; and will require concurrent action by business (e.g. provide mentorships), the community (e.g. support local businesses) and individuals (e.g. education).

7. Annexure A: NPC SMME Dialogue Sessions Report

Summary Findings

1. The key objective of the study was to identify **what is limiting the success of township and rural entrepreneurial activities** by locals in seven targeted areas and propose solutions to address the prioritised challenges or limitations. The research was seeking to identify those SMME limitations that are unique to the targeted local environment.

2. The table below outlines a summary of limitations pointed out by the dialogues participants in the seven (7) locations:

SMMEs Limiting Success Factors		Khayelitsha	Mamelodi	Uitenhage (townships)	Lehurutshe	Hluhluwe	Thohoyandou	Diepsloot
1	Limited access to finance	✓	✓	✓	✓	✓	✓	✓
2	Lack of entrepreneurial and management skills	✓	✓	✓	✓	✓	✓	
3	Limited access to markets and procurement opportunities			✓	✓	✓		✓
4	Limited access to information and advice	✓			✓		✓	
5	Limited access to appropriate technology			✓	✓	✓		
6	Lack of skilled workforce	✓						
7	Lack of business feasibility assessment			✓			✓	
8	Lack of proper business marketing and promotion		✓			✓	✓	
9	Distance from input suppliers					✓		
10	Lack of access to input material						✓	
11	Ineffective local business development institutions	✓	✓	✓	✓	✓	✓	✓
12	Lack of interventions monitoring and evaluation	✓					✓	
13	Forced entrepreneurship and cooperatives	✓					✓	
14	Lack of business competitiveness				✓			
15	Impeding regulations and policies	✓	✓	✓		✓	✓	
16	Lack of regulatory enforcement and compliance	✓		✓	✓	✓		✓
17	Buyers late payment		✓					
18	High level of public sector corruption		✓	✓	✓	✓	✓	
19	High crime rate	✓	✓			✓		
20	Lack of supply chain networks	✓	✓					
21	Large and foreign owned businesses dominance		✓	✓		✓	✓	✓
22	Cost of doing business					✓		
23	Weak business networks			✓	✓		✓	

SMMEs Limiting Success Factors		Khayelitsha	Mamelodi	Uitenhage (townships)	Lehurutshhe	Hlululuwe	Thohoyandou	Diepsloot
24	Local buyers not buying/supporting local businesses			✓	✓	✓	✓	
25	Lack of trust (trust deficit)	✓		✓			✓	✓
26	Lack of intergenerational succession in small businesses						✓	
27	Lack of access to land and land tenure				✓	✓	✓	
28	Lack of suitable business premises	✓	✓	✓	✓	✓	✓	
29	Unreliable electricity and water supply			✓		✓		

3. It should be noted that ALL dialogue session participants deliberated on the following factors as limiting their enterprises and/or entrepreneurial success:

- Lack access to finance
- Ineffective local business development institutions

4. The other main limiting factors that were discussed in the dialogues by most of the participants were:

- Lack of entrepreneurial and management skills
- Impeding regulations and policies
- High level of public sector corruption
- Large and foreign-owned businesses dominance
- Lack of suitable business premises

5. A known but unique limitation discussed in one of the dialogue sessions. (1) Pointed out that “the lack of intergenerational succession in small businesses” limit the success of enterprises. “There is no continuity of planning successions for businesses. Rural businesses do not plan from one generation to the next”. (2) The issues raised related to “forced entrepreneurship and cooperatives”, the dialogue participants asserted that “Co-op start up with good intentions – overwhelmed when get funding and members start to squabble”

6. The table below indicates that majority of the limitations deliberated in the dialogue sessions were mainly around BDS and LED.

Dialogues Breakaways Themes	SMMEs Limiting Success Factors	
<p>Business Development Services (BDS) includes an array of financial and non-financial business services [such as training, marketing, information, technology development and transfer, business linkage promotion.]</p>	1	Limited access to finance
	2	Lack of entrepreneurial and management skills
	3	Limited access to markets and procurement opportunities
	4	Limited access to information and advice
	5	Limited access to appropriate technology
	6	Lack of skilled workforce
	7	Lack of business feasibility assessment
	8	Lack of proper business marketing and promotion
	9	Distance from input suppliers
	10	Lack of access to input material
<p>Local Economic Development (LED) issues that are related to enabling and addressing local economic conditions</p>	1	Ineffective local business development institutions
	2	Lack of interventions monitoring and evaluation
	3	Forced entrepreneurship and cooperatives
	4	Lack of business competitiveness
	5	Impeding regulations and policies
	6	Lack of regulatory enforcement and compliance
	7	Buyers late payment
	8	High level of public sector corruption
	9	High crime rate
	10	Lack of supply chain networks
	11	Large and foreign owned businesses dominance
	12	Cost of doing business
<p>Social Capital/Networking issues related relationships among people enabling them to function effectively</p>	1	Weak business networks
	2	Local buyers not buying/supporting local businesses
	3	Lack of trust (trust deficit)
	4	Lack of intergenerational succession in small businesses
<p>Infrastructure issues mainly related to place and location of the business</p>	1	Lack of access to land and land tenure
	2	Lack of suitable business premises
	3	Unreliable electricity and water supply

Introduction and Background

7. The South African government recognises the potential that Small, Medium and Micro Enterprises (SMME) can play in job creation and economic growth. The National Development Plan (NDP) acknowledges that the principle source of economic growth and employment creation stems from enterprises – from informal, micro through to small, medium and large companies. It further recognises that sustainable SMMEs have the potential to provide the basis for social inclusion, poverty alleviation and equitable access to opportunities in society. It also sets out several ambitious goals for SMMEs, including a target for 90% of new employment opportunities to be created by them by 2030 (NPC, 2013). However, not much has been achieved in South Africa in the SMME sector towards its successful development (especially in townships and rural areas) as compared to other middle-income countries in Africa and globally. . Although South Africa has made many efforts to assist SMMEs, the current atmosphere is one in which running a small business is difficult and risky, and the failure rate is high. Trade and Industry Minister Rob Davies acknowledged that five out of every seven small businesses in South Africa fail within one year. By comparison, in the United States 70% of small businesses survive at least two years, according to the U.S. Small Business Administration (Maye, 2014) .Therefore, it has become imperative to further understand the barriers (apart from what is already clear in several studies) to the development of SMMEs in South Africa.

8. In considering challenges faced by township and rural enterprises, the National Planning Commission (NPC) commissioned a research study on *Limiting Success of Entrepreneurial Activity by Locals in Township and Rural Areas*. The motivation for the study was the need to obtain a greater depth of understanding and an updated view of the issues on barriers to enterprise development and growth in townships and rural areas. This research project emanates from studies that have conclusively demonstrated that SMMEs are vital for developing and transforming economies. In this regard it has been shown that SMMEs provide employment and foster growth in developing countries. It comprises of three (3) data gathering methods, including a literature review, mini survey and dialogue sessions.

9. The research information gathering in dialogue sessions activity included conducting SMME dialogue sessions across the country, which formed part of the inputs to the research and enable the NPC to:

- Gain deeper insights into the context of and challenges faced by SMMEs in townships and rural areas;
- Inform the processes of reviewing and assessing existing strategies that support SMMEs in townships and rural areas; and
- Formulate new and/or refine existing strategies aimed at addressing the challenges identified as envisioned in the National Development Plan (NDP).

10. Seven (7) dialogue sessions were planned to take place around the Provinces of South Africa primarily targeting:

Province	SMME Dialogue Session location	Targeted SMMEs Location
Eastern Cape	• Uitenhage (Nelson Mandela Bay)	Township
Gauteng	• Diepsloot	Informal Settlement
	• Mamelodi	Township
KwaZulu Natal	• Hluhluwe	Rural
Limpopo	• Thohoyandou	Rural
Northwest	• Lehurutshe (Zeerust)	Rural
Western Cape	• Khayelitsha	Township

Organisation of Work

a) Dialogue Participation

11. The SMME Dialogue sessions were attended by a total of 495 SMMEs participants across all sessions between March and June 2017:

SMME Dialogue Session location	Number of SMME Participants	Dialogue Session Date
1) Lehurutshe (Zeerust)	140	01 March 2017
2) Diepsloot	88	10 March 2017
3) Khayelitsha	56	29 March 2017
4) Uitenhage (Nelson Mandela Bay)	30	20 April 2017
5) Mamelodi	54	24 May 2017
6) Hluhluwe	64	31 May 2017
7) Thohoyandou	63	14 June 2017

12. The dialogue sessions targeted at least 50 SMME participants per session. With the exception of the Uitenhage dialogue session, which had 30 SMME participants, all other dialogue sessions achieved more than 50 SMMEs participants. Lehurutshe dialogue session which was a pilot site was oversubscribed at 140 participants.

b) Programme of Work

13. The dialogue session adopted a standard programme agenda as outlined in item 14 below. The dialogue sessions programme was organised in two parts: (1) plenary discussions, at which presentations were made by the National Planning Commissioners and (2) four breakaway sessions organised according to four themes. The plan was to have between 10 and 15 SMMEs participants per breakaway session.

