



060001051D

615444004
i18429385

North-West University
Mafikeng Campus Library

THE ACCESSING OF FINANCE BY SMALL MEDIUM MICRO
ENTERPRISES IN THE MAFIKENG AREA

by

KARABO KHIBA

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION
AT THE GRADUATE SCHOOL OF GOVERNMENT AND BUSINESS
LEADERSHIP NORTH WEST UNIVERSITY, MAFIKENG CAMPUS
REPUBLIC OF SOUTH AFRICA

SUPERVISOR: PROFESSOR PIET ACKERMAN

Date submitted: June 2006

LIBRARY MAFIKENG CAMPUS
Call No.: TH 658.022 KH1 2007-04-16
Acc. No.: 07/00019
NORTH-WEST UNIVERSITY

Abstract

The research study investigates some of the problems or challenges faced by SMMEs in the Mafikeng and Mmabatho area of the North West province. It strives to find out the extent to which these problems occur and the impact they have on these businesses. The research focuses on a number of major problems considered to be hindering the growth of SMMEs in this area, namely the lack of entrepreneurial management, financial skills, accessing finance and the role played by lack of financial and mentoring support on the success or failure of SMMEs.

Some of the significant findings of this study are that the majority of the businesses fail because of lack of access to finance, lack of entrepreneurial skills and lack of mentoring support from the government. The government and banks should make it easier for SMMEs to access finance. The government should act as collateral for SMMEs to secure finance from commercial institutions. The government should involve the private sector in training SMMEs to acquire entrepreneurial skills. This will help SMMEs to run their businesses professionally and therefore become sustainable. This will impact positively to the economic growth, in terms of job creation to the entire province.

Acknowledgements

Thanks to God Almighty for giving me courage and perseverance to complete this research. Thanks to my family for always being with me, caring, loving and understanding. The following individuals are highly appreciated and acknowledged for their outstanding roles and contributions to the successful completion of this study:

Professor P Ackerman for his impeccable supervision.

The North West University graduate school staff for their encouragement and persuasiveness.

All the respondents who took their time to complete and return the questionnaires.

The Siphos for their uncompromising support and in particular to Kagiso

Maipelo, Setumo, Kgothatso thank you for your understanding.

Last but not least my mother, Motsei for always believing in me.

Table of contents

Chapter 1: Orientation	1
1.1 Introduction	1
1.2 Objectives of the study	6
1.3 Scope of the study	6
1.4 Importance of the study	6
1.5 Clarification of concepts	7
1.6 Plan of study	8
Chapter 2: Theoretical Foundation	9
2.1 Introduction	9
2.2 Advantages of running one's own business	9
2.3 Legal forms of business in South Africa	10
2.3.1 Sole proprietorship	10
2.3.2 Close corporation	11
2.3.3 Partnership	12
2.3.4 Private company	14
2.4 Survivalists and micro enterprises	15
2.5 Small business situation in the North West Province	18
2.6 Entrepreneurs in South Africa	18
2.7 Access to finance	21
2.8 Summary	21

Chapter 3: Literature review	22
3.1 Introduction	22
3.2 The size of SMMEs in South Africa	22
3.3 Government support to SMMEs	23
3.4 Perceptions of government support for SMMEs	24
3.5 Awareness, use and perceptions of government support for small enterprises	26
3.6 The need for entrepreneurial skills for SMMEs	33
3.7 Lending criteria of government and commercial institutions	34
3.7.1 Sizanani Advisory services	34
3.7.2 The department of trade and industry regional equity funds	34
3.7.3 The department of trade and industry black business supplier programme	35
3.7.4 The department of trade and industry empowerment scheme, credit guarantee scheme	35
3.7.5 The department of trade and industry standard scheme, credit guarantee scheme	36
3.7.6 Standard Bank	36
3.7.7 Nedbank	37
3.7.8 National empowerment fund	39
3.7.9 Khula Enterprise Finance Limited	40
3.7.10 National Empowerment Fund – Rural and community development	40
3.7.11 ABSA	42
3.8 Summary	44

Chapter 4: Problem statement	45
4.1 Introduction	45
4.2 Problem statement	45
4.2.1 Research question 1	47
4.2.2 Research question 2	47
4.2.3 Research question 3	47
4.3 Summary	47
Chapter 5: Research design and analysis	48
5.1 Introduction	48
5.2 Sampling technique	48
5.3 Measuring instrument	49
5.3.1 Advantages of a questionnaire	49
5.3.2 Disadvantages of a questionnaire	49
5.3.3 Validity	50
5.3.4 Reliability	50
5.4 Data collection	50
5.5 Data analysis	50
5.6 Ethical considerations	50
5.7 Limitations of the study	50
5.8 Summary	51
Chapter 6: Results	52
6.1 Introduction	52
6.2 Presentation of results	52
6.2.1 Demographic information	52
6.3 Summary	61

Chapter 7: Discussion, conclusion, and recommendations	62
7.1 Introduction	62
7.2 Realisation of the objectives of the study	62
7.2.1 How can the government and commercial institutions assist SMMEs to access finance easier?	62
7.2.2 What other ways can SMMEs be assisted to access finance?	63
7.2.3 What impact does financial and mentoring support have on SMMEs' success or failure?	64
7.3 Recommendations	65
7.3 Further research	66
7.4 Conclusion	66
Bibliography	67
Annexure	69
Appendix	70

List of tables

Table	Title	Page
Table 1.1	Classification of SMMEs according to industry, size, numbers of employees, turnover and asset value	4
Table 2.1	Number of people working on their own or with a partner	17
Table 2.2	Proportion of entrepreneurs in South Africa	18
Table 2.3	Number of entrepreneurs in South Africa	19
Table 2.4	Distribution of all enterprises and SMMEs by province	19
Table 2.5	Provincial share of enterprises by size	20
Table 3.1	What small enterprises think about government support	25
Table 3.2	Awareness and use of government small enterprise support	27
Table 3.3	Small enterprises perceptions of government support depending on awareness of programmes	29
Table 3.4	Small enterprises perceptions of government support depending on use of programmes	30
Table 3.5	Key qualifying criteria – Rural and Community development	41
Table 6.1	Government is doing its best to provide support to SMMEs in terms of finances	52
Table 6.2	Security a loan from bank easier	53
Table 6.3	It is possible to get finance for business without security or Collateral	53
Table 6.4	SMMEs fail to access finances because of lack of financial skills	54
Table 6.5	My business is financially sound	54
Table 6.6	Desired support for own business	55
Table 6.7	Businesses fail because of lack of capital	55
Table 6.8	Businesses fail because of lack of access of finance	56
Table 6.9	Businesses fail because of lack of demand for products	56
Table 6.10	Businesses fail because of lack of entrepreneurial skills	57
Table 6.11	Businesses fail because of high operating costs	57

Table 6.12	Businesses fail because of their location	58
Table 6.13	Location of the business	58
Table 6.14	Ages of the respondents	59
Table 6.15	Experience in business of the respondents	59
Table 6.16	Race of the respondents	60
Table 6.17	How did you finance your business	60

List of figures

Figure	Title	Page
Figure 3.1	Size of businesses in the 2004 SME Survey	24
Figure 3.2	Pyramid indicating access to financial institutions	43

CHAPTER 1: ORIENTATION

1.1 Introduction

Small, medium and micro enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa. Throughout the world one finds that SMMEs play a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. With the appropriate enabling environment, SMMEs in South Africa can follow these examples and make an indelible mark on this economy. The stimulation of SMMEs must be seen as part of an integrated strategy to increase the country's economy in a diversified way, enhancing productivity stimulating investment which will result in flourishing of entrepreneurship (White Paper 1995).

Small business is any business that is independently owned and operated, but that is not dominant in its field and does not engage in any new marketing or innovative practices (Carland in Nieman et al 2003:10). The limits of what constitutes a small business vary from one economy to the next. In developed countries entities with fewer than 500 employees are usually considered as small and medium enterprises, while in developing countries the thresholds are generally lower. In South Africa micro enterprises are occasionally described as businesses whose turnover is below the compulsory VAT registration limit of R300,000. A further distinction is the "survivalists" business which is generally defined as providing income only below the poverty line (Annual Review of Small Business in South Africa, 2004:28).

The contribution of small and micro - business to the economy of the country has not been sufficiently estimated, there can be little doubt about their relative significance (Statistics South Africa 2004). There is ample evidence that the labour absorptive capacity of the small business sector is high and the average capital cost per job created is usually lower than in big business (White Paper 1995).

The deputy minister of Trade and Industry (dti:2005) in her address at the Africa SMME Award said that, the creation of jobs has for a long time been the main rationale for government support of small businesses. This is based on the understanding that small enterprises are more likely than large enterprises or public sector institutions to employ labour either part-time, formal or on an informal basis. This may not always be the case, but on balance, SMMEs do engage labour and often utilise less formally skilled labour. Besides, individual enterprises often trigger other small-scale ventures, which create further jobs upstream or downstream (DTI October 2005). The minister further states that given the large number and wide geographical and sectoral spread of small enterprises, it is often argued that SMMEs can play a meaningful role in the creation and re-distribution of business as well as personal wealth in the economy.

In South Africa, where income and wealth are very unequally distributed, this potential role of small enterprises is socio-politically highly significant. All over the world this potential role of small enterprises has been held up as justification for public support for SMMEs. The issue of growth and economic empowerment has been placed high on the agenda of the current government of South Africa and small business should become an important vehicle in addressing the challenges of job creation, economic growth and equity (White Paper 1995).

Taking into account the very large micro-enterprise segment of the small business sector, as well as those struggling in survivalist activities it should be evident that the small business sector plays a crucial role in peoples' efforts to meet basic needs. This includes helping marginalised groups - like female heads of households, disabled people and rural families - to survive during the current phase of fundamental structural changes where the formal economy is unable to absorb the increasing labour supply and social support systems are grossly inadequate (White Paper). In the past, black people have been able to make far greater progress in the micro- and small-enterprise segments of the economy than in medium-sized and larger enterprises. Thus, the SMME sector has - all its impediments notwithstanding - proven to be a highly significant vehicle for black economic empowerment (White Paper).

SMMEs can make a great contribution in the development of a country. They can increase the earning power and improve the lives of citizens through self-empowerment. People generate incomes for their basic needs through small and micro enterprises. SMMEs are a good means of relieving the current problem of unemployment especially in developing countries. They provide opportunities to entrepreneurs to take advantage of their business skills as managers of their own businesses.

However there is a great problem or challenge in the sustainability of these SMMEs. They fail in their early stage of business life. They fail to fulfil their personal, financial and strategic goals. In South Africa unacceptable and disappointingly high number of small and micro enterprise fail during their early stage of operation (Nieman et al 2003). According to Nieman (2003) the largest number of small businesses fail during the first two year of their existence due to cash flow problems. They fail to stay profitable or generate income as planned. They fail to fulfil the targets like changing the lives of people engaged in it. People involved in SMMEs are not seen to be able to transfer from their initial situation to better business and life standards. It is therefore the purpose of this study to establish what the challenges or problems in the sustainability of small, medium and micro enterprises are, and the role played by lack of access to finance in the success or failure of businesses.

Table 1.1, shows the classification of small, medium and micro enterprises according to different sectors. It indicates the type of industry SMMEs are involved in, size and class of SMMEs, total full – time equivalent of paid employees, total annual turnover, and total gross asset value (fixed property excluded).

TABLE 1.1 CLASSIFICATION OF SMME'S ACCORDING TO INDUSTRY, SIZE, NO OF EMPLOYEES, TURNOVER AND ASSET VALUE

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees <i>Less than:</i>	Total annual turnover <i>Less than:</i>	Total gross asset value (fixed property excluded) <i>Less than:</i>
Agriculture	Medium	100	R4.00m	R4.00m
	Small	50	R2.00m	R2.00m
	Very small	10	R0.40m	R0.40m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00m
	Small	50	R 7.50 m	R4.50m
	Very small	20	R 3.00 m	R1.80m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance and Business Services	Medium	100	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

<http://www.polity.org.za/html/legislation/1996/act96-102.html>

SMMEs as enterprises fulfil an economic role by contributing to a country's national product by either manufacturing goods of value or through the provision of services to both consumers and/ or other enterprises. This encompasses the provision of products, and to a lesser extent, services to foreign clients, thereby contributing to overall export performance (Trade and Industry Monitor: 2003).