14. A standard programme agenda for all of the dialogue:

Item	Activity
1	Registration and Arrival Tea

Item	Activity
2	Welcome and introduction <ul style="list-style-type: none"> • A Municipal representative
3	NDP and governments initiative to assist township & Rural Enterprises <ul style="list-style-type: none"> • Mr Elias Masilela (or alternate) - Political Economy • Dr Thami Mazwai (or alternate)- SMME in local context and Purpose of the project
4	Questions and Answers
5	Tea Break
6	Part A: Breakaway – Focussing on SMMEs Key Core Challenges <ul style="list-style-type: none"> • SMME delegates to dialogue on issues and problems which are barriers to their success in their local environment. Part B: Breakaway – Focussing on SMMEs proposals to address challenges identified <ul style="list-style-type: none"> • SMME delegates to dialogue on solutions to ease prioritised issues and problems in order to improve enterprises business environment.
7	Lunch
8	Groups Feedback (Plenary to deliberate on specific limiting success factors)
9	Way Forward and Closure

15. The National Planning Commissioners, Dr Thami Mazwai and Mr Elias Masilela, set the tone for the dialogue sessions and took participants through their respective presentations. Camissa facilitated both part one and two of the programme agenda.

c) Dialogue Sessions Method and Approach

16. *First*, a literature review exercise was conducted. This literature review, designed and developed a “conceptual framework” that categorised limiting success factors of township and rural enterprises into four (4) dimensions, namely –

- a) Entrepreneurship and Enterprise Performance Hindering Factors (which is about Business Development Services [BDS]);
- b) Local Economic Development [LED];
- c) Place and Location [e.g. Infrastructure issues]; and
- d) People and Community [Social Capital and Networking issues].

17. *Second*, these four dimensions informed the grouping of four (4) breakaway themes of the SMME dialogue sessions. The breakaway groups dialogued on the limitations of SMME experience in relation to BDS, LED, Infrastructure and Social Capital/Networking. The approach and method used to facilitate the breakaways was as follows:

- a) Participants in smaller breakaway groups had to respond to the following question:

Question: What are the main challenges that limit the success of your business or create difficulties for you to start a business?

Answer: Participants first wrote their response in “cards” that were earlier handed out.

- b) Through a facilitated participatory discussion with participants, the cards were ranked and placed (on the wall, white board) for all participants to see according to the matrix below.

Ranking all limitations per group

Group	Theme	Rank 1	Rank 2	Rank 3
1	Infrastructure			
2	Social Capital			
3	BDS			
4	LED			

- c) The second part of the discussions assigned solutions to the ranked limitations. The proposed solutions were structured according to “who” should do “what” to address the challenge/limitation at an individual level (entrepreneur), business level (group of entrepreneurs), community level (local entrepreneur community) and government level (including local government, support agencies), organised as per the matrix below.

Key Core Limitations	Levels			
	Individual level	Business level	Community level	Government level
Infrastructure				
Social Capital				
BDS				
LED				

18. Third, a rapporteur presented the scribed group discussions. All four groups presented at the plenary.

19. *Lastly*, a NPC commissioner provided the way forward on the presented discussions and closed the session. The way forward entailed inputs deliberated during the dialogue sessions. The outlined plan is to publish and disseminate the information, and the issues highlighted will ultimately influence the national SMME policies and strategies in South Africa.

Dialogue Proceedings

20. During the dialogue plenary and breakaway sessions, participants raised a number of issues that were both general and unique to their location. The NPC SMME seven (7) dialogue sessions proceedings deliberated on the following challenges/limitations and solution:

(1) Northwest – Luhurutshe/Zeerust (Ramotshere Moiloa Municipality)

21. In line with the dialogue sessions approach and methodology, the dialogue discussions in Luhurutshe deliberated on the following limitations and proposed solutions:

i. SMMEs Limiting Success Factors

22. Entrepreneurs face many challenges or limitations which they have to overcome on their own. The following categorised challenges were mentioned as issues limiting entrepreneurial activities and success in Luhurutshe:

BDS	LED
<p>The issues manifested included:-</p> <p>a) Limited access to finance:</p> <ul style="list-style-type: none"> • Struggle to get credit extension and subsequent end up with cash-flow challenges. • Lack of money/capital (People don't have security to get loans as banks see them as a risk). • Poor access to business finance <p>b) Lack of entrepreneurial and management skills:</p> <ul style="list-style-type: none"> • Poor financial management skills • Poor access to business management skills • Poor access to technical skills e.g. butchery business skills • Lack of skills and training (Finance, Human Resources, Marketing) • When given funds, but not enough training and support (e.g. submitted numerous business plans but no response) • No skills transfer • Entrepreneurs businesses not given a chance to grow <p>c) Limited access to markets and procurement opportunities:</p> <ul style="list-style-type: none"> • No supply chain support (Onerous requirements – price quotations) • Unable to access local procurement opportunities (e.g. school uniforms) • Lack of access to input material 	<p>The issues manifested included:-</p> <p>a) Ineffective local business development institutions:</p> <ul style="list-style-type: none"> • Lack of integration among government departments to help small businesses • No one-stop service: Service taken away from rural communities • Poor access to on-going business support services. • Need financial and non-financial support <p>b) Forced entrepreneurship and cooperatives:</p> <ul style="list-style-type: none"> • Forced into establishing cooperatives <p>c) High crime rate:</p> <ul style="list-style-type: none"> • High crime levels (robberies and business break-ins) <p>d) Lack of business competitiveness (foreign owned and large businesses dominance):</p> <ul style="list-style-type: none"> • Unfair competition (foreigner-owned businesses that have penetrated the local rural settlements. Price war and collusion issue) • Foreign-owned enterprises are dominating the informal sector, which should be reserved for local people <p>e) Lack of regulatory enforcement and compliance:</p>

BDS	LED
<p>d) Limited access to information and advice:</p> <ul style="list-style-type: none"> • Access to internet • Government support (Advertising only to councillors and tribal chiefs) • Lack of information (Home Affairs, SARS – Travel is too costly); <p>e) Limited access to appropriate technology:</p> <ul style="list-style-type: none"> • Lack of innovation and technology support 	<ul style="list-style-type: none"> • Regulation in markets not properly implemented (businesses operating without licences especially foreign-owned businesses) <p>f) High level of public sector corruption:</p> <ul style="list-style-type: none"> • Funding connected to corruption

Social Capital/Networking	Infrastructure
<p>The issues manifested included:-</p> <p>a) Weak business networks:</p> <ul style="list-style-type: none"> • Lack of network systems among small business owners <p>b) Local buyers not buying/supporting local businesses:</p> <ul style="list-style-type: none"> • Residents not supporting local business (Only for credit). Not supporting each other (poor culture of buy local) 	<p>The issues manifested included:-</p> <p>a) Lack of access to land and land tenure:</p> <ul style="list-style-type: none"> • Unable to get title deeds in tribal land (issued Permission to Occupy – PTO, which are not recognised by financing institutions) • Lack of access to land for entrepreneurial use <p>b) Lack of suitable business premises:</p> <ul style="list-style-type: none"> • Lack of access to disused infrastructure. (local government not providing disused infrastructure for SMME use)

ii. Proposed Solutions to Challenges

23. The above outlined limitations challenging SMME success are those barriers impeding the enterprises that participated in the dialogue session. In their case in Luhurutshe, to help address their mentioned barriers, the solutions proposed by the dialogue participants are first at an *individual level*, which the entrepreneur can address on their own; second, are those that can be addressed together with other enterprises (*business level*); third business together with *local community*; and last, those to be addressed at *government level* through enabling a conducive business environment.

BDS Solution			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • Education – Equip • School level • Soft and hard skills 	<ul style="list-style-type: none"> • Research • Market demand 	<ul style="list-style-type: none"> • Pensioners must be paid at rural pay points 	<ul style="list-style-type: none"> • Funding
<ul style="list-style-type: none"> • Support each other 	<ul style="list-style-type: none"> • Skills development • Equipment • Technical Skills for local Entrepreneurs to address quality and productivity issues 	<ul style="list-style-type: none"> • Regulate competition • Restrict (limit) the number of foreign businesses 	<ul style="list-style-type: none"> • Improve education • Start in primary school • DoE needs to prioritize entrepreneurship • Theory versus practice
<ul style="list-style-type: none"> • Communication 	<ul style="list-style-type: none"> • Marketing • Packaging 	<ul style="list-style-type: none"> • Buy and support local enterprises 	<ul style="list-style-type: none"> • Constant monitor of businesses that are supported; even after the intervention
<ul style="list-style-type: none"> • Self-discipline • Set goals and vision 	<ul style="list-style-type: none"> • Mentorship 	<ul style="list-style-type: none"> • Skills transfer • Mentoring – Being a mentor/mentee 	<ul style="list-style-type: none"> • Infrastructure • Multipurpose centre
<ul style="list-style-type: none"> • Mentorship 	<ul style="list-style-type: none"> • Networking • Business Associations 	<ul style="list-style-type: none"> • Business sharing • Clubs/stokvels 	<ul style="list-style-type: none"> • Information
<ul style="list-style-type: none"> • Networking • Identity/Brand 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Crime • Enforce/Legislation 	<ul style="list-style-type: none"> • Skills training
<ul style="list-style-type: none"> • Self-reliance and Focus (Vegetable garden) 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Local support 	<ul style="list-style-type: none"> • Police visibility
		<ul style="list-style-type: none"> • Invest in community education 	<ul style="list-style-type: none"> • Awareness • TV/Radio/Information

BDS Solution			
Individual	Business	Community	Government
			dissemination • Information hubs
			• Wi-Fi
			• Assist in Joint-Ventures
			• Credit profiling based on prior minor debt defaults must be abolished • Credit collateral requirements must be abolished and focus to be on business feasibility and viability only • Improved responsiveness to granting rural entrepreneurs with finance similarly to their township counterparts by NWDC chiefly

LED Solutions			
Individual	Business	Community	Government
• Improve business, technical and financial management skills	• Companies should form forums; in that way they can save money and assist one another with different problems for their companies	• Local enforcement of immigration laws at local community levels.	• Enforce national immigration laws to prevent illegal foreigner influx. • Reservation of formal and informal retailing business actives to locals only as is done in other fellow African countries.
		• Introduce Local Policing Forums	• Effect visible policing in rural settlements • Improve spread and maintenance of street lights especially in rural settlements.

Social Capital/Networks Solutions

Individual	Business	Community	Government
<ul style="list-style-type: none"> Quality should be the main priority to beat competitors 	<ul style="list-style-type: none"> Local entrepreneurs to form credit networks to manage credit extension to customers. Companies should stent corporative to minimise competition and increase profit for their business Establish business associations 	<p>Look at our potential economy</p>	<p>Government must lead by example: Look at its supply chain system and encourage growth to capitalise</p>

Infrastructure Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> In preparation for title deeds, get business site to be surveyed 	<ul style="list-style-type: none"> Businesses to organise themselves to conduct consultations with key stakeholders such as tribal chiefs and local government 	<ul style="list-style-type: none"> Business and community to join forces to address the issue of title deeds 	<ul style="list-style-type: none"> Propose to government to establish a legal framework for accessing title deeds in tribal land Municipality land access and use application processes to be simplified Rural land access and use processes to be simplified. (Rural land rights to be reviewed)
<ul style="list-style-type: none"> Consider alternative sources of energy 	<ul style="list-style-type: none"> Promote alternative sources of energy as potential businesses opportunity 	<ul style="list-style-type: none"> Organise communities to buy into alternative sources of energy 	<ul style="list-style-type: none"> With support of government, identify possibilities of selling energy to local communities

(2) Gauteng – Diepsloot (City of Johannesburg)

24. Unlike the Zeerust dialogue session, the Diepsloot dialogue session was conducted through a plenary session that covered both challenges and solutions in one seating. The session did not follow the prescribed approach and methodology. The dialogue deliberations raised the following limitations and proposed solutions:

i. SMMEs Limiting Success Factors

25. Entrepreneurs face many challenges or limitations which they have to overcome on their own. The following categorised challenges were mentioned as issues limiting entrepreneurial activities and success in Diepsloot:

Challenges/Limitations
<p>The issues manifested included:-</p> <p>Lack of access to finance:</p> <ul style="list-style-type: none">• Lack access to entrepreneurial and financial support services. <p>Large businesses dominance:</p> <ul style="list-style-type: none">• Large construction companies like Lubbe dominate local development construction projects.• Large construction companies flout the BBEEE 30% local procurement spend rules because they are not monitored and the rules are not enforced. <p>Limited access to markets and procurement opportunities:</p> <ul style="list-style-type: none">• Local small building contractors are excluded from participating in local construction projects and contractors from outside of Diepsloot are engaged/preferred. <p>Ineffective local business development institutions:</p> <ul style="list-style-type: none">• There are no community services centres for SARS, CIPC and CSD in Diepsloot.• Uncoordinated local SMME support organisations/forums <p>Lack of regulatory enforcement and compliance:</p> <ul style="list-style-type: none">• Foreigners operate illegal, untaxed businesses and compete unfairly in Diepsloot <p>Lack of trust (distrust local leadership and lack of trust among people):</p> <ul style="list-style-type: none">• Widespread local community disunity in various areas, including not trusting government and each other.

26. Despite a variety of entrepreneurial opportunities in Diepsloot, it is interesting that most of the challenges and barriers raised by the Diepsloot entrepreneurs oscillate around the construction industry. This phenomenon is not a surprise though, considering that Diepsloot is an informal settlement developing into a formal settlement and hence features huge construction activities around public infrastructure investments straddling roads to public building like clinics and houses.

ii. Proposed Solutions to Challenges

27. The above outlined limitations challenging SMME success are those barriers impeding the enterprises that participated in the dialogue session. In their case in Diepsloot, to help address their mentioned barriers, the solutions proposed by the dialogue participants are first at an *individual level*, which the entrepreneur can address on their own; second, those that can be addressed together with

other enterprises (*business level*), third business together with *local community*; and last, those to be addressed at *government level* in enabling a conducive business environment.

Community	Government
<ul style="list-style-type: none"> A database of local SMMEs to be created that will be used to link local SMMEs like contractors to local opportunities to avoid external enterprises taking up such opportunities. 	<ul style="list-style-type: none"> The government to implement a monitoring/inspectorate service to enforce compliance by large construction companies to the 30% local BBBEE requirement. A one-stop community service centre for SARS, CIPC, CSD in Diepsloot. Alternatively, mobile facilities to be introduced for such services. BDS Services Centres to be opened in Diepsloot to provide entrepreneurial training, advisory, information and financial support services. Local business formations and structures to be reorganised to foster business unity and accountable business leadership in order to advance local entrepreneurship. The government to control entrepreneurial activities by foreigners (foreign nationals) in Diepsloot.

(3) Western Cape – Khayelitsha (City of Cape Town)

28. In line with the dialogue sessions approach and methodology, the dialogue discussions in Khayelitsha deliberated on the following limitations and proposed solutions:

i. SMMEs Limiting Success Factors

29. Entrepreneurs face many challenges or limitations which they have to overcome on their own. The following categorised challenges were mentioned as issues limiting entrepreneurial activities and success in Khayelitsha:

BDS	LED
<p>The issues manifested included:-</p> <p>a) Lack of access to finance:</p> <ul style="list-style-type: none"> Poor access to business start-up finance. Banks and SEFA reluctant to finance SMMEs. The requirements of banks are too stringent. Banks also deny funding when the businesses have been awarded contracts. The banks refuse to use the contract as collateral. All participants asserted that the main constraint encountered by businesses in townships was the lack of access to finance. That is both within the public and the private sector. Despite government having dedicating institutions (e.g. SEDA) that were established to facilitate and expedite finance, access was still a challenge. In fact, these institutions were often an obstacle due their onerous and 	<p>The issues manifested included:-</p> <p>a) Ineffective Local Business Development institutions:</p> <ul style="list-style-type: none"> The participants complained that the government organisations meant to assist them like the local municipalities small businesses and SEFA especially were not as helpful as intended to be. They also felt that both the KDF and similar organisations do not assist the local formal and informal business community to mitigate challenges like poor access to business finance from SEFA, securing trading spaces, business networking and overall local business promotion to attract business opportunities. There is lack of access to satellite services in our community for business development