Compared to big business in South Africa and other countries, small businesses face a wider range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies. The constraints relate, among others, to the legal and regulatory environment confronting SMMEs, the access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, the quality of the business infrastructure in poverty areas and, in some cases, the tax burden. In the South African context the constraints have been particularly hard on entrepreneurs in rural areas and on women (White Paper).

Entrepreneurship can be viewed as a function, which involves the exploitation of the opportunities existing in the market. Such exploitation is mostly commonly associated with the direction and combination of productive inputs while an entrepreneur is defined as an individual who has the ability to identify opportunities in the environment to exploit and manage those opportunities. In the recent times, there has been rising entrepreneurial activity due to innovations in microelectronics, computers, telecommunications and information technologies. Political and economic factors also play a role, local conditions can also stimulate entrepreneurship. Tax rates are another big factor. Many entrepreneurs are small business owners. Throughout the world, small businesses have been recognised as an important sector for social and economic development of a country (GEM:2004).

Access to finance is typically a major problem for entrepreneurs without a track-record or without any form of guarantee. The extent to which the financial system understands and supports people starting and growing new businesses is therefore a critical factor influencing entrepreneurship. Access to financial resources is regarded as the most important constraint facing small business and emerging entrepreneurs in this country [The Global Entrepreneurship Monitor (GEM: 2004)].

1.2 Objectives of the Study

Financial institutions will not advance any money for the establishment of new business undertakings without obtaining sufficient security or collateral. In most instances the entrepreneur cannot meet these requirements. The study focuses on establish how the government and commercial institutions can assist SMMEs to access finance easier.

This study also focused on finding an alternative to the conventional ways of financing entrepreneurs where proper security and substantial own contribution is required. The currently existing financing system does not make provision to accommodate emerging entrepreneurs from historically disadvantaged communities simply because they cannot meet the lending criteria. The study also focused on determining the role played by lack of financial and mentoring support in the failure/success of SMMEs.

1.3 Scope of the Study

The study was limited to the Mmabatho – Mafikeng area of the North West province and to businesses employing not more than 100 workers. Therefore, the findings of the study cannot be generalised to all the SMMEs employing less than 100 workers in the whole of the North West province or South Africa; they apply only to those in the Mafikeng and Mmabatho area.

1.4 Importance of the Study

The study sought to investigate some of the problems and challenges faced by SMMEs in the Mafikeng and Mmabatho area of the North West province. It aimed at finding out the extent to which these critical issues occur and the impact they have on small businesses situated in this area in accessing finance.

The results of this study will be communicated to the relevant departments and organisations to enable them to have a better idea of what causes the lack of access to finance and subsequently the failure in most of the SMMEs in the area.

The study may then assist government and the business community to devise means and ways of overcoming some of the problems and challenges small businesses are facing in the Mafikeng and Mmabatho area.

1.5 Clarification of Concepts

Entrepreneur: An individual who establishes and manages a business for the main purpose of profit and growth. An entrepreneur is characterised by innovative behaviour and will employ strategic management practices in the business (Nieman et al 2003).

Entrepreneurship: The emergence and growth of new businesses; it is the process that causes changes in the economic system through innovations of individuals who respond to opportunities in the markets (Motlatla et al 2000).

Micro enterprises: Very Small Businesses, often involving only the owner, some family members and at the most one or two paid employees (White Paper 1995).

Small enterprises: These constitute the bulk of established business, with employment ranging from five to about 50. The enterprises are usually managed by the owner or directly controlled by the owner community (White Paper).

Medium enterprise: This constitutes a category, which is difficult to demarcate between the small and big business categories. It is still viewed as basically owner-managed or controlled though the shareholding or community control base could be more complex. The employment of 200 staff and capital assets (excluding property) of about R5 millions are often seen as the upper limit (White Paper).

Survivalist: These are the working poor such as petty traders, street vendors and shoe shiners. They have very little educational background and come from the poorest areas of the economy. They do have entrepreneurial characteristics that can contribute to the development of the economy but most of them end up as small and micro enterprises targeting on mere survival. Their growth is limited by a lack of skills, knowledge and resources.

Small Business: Any business that is independently owned and operated, but is not dominant in its field and does not engage in any new marketing or innovative practices (Nieman et al 2004). According to the National Small Business Act 102 of 1996, a small business covers all sectors of the economy as well as type of enterprises and consists of two parts – qualitative and quantitative criteria. According to the qualitative criteria a small business must:

- Be a separate and distinct business entity;
- Not be part of a group of companies;
- Include any subsidiaries and branches when measuring the size;
- Be managed by its owners;
- Be a natural person sole proprietorship; partnership or legal person such as a Close Corporation or Company. The qualitative criteria classify businesses into micro, very small, small and medium.

“Unbanked”: these are people who do not have a bank account. (Develop report 2005).

1.6 Plan of Study

The study is divided into 7 chapters.

Chapter 1: Orientation

Chapter 2: Theoretical foundation

Chapter 3: Literature review

Chapter 4: Problem statement

Chapter 5: Research design and analysis

Chapter 6: Results

Chapter 7: Discussion, conclusions and recommendations

The next chapter focuses on theories that have a bearing on this study.

CHAPTER 2: THEORETICAL FOUNDATION

2.1 Introduction

This chapter reflects the theories of entrepreneurship and SMMEs, and advantages and the disadvantage of running one's own business. It focuses on the different forms of businesses in South Africa namely, sole proprietors, partnerships, close corporations and companies. The nature and number of SMMEs in the Republic of South Africa are also discussed.

2.2 Advantages of running one's own business

It is common belief that few people get rich working for someone else. Running one's own business gives one the opportunity to make more money, although becoming wealthy depends on the success one makes of it. Depending on the success of the business the owner of the business can determine the amount of money to take as a salary and can also claim for extra benefits. It is known that big businesses were small businesses that succeeded. In running an own business, most entrepreneurs are not focusing only on making more money but also the freedom that comes from becoming their own boss. Entrepreneurs are independent, can plan the business and run it on a day-to-day basis in the manner they can manage, as well as giving them an opportunity to work in the field of their choice. It is also a fact that self employed people have more tax allowances against income than employees.

A small business has benefits, however in setting or owning a small business, the business owner must face an equal or even a greater number of disadvantages. The disadvantages encountered by small businesses are often directly linked to improper planning and misuse of funds. These disadvantages include the following:

- The inability to hire qualified employees
- Lack of funds for expansion
- Tax burdens
- Limited or non-existent credit suppliers

- **High costs for advertising and**
- **Coping with competition**

(Barrow 1998)

There is greater risk in running a business than working for someone else because the failure of a business may result in huge losses including one's job. This may come in forms of financial hardship in case a business owes money, the hard work would have been to no avail which would be a great disappointment to an entrepreneur. The failure of a business may result in one having to sell one's assets, including one's home and may also lead to bankruptcy. An entrepreneur becomes totally responsible for the success or failure of his or her business causing huge stress, constant pressure and long hours of work. This may drastically affect one's social and family life and one's health. These businesses encounter problems of competition, recruiting or retaining employees, management succession, new product development, investment in new premises and equipment, raising capital, environmental considerations and family succession (Barrow, 1998).

2.3 Legal forms of businesses in South Africa

2.3.1 Sole proprietorship

This happens when there is only one person owning the business. The owner conducts business in his or her own personal capacity and therefore do not have to register the business as a legal entity (Nieman et al 2004:114). Any individual starting a business but does not wish to be troubled by legal formalities would choose this form of business ownership. A trading license is normally required as well as registration with the South African Revenue Service. The owner is taxed, based on the income generated by the business and does not have the protection of limited liability. There is no limit on the liability of the business and in the event of liquidation, the present possession of the owner's assets (both business and personal) is liable to be lost to the creditors.

The advantage of this form of business is its simplicity in starting. This is because there are hardly any legal statutory requirements other than those that apply in the

normal form of a business. The biggest disadvantage is that the owner is personally liable for all debts and liabilities of the business. This means there is a chance of losing personal assets such as a house and other belongings. The business ceases to exist once the owner decides to sell the business or dies (Nieman et al: 114).

2.3.2 Close Corporation

A close corporation is a simplified form of a limited company. It is a fairly recent innovation, brought into existence to meet the needs of small undertakings to incorporate without forcing them to comply with all the rigid requirements that apply to a larger company. It has a legal personality with perpetual succession and the legal capacity and powers of a natural person. It has its own assets and liabilities distinct from those of its members. The members' liability in respect of the debts of the corporation is generally limited to the amount of the contribution that they have made to the corporation as set out in the funding statement. It is a simple procedure to form a close corporation, as a funding statement is all that is necessary.

A close corporation must have at least one member with the total number of members not exceeding ten and the members must be natural persons. It means companies; societies or clubs cannot be members of a close corporation. All the members of a close corporation participate in management unless otherwise stated in the association agreement. A close corporation has to be registered with the Registrar of Close Corporations. Members must adhere to the Close Corporation Act 69 of 1984. The name of the business is followed by an abbreviation "CC" in English and "BK" in Afrikaans. In a CC there is an association agreement that must be drawn up in writing and signed by each member. The rules governing the internal relationship of a CC may be changed if the association agreement allows this.

Close corporations do not have a separate board of directors but the members can participate in the management of the business. The equivalent of company dividends can only be paid to the members of a close corporation if the company is both solvent and liquid. There will be payments only if the assets exceed the liabilities, this means liabilities will first be paid. If there are extra assets, payments will be made to members accordingly.

A close corporation pays tax at company rates while members are not taxed on distributed profits or dividends and it is taxed like a company. A close corporation is not subject to audit but an accounting officer must be appointed. According to Nieman et al (2004: 116) the most important advantage of this type of business is a minimal amount of formation and administrative requirements. A close corporation is only obliged to keep proper accounting records and prepare annual financial statements. It is not necessary to conduct or audit unless its members want to do so. Another advantage is that unlike companies, close corporations are only punished on limited offences.

According to Small Enterprises Development Agency (SEDA) (March 27, 2006) disadvantages of a Close Corporation (CC) are that there are more administrative requirements than sole trader or partnership. It is limited to a maximum of ten members. If one has one main client, the taxman may classify him or her as an “employment broker” or “personal service company”, which can lead to crippling tax complications. Banks sometimes regard the financial statements of close corporation with some skepticism and the taxman watches them more closely than sole trader or partnership. Potential customers may ask for regularly audited financial statements as a contractual condition. A series of audited annual results are useful for valuing the business.

2.3.3 Partnership

This is when two or more people usually a maximum of twenty (Eksteen et al 2006:3), put their resources together for the purpose of conducting a business. There are no major formalities to establishing a partnership and verbal or written agreement is enough to establish a partnership. However it is recommended that a written partnership agreement be drawn up by an attorney because it prevents misunderstandings and disputes among members. The agreement should contain the names of the partners, the nature of the business, the contribution and remuneration of the partners and the division of profits and other property. For partnership agreement to be valid it must meet certain requirements.

Firstly, the partners must share a common purpose of financial gain. If there is a partnership, the motive is profit making. This means partnerships cannot be established “in the case of promoting arts and culture or a charity, because the purpose is not a profit”. Secondly, the business in the case of a partnership must always be to the common advantage of its members, as they share benefits among themselves. Thirdly, each member or partner must contribute to the partnership. The contribution can be a financial skill or any other. In whatever way the contribution differs, the sum of the contribution must benefit the business in a way that helps to synergise it. For instance, if one is skilled and the other has the capital, the partnership can benefit both of them (Eksteen et al 2006:3).