BDS	LED
<p>burdensome requirements.</p> <ul style="list-style-type: none"> • The blacklisting of individuals does not allow the individuals and their businesses to access finance at all. Consequently, they cannot grow and develop. Even government institutions frown on individuals that are blacklisted. Often, this has led to businesses borrowing funds from loan-sharks at exorbitant lending rates, rendering the business venture unprofitable. • The requirements of banks are too stringent. Banks also deny funding when the businesses have been awarded contracts. The banks refuse to use the contract as collateral. The blacklisting of individuals does not allow the individuals and their businesses to access finance at all. Consequently, they cannot grow and develop. Even government institutions frown on individuals who are blacklisted • Enterprises are not able to buy appropriate business equipment because of lack of capital. <p>b) Lack of entrepreneurial and management skills:</p> <ul style="list-style-type: none"> • Poor access to business management training skills. • Poor access to technical skills e.g. Construction skills. • Financial literacy: Often people do not know how to manage the money of their businesses. They sometimes recklessly spend funding obtained for their businesses. • Business administration. • Marketing. • Communication. • Human Resources. <p>c) Lack of access to information and advice:</p> <ul style="list-style-type: none"> • Most importantly, business lack information. That is, where to get information on tenders, what government support is available, what are SARS/CIPC requirements? • Getting information can be financially draining even though the business isn't yet making an income. <p>d) Lack of proper business marketing and promotion:</p> <ul style="list-style-type: none"> • Poor access to on-going marketing and compliance support. <p>e) Lack of skilled workforce:</p> <ul style="list-style-type: none"> • Businesses lack skilled labourers/workers and there is no one to provide them with the skills. 	<p>support</p> <ul style="list-style-type: none"> • Participants indicated local government is not taking small business serious in their community. There is no sense or urgency of promoting small business importance. <p>b) Lack of interventions monitoring and evaluation:</p> <ul style="list-style-type: none"> • Government is sponsoring many projects, but there is no M&E. That is, government should see what is working and support and replicate those initiatives and cull those interventions that are failing. • The lack of M&E has resulted in wastage of resource and fostered corruption. <p>c) Lack of business competitiveness (local businesses can't withstand foreign-owned businesses competitiveness):</p> <ul style="list-style-type: none"> • There was an assertion that there is a co-ordinated strategy to remove local business people. Local businesses cannot compete. Foreign businesses engage in "predatory pricing" in which they reduce the price to below cost to force the local out of business only to raise it again once the local businesses have exited. <p>d) Impeding regulations and policies:</p> <ul style="list-style-type: none"> • There is too much red tape and regulations (registrations) to adhere to. This is compounded by the lack of government support. • The onerous requirements to access scholar transport funding deterred numerous businesses. The vehicle cannot be older than a certain number of years. <p>e) Lack of regulatory enforcement and compliance:</p> <ul style="list-style-type: none"> • There was great animosity against foreign businesses as the locals felt that they were illegally in the country, and their businesses were not registered and they were not paying taxes. • Lack of Government legislation to enforce SMME's empowerment. <p>f) High crime rate:</p> <ul style="list-style-type: none"> • Participants complained that extreme crime by way of robberies and business break-ins, driven also by high drug-abuse in the local communities, was a major challenge for their business success. <p>Crime is a big issue. But is largely opportunistic and can be manageable.</p>

BDS	LED
	<p>Extraordinarily, the foreign businesses are not subject to opportunistic crime. The major concern was the influx of foreigners into the area.</p> <p>g) Lack of supply chain networks:</p> <ul style="list-style-type: none"> • Participants complained that due to discrimination from other suppliers they are not able to benefit from bulk buying price discounts as suppliers prefer to give better discounts to the other buyers (e.g. Muslims prefer to give other Muslims better deals than non-Muslims.)

Social Capital/Networking	Infrastructure
<p>The issues manifested included:-</p> <p>a) Lack of trust (lack of trust among people):</p> <ul style="list-style-type: none"> • Social networks do not work in our business community because lack of trust. 	<p>The issues manifested included:-</p> <p>a) Lack of access to land and land tenure:</p> <ul style="list-style-type: none"> • Lack of land. The locals are being displaced from their land. Foreigners with more money are purchasing their land. There is no longer a plant/green corridor. <p>b) Lack of suitable business premises:</p> <ul style="list-style-type: none"> • Lack of proper places and spaces to conduct business from. • Trading spaces limited to crowded main-roadside spaces. • Participants complained that the public houses are extremely small and are in equally very small yards and so paralyse home-based entrepreneurial activity. • They also complained that the bulk of Khayelitsha comprises of very dense informal settlements that are exposed to fire and storm disasters thus frustrating their entrepreneurial activities. • The locals are being displaced from their land. Foreigners with more money are purchasing their land. There is no longer a planned economic corridor as people are putting up structures everywhere. • Proximity to customers. It is important that business owners give customers easy access to goods and services. The participants' issue is that they do not have access to well-located and zoned land for their respective businesses. • In Khayelitsha there are no premises to conduct business and those that are available attract expensive rentals

ii. Proposed Solutions to Challenges

30. The above outlined limitations challenging SMME success are those barriers impeding the enterprises that participated in the dialogue session. In their case in Khayelitsha, to help address their mentioned barriers, the solutions proposed by the dialogue participants are first at an *individual level*, which the entrepreneur can address on their own; second, those that can be addressed together with other enterprises (*business level*); third business together with *local community*; and last, those to be addressed at *government level* through enabling a conducive business environment.

BDS Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • Delivery of business management skills for local entrepreneurs. • Delivery of technical skills for local entrepreneurs to address quality and productivity issues. 			<ul style="list-style-type: none"> • Credit profiling based on prior minor debt defaults must be abolished, especially by SEFA. • Credit collateral requirements must be abolished and focus to be on business feasibility and viability only. • Government must make policies that make it easy for small business to get finance from private institutions. • The government to ensure improved responsiveness to granting start-up and growth SMME finance by SEFA and the banks. • Government should assist with improving business skills. Business education should begin in school. (There should be business course offered to entrepreneurs. Subsidise courses at business schools.) • Government make available funding for all businesses, not

BDS Solutions			
Individual	Business	Community	Government
			<ul style="list-style-type: none"> only start-ups. Government to provide more funding opportunities. Government should institute policies that do not discriminate against blacklisted individuals. This should not count against the individual Government should capacitate – that is, applicants who are rejected by SEDA should be mentored until they are successful
<ul style="list-style-type: none"> There is need to build capacity in financial management and a culture of savings for both personal and business activities. 	<ul style="list-style-type: none"> Establish a financial management culture for businesses through networking. 		
<ul style="list-style-type: none"> SMMEs to be given basic business processes. 			<ul style="list-style-type: none"> Business procurement road shows should be encouraged.

LED Solutions			
Individual	Business	Community	Government
		<ul style="list-style-type: none"> KDF to improve its operational capacity to better service and meet local SMME needs. KDF to mobilise and network with local and national BDS organizations small businesses, SEDA, SEFA, SETAs) to expand local SMME service provision. 	

LED Solutions			
Individual	Business	Community	Government
		<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • There needs to be stringent M&E of funded projects. • Government needs to license businesses that operate in the area. • Government should restrict the number of foreign-owned businesses in the area. • There should be regular inspections of foreigners. Government should hire more inspectors. • Government should reduce the red tape and regulations to do business. • Government should also provide post funding training and support.
			<ul style="list-style-type: none"> • Government programme to facilitate supply chain linkages and enhance competitiveness of the local area
			<ul style="list-style-type: none"> • Reduce red tape and income tax for small businesses. Tax businesses according to size. Allow small businesses a time period to first grow to a certain threshold before tax compliance because tax compliance poses too much administration on the small enterprises.

Social Capital/Networks Solutions			
Individual	Business	Community	Government
		<ul style="list-style-type: none"> • Introduce Local Policing Forums 	<ul style="list-style-type: none"> • Effect visible policing in Khayelitsha.
	<ul style="list-style-type: none"> • Establish business networks to lobby government to support small businesses. 	<ul style="list-style-type: none"> • Banks are expensive – there is need to look at alternative forms of credit provision. Stokvels should investment in small businesses. 	