A partnership does not have legal personality. Partners do not have the protection of limited liability and are personally, jointly liable for the debts of the business or any action taken by its members. They are taxed on their individual share of the income generated by the business. Though a partnership is easy to set up there are some administrative problems. If one partner dies or leaves, the whole partnership is dissolved and a new partnership agreement has to be drawn up (Eksteen et al 2006:4).

The advantages of a partnership are that, the combining of capital strengthens the financial position of the business and enables it to expand. The partners combine their special skills and abilities and each one can specialize on the aspects for which he/ she is best suited. The formalities and procedure involved in commencing a partnership are simple and inexpensive. The unlimited liability of the partners acts as an incentive to each to do his best to make the venture a success. Since partners are jointly severally liable for the debts of a partnership, it is easy to raise loans or obtain credit, because partners work with their own money only, they are free of all the legal restrictions and supervisory measures imposed on public companies for the protection of the investing public. The capital of partnership can be increased, reduced or withdrawn without the legal procedures applicable to companies (Eksteen et al 2006:5).

The main disadvantage of partnership is that the number of partners is limited to twenty, hence they cannot raise capital large enough to establish really larger concerns, the second advantage is that there is no continuity because when a partner

retires or dies, the partnership has to be dissolved and a new one formed. Thirdly each partner is an agent of the business and as such he or she binds his or her co-partners by his or her actions. The poor judgement or dishonesty of a partner may therefore cause serious financial loss to others.

Further partners are jointly and severally liable for the debts of the partnership, thus involving even their private possessions. The misfortunes of one partner can therefore affect the other very adversely (except in the case of limited partners). Finally urgent decisions cannot always be made quickly because all the partners have to be consulted first. As a result opportunities to engage in profitable transaction may be lost (Eksteen et al 2006:5).

2.3.4 Private Company

If the company is a profit making business it is without share capital and profit making companies may take either a private or public form. A private company is usually used to form a small business and differs from a public company in that capital cannot be acquired by the selling of shares to the general public. A private company is registered with the registrar of companies and followed by words "Proprietary Limited" or the abbreviation "(Pty) Ltd". The law restricts the transfer of its shares and is limited to a minimum of one shareholder and one director and a maximum of 50 shareholders. With regard to a private company, the most important advantage is that it is a legal entity, separate from its shareholders. Members have limited liability and there is perpetual succession i.e. the legal personality of the company lives beyond the lives of its shareholders. A private company is not forced to disclose information to the public. For instance it has to prepare financial statements but does not have to publish them (Eksteen et al 2006:6).

The advantages of a private company are, one, that the liability of shareholders is limited. It is not subject to restrictions laid upon public companies which are intended to protect the public, e.g. it is not compelled to hold statutory meetings. Secondly, the company is eminently suited to undertakings in which secrecy is an important requisite. Further, no minimum subscription is required and the private company may commence business immediately on receipt of the certificate to commence business.

A private company is a very suitable form of ownership for persons who have initiative, but limited capital. The membership may be increased to fifty persons and consequently adequate share capital can be raised. A private company is eminently suited to undertakings where to expertise of a family or a number of relatives or a group of persons can be exploited for business purpose (Eksteen et al 2006:7).

The disadvantages of a private company are, firstly, that they are not allowed to appeal to the general public to subscribe to their shares and consequently their capital is limited to what, at most, fifty persons can contribute. Secondly, their shares are not freely transferable and cannot be listed and dealt with on the Johannesburg Stock Exchange. Private companies pay income tax and the shareholders pay tax on their dividends. A private company and its shareholders are therefore subject to double taxation. The private company is not eminently suitable as a form of ownership for very large business undertakings (Eksteen et al 2006:8).

2.4 Survivalists and micro enterprises

These enterprise are involved in a few income-generating activities conducted by people with no knowledge about or skills in the business in which they are involved. Roadside car washers, street hawkers and shoeshine boys are among them and their usually referred to as the informal sector. Researchers' interest in the informal sector started in the 1970's after the publication of the International Labour Office/ United Nations Development Programme (ILO/ UNDP) report on Kenya. In this report the positive role played by these sectors was recognised for the first time. Although most academics do not agree on the entrepreneurial qualities of these participants, they meet the criteria of the definition. They do have entrepreneurial characteristics and most of them end up as small and micro enterprises bordering on mere survival. Their propensity to create employment or growth is limited by a lack of skills and resources (Nieman et al 2004: 36)

Informal entrepreneurs are not recognised by the mainstream business enterprises and in all cases are denied the basic inputs they desperately need to develop their business enterprises. They come from the very poorest of poor areas of the economy and they have no formal training and very little educational background. They are denied

banking facilities by the established banks and the government only pays lip service to solving their problems. An informal business enterprise is one that requires no formality to establish and can be operated from anywhere, for example, the owner's home. Depending on the nature of the business enterprise, the capital is very little for example a day's wages is enough to start the venture.

Most enterprises are mainly started to provide the basic daily necessities. They are often regarded as a nuisance, obstructing the flow of commerce and are unwelcome proof of the countries under-development. Yet street vendors contribute positively to the economy by distributing a significant share of goods and services at low prices, thus helping consumers in the low to medium income brackets (Nieman et al 2004: 37).

The informal and survivalist entrepreneurs mostly come from the rural areas in South Africa. They are involved in the most diversified sector of the economy and include trading, retailing, handcraft, farming, food vending – like fruit and vegetables, hair dressing, phone services, typing, sewing, brick-making, construction and manufacturing. The level of formal education is very low: most have dropped out of school by or before completing grade 12. As a result most of them cannot even comprehend the legislation placed before them. Every written document must be interpreted for them. Demographically, it is the most impoverished environment since most informal and survivalist entrepreneurs live in shacks and mud houses.

Micro enterprises

Micro enterprises are very small businesses, often involving only the owner, some family members and at the most one or two paid employees. They usually lack formality in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, growth phase of the business and access to relevant supports (White Paper 1995).

Small enterprises

Small enterprises constitute the bulk of the established business, with employment ranging from five to about 50 (Eksteen et al 2006). The enterprises are usually managed by the owner or directly controlled by the owner community. They normally operate from business or industrial premises, register the government and meet other formal registration requirements. Classification of small businesses in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.

Medium enterprises

Medium enterprise constitutes a category, which is difficult to demarcate between the small and big business categories. It is still viewed as basically owner-managed or controlled though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 millions are often seen as the upper limit. Table 2.1 provides the estimates of people who defined themselves as employers on self employed (Stats S.A. LFS 2004).

Table 2.1 Number of people working on their own or with a partner

Number of persons of working age (15-65) working on (their) own or with a partner, in any type of business (including commercial farms)	1,824,000
Number of persons of working age (15-65) working on (their) own small farm plot or collecting natural products from the forest or sea	302,000
Number of elderly persons (65+) who run or do any kind of business, big or small, for (themselves)	61,000
Number of elderly persons (65+) who do any work in (their) own or the family's plot, farm, food garden, cattle post or kraal, or help in growing farm produce or in looking after animals for the household	47,000
Number of persons who do any construction or major repair work on (their) own home, plot, cattle post or business, or those of the family	22,000*
TOTAL	2,256.000

The dti Annual review of Small Business in South Africa (2004)

*This number relates only to persons of working age. For elderly persons, the figure found in the survey is too small for a reliable estimate. Potentially, this gives a total number of employers or self-employed, including subsistence farms and home builders, of 2.26million. It must be noted though that this only describes people's main activity, so that an individual who owns a business in addition to his employment, may not be captured here.

2.5 Small business situation in the North West Province

According to the North West Province Development Strategy (1998), more than 95% of small business owned by blacks are informal. These businesses are characterized as "survivalist" small business which however lack of appropriate skills and knowledge of effective management. It is however evident that the concentration of small businesses is in urban areas as small businesses in rural areas do not have appropriate social infrastructure and the demand for their goods is low. The businesses also lack appropriate entrepreneurship and financial skills to develop further.

2.6 Entrepreneurs in South Africa

Table 2.2 reflects the percentages of the proportion of entrepreneurs in the country.

Table 2.2: Proportion of entrepreneurs in South Africa

Proportions of adults currently:	
Starting a business	3.90%
Running a business less than 3.5 years old (new firms)	1.60%
Running a business older than 3.5 years (established firms)	1.40%

The dti Annual review of Small Business in South Africa (2004)

Table 2.3 reflects the number of entrepreneurs in the country.

Table 2.3: Number of entrepreneurs in South Africa

Number of adults currently:	
Starting a business	0.98m
Running a business less than 3.5 years old (new firms)	0.40m
Running a business older than 3.5 years (established firms)	0.35m
Total	1.73m

The dti Annual review of Small Business in South Africa (2004)

These are estimates based on the Global Entrepreneurship Monitor reports. It must be noted that since the criterion for 'new' or 'established' firms is the payment of wages or salaries, one-person business which are not formally paying salaries to their owners, or informal businesses whose employees are not paid, may not be recorded in these estimates (dti Annual Report 2004).

Table 2.4 Distribution of all enterprises and SMMEs by province

PROVINCE	PERCENTAGE OF ALL ENTERPRISES IN SA	NUMBER OF SMMEs	PERCENTAGE OF TOTAL NUMBER OF SMMEs IN SA
GAUTENG	38.6	414166	38.4
KWAZULU-NATAL	16.7	198749	18.4
WESTERN CAPE	12.6	144749	18.4
EASTERN CAPE	8.2	94253	8.7
NORTH WEST	4.1	56117	5.2
MPUMALANGA	7.0	53636	5
LIMPOPO	6.4	49985	4.6
FREE STATE	4.7	49335	4.6
NORTHERN CAPE	1.7	19791	1.7
RSA	100	1079627	100

ENTERPRISE (2004)

The information in table 2.4 shows that Gauteng is the leading province in the total number of SMMEs followed by Kwazulu-Natal and the Western Cape.

Table 2.5 Provincial share of enterprises by size

Province	Survivalist	Micro(O)	Micro(1-4)	Very small	Small	Medium	Large
WesternCape	8.6	15.4	8.6	15.4	12.4	16.3	11.8
Eastern Cape	9.8	9.5	12.6	8.2	5.6	5.1	6.4
Northern Cape	1.5	1.2	3.9	1.8	1.5	1.2	1.7
Free State	5.4	33	5.5	4.9	5.5	3.3	5.6
Kwazula Natal	6.1	18.8	21.4	18.2	17.6	16.9	17.9
North West	6.5	5.4	4.4	4.1	3.8	3.1	2.5
Gauteng	19.6	36.7	32.5	40.8	46.1	45.4	49.71
Mpumalanga	21.7	3.8	4.6	3.7	4.9	5.7	4.7
Limpopo	20.8	5.9	6.8	2.9	2.6	2.4	4.8
RSA	100	100	100	100	100	100	100

ENTERPRISE (2004)

The data in table 2.5 show that the proportion of formal businesses to the provincial population is highest in Gauteng followed by the Western Cape.

2.7 Access to finance

Access to finance comes out as one of the most urgently felt needs. Other problem areas like marketing, technical skills, poor product, quality and weak management often aggravate the financial position of small enterprises and hamper their access to funds. The financial needs of different types of SMMEs vary widely, with access problems particularly severe in rural areas, among start-up micro enterprises and among those owned or controlled by women as well as other formally disempowered groups. This is also the case in certain higher-risk business categories. These business experience high transaction costs, lack of access to credit for working capital and for investment purposes.

2.8 Summary

The theoretical foundation for the study was given in chapter two. Chapter 3 reflects the literature reviewed for this study.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

This chapter reflects the literature reviewed for this study.

3.2 The size of SMMEs in South Africa

SMMEs constitute 97,5% of all businesses in South Africa and they generate 34,8% of the Gross Domestic Product (GDP). These businesses venture contribute to 42,7% of the total value of salaries and wages paid in South Africa and employ 54,7% of all formal and private sector employees (Nieman et al 2004: 3).

The small business sector contributes to the economic and social growth of a country. The sector exerts a positive influence on the economies of all countries particularly in the fast changing and increasingly competitive global market. SMMEs are recognised as playing a fundamental role in the advancement of prosperity in communities. In a study conducted by Driver et al (Nieman 2004: 28) it was found that one in 18 South African adults are entrepreneurs as measured by the Total Entrepreneurial Activity (TEA) index.

Access to appropriate finance is a major constraint on the successful development of SMMEs in South Africa and in most developing countries. Too many creative ideas are not developed into viable new ventures due to lack of finance (DTI annual review 2004). The government of South Africa has designed incentives, subsidies and schemes that have improved SMMEs access to finance through the DTI and Khula Enterprise Finance. However a significant number of SMMEs are still not able to access affordable start-up and expansion finance. The reasons for such problems are summarised as follows:-

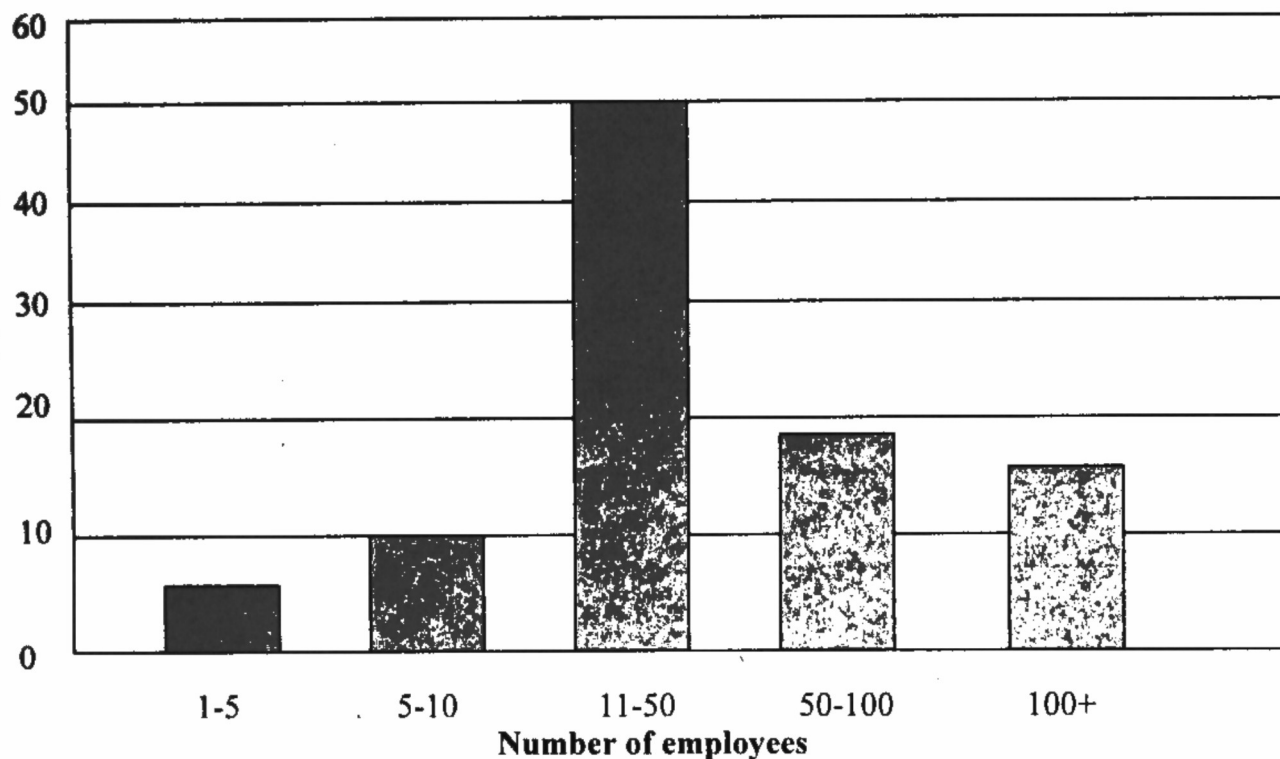
- Risk aversion of the banking sector towards SMMEs. SMMEs are traditionally seen as high-risk borrowers. The high number of SMMEs business failures exacerbates this view.

- There is a decline in micro finance institutions (MFI). Only a few are providing finance to SMMEs.
- Inadequate funding proposals and business plans. Proposals and business plans are not researched, prepared and presented properly (Enterprise 2004: 65).

3.3 Government support to SMMEs

Since 1994 the government has devoted considerable resources to supporting small enterprises. However, experts interviewed by GEM (2004) and independent surveys have been critical of the quality and reach of this support. A 2004 national survey of small enterprises provides, for the first time, overwhelming confirmation that the government is failing to reach most small enterprises. According to the survey, small enterprises are either unaware of or do not use the services offered by the government. Where they do use government support, small enterprises are sceptical about the quality of this support. The government needs to focus much more attention on delivering quality services to small enterprises. This is most likely to entail a reduction in direct service provision and a move towards facilitating efficient business development service markets (GEM 2004).

Figure 3.1 show the size of businesses according to the 2004 SMME survey it refers to the number of employees in relation to percentage they contribute to the SME sector.



Goldstuck, 2004, SME Survey

Figure 3.1: Size of businesses in the 2004 SME Survey

3.4 Perceptions of government support for SMMEs

Most of the businesses surveyed believe they are competitive. Nearly 86% of the businesses surveyed thought they were somewhat competitive or very competitive, 12% thought they were neither competitive nor uncompetitive and only 2% thought they were somewhat or extremely uncompetitive. However, small enterprises do not ascribe their competitiveness to the efforts of the government. Less than one in ten of the respondents rated the government's overall effort to promote small enterprises as effective. The findings of the SME survey suggest that this is at least in part to do with poor communication with nearly three-quarters of the sample giving the government a poor rating for the way in which it communicates these efforts.

At the heart of the survey businesses were asked to rate the impact of various government initiatives, from support programmes to legislation and regulation, on the ability of companies to survive or grow. The respondents were asked to provide answers on a scale from 1-5: 1 (very poorly), 2 (poorly), 3 (neither poorly nor well), 4 (well) and 5 (very well). Table 3.1 summarises the responses. Scores of 1 and 2 have been combined as negative; 4 and 5 as positive and 3 is neutral.

Table 3.1: What small enterprises think about government support

	Positive (% sample)	Neutral (% sample)	<i>Negative</i> (% sample)
Overall promotion of small enterprise	9	29	62
Communication of small enterprises incentives	7	22	71
Communication of legislation	9	26	65
Impact of government incentives in general	12	26	62
Impact of enterprises support structures	18	28	54
Impact of export incentives	25	24	51
Impact of BEE preferential procurement	23	30	47
Impact of labour Legislation	23	33	44
Impact of black economic empowerment	28	29	43
Impact of Legislation in general	21	38	41
impact of import/ export Legislation	34	26	40
Impact of skills development programmes	29	33	38

Answers were on a scale of 1-5 (very poor), 2 (poor), 3 (neither poorly nor well), 4 (well), 5 (very well). Answers of 1 and 2 are classified as Negative; 3 as Neutral and 4 and 5 as Positive

Goldstuck, 2004, SME survey

Table 3.1 reflects the extent of negative perceptions of government efforts to support small enterprises as immediately obvious in that 62% of the sample gave the government's overall promotion of small enterprises a negative rating. In part this reflects a problem of communication. Further 71% of enterprises rated the

government's communication of incentives as negative and 65% rated their communication of legislation as negative.

However, it is not just perception, 62% of the businesses surveyed rated the impact of government incentives in general as negative, 54% rated the impact of small enterprise support services as negative and 51% rated the impact of export incentives as negative. In contrast, their rating of the Sector Education Training Authorities (SETAs), import and export legislation and legislation in general and black economic empowerment was slightly less negative. Import and export legislation had the highest positive rating, with 34% of businesses surveyed giving this a positive rating. This was followed by the SETAs and the impact of black economic empowerment. In a number of instances there were a large proportion of businesses that were neutral about the services offered by government.

In most cases a quarter or more of the respondents were neither positive nor negative about the government services on offer. In the case of the impact of legislation in general, the SETAs, labour legislation and preferential procurement, 30% or more of the businesses gave the government a neutral rating. Combined with the very poor ratings of the government's communication of legislation and incentives this suggests that the government could achieve significantly higher ratings amongst small enterprises by communicating its legislation, incentives and support for small enterprises more effectively.

3.5 Awareness, use and perceptions of government support for small enterprises.

Table 3.2 shows the percentages of SMMEs that were aware, and those that have used government support for SMMEs.

	Heard of (% sample)	Used (% sample)
SETAs	61	32
Competitions Fund	32	11
Industrial Development Corporation	45	7
Export Incentives	12	2
Manufacturing Advisory Centres	11	1
Ntsika	13	1
Khula	9	1
Brain	9	1
Umsobomvu	4	1

Goldstuck, 2004, SME survey

It is evident that government efforts to promote small enterprises are not well regarded by the firms responding to the SME Survey. One reason for this might be that small enterprises are unaware of government initiatives to support them or, even if they are aware of them, have not used them. Table 3.2 shows the proportion of the respondents who had heard about the government's main small enterprise support programmes.

Both awareness and use of government support is extremely low. Since 61% of the businesses surveyed had heard about the Sector Education Training Authorities (SETA), 45% had heard about the Industrial Development Corporation (IDC) and 32% had heard about the Competitiveness Fund. However, awareness rates for the other programmes were less than 15% and in the case of Khula, Brain and Umsobomvu awareness was below 10%. Use of government services was also

extremely low, just less than a third of the businesses surveyed had used the SETAs. Less than 12% of the businesses surveyed had used the other services. In the case of the Manufacturing Advisory Centres (MAC), Ntsika, Khula, Brain or Umsobomvu, less than 1% of the businesses surveyed had used these services.

The presiding discussion reflects that the SME survey's sample may be biased towards larger urban businesses. Therefore it could be suggested that the survey does not accurately reflect use and awareness in the whole small and medium enterprise sector. However, the inclusion of rural enterprises would in all likelihood decrease the rate of use and awareness.

The SME Survey allows for an exploration of the relation between awareness and use of government support initiatives and levels of satisfaction with the government's overall support to small enterprises. For example, whether or not businesses are aware of or have used particular government services more likely to rate the government's overall effort to support small enterprises as effective: If it is the case, this would suggest that the answer to improving perceptions of government support to small enterprises lies in improved levels of awareness and use of government initiatives to support small enterprises. If not, then the government needs to look not only to improved awareness but also to improved delivery (GEM 2004).

Table 3.3: Small enterprises' perceptions of government support depending on awareness of programmes

Programme	Aware. Of programme	Negative	Neutral	Positive
Brain	Not aware	63	29	9
	Aware	60	31	9
Competitiveness Fund	Not aware	63	29	9
	Aware	62	30	8
Industrial Development Corporation	Not aware	63	29	9
	Aware	62	30	8
Khula	Not aware	63	29	8
	Aware	60	26	14
Manufacturing Advisory Centres	Not aware	62	29	9
	Aware	63	29	8
Ntsika	Not aware	63	28	6
	Aware	56	33	11
SETAs	Not aware	64	28	8
	Aware	61	30	9
Umsobomvu	Not aware	63	29	8
	Aware	43	41	16
Export Incentives	Not aware	62	29	8
	Aware	62	28	10

Goldstuck, 2004, SME survey

Table 3.4: Small enterprises' perceptions of government support depending on use of programmes

Programme	Used of programme	Negative	Neutral	Positive
Brain	Did not use	63	20	9
	Used	37	58	5
Competitiveness Fund	Did not use	63	29	9
	Used	60	31	9
Industrial Development Corporation	Did not use	68	20	9
	Used:	59	31	9
Khula	Did not use	62	20	8
	Used	59	22	19
Manufacturing Advisory Centres	Did not use	62	29	9
	Used	61	31	8
Ntsika	Did infuse	62	29	8
	Used	54	25	21
SETAs	Did not use	64	20	8
	Used	60	30	10
Umsobomvu	Did not use	63	20	8
	Used	27	40	33
Export Incentives	Did not use	63	29	9
	Used	48	43	10

Goldstuck, 2004, SME survey

Tables 3.3 and 3.4 show the proportion of the respondents who were positive, neutral and negative about the effectiveness of the government's overall efforts to support small and medium enterprises, depending on whether they were aware of specific government programmes (Table 3.3) and had used such programmes (Table 3.4). For example, Table 3.3 shows that of those small enterprises that were not aware of Brain, 63% were negative about the government's overall support of small enterprises compared to 29% who were neutral and 9% who were positive. For those small enterprises that were aware of Brain, 60% were negative about government's overall support for small enterprises, 31% were neutral and 9% were positive.