Infrastructure Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • Participants indicated that capacity building on business location and feasibility study support could assist in the selection of business location. 	<ul style="list-style-type: none"> • There is a need for the provision of work spaces to cater for different sectors in the community in order to have affordable business premises. 	<ul style="list-style-type: none"> • Use stokvels to invest in and own commercial and industrial properties for them to enable shared work space in the community. Stokvels to be “property space creators”. 	<ul style="list-style-type: none"> • Municipality land access and use application processes to be simplified. • Government to erect local small factories and improve SMME trading spaces, especially informal trading facilities. • Local government to plan and allocate accessible work spaces for SMMEs
			<ul style="list-style-type: none"> • Government must be able to provide Wi-Fi for small businesses

(4) Eastern Cape – Uitenhage (Nelson Mandela Bay Municipality)

31. In line with the dialogue sessions approach and methodology; the dialogue discussions in Uitenhage deliberated on the following limitations and proposed solutions:

i. SMMEs Limiting Success Factors

32. Entrepreneurs face many challenges or limitations which they have to overcome on their own. The following categorised challenges were mentioned as issues limiting entrepreneurial activities and success in Uitenhage:

BDS	LED
<p>The issues manifested included:-</p> <p>a) Lack of access to finance:</p> <ul style="list-style-type: none"> Participants mentioned a number of issues related to the inability to access finance, including no clarity of where to obtain financial assistance, and no seed money/start-up capital. The need for surety by financiers hinders their ability to access finance for business establishment/growth. As blacklisted SMMEs they are unable to access private and government finance. They have bad credit records that count against them. To get letter of good standing is too costly. <p>b) Lack of entrepreneurial and management skills:</p> <ul style="list-style-type: none"> Lack of business development skills <p>c) Limited access to markets and procurement opportunities:</p> <ul style="list-style-type: none"> Difficulty of accessing business opportunities <p>d) Limited access to appropriate technology:</p> <ul style="list-style-type: none"> Lack of appropriate business equipment <p>a) Lack of business feasibility assessment:</p> <ul style="list-style-type: none"> Copying each other's businesses. "No vision" among other "entrepreneurs". Unfair competition by "copy-cats" (business saturation vs new business idea) 	<p>The issues manifested included:-</p> <p>a) Ineffective local business development institutions:</p> <ul style="list-style-type: none"> Business forums not empowering members but are self-serving (unsupportive business associations/forums) Lack of government support. Government takes too long to pay There are high expectations from the bureaucrats i.e. there are too high expectations from government entities e.g. SEDA, ECDC. Lack of efficiency to support small businesses. SABS processes are expensive No mentorship – SEDA requires payment from SMMEs for mentorship support which is unaffordable. No one-stop services – SARS, SEDA, NYDA. Offices are too far away and turned away for trivial things <p>b) High level of public sector corruption:</p> <ul style="list-style-type: none"> Councillors' interference and political interference in the allocating of local business opportunities, especially in construction (conflict of interest by political structures) <p>c) Impeding regulations and policies:</p> <ul style="list-style-type: none"> Regulatory fees are prohibitive, e.g. annual fees. Red tape, e.g. permits, supply chain prescripts. Registration with association does not offer many benefits – increases regulatory burden. CIBD – Registration requires too many documents; and a long turn-around time for certification in the local office as opposed to going direct to the national office which is quicker <p>d) Lack of regulatory enforcement and compliance:</p> <ul style="list-style-type: none"> Foreigners are not subject to regulatory fees and prescripts (SARS, labour laws) <p>e) Large and foreign-owned businesses dominance:</p> <ul style="list-style-type: none"> Participants complained that foreigners have

BDS	LED
	<p>easier access to finance from their association. Foreigners created a monopoly. Foreigners seem to have a better work ethic in comparison to the locals. Competition Commission only focuses on big businesses and not small and foreign businesses</p> <ul style="list-style-type: none"> • Lack of support and guidance from big business. Big businesses obtain contract and exploit (squeeze) small businesses

Social Capital/Networking	Infrastructure
<p>The issues manifested included:-</p> <p>a) Weak business networks:</p> <ul style="list-style-type: none"> • No team work among local community businesses <p>b) Lack of trust (lack of trust among business community):</p> <ul style="list-style-type: none"> • Jealousy – not sharing information about opportunities 	<p>The issues manifested included:-</p> <p>a) Unreliable electricity supply:</p> <ul style="list-style-type: none"> • Regular power failures harm business operations. <p>b) Lack of suitable business premises:</p> <ul style="list-style-type: none"> • Home-based work space inadequate and unsuitable • Difficulty in procuring space/location/premises to do business

ii. Proposed Solutions to Challenges

33. The above outlined limitations challenging SMME success are those barriers impeding the enterprises that participated in the dialogue session. In their case in Uitenhage, to help address their mentioned barriers, the solutions proposed by the dialogue participants are first at an *individual level*, which the entrepreneur can address on their own; second, those that can be addressed together with other enterprises (*business level*); third business together with *local community*; and last, those to be addressed at *government level* in enabling a conducive business environment.

BDS Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • Sharing skills with others. • Improve financial management skills – financial literacy 	<ul style="list-style-type: none"> • Capacity building and sharing by bigger businesses. • Businesses to contact government to articulate their grievances. 	<ul style="list-style-type: none"> • Support local SMMEs 	<ul style="list-style-type: none"> • M&E of funded programme and projects to SMMEs. There must be a report after the evaluation which needs to be circulated to the public and should inform policy. • Decrease the regulatory burden. e.g. the dti compliance such as turnover requirements need to be re-visited. Need to relax requirements. • Conduct regular workshops to capacitate SMMEs, especially financial literacy workshops to ensure sustainability of SMMEs. • Provide business support – business development practitioners must be more visible in communities. • Provide financing. • Compliance bodies need to be in reach and accessible. • Competition Commission needs to investigate small foreign businesses.

LED Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> Active citizenry (reporting of bad councillor behaviour) 	<ul style="list-style-type: none"> Business forums to lead the allocation of projects to SMMEs 	<ul style="list-style-type: none"> Mobilise for revision of organisational structures of forums to improve their accountability 	<ul style="list-style-type: none"> LED office representatives in the forums to ensure their accountability City wide forum to submit SMME problems to the local government representative.
<ul style="list-style-type: none"> Improvement of business competitiveness skills 			<ul style="list-style-type: none"> Rotation of business opportunities and procurement set-asides SMME opportunity awareness workshops
	<ul style="list-style-type: none"> Businesses assist with skills development to the unemployed so that they can be employed within community. Outsiders would not have to take jobs. 		<ul style="list-style-type: none"> Follow up and capacitate SMMEs on a regular basis, especially when there is a change in regulations.

Social Capital/Networks Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> Promote a culture of role-models to become entrepreneurships Educating consumers about local supply 	<ul style="list-style-type: none"> Collaborate and engage with foreigners to assist with their strategies. Invite foreigners to assist with skills transfer. Work collectively as businesses (e.g. stokvels) to gain from economies of scale 	<ul style="list-style-type: none"> Promote culture of networking. Assist one another. 	<ul style="list-style-type: none"> M&E of foreign businesses to ensure that they are complying

Infrastructure Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> Identify financial institution for 			

Infrastructure Solutions			
Individual	Business	Community	Government
SMMEs that finance business assets and obtain their financing requirements.			
		<ul style="list-style-type: none"> • Community safety structures to counter electrical cable and equipment thefts 	<ul style="list-style-type: none"> • Municipality to ensure reliable power supply
		<ul style="list-style-type: none"> • Effective advocacy by community business structures 	<ul style="list-style-type: none"> • Municipality allocation of proper trading and industrial sites. • Make abandoned buildings available for SMMEs

(5) Gauteng – Mamelodi (City of Tshwane)

34. In line with the dialogue sessions approach and methodology, the dialogue discussions in Mamelodi deliberated on the following limitations and proposed solutions:

i. SMMEs Limiting Success Factors

35. Entrepreneurs face many challenges or limitations which they have to overcome on their own. The following categorised challenges were mentioned as issues limiting entrepreneurial activities and success in Mamelodi:

BDS	LED
<p>The issues manifested included:-</p> <p>a) Lack of access to finance:</p> <ul style="list-style-type: none"> • Participants mentioned that there is little help from government for funding of start-ups and providing finance. The main source of funding is from private funders. However, banks only assist when you have an actual contract (i.e. off take agreement) • Current banks policies prohibit SMME access to funding <p>b) Lack entrepreneurial and management skills:</p> <ul style="list-style-type: none"> • Training that is provided is not sufficient, given that there is still a lack of skills in marketing, finance, business skills and capacity development. Participants cited the following skills and support lacking: <ul style="list-style-type: none"> ○ How to choose the right business ○ Financial management training ○ Marketing skills training ○ Workplace health and safety training ○ Business statutory compliance ○ Mentorship ○ Legal support for business <p>c) Lack of proper business marketing and promotion:</p> <ul style="list-style-type: none"> • No source of information about who are the local businesses operating in the area (local business directory) 	<p>The issues manifested included:-</p> <p>a) Ineffective local business development institutions:</p> <ul style="list-style-type: none"> • Participants allege that LED offices lack empathy towards SMMEs and are not properly trained. • SEDA and SEFA staff is not adequately trained to give information. Government agency officials not active in providing BDS services • Lack of information regarding upcoming local economic projects from the LED officers. Lack of effective integrated / coordinated development plan for SME • Lack of access to government officials from business support agencies (at municipal offices). • Too many different forums – although participants indicated that they are unaware of all the different forums. Bug businesses are colluding with certain forums and excluding others (high number of unsupportive business associations/forums) • No help from SEDA but SEFA is a bit better. Best assistance from GEP. However, the roles of SEDA, SEFA and GEP are confusing. • There is demand and supply – but something is not working in the “middle”. • Besides not providing support. Government employees are stealing ideas of SMMEs. • There are no visible municipality-led LED initiatives aimed at entrepreneurial development, thus stifling local entrepreneurial success. • Poor business development communication by the government. Lack of service collaboration and coordination among development agencies. • Empty/unfulfilled promises by various government departments regarding their SMME support responsibilities. • Expensive support services, i.e. high cost of private sector consultants. <p>b) Buyers late payment:</p> <ul style="list-style-type: none"> • Government takes too long to pay and because of corruption only get paid if pay bribe, for example “have been waiting since 2007 for payment”. Delayed payments from government – hampering business growth and sustainability.