Similarly, Table 3.4 shows that of those businesses that had not used the Industrial Development Corporation, 63% were negative about the government's overall support for small enterprises, 29% were neutral and 9% were positive. For those small enterprises that had used the Industrial Development Corporation, 59% were negative about the government's overall support for small enterprises, 31% were neutral and 9% were positive.

In seven out of nine of the government services identified in Table 3.3, the proportion of businesses that rated the overall effectiveness of government's small enterprise support as negative declined amongst those businesses that were aware of the government services. However, in most cases the decline was small and unlikely to be statistically significant. Only in the case of Umsobomvu and Ntsika was awareness associated with a large decline in the proportion of businesses that rated the overall effectiveness of government support as negative.

In five out of the nine services identified there was an increase in the proportion of the businesses that rated the government's overall small enterprise support as positive. Again, however, most of these increases were small and unlikely to be statistically significant. Umsobomvu and Ntsika showed the largest increase in businesses rating the overall effectiveness of government support as positive. Even though awareness of Ntsika and Umsobomvu is associated with an increase in the proportion of businesses that are positive in their rating of the overall effectiveness of government support, the absolute proportion of businesses that are positive about government support remains very low (11% and 16% respectively).

Overall, therefore, awareness of a government service does not appear to result in businesses being more likely to be positive in their assessment of the effectiveness of the government's overall support of small enterprises. Use of government services is associated with a decline in the proportion of businesses that rate the overall effectiveness of government support for small enterprises as negative in all nine services identified in Table 3.4. In four of these services the decline in the share of businesses that are negative about government support is large. The share of businesses that are negative about the government's overall efforts to support small

enterprises declines with use of the service by 36, 26, 15 and 8 percentage points respectively for Umsobomvu, Brain, export incentives and Ntsika.

However, while the use of Brain and export incentives is associated with a decline in the share of businesses that rate the government's overall support as negative, this is mainly due to an increase in the share of businesses that are neutral about the government's overall support of small enterprises. The share of businesses that rate the overall effectiveness of the government support for small enterprises as positive increases with use for five out of nine of the government support services identified in Table 3.4. There is therefore some evidence that use of a service is associated with a lower negative rating of the government's overall efforts to support small enterprises. However, only in the cases of Umsobomvu, Ntsika and Khula is this increase large. Furthermore, with the exception of Umsobomvu users, businesses that have used government services are still overwhelmingly negative in their assessment of the effectiveness of the government's overall support to small enterprises.

In the Sowetan (May 17 2006) Motsoeneng comments that not only black farmers are faced with volatile grain prices, they also have to deal with insufficient government support, experts said yesterday. Speaking at the National Association of Maize Producers' (Nampo) agricultural expo in Bothaville, Siegfried Maier(May 2006), first National Bank's FNB Free State provincial executive, said emerging black farmers were battling to stay in business because the start-up capital was often not enough to keep them sustainable. Even the government subsidies to protect them from being squeezed out by bigger farmers were not enough to offset the cost of purchasing new farming machinery such as tractors and expensive irrigation equipment. Maier said many emerging black farmers had no option but to turn to contractors, because they could not afford to buy this equipment if the government expected them to turn profits in two years.

He further said there is nothing wrong with the farming practices of the farmers. The government needed to extend farming subsidies beyond the current two-year period so that farming could be profitable. The government introduced a range of farming subsidies as a vital part of its land reform policy. The objective of the subsidies was to support black farmers to compete successfully with established farmers in the country.

Maier said the subsidies' time-frame was too short to ensure the sustainability of these new farmers once it was stopped after two years (Sowetan May 17, 2006).

3.6 The need for entrepreneurial skills for SMMEs.

Mafu (2006) states that in Johannesburg three of the four major banks in South Africa have cited lack of entrepreneurial skills and ability to understand the type of funding needed for each business as a stumbling block to efficiently fund small medium and micro enterprises (SMMEs). Rows (2006) agrees that though the financing of SMMEs had long been an outstanding issue, it was a gap that banks could not fill on their own. The author further states that international research had shown that financial, marketing and entrepreneurial skills were as important as the financing itself. He points out that some prospective businesses had good ideas but had no strategy to take their product into the market.

Rows (2006) states that education would play a key role in carving entrepreneurial skills for aspirant business individuals from historically disadvantaged groups. He also states added that while banks were willing to consider funding, credit rating of some SMMEs was difficult because there was no track record. The financial sector charter had, however, led banks to innovative ways to assist SMMEs). In addition he said the SMME client profile was changing. When compared with global statistics, the success rate of SMMEs was lower in South Africa. About 50% of businesses failed in their first year, however financing of SMMEs would increase in future.

Tarr (2006), also agrees that one of the problems faced by prospective SMMEs was a lack of understanding of the appropriate type of funding fit for their circumstances. The First National Bank (FNB) and Ster-Kinekor had set up biznetwork to address these problems. Tarr (2006) states that the initiative had allowed SMMEs to network among themselves. It promoted access to information and membership at a cost of R855.00 a year compared with the R2 000.00 to R3 000.00 payable to the chambers of commerce.

The FNB has committed R240 million to a R320 million fund, the Progress Fund through to promote access to finance for young black South Africans. The

Umsobomvu Youth Fund is a partner in the initiative. Rose (2006), the head of the small business services at Nedbank, said that due to the low skills in entrepreneurship among new small businesses, Nedbank had set up a unit that specialised in start-ups. There was also a mentorship programme through Sizanani Advisory Services. Mashile (2006), the corporate affairs head at the Industrial Development Corporation, agree that the challenge for SMMEs was not necessarily access to funding, but the need to know the funding vehicles that suited their unique circumstances (www.absa.co.za).

3.7 Lending criteria of government and commercial institutions

3.7.1. Sizanani Advisory services

Qualifying criteria

Sizanani Advisory Services business advisors are able to assist entrepreneurs prepare a business plan and negotiate business finance provided they have:-

- A viable business proposal
- A suitable contributions in cash or assets
- Relevant experience to conduct the business, and
- A projected annual business turnover of R500, 000.00 to R20 million

In addition, the entrepreneurs should-

- Be South African Citizens or have permanent South African residence
- Have an acceptable credit record, and
- Personally manage the business on a full time basis and trade from a fixed address (www.sizananiadvisory.org.za).

3.7.2 The dti regional equity funds

The need for risk capital (venture capital/private equity) to support small and medium enterprises (SMEs), especially those sponsored by historically disadvantaged entrepreneurs, is not in doubt. Many banks and financial institutions have introduced equity funding into their product mix. Most of these funds support empowerment deals. However, these funds generally look for investments between R250 000.00

and R2,5 million and invest in enterprises that are established and have high growth and returns. There is therefore a need for new Private Equity Funds operating at the lower end, which emphasise development impact in their investment criteria and look for a fair return on investment (www.dti.gov.za).

3.7.3 The dti Black Business supplier programme

The Black Business Supplier Development Programme (BBSDP) is an 80:20 cost sharing, cash grant incentive scheme, which offers support to black-owned enterprises South Africa. The scheme provides such companies with access to business development services in order to assist them in improving their core competencies, upgrading managerial capabilities and restructuring to become more competitive.

Conditions for qualifying for the grant

- Companies that are majority black-owned (fifty one per cent or more) and which have a significant representation of Black managers on their management team.
- The maximum annual turnover of companies that qualify for BBSDP grants will be limited to R12 million per annum.
- Companies must have a minimum trading history of one year — this is a key criterion for selection.
- Companies accessing the scheme will also be required to comply with commercial regulatory requirements applicable to their areas of business, e.g. registration with CIPRO SARS (www.dti.gov.za).

3.7.4 The Department of Trade and Industry (dti) empowerment Scheme, Credit Guarantee Scheme

The Empowerment Scheme provides cover up to R5m of bank facility at 60%, with the fee payable at 2,5°k p.a. in advance. Duration is 36 months initially but can be extended twice for a period of 12 months each time. Businesses that will qualify for this scheme must have one of the following qualifying criteria in relation to the nature, purpose for the business or its effect on SMMEs:

- **Substantial job creation in an area where very little economic activity takes place.**
- **Labour intensive projects.**
- **An economic empowerment transaction which entitles the borrower to acquire a controlling interest in the SMME within a period of two years from the date the facility is granted by the bank.**
- **Management buy-out which entitles the borrower to acquire a controlling interest in the SMME within a period of two years from the date the facility is Granted by the bank.**
- **Sub - contracting**
- **Outsourcing transactions or**
- **Any similar economic empowerment venture (www.dti.gov.za).**

3.7.5 The dti Standard Scheme, Credit Guarantee Scheme

The Standard Scheme provides cover up to Rim of the bank facility at 80%, with the fee payable at 3% p.a. in advance. The duration of the scheme is 36 months initially, but can be extended twice for periods of 12 months each time. Normal criteria apply (www.dti.gov.za).

3.7.6 Standard Bank

Conditions for qualifying for a loan

Criterion?

- **Details such as the nature of business, product offering, market environment and management skills.**

Financial information

- **Personal statement of assets and liabilities for all partners, members and directors.**
- **Cash flow forecast.**

- **Projected income and expenditure.**
- **Amount and source of the business owner's contribution or stake in the business.**
- **How will the business use the finance? For example, capital expenditure or working capital.**
- **Sales and purchases budgets.**

Documents required if buying an existing business

- **Copy of deed of sale or draft deed.**
- **Draft or signed lease agreement for premises collateral information.**

Collateral information

- **Details of proposed or offered collateral.**

Other

- **Credit bureau checks of business and partners.**

Additional requirements if an entrepreneur has an existing business that has been banking with an institution

- **Financial statements of the business.**
- **Three months' bank statements.**
- **Facilities letter from existing bank.**
- **Details of collateral held by existing bankers.**

(<http://standardbank.co.za/SBIC>).

3.7.7 Nedbank

In assessing your application, the following aspects are taken into account:

- **The owners of the business and their financial strength.**
- **What experience/qualifications do they have.**
- **How long has the business been in existence.**
- **Nature of your business and the type of industry you are involved in.**
- **Who are the entrepreneur customers.**
- **Who are the entrepreneur suppliers.**

What documents should be provided to the bank.

The following document will be required:

- Financial statements/management accounts if the business is already trading
- Statement of assets and liabilities for the owners of the business.
- A copy of your business plan if you are requesting funds to setup the business.

It is common practice for the bank to ask for security for security of the entrepreneur facility.

Security is collateral which could be in the form of an investment. Assurance policy or equity in the entrepreneur's property. This is requested to ensure a greater commitment from the entrepreneur to meet his obligations in terms of the facility and also to reduce the risk for the bank. Common sources of security are as follows:

- Personal surety ships from the owners of the business. This is where an individual undertakes to repay a loan if the borrower does not repay it when called upon to do so.
- Covering mortgage bonds over property. A bank might register a covering mortgage bond over a property to secure a facility, provided there is sufficient value in the property.
- Notarial bond over movable assets. This is similar to a mortgage bond, but the underlying assets for the facility are movable. This form of collateral is not favoured by banks for normal borrowings.
- A bank can take cession of investments such as listed shares, bank deposit accounts, unit trusts and investments.

- A bank can take cession of assurance policies, provided they have sufficient cash values to secure borrowings.
- A bank may also take a cession of your debtors book as security for finance. The bank's exposure would be based on the calibre, quality and age analysis of the entrepreneur debtors book. A percentage of the total debtors book is normally granted as a facility (www.nedbank.co.za).

3.7.8 National Empowerment Fund (NEF)

Entrepreneur support

The purpose of entrepreneur support is to encourage a culture of entrepreneurship among historically disadvantaged persons (HDPs), assist the growth of existing HDP businesses and to facilitate transformation in non-HDP owned and operated enterprises.

Eligibility criteria for entrepreneur support

- Entrepreneur Support will assist Historically Disadvantaged Persons (HDPs). HDPs refers to those who suffered unfair discrimination on the basis of their race under apartheid, and is a generic term for Black South Africans (Africans, Coloureds and Indians).
- Entrepreneur Support will give preference to those enterprises where there is active participation by HDPs in the ownership and management of the business. Applicants must be able to demonstrate genuine participation in decision making at board, executive, managerial and operational levels.
- There must be the assumption of real risk by HDPs in order to participate meaningfully in the reward. In other words, the livelihood of HDPs must be tied to the performance of the enterprise. Entrepreneurs must also demonstrate contributions to the enterprise, be it financial or other form.
- Entrepreneur Support may support enterprises that are not currently black owned or managed, provided there is a detailed plan to ensure meaningful HOP owner/ management participation within a reasonable period. This plan

must include measures to determine company transformation targets, skills development and transfer, and the creation of new employment opportunities.

- **Entrepreneur Support will give preference to those entrepreneurs and enterprises able to demonstrate the sustainability of the business. They must show that the business can survive and prosper to the point of repaying any funding in the ordinary course of business.**
- **Entrepreneur Support will only support those entrepreneurs and enterprises that comply with the laws of South Africa. Enterprises operating without the necessary licenses and registrations, or contraventions of any statute, will not be supported (www.dti.co.za).**

3.7.9 Khula Enterprise Finance Limited

Khula provides cover up to 1 million of the bank facility at 80%, with 3% fee payable per annum in advance. The duration of the scheme is 36 months initially, but can be extended twice for a period of 12 months each time

- Applicant must be a South African citizen
- Applicant must be owner or manager of the business
- Applicant must live within the borders of the Republic of South Africa.
- Applicant must provide at least 10% own contribution.
- Application must have the necessary skills and experience or access to such skills (www.seda.org.za).

3.7.10 National Empowerment Fund (NEF) – Rural and community development.

Rural and Community Development enables communities to acquire shares (equity) in an income generating project which will result in social upliftment in historically marginalized economic areas.

Eligibility Criteria

- Support is available to groups comprising HDPs.
- Community-based organisations and groups are eligible for support.
- Rural and Community Development will give preference to projects with strong social upliftment benefits. This may include the creation of new employment opportunities in historically marginalized economic areas.
- Rural and Community Development will only invest in projects where there is a project champion and co-funding by other investors or financiers. Funding will be limited to the community investment portion of the project.
- Projects must be undertaken in conjunction with a partner recognized by the National Empowerment Fund (NEF).

Table 3.5: Key qualifying criteria – Rural and Community development

Key qualifying criteria – Rural and Community development	
Size of investments	Investment ranges from R2million to 10million
Principal goal	To facilitate HDP Involvement in projects promoting social upliftment, where community ownership is required, and where an income generating asset for the community produced
Types of organisations	There are no restrictions on the types of organization supported
Principals transaction types	Provision of equity funding
Specific exclusion	Rural and community development will not undertake any financing where the provision of housing is the project outcome.

(www.dti.co.za)

3.7.11 ABSA

The banks approach to small business

Absa has a comprehensive, two-pronged approach to financing small businesses.

Normal Credit Policy

Businesses that meet the bank's normal lending criteria can make use of various facilities available from Absa Bank branches for

- New businesses;
- First-time business owners buying existing businesses;
- Businesses wishing to expand; and
- Franchises.
- New Enterprise Banking

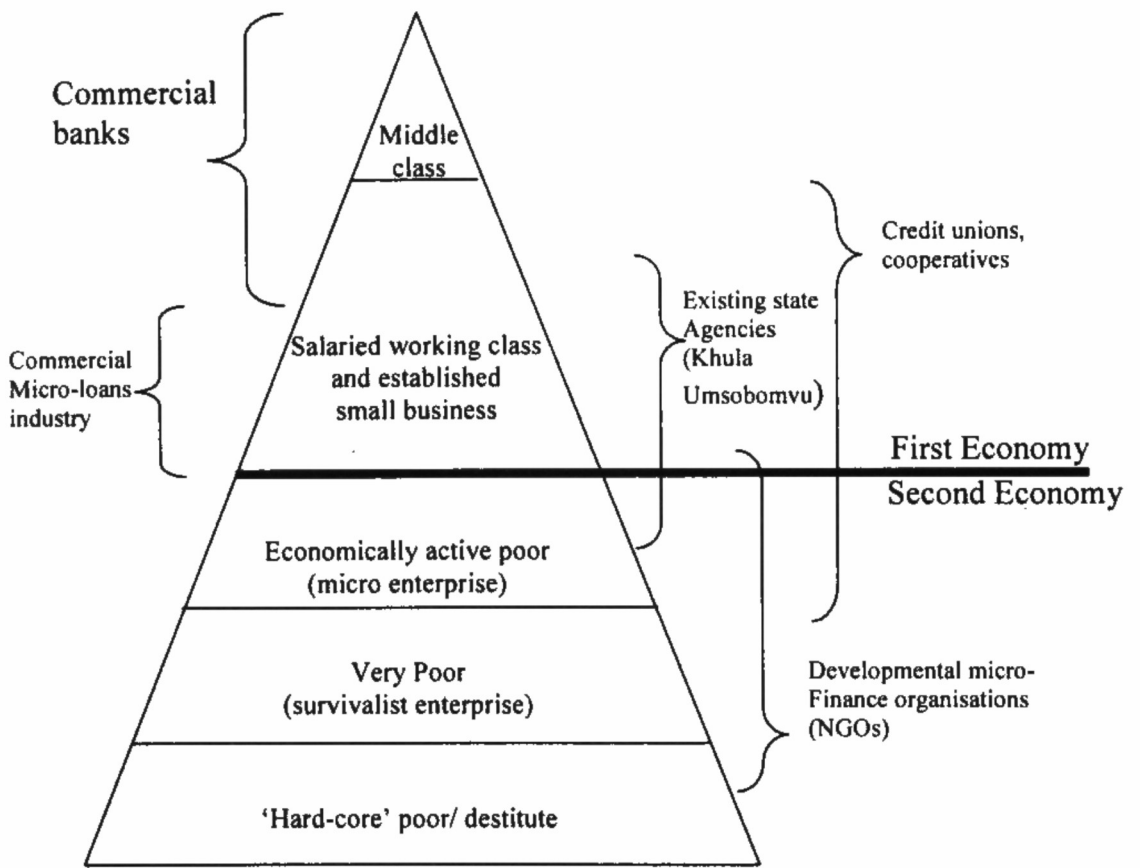
Technical support and finance guarantee schemes such as Khula Enterprise Finance Ltd for entrepreneurs who do not have enough collateral to qualify for a business loan according to normal lending criteria. Absa bank branches offer hands-on assistance that includes advice and finance. A business manager will generally only lend money to customers with proven experience and a substantial track record in their field (and the capacity to satisfy the bank's normal security criteria).

Absa Bank also looks closely at the viability of the business and the qualities of the person behind the business. This means that many more business owners now stand a chance of making their business dreams come true - provided they comply with the bank's criteria and display an aptitude for business. All applications for business finance must still go through the entrepreneur's branch. The business manager of the branch is equipped to assess your needs and advise you on how to proceed

(www.absa.co.za).

In his “letter from the President” (ANC Today, 2004), President Mbeki writes: “During the coming year, the Apex Fund will begin to extend micro loans to support small and family business. This will signify the completion of the spectrum of the public funding profile of BEE, covering businesses of all sizes, from the smallest to the biggest, achieving the goal of broad based empowerment. Factually, the assertion that all that BEE amounts to is benefiting “small elite that tends to be recycled” is entirely false”.

Figure 3.2 indicates access to financial institutions by different groupings of the society.



The dti Development Report 2005

Figure 3.2: Pyramid indicating access to financial institutions

3.8 Summary

It is evident from the preceding discussion that access to finance remains a challenge for SMMEs in South Africa. It is this fact that the policies and lending criteria of government and commercial institutions should be looked at closely to make it easier for SMMEs to access finance.

CHAPTER 4: PROBLEM STATEMENT

4.1 Introduction

This chapter deals with the research problem and the research questions.

4.2 Problem Statement

According to the dti (2005), the Deputy Minister of Trade and Industry said, for South Africa's small-enterprise sector 1995 to 2005 have been full of excitements, challenges, disappointments and transformations. The close interactions of political, social and economic changes is felt particularly strongly at the grassroots level of small and micro-enterprises – in the townships, in city centers, in the new up-markets shopping malls and in backyard industries. At the same time, small enterprises could not be shielded from the impact of global economic and technologies transformations as well as the rise in competition in virtually all sectors, places and operational spheres. (dti, 21 October 2005)

It is evident that the performance of SMMEs in South Africa including the North West Province is very poor (Department of Economic Development and Tourism-Project Report: November 2002). These businesses are faced with large a number of problems and challenges which they are unable to overcome on their own. Ultimately this contributes to high failure rate evident in the SMMEs situated particularly in the Mafikeng and Mmabatho area of the North West Province. It is statistically proven that the life-span of SMMEs in the province is zero to three years on average meaning that the majority of small businesses fails and closes within the first three years of operation. (Department of Economic Development and Tourism-Project Report: November 2002).

The poor overall performance of SMMEs is contradictory to the fact that these businesses are considered to be playing an essential role in people's efforts to meet basic needs through the alleviation of poverty, as sources of job creation and economic growth, especially to the disadvantaged groups of people. The small business sector is seen as an important tool for alleviating inequalities in the province

since most of them are situated in urban areas-whereby the disadvantaged communities are left out, because many of them are found in the rural areas of the province.

The SMMEs play a crucial role in reducing unemployment, penetrating new markets and in expanding economies in creative and innovating ways. In spite of what SMMEs offer, it was found that their statistical base in the country was still poor. These calls for innovative ways to enhance the implementation of these enterprises in order to uplift and sustain their economic stand, so that they may be in a position to offer the different advantages that arise from their existence.

The challenges faced by the SMMEs in the manufacturing industry of the major cities of the province are, the lack of appropriate social infrastructure, lack of demand for their domestic goods, poor small business management – due to inappropriate entrepreneurial and financial skills. The lack of appropriate technology, lack of access to credit and venture capital, lack of access to finance for research and development, and the intense competition are some of the major problems/ gaps leading to the lack of growth of these businesses in the province and they thus end up failing and closing down.

An entrepreneur needs to be a generalist in order to deal with the day to day operations of business. This requires him or her to be a human resource manager at one stage and at another stage or concurrently to be able to perform the functions of a financial manager, a marketing manager, a strategist, and procurement manager. It is therefore imperative that he or she must have acquired a business related course or some basics.

Many small businesses tend to lack expertise in the type of business they are involved in. An entrepreneur or a manager of a small business needs to have knowledge of all aspects of a business and the activities involved in such a business he or she has to have proper management skills or at least the basics of managing a business. This happens not to be the case in many small business developments. In addition to this, these businesses cannot afford to employ skilled personnel let alone invest in training programmes to address lack of skills because of the stringent budget which they face.

Improper financing of small businesses has also been seen as a contributing factor to small business failure as a result of not being able to access loan credits from banks and other financing institutions. Since these institutions tend to have very strict requirements for small businesses, they make it difficult or even impossible to access or acquire funding. In the end, these businesses face repercussions such as poor sales, high operating costs and very little working capital. The lack of proper education has also been seen as a contributing factor to the small businesses' lack of access to funding (for working capital) from financial institutions for start-up and also for business expansion purposes.