BDS	LED
	<p>c) Impeding regulations and policies:</p> <ul style="list-style-type: none"> • Too much red tape that hinders entrepreneurs' progress. Red tape in tendering processes for economic opportunities. <p>d) Lack of supply chain networks:</p> <ul style="list-style-type: none"> • Big businesses not utilising local SMMEs. The aggressive competition by big businesses limits the success of small businesses in the township <p>e) Foreign-owned businesses dominance:</p> <ul style="list-style-type: none"> • People want to employ foreigners, but the community are unhappy about the employment of foreigners. Home Affairs are too lax in allowing foreigners to enter South Africa. Destroying local businesses due to lower salaries and selling expired goods. <p>f) High level of public sector corruption</p> <ul style="list-style-type: none"> • Foreign-owned businesses have the protection of police. Seems to be corruption with the police. Police are corrupt. No protection of whistle blowers. <p>g) High crime rate</p> <ul style="list-style-type: none"> • High levels of crime affecting local businesses

Social Capital/Networking	Infrastructure
<p>The issues manifested included:-</p> <p>a) Local buyers not buying/supporting local businesses:</p> <ul style="list-style-type: none"> • No campaign to promote Buy-Local instead of supporting foreigner-owned enterprises. Lack of support from local communities. 	<p>The issues manifested included:-</p> <p>a) Lack of suitable business premises:</p> <ul style="list-style-type: none"> • No decent facilities / trading areas for small businesses. Difficulty procuring space/ location/premises to do business • Lack of land for business and business zoned land is very costly. • High rentals in malls. • Lack of business infrastructure <ul style="list-style-type: none"> - No small industries facilities. - Lack of formal small industries spaces forcing the informal options. - Establish shared administrative facilities to support entrepreneurs. - Establish shared transport facilities to support procurement and bulk deliveries.

ii. Proposed Solutions to Challenges

36. The above outlined limitations challenging SMME success are those barriers impeding the enterprises that participated in the dialogue session. In their case in Mamelodi, to help address their mentioned barriers, the solutions proposed by the dialogue participants are first at an *individual level*, which the entrepreneur can address on their own; second, those that can be addressed together with other enterprises (*business level*); third business together with *local community*; and last, those to be addressed at *government level* through enabling a conducive business environment.

BDS Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • Be innovative. • Develop new business networks. • Work hard and increase commitment to the business. 	<ul style="list-style-type: none"> • Business forums to provide business-related workshops. • Initiate information sharing and networking sessions. • Explore and develop self-funding models for members affiliated to the chambers • Big businesses to provide support. • Grant access to available databases to SME – encourage networking and partnerships. 	<ul style="list-style-type: none"> • There needs to be an awareness of the forums that exist and a possible rationalisation of the forums 	<ul style="list-style-type: none"> • Increase accountability by officials for state resources. • Compel foreign companies to form at least 30% partnership with the local businesses. • Government to enforce the law and get rid of unregistered businesses in the township. • Government must ensure suppliers are paid on time. • Government needs to protect the intellectual property of SMMEs.

LED Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • Register and participate in credible business associations/forums. • Improve technological capabilities i.e. computer skills and implement business technology (e.g. have business website). • Improve business compliance. 	<ul style="list-style-type: none"> • Share information and network via a technology platform. • Market the network and platform. 	<ul style="list-style-type: none"> • Promote local skills and opportunities for local employment. 	<ul style="list-style-type: none"> • Enable development and maintenance of a technology platform including database of Mamelodi SMMEs • Government must be able to provide WI-FI for small business in that way they can access information on the internet.

LED Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> SMMEs to take up the challenge of maximally utilizing the BDS one-stop shop business management skills 			<ul style="list-style-type: none"> The government to establish a central BDS service point in Mamelodi that will house SEDA, NYDA, IDC and other SMME support institutions (Need to employ staff that are knowledgeable, decrease red tape, Adopt best practices of GEP) The government to ensure improved SMME service coordination and collaboration among and by the various SMME development agencies and organisations. (One-stop Shop Facilities to help). Improve SEDA/SEFA efficiency. Increase access to business development support services in the area – access to LED officers and SEDA at local level (municipal offices).
			<ul style="list-style-type: none"> Improve the efficiency of the staff of the LED offices.
			<ul style="list-style-type: none"> Increase opportunities for disabled people.
			<ul style="list-style-type: none"> The government to ensure improved responsiveness to granting start-up and growth SMME finance by SEFA and the banks chiefly. Simplify funding process for SMEs.
			<ul style="list-style-type: none"> Tshwane municipality to intensify LED initiatives aimed at entrepreneurial development, to improve local entrepreneurial success.
			<ul style="list-style-type: none"> Government to improve its SMME support offerings to the local community and to remove red tape for

LED Solutions			
Individual	Business	Community	Government
			accessing the services.
Social Capital/Networks Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> Report corrupt activities 	<ul style="list-style-type: none"> Protect whistle-blowers. Foreign and local businesses must transfer skills with one another Foreigners must comply and abide with the laws like the local businesses Foreign businesses must be monitored 	<ul style="list-style-type: none"> Protect whistle-blowers 	<ul style="list-style-type: none"> Monitor foreign businesses. Protect whistle-blowers Home Affairs must control immigration of foreigners into South Africa Police need to be investigated for corruption. Corruption within government needs to be eradicated as it has become endemic
<ul style="list-style-type: none"> Be specialist business and market it 	<ul style="list-style-type: none"> Create awareness of the superior quality of local products 	<ul style="list-style-type: none"> Buy Local. Work together through community dialogues. 	<ul style="list-style-type: none"> The government to implement and lead a visible Buy Local Campaign favouring local enterprises in Mamelodi.

Infrastructure Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> Conduct proper business feasibility for business sustainability (improve planning) 	<ul style="list-style-type: none"> Provide premises for emerging SMMEs and entrepreneurs 	<ul style="list-style-type: none"> Continuously conduct road shows on self-employment empowerment benefits 	<ul style="list-style-type: none"> Proper trading places need to be located and also monitored
			<ul style="list-style-type: none"> Grant land for SMMEs
			<ul style="list-style-type: none"> Improve infrastructure for disabled people.
			<ul style="list-style-type: none"> The government to replicate small business workspaces and factories similar to the one in Proes Street in the Pretoria CBD. The centre to provide all business infrastructure support including bulk transport and administrative support

(6) KwaZulu Natal – Hluhluwe (The Big 5 Municipality)

37. In line with the dialogue sessions approach and methodology, the dialogue discussions in Hluhluwe deliberated on the following limitations and proposed solutions:

i. SMMEs Limiting Success Factors

38. Entrepreneurs face many challenges or limitations which they have to overcome on their own. The following categorised challenges were mentioned as issues limiting entrepreneurial activities and success in Hluhluwe:

BDS	LED
<p>The issues manifested included:-</p> <p>a) Lack of access to finance:</p> <ul style="list-style-type: none"> • No local centres for provision of business finance, the nearest being in Richards Bay. • Lack of funding for business equipment <p>b) Lack of entrepreneurial and management skills:</p> <ul style="list-style-type: none"> • Lack of skills in the area due to low education levels. • No training and skills development, especially of the youth • Need for mentorship • Lack of bookkeeping skills – “cannot calculate profit and balance my books” <p>c) Lack of proper business marketing and promotion:</p> <ul style="list-style-type: none"> • We advertise our product but we fail to get business or place to supply. <p>d) Lack of access to information and advice:</p> <ul style="list-style-type: none"> • No access to BDS services like information, advice or training. <p>e) Distance from input suppliers (business location):</p> <ul style="list-style-type: none"> • Remoteness from suppliers. Hluhluwe is too far from suppliers, making it costly to source stock and be competitive with large established retailers in the town. <p>f) Limited access to appropriate technology:</p> <ul style="list-style-type: none"> • No equipment such as tractors to dig the land. 	<p>The issues manifested included:-</p> <p>a) Ineffective local business development institutions:</p> <ul style="list-style-type: none"> • No local centre for BDS services, the nearest one being in Richards Bay, more than 100 km away. • The participants complained that the government organisations meant to assist them like SEDA, NYDA and SEFA especially were not available in Hluhluwe. • Various ineffective Local Business Forums whose activities are uncoordinated. • Lack of access to the ocean economy. • No support from Ithala. High and burdensome requirements • SEDA does not provide adequate business support. Points system which is onerous. • Little assistance from government. Know that Kwa-Zulu Natal Department of Agriculture and Department of Rural Development and Land Reform have set aside funding but it is not reaching the SMMEs on the ground. • Integrated Development Plans (IDP) do not provide for budgetary provision for SMME development. SMME development is not a development priority. • Participants claimed that they did not know of a time when the LED office actually helped them. • Local municipality giving bad services, i.e. late payment. <p>b) Cost of doing business:</p> <ul style="list-style-type: none"> • Banking charges are high for small businesses. <p>c) Impeding regulations and policies:</p> <ul style="list-style-type: none"> • Red tape inhibiting delivery of economic opportunities and services in general. • Construction Industry Development Board (CIBD) expiry renewal costs are high