4.2.1 Research question 1: How can the government and commercial institutions assist SMMEs to access finance easier?

4.2.2 Research question 2: What other ways can SMMEs be assisted with to access finance?

4.2.3 Research question 3: What impact does the lack of financial and mentoring support have on the success or failure of SMMEs?

4.3 Summary

This chapter dealt with the problem followed by the research questions. The next chapter deals with the research design and analysis of the study.

CHAPTER 5: RESEARCH DESIGN AND ANALYSIS

5.1 Introduction

This chapter outlines the research methodology that is used in this study. It explains the rationale behind the methodology, how data were collected and analysed.

5.2 Sampling Technique

Coldwell and Herbst (2004) define sampling as the act, process or technique of selecting a representative part of a population for the purpose of determining parameters or characteristics of the whole population. They further agree that there are five main reasons for sampling instead doing a census:

- Economy
- Timelines
- The large size of many populations;
- The inaccessibility of some of a particular population; and
- Accuracy or precision

According to Cooper and Schindler (2006) the test of a sample design is how well it represents the characteristics of the population it purports to represent. In measurement terms the sample must be valid. In supporting this assertion,⁹ a random sampling as a probability sampling technique was utilised in this study and therefore each member of the targeted group had a known and equal chance of being selected in the sample. The advantage of probability of sampling is that it is a good representation of the target population.

In this study various variables (responses to individual questions) in the questionnaire were arranged to obtain a rating for each dimension covered. This procedure assumes equality of interval of the Likert scale and, therefore, the data are regarded as the least interval data rather than ordinary data.

5.3 Measuring Instrument.

A questionnaire was used as a measuring instrument in this study. According to Coldwell and Herbst (2004) a questionnaire is used to quickly and/ or easily get information from people in a non-threatening way.

5.3.1 Advantages of a questionnaire

In comparison with other measuring instruments, the advantages of using a questionnaire include the following (Coldwell and Herbst 2004)

- Can be completed anonymously
- Inexpensive to administer
- Easy to compare and analyse
- Can be administered to many people
- Can get lots of data
- May sample questionnaires already exist
(Coldwell and Herbst 2004)

5.3.2 Disadvantages of a questionnaire

In comparison with other measuring instruments, the disadvantages of using a questionnaire include the following:-

- Might not get careful feedback.
- Wording can bias client's responses.
- Are impersonal.
- In surveys, may need sampling expert.
- Does not get full story.
(Coldwell and Herbst 2004)

5.3.3 Validity

According to Cooper and Schindler (2004:167), validity refers to the extent to which a test measures what is actually wished to be measured. A questionnaire was therefore appropriate for this study in the sense that it could cover a representative sample of the universe of SMMEs in the Mmabatho-Mafikeng area.

5.3.4 Reliability

Reliability has to do with the accuracy and precision of a measurement procedure (Cooper and Schindler 2004: 171). A questionnaire is reliable because its results are consistent.

5.4 Data Collection

Data collection is the gathering of data that may range from a simple observation at one location to a grandiose survey of multinational corporations in different parts of the world (Cooper and Schindler 2004:82). For purposes of this study, a questionnaire was used to collect data from SMMEs in the Mmabatho-Mafikeng area.

5.5 Data analysis

Descriptive statistics are used in this study to analyse the data. The data are presented in the form of tables, graphs, frequency counts, and percentages.

5.6 Ethical Considerations

The confidentiality and anonymity of the respondents were assured in the study. The respondents were asked not to give their names and addresses.

5.7 Limitations of the study

The study was conducted in the Mafikeng – Mmabatho area due to financial constraints and the large demographical spread of the villages in the area.

5.8 Summary

This chapter dealt with the methodology that was used in conducting this research. Sampling, measuring instrument, data collection, data analysis, ethical consideration and limitation of the study were presented. The next chapter reflects the results of the study.

CHAPTER 6: RESULTS

6.1 Introduction

The previous chapter gives an overview of the research design and how the data were analysed. This chapter reflects the results of the study. The results obtained from the questionnaire are presented in a tabular form.

6.2 Presentation of results

The questionnaire was administered to 40 taxi owners, 20 emerging business owners, 20 contractors, 40 hawkers and 10 Established business owners. Out of the 130 people, 110 responded, rendering a 85 % response rate.

6.2.1 Demographic information

Table 6.1: Government is doing its best to provide support to SMMEs in-terms of finances.

Category	Frequency	Percentage
Strongly agree	30	27.27%
Agree	30	27.27%
Disagree	40	36.36%
Strongly disagree	10	9.09%
TOTAL	110	100

Table 6.1 shows how government support is perceived by SMMEs, 30 (27.27%) strongly agreed that government supports SMMEs, 30 (27.27%) agree that government supports SMMEs, 40 (36.36%) disagreed that government supports SMMEs, while ten (9.09%) strongly disagreed that government supports SMMEs.

Table 6.2: Securing a loan from Banks is easier

Category	Frequency	Percentage
Strongly agree	10	9.09%
Agree	30	27.27%
Disagree	35	31.82%
Strongly disagree	35	31.82%
TOTAL	110	100

Table 6.2 shows how easy it is to secure a loan from the bank by the SMMEs, ten (9.09%) strongly agreed that it is easy to secure a loan, 30 (27.27%) agreed that it is easy to secure a loan, 35 (31.82%) disagreed that it is easy to secure a loan, 35 (31.82%) strongly disagreed that it is easy to secure a loan.

Table 6.3: It is possible to get finance for business without security or collateral

Category	Frequency	Percentage
Strongly agree	3	2.73%
Agree	10	9.09%
Disagree	50	45.45%
Strongly disagree	63	57.28%
TOTAL	110	100

Table 6.3 shows how possible it is for SMMEs to get finance for business without security or collateral, three (2.73%) strongly agreed that it is possible for SMMEs to get finance for business without security or collateral, ten (9.09%) agreed that it is possible for SMMEs to get finance for business without security or collateral, 50 (45.45%) disagreed that it is possible for SMMEs to get finance for business without security or collateral, 63 (57.28%) strongly disagreed that it is possible for SMMEs to get finance for business without security or collateral.

Table 6.4: SMMEs fail to access finances because of lack of financial skills.

Category	Frequency	Percentage
Strongly agree	30	27.27%
Agree	40	36.36%
Disagree	20	18.18%
Strongly disagree	20	18.18%
TOTAL	110	100

Table 6.4 shows how SMMEs fail to access finance because of lack of financial skills, 30 (27.27%) strongly agreed that SMMEs fail to access finance because of lack of financial skills, 40 (36.36%) agreed that SMMEs fail to access finance because of lack of financial skills, 20 (18.18%) disagreed that SMMEs fail to access finance because of lack of financial skills, 20 (18.18%) strongly disagreed that SMMEs fail to access finance because of lack of financial skills.

Table 6.5: My business is financially sound

Category	Frequency	Percentage
Strongly agree	5	4.55%
Agree	15	13.64%
Disagree	40	36.36%
Strongly disagree	50	45.45%
TOTAL	110	100

Table 6.5 shows the financial standing of SMMEs, five (4.55%) strongly agreed that their business are financially stable, 15 (13.64%) agreed that their business are financially stable, 40 (36.36%) disagreed that their business are financially stable, 50 (45.45%) strongly disagreed that their business are financially stable.

Table 6.6: Desired support for own business.

Category	Frequency	Percentage
Start-up Capital	65	59.09%
Security or collateral	30	27.27%
In service training-financial management	10	9.09%
Business advice and business plan	5	4.55%

Table 6.6 shows desired support for own business, 65 (59.09%) believed that start-up capital was needed for their own business, 30 (27.27%) believed that security or collateral was needed for their own business, 10 (9.09%) believed that in service training-financial management was needed for their own business, while five (4.55%) believed that business advice and business plan is needed for their own business.

Table 6.7: Businesses fail because of lack of capital?

Category	Frequency	Percentage
Yes	90	81.82%
No	20	18.18%
No response	00	00.00%
TOTAL	110	100

Table 6.7 shows the number of respondents who believed that lack of capital is the course of business failure, 90 (81.82%) believed that capital is the course of business failure, while 20 (18.18%) disagreed.

Table 6.8: Businesses fail because of lack of access to finance.

Category	Frequency	Percentage
Yes	100	90.90%
No	10	9.09%
No response	00	00.00%
TOTAL	110	100

Table 6.8 shows how business fail because of lack of access to finance, 100 (90.90%) believed that business fail due to lack of access to finance, while ten (9.09%) disagrees.

Table 6.9 Businesses fail because of lack of demand for products

Category	Frequency	Percentage
Yes	35	31.82%
No	70	63.64%
No response	5	4.55%
TOTAL	110	100

Table 6.9 shows how business fail because of lack of demand for products, 35 (31.82%) Believed that business fail due to lack of demand for products, 70 (63.64%) disagrees, while five (4.55%) did not respond.

Table 6.10: Businesses fail because of lack of entrepreneurial skills

Category	Frequency	Percentage
Yes	60	54.55%
No	35	31.82%
No response	15	13.64%
TOTAL	110	100

Table 6.10 shows how businesses fail because of lack of entrepreneurial skills, 60 (54.55%) respondents believed that business fail because of lack of entrepreneurial skills, 35 (31.82%) disagrees, while 15 (13.64%) did not respond.

Table 6.11: Businesses fail because of high operating costs

Category	Frequency	Percentage
Yes	50	45.45%
No	60	54.55%
No response	00	00.00%
TOTAL	110	100

Table 6.11 shows how businesses fail because of high operating costs, 50 (45.45%) believed that business fail because of high operating costs, 60 (54.55%) disagree.

Table 6.12 Businesses fail because of their location

Category	Frequency	Percentage
Yes	40	36.36%
No	60	54.55%
No response	10	9.09%
TOTAL	110	100

Table 6.12 shows how businesses fail because of their location, 40 (36.36%) believe that business fail because of their location, 60 (54.55%) disagree, while ten (9.09%) did not respond.

Tables 6.13 to 6.14 reflect the demographical characteristics of the respondents.

Table 6.13: Location of the business

Category	Frequency	Percentage
Urban	40	36.36
Suburban	40	36.36
Rural	30	27.27
TOTAL	110	100

The information in Table 6.13 reflects that 40 (36.36%) of the respondents were in urban areas, 40 (36.36%) of the respondents were in suburban areas and 30 (27.27%) respondents were in rural areas.

Table 6.14: Ages of the respondents

Category	Frequency	Percentage
Below 21	10	9.09%
21 – 25	30	27.27%
26 – 35	30	27.27%
36 – 45	25	22.72%
46 and above	15	13.64%
Total	110	100

Table 6.14 shows the ages of the respondents, ten (9.09%) were below 21, 30 (27.27%) of the respondents were between 21 – 25 years. Thirty (27.27%) of the respondents were between 26 – 35 years, 25 (22.72%) were between 36 – 45 years, while 15 (13.64%) of the respondents were 46 and above.

Table 6.15 Experience in business of the respondents

Category	Frequency	Percentage
0-3 years	75	68.18%
3-5 years	30	27.27%
5-10 years	5	4.55%
TOTAL	110	100

Table 3.15 shows the experience of the respondents, 75 (68.18%) had zero to three years experience in business, 30 (27.27%) had three to five years experience in business, while five (4.55%) ranged from five to ten years experience in business.

Table 6.16 Race of the respondents

Category	Frequency	Percentage
African	68	61.82%
Coloured	15	13.64%
White	02	1.81%
Indian	25	22.72%
TOTAL	110	100

Table 6.16 shows the race of the respondents. 68 (61.82%) were African, 15 (13.64%) were coloured, two (1.81%) were whites, while 25 (22.72%) were Indian.

Table 6.17: How did you finance your business?

Category	Frequency	Percentage
Own finance	64	58.18%
Bank	14	12.72%
Family and friends	12	10.91%
Government support	15	13.64%
Other	5	4.55%
TOTAL	110	100

Table 6.17 shows how businesses got their finance, 64 (58.18%) were from own finance, 14 (12.72%) were from banks, 12 (10.91%) were from family and friends. 15 (13.64%) were from government support, while five (4.55%) were from other sources.