BDS	LED
	<p>(documents renew).</p> <p>d) Lack of regulatory enforcement and compliance:</p> <ul style="list-style-type: none"> • Foreign nationals are finding it easier to establish businesses. Foreigners are supported more than SA businesses. Foreign businesses do not have to pay VAT • Land is being made available to foreigners <p>e) Foreign-owned businesses dominance</p> <ul style="list-style-type: none"> • Foreign owned enterprises are dominating. • Lack of organised structure to build economies of scale – to compete with foreign owned business in the area. <p>f) High level of public sector corruption</p> <ul style="list-style-type: none"> • High levels of corruption by local government agents and service providers. • Government corruption – monies are allocated but not reaching the intended beneficiaries, e.g. R2.6 million was earmarked for Co-op but was diverted to other activities. <p>g) High crime rate</p> <ul style="list-style-type: none"> • Foreigners moving in the area incite violence due to their war background.
Social Capital/Networking	Infrastructure
<p>The issues manifested included:-</p> <p>a) Local buyers not buying/supporting local businesses:</p> <ul style="list-style-type: none"> • Lack of support from local community – most people still purchase from large retailers in the city. 	<p>The issues manifested included:</p> <p>a) Lack of access to land and land tenure:</p> <ul style="list-style-type: none"> • Rural/Traditional land for business use is difficult to obtain because Traditional Leaders charge exorbitant amounts for it. • No proper places and spaces to conduct business – only informal trading stalls in Hluluwe town. No industrial spaces. • Locals excluded from participating in local tourism sector because they do not own game farms, • Lack of intervention by local government to provide access to land – prime tourist land given to whites only. Lack of access to prime tourist land – all coastal land occupied by Isimangaliso and a few white people. • Local municipality doesn't own land and therefore cannot create an environment that's conducive for small business growth. <p>b) Unreliable electricity and water supply:</p> <ul style="list-style-type: none"> • Lack of constant supply of electricity/diesel.

BDS	LED
	<ul style="list-style-type: none">• Lack of supply of water for certain businesses. <p>c) Lack of suitable business premises:</p> <ul style="list-style-type: none">• Coop promised factory that they currently use but ownership not provided.• Lack of storage facilities for stock during business closure.

ii. Proposed Solutions to Challenges

39. The above outlined limitations challenging SMME success are those barriers impeding the enterprises that participated in the dialogue session. In their case in Hluhluwe, to help address their mentioned barriers, the solutions proposed by the dialogue participants are first at an *individual level*, which the entrepreneur can address on their own; second, those that can be addressed together with other enterprises (*business level*); third business together with *local community*; and last, those to be addressed at *government level* in enabling a conducive business environment.

BDS Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • SMMEs to take up the challenge of acquiring business management skills. • Improve business financial management and understanding of tax compliance. 	<ul style="list-style-type: none"> • Mentorships so that projects are fully operational and completed. 		<ul style="list-style-type: none"> • Ithala Bank, SEFA and other DFIs to be established in Hluhluwe. • The government to ensure improved responsiveness to granting start-up and growth SMME finance by SEFA and the banks. • The government to establish a central BDS service point in Hluhluwe that will house SEDA, SEFA, NYDA, the Industrial Development Corporation and other SMME support institutions. • Local support office to be neutral and non-political.

LED Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Local businesses to forge unity and strategic links among themselves, e.g. among others for bulk purchasing, shared transport arrangements, etc. • The Business Forums to facilitate and promote local business unity. • The local Business Forum to focus on 	<ul style="list-style-type: none"> • Reorganisation of the current LED Forums to create a single large forum with coordinated sector sub-forums. • Elect credible and competent community 	<ul style="list-style-type: none"> • Follow-up on community projects and funds intended to develop communities. • Establish government wholesalers where small businesses can purchase at cost price and compete with the larger corporations. • Develop technical schools in the rural

LED Solutions			
Individual	Business	Community	Government
	building and strengthening linkages and cooperation amongst local businesses. <ul style="list-style-type: none"> • Business forums need to engage with the LED 	leaders. <ul style="list-style-type: none"> • Solicit council resolution for establishment of business forums/chamber. 	areas. <ul style="list-style-type: none"> • Local government to promote real economic opportunities • Minimise paper work and clarify processes. Make relevant information accessible and obtainable • Employ competent officials. • Strengthen local business forums/chambers
	<ul style="list-style-type: none"> • Prioritise and support local businesses. • Develop sector focused databases 	<ul style="list-style-type: none"> • Share information in the Integrated Development Plans (IDPs) 	<ul style="list-style-type: none"> • Improve monitoring and evaluation of local IDP

Social Capital/Networks Solutions			
Individual	Business	Community	Government
	<ul style="list-style-type: none"> • Establish a co-operative bank 		
			<ul style="list-style-type: none"> • Foreign-owned businesses must adhere to the same statutory requirements as local businesses • Foreign-owned businesses must follow due process

Infrastructure Solutions			
Individual	Business	Community	Government

Infrastructure Solutions			
Individual	Business	Community	Government
		<ul style="list-style-type: none"> • Hold leaders accountable for matters related to land. 	<ul style="list-style-type: none"> • Government to restrain Traditional Leaders and to simplify rural land access for business. • Government to facilitate land access by locals to participate in the local tourism industry. • Stop Traditional Leaders from selling communal land to foreigners.

(7) Limpopo – Thohoyandou (Thulamela Municipality)

40. In line with the dialogue sessions approach and methodology; the dialogue discussions in Thohoyandou deliberated on the following limitations and proposed solutions:

i. **SMMEs Limiting Success Factors**

41. Entrepreneurs face many challenges or limitations which they have to overcome on their own. The following categorised challenges were mentioned as issues limiting entrepreneurial activities and success in Thohoyandou:

BDS	LED
<p>The issues manifested included:-</p> <p>a) Lack of access to finance:</p> <ul style="list-style-type: none"> • Even when you have a good idea, some funding institutions want as collateral about half the value of the loan – What is the point of asking for finance. • Government is only supporting new SMMEs and ignoring established ones. There is no incentives for established businesses • Wrong mind-set regarding start-ups: <ul style="list-style-type: none"> ○ You don't have lots of capital therefore you can't start a business. • Funding policy from government agencies is restrictive and prohibits access to funding by SME. • Lack of business infrastructure finance. <p>b) Lack of entrepreneurial and management skills:</p> <ul style="list-style-type: none"> • Lack of business plan writing skills for funding requests. • Poor access to business skills training. • Poor access to technical skills e.g. construction skills. <p>c) Lack of access to information and advice:</p> <ul style="list-style-type: none"> • <i>Access to information:</i> Don't know who's who; and can only get information if they go to meetings. Often don't know where to go and who to ask because can appear ignorant, OR never get informed on meetings on SMME's issues. • Poor access to market development support services. <p>d) Lack of business feasibility assessment:</p> <ul style="list-style-type: none"> • <i>Poor or lack of feasibility assessment/lack of innovation:</i> No market research on 	<p>The issues manifested included:-</p> <p>a) Ineffective local business development institutions:</p> <ul style="list-style-type: none"> • No assistance from DFIs (SEFA, NYDA and NEF) • Ignorance among local SMMEs about SEDA's services • The participants complained that the government organisations meant to assist them like SEDA, NYDA and SEFA especially were not as helpful as intended to be. • Banks require a business plan. Consultants are too expensive • Support services are in one township such a Thohoyandou. Even Thulamela Municipality is planning to put all these entities under one roof. However, no offices (even satellite offices) in Musina • LED agencies are non-functional: not delivering on their development mandate. • Tribal leaders do not understand the benefits of LED for their communities. • No post incubation exit support <p>b) Forced entrepreneurship and cooperatives:</p> <ul style="list-style-type: none"> • Co-ops start up with good intentions – but are overwhelmed when get funding and members start to squabble. <p>c) Lack of interventions monitoring and evaluation:</p> <ul style="list-style-type: none"> • Government does not really monitor the post-funding for SMMEs. Even when they get funding, they still need guidance as most end up failing. • Support structure: Government has policies and procedures that look good in writing – but there is little or no action <p>d) Large and foreign owned businesses dominance</p>

BDS	LED
<p>specific business – thinking if A is doing well, I too can do well. The copying or duplication of that specific business results in business failure.</p> <ul style="list-style-type: none"> • <i>Necessity entrepreneurs</i>: Pushed into entrepreneurship by poverty which results in: <ul style="list-style-type: none"> ○ Lack of passion for business. ○ No research on market being entered into. ○ Entrepreneurs use business cash flow for urgent personal requirements (e.g. food). <p>e) Lack of access to input material:</p> <ul style="list-style-type: none"> • Most small business owners (FURNITURE) starting up sometimes will approach entities like CASH BUILD and they would say they already have suppliers. If one can't get help from local business who then can help? <p>f) Limited access to markets and procurement opportunities:</p> <ul style="list-style-type: none"> • Tendering is onerous – BBEEE: Require letter (R100k) from banks for support. <p>g) Lack of proper business marketing and promotion:</p> <ul style="list-style-type: none"> • Lack of communication. Entities (SEDA) that were established to assist SMMEs do not give out information. Entities do not market themselves to the people for SMMEs to get information. 	<ul style="list-style-type: none"> • Competition with bigger companies an issue. • Large business is more competitive on pricing due to economies of scale and therefore kills small businesses. • Foreigners (especially Somalis and Indian) traders are dominating. Supply lower quality product. They would not eat the food they sell to locals. Prices of goods are lower to their own businesses and charge higher prices to local businesses • Foreign-owned shops have a monopoly. <p>e) Impeding regulations and policies:</p> <ul style="list-style-type: none"> • Too much regulation to adhere to. • Construction businesses compliance expensive (expensive to maintain a grade). <p>f) High level of public sector corruption:</p> <ul style="list-style-type: none"> • High level of corruption by tribal leaders.

Social Capital/Networking	Infrastructure
<p>The issues manifested included:-</p> <p>a) Local buyers not buying/supporting local businesses:</p> <ul style="list-style-type: none"> • Lack of support from local communities due to: lack of consumer education on the importance of supporting local entrepreneurs. High misconceptions from the community about quality levels of local products and services. <p>b) Weak business networks</p> <ul style="list-style-type: none"> • The participants claimed that, unlike their foreign counterparts, local businesses do not cooperate among themselves for mutual success and sustainability (no cooperation among local businesses). 	<p>The issues manifested included:-</p> <p>a) Lack of access to land and land tenure</p> <ul style="list-style-type: none"> • Traditional Leaders extort huge monies from subjects for business land as well as for Proof of Address letters. • Rural/Traditional land for business use is difficult to obtain because Traditional Leaders charge exorbitant amounts for it. • No land or building to conduct businesses. Price of land in Venda is too expensive when compared to Polokwane. • Even if you have a good business plan – if have no site then do not get funding SMMEs are asked to pay R125k for land. Tribal council can give land, but still need to pay. • Length of process to deal with the

Social Capital/Networking	Infrastructure
<p>c) Lack of intergenerational succession in small businesses:</p> <ul style="list-style-type: none"> • There is no continuity of planning successions for businesses; unlike the De-Beers. Rural businesses do not plan from one generation to the next. Businesses not sustainable in local areas <p>d) Lack of trust (lack of trust among people):</p> <ul style="list-style-type: none"> • High level of “pull him down syndrome” mindset among community members. 	<p>Induna/Chief/ Municipality.</p> <ul style="list-style-type: none"> • Even when have land and title deeds, cannot access funding. • Tribal leaders charging high rentals for business use. Tribal leaders selling communal land. • Tribal land access for business difficult. Process too long and expensive <p>b) Lack of suitable business premises</p> <ul style="list-style-type: none"> • No proper places and spaces to conduct business from – only available in Shayandima.

ii. Proposed Solutions to Challenges

42. The above outlined limitations challenging SMME success are those barriers impeding the enterprises that participated in the dialogue session. In their case in Thohoyandou, to help address their mentioned barriers, the solutions proposed by the dialogue participants are first at an *individual level*, which the entrepreneur can address on their own; second, those that can be addressed together with other enterprises (*business level*); third, business together with *local community*; and last, those to be addressed at *government level* through enabling a conducive business environment.

BDS Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> • Start small to reduce funding requirements where possible (adopt lean start-up model). • Have confidence in both your own entrepreneurial skills and the business. • Explore alternative funding Sources for kick-starting your business (minimise reliance on commercial banks). • Innovate and improve business skills to offer quality for business growth. 	<ul style="list-style-type: none"> • Delivery of business management skills for local entrepreneurs. • Delivery of technical skills for local entrepreneurs to address quality and productivity issues. • Inter-business funding support – loan to each other. 	<ul style="list-style-type: none"> • Partner with relevant NGOs / private sector to deliver business skills development programmes for SMEs. 	<ul style="list-style-type: none"> • The onerous finance application requirements must be simplified, especially by SEFA • Credit collateral requirements must be abolished and focus to be on business feasibility and viability only. • The government to ensure improved responsiveness to granting start-up and growth SMME finance by SEFA and the banks. • The dti needs to come to rural areas and townships to advise how to approach entities such as SEDA and, SEFA, OR explain exactly what are the roles of these institutions. • Government agencies to consider providing mobile services to rural communities. • Revise funding policies to accommodate small businesses.

LED Solutions			
Individual	Business	Community	Government

LED Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> Local entrepreneurs to initiate strategic business ties among themselves for their own survival 	<ul style="list-style-type: none"> The local Business Forum to focus on building and strengthening linkages and cooperation among local businesses. SOCIAL RESPONSIBILITY: Plough back to the locals. IF malls have been built in the area, the locals must be given a chance to have space that they can afford on rent, as MALLS ARE KILLING LOCAL SMMEs. 		<ul style="list-style-type: none"> Government to monitor and enforce better performance by SEDA, NYDA and SEFA.
<ul style="list-style-type: none"> Improve exploitation of natural resources available in the immediate environment. 	<ul style="list-style-type: none"> Develop specialised value chains – minimise duplication of services/products. Encourage business collaborations to increase access to opportunities and skills. 	<ul style="list-style-type: none"> Encourage community to provide referrals through word of mouth. Community to start buying local. Increase consumer education through community marketing. 	
			<ul style="list-style-type: none"> Raise the minimum price that government pays to SMMEs, e.g. caterers. Have a fair price that is consistent across all districts

Social Capital/Networks Solutions			
Individual	Business	Community	Government
<ul style="list-style-type: none"> People need to plan for succession for their enterprises - be more innovative and inventive Let's encourage our business /companies to have more than one person in a company, so if they die 	<ul style="list-style-type: none"> Businesses need to support each other. Need to form co-operatives 	<ul style="list-style-type: none"> Parents need to teach children about their businesses. They need to teach their children about their business so they know what to do in case if they pass on. Children should continue the 	<p>Government should give incentives to those who already are doing well, those who started without assistance as sometimes they need rescue along the line.</p>

Social Capital/Networks Solutions			
Individual	Business	Community	Government
there will always be a continuation		business. • Need to support each other – support local businesses	
• Networking is important – should join business forums, as more information can be obtained from those groups.	• Business forum to promote business networking. • Business forum to promote buy local and support local empowerment programmes/projects	• Engage with the foreign-owned businesses; even ask them to assist the locals • Educate local community to support local businesses to change mindset	• Government should regulate the foreign shops. May be only two-three businesses in the community. • Foreign businesses should only be allowed into sectors where there aren't any businesses. • Need to control mushrooming spaza shops.

Infrastructure Solutions			
Individual	Business	Community	Government
		• Engage land owners, chiefs, banks and municipalities to create access to land for business start-up and support.	• Municipality land access and use application processes to be simplified. • Municipalities need to intervene to provide land and make to easier to access. • Municipalities must provide space. No use having a shack next to a mall. • Government to erect local small factories and improve SMME trading spaces, especially informal trading facilities. • The government to monitor and restrain Traditional Leaders against exploitative practices against ordinary people regarding land use. • Encourage tribal leaders to earmark land for businesses and encourage

Infrastructure Solutions			
Individual	Business	Community	Government
			investments in the community. <ul style="list-style-type: none">• Introduce uniform regulations for tribal land provision to local potential business people

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