6.2. Summary

The respondents had different views regarding access to finance. Some respondents stated that, they did not agree with the present government support received by SMMEs. Most of the respondents, who were currently in business, believe it is difficult to access finance or loan from banks. Some believe that SMMEs fail because of lack of financial skills. Most of the respondents believe their business failed because of lack of capital and access to credit. Some said entrepreneurial skills also affected their business. Very few believed that high operating costs and business location caused their failure.

The majority of the respondents stated that start up capital was essential for their business, while some believed that security or collateral were important for them to access loans from the banks. A small number of the respondents believed that training, financial management and mentoring was good for their business.

The outcomes and observations were reflected in this chapter.

Chapter 7: DISCUSSION, CONCLUSION AND RECOMMENDATIONS.

7.1 Introduction

The orientation of the study was given in chapter 1 and the theoretical foundation in chapter 2. Literature reviewed for the study was presented in chapter 3 followed by the problem statement in chapter 4. The research design was discussed in chapter 5 and the results given in chapter 6. In Chapter 7 the discussion, conclusion and recommendations of the study are presented.

7.2. Realisation of the objectives of the study

7.2.1 How can the government and commercial institutions assist SMMEs to access finance easier?

Table 6.1 showed how government support is perceived by SMMEs, 30 (27.27%) strongly agree that government supports SMMEs, 30 (27.27%) agree that government supports SMMEs, 40 (36.36%) disagree that government supports SMMEs, while ten (9.09%) strongly disagreed that government supports SMMEs. The data show that the majority of the respondents disagreed that the government was doing its best to assist SMMEs to access finance.

Table 6.2 showed how easy it is to secure a loan from the bank by the SMMEs, ten (9.09%) strongly agreed that it is easy to secure a loan, 30 (27.27%) agreed that it is easy to secure a loan, 35 (31.82%) disagreed that it is easy to secure a loan, 35 (31.82%) strongly disagreed that it is easy to secure a loan. The data show that the majority of the respondents believe that is not easy to secure a loan from banks.

Table 6.3 showed how possible it is for SMMEs to get finance for business without security or collateral, three (2.73%) strongly agreed that it is possible for SMMEs to get finance for business without security or collateral, ten (9.09%) agreed that it is possible for SMMEs to get finance for business without security or collateral, 50 (45.45%) disagreed that it is possible for SMMEs to get finance for business without

security or collateral, 63 (57.28%) strongly disagreed that it is possible for SMMEs to get finance for business without security or collateral. The data show that the majority of the respondents strongly believed that it is not possible to get finance for business without security or collateral.

Table 6.4 showed how SMMEs fail to access finance because of lack of financial skills, 30 (27.27%) strongly agreed that SMMEs fail to access finance because of lack of financial skills, 40 (36.36%) agreed that SMMEs fail to access finance because of lack of financial skills, 20 (18.18%) disagreed that SMMEs fail to access finance because of lack of financial skills, 20 (18.18%) strongly disagreed that SMMEs fail to access finance because of lack of financial skills. Majority of the respondents agreed that SMMEs fail to access finance because of lack of financial skills.

Table 6.5 showed the financial standing of SMMEs, five (4.55%) strongly agreed that their business are financially stable, 15 (13.64%) agreed that their business are financially stable, 40 (36.36%) disagreed that their business are financially stable, 50 (45.45%) strongly disagreed that their business are financially stable. The data show that the majority of the respondents are saying that their businesses are not financially stable.

7.2.2. What other ways can SMMEs be assisted to access finance?

Table 6.6 showed desired support for own business, 65 (59.09%) believed that start-up capital was needed for their own business, 30 (27.27%) believed that security or collateral was needed for their own business, 10 (9.09%) believed that in service training-financial management was needed for their own business, while five (4.55%) believed that business advice and business plan is needed for their own business. The data shows that the majority of the respondents believe that start-up capital is good to start-up their-own business. Some believe that they should be provided with security or collateral by the government as a form of support. Very few believe that in service training-financial management and business advice are not important for their business.

7.2.3. What impact does the financial and mentoring support have on SMMEs success or failure?

Table 6.7 showed the number of respondents who believed that lack of capital is the course of business failure, 90 (81.82%) believed that capital is the course of business failure, while 20 (18.18%) disagreed. Majority of the respondents believed that most businesses fail because of lack of capital.

Table 6.8 showed how business fail because of lack of access to finance, 100 (90.90%) believed that business fail due to lack of access to finance, while ten (9.09%) disagrees. Majority of the respondents believed that most businesses fail because of lack access to finance.

Table 6.9 showed how business fail because of lack of demand for products, 35 (31.82%) believed that business fail due to lack of demand for products, 70 (63.64%) disagreed, while five (4.55%) did not respond. Majority of the respondents disagreed that most businesses fail because of lack of demand for their products.

Table 6.10 showed how businesses fail because of lack of entrepreneurial skills, 60 (54.55%) believed that business fail because of lack of entrepreneurial skills, 35 (31.82%) disagree, 15 (13.64%) did not respond. Majority of the respondents believed that most businesses fail because of lack of entrepreneurial skills.

Table 6.11 showed how businesses fail because of high operating costs, 50 (45.45%) believed that business fail because of high operating costs, 60 (54.55%) disagreed. Majority of the respondents disagreed that most businesses fail because of lack of high operating costs.

Table 6.12 showed how businesses fail because of their location, 40 (36.36%) believed that business fail because of their location, 60 (54.55%) disagreed, while ten (9.09%) did not respond. Majority of the respondents believed that businesses do not fail because of their location.

7.3 Recommendations

The main objective of the study was to determine how the government and commercial institutions can assist SMMEs to access finance easier. As outlined in the first chapters of this study, there are challenges for the sustainability of SMMEs like availability of finance, availability of markets and availability of trained personnel. There are funds available from the government and commercial institution for SMMEs to finance their businesses; however this does not mean that everyone has access to the funds. Based on the findings of the study, the researches suggest the following recommendations:

- Most SMMEs prefer start-up capital as a form of support for their businesses to be sustainable. They also believe that collateral and security are important for them to acquire loans from banks for them. Training and financial management is also a major contributor to their success. It is therefore recommended that they receive the necessary support.
- The government and banks should make it easier for SMMEs to access finance. The government should act as collateral for SMMEs to secure finance from commercial institutions.
- The government should involve the private sector in training SMMEs to acquire entrepreneurial skills. This will help SMMEs to run their businesses professionally and therefore become sustainable.
- It is also evident that a lot of businesses fail because of lack of financial skill. The government and banks should make it possible for SMMEs to be trained in acquiring these skills for their growth and job creation.

7.4 Further research

The potential of SMMEs can be further unlocked with future research since this study was restricted to the Mmabatho-Mafikeng area. The findings can not therefore be generalised for the entire republic.

7.5 Conclusion

It is evident from the outcomes of the study that a lot of factors contribute to the failure of SMMEs. The most significant one being access to finance in what ever manner. The government and financial institutions should review their contribution to the growth and sustainability of SMMEs.

SMMEs should be assisted by government the financial institutions and the private sector to acquire finance, entrepreneurial skills and financial management. The suggested recommendations will bring about sustainable SMMEs sector.

Bibliography

ABSA Bank document (2001): Business referral and Information Network (BRAIN); now a powerful means of networking to unlock information sources for SMMEs.

Barrow, C. 1998. The Essence of Small Business. Second Edition. Prentice Hall Europe.

Christianson, July (2004), Enterprise, Where Black Business lives, Page 22.

Coldwell, D., and Herbst F. Business Research. Juta and Co Ltd, 2004. Cape Town, South Africa.

Cooper, D.R., & Schindler, P.S. 2006. Business research methods (7th ed.), Boston, Mass: McGraw Hill.

Cronje, G., J, De J; du Toit, G. S., Motlatla, M. D. C., Marais, A de K. 2004. Introduction to Business Management. Oxford University Press, South Africa.

Department of Economic and Tourism, North West Province (November 2002): Project Report-An evaluation of the rollout impact of the Development Strategy for the Small, Micro and Enterprise sector adopted by the Province in 1998. Prepared by Kgorong Investment Holdings (Pty) Ltd, K2M Technologies (Pty) Ltd, And Strategic Development Consultants.

Department of Trade and Industry (1995): White Paper on National Strategy for the development and promotion of Small Business in South Africa.

Eksteen F.R.L.N., Ledwaba S.Y., Miller H.R, Eksteen F.R.L (2006). New Business Economics. Cape Town, South Africa.

Motsoeneng T., Sowetan: May 17, 2006

Neiman G., Hough J. and Nieuwenhuizen C. (2004). Entrepreneurship, A South Africa Perspective, Van Schaik Publishers

Statistics South Africa (STATSSA), Census report, 2000.

The dti Annual Review of Small Business in South Africa-2004

The North West Province (1996): Development Strategy document.

Websites:

www.anc.org.za

www.absa.co.za

www.sizananiadvisory.org.za

www.dti.gov.za

www.standardbank.co.za

www.nedbank.co.za

www.seda.org.za

www.polity.org.za/html

www.polity.org.za/html/legislation/1996/act96-102.html, Act of 102 of 1996, Small Business Legislation 15 September 2005

<http://www.emeraldinsight.com/fulltextarticle.html/GEM/-2004.pdf>, Global Entrepreneurship Monitor, October 2004.

ANNEXTURE

RESEARCH MBA

Dear Sir/ madam

My name is Khiba K. I am a student in the North West University Mafikeng Campus. I am conducting research for my Maters Degree and I will appreciate your help to complete this questionnaire. It will not take more than ten minutes.

Thank you very much

Khiba K.

QUESTIONNAIRE

This questionnaire is aimed at learning about the access of finance by SMMEs in the Mafikeng area. The survey is send to Hawkers, emerging business owners, taxi owners and established business owners. The result of the survey will be summarised. The study is to evaluate the access to finance by SMMEs. The information will be treated confidentially and no direct references will be made to you or your organisation. Respondents are requested to answer all questions honestly.

Section A

Kindly answer the following questions by crossing (X) on the appropriate box.

- Key: Strongly Agree : 4
- Agree : 3
- Disagree : 2
- Strongly disagree : 1

Item	4	3	2	1
Government is doing its best to provide support to SMMEs in terms of finances				
Securing a loan from Banks is easier				
Is possible to get finance for business with security or collateral				
SMMEs fail to access finances because of lack of financial skills				
My business is financial sound				

Section B

In this section please tick the block that describes your choice in-terms of desired support for own business,

No	Item	
2.1	Start-up Capital	
2.2	Security or collateral	
2.3	In service training-financial management	
2.4	Business advice and business plan	

Section: C

The following questions require you to put a cross (X) on the yes or no column, to the answer that best describes your opinion. Business fails because of lack of.....?

No	Item	yes	No
3.1	Capital		
3.2	Access to credit		
3.3	Demand for products		
3.4	Entrepreneurial skills		
3.5	High operating cost		
3.6	Location of business		

Section: D

Please read through the list and cross (X) the block that express your view in each item. Use the rating scale to express your view.

4.	LOCATION OF YOUR BUSINESS	
4.1	Urban	
4.2	Suburban	
4.3	Rural	

5.	Age	
5.1	Below 21	
5.2	21 to 25	
5.3	26 to 35	
5.4	36 to 45	
5.5	46 and above	

6	EXPERIENCE IN BUSINESS	
6.1	0 -5 Years	
6.2	6-10 years	
6.3	15-20 years	
6.4	20-25 years	
6.5	Other (specify).	

7	Race	
7.1	African	
7.2	Coloured	
7.3	White	
7.4	Indian	
7.5	Other	

8	How did you finance your business	
8.1	Own finance	
8.2	Bank	
8.3	Family and friends	
8.4	Government support	
8.5	Other	

9. Any further comment/s

END

THANK FOR YOUR COOPORATION.

