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**An exploration of the experiences of micro business owners in Langa
with regard to governmental regulations and support systems**



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Master of Social Work
SWK5007W

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COMPULSORY DECLARATION

This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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Silje Klommestein Kristiansen

A handwritten signature in black ink, appearing to read '24th Nov 2008', written over a horizontal line.

Date

NB: Silje Klommestein Kristiansen has taken all the photos printed in this report. All photos are taken in Langa, but not in connection with the interviews. None of the interview participants were photographed. The photographs are only meant to illustrate the topic and are not directly linked to the findings.

ABSTRACT

South Africa is faced with many developmental challenges such as poverty, unemployment and inequality. The post-apartheid government has tried to face some of the injustices inherited from the apartheid era, but the choice of a neo-liberal economic approach seems to have worsened the situation. There is therefore a significant need for a social development approach in South Africa.

Social development aims to link social welfare to economic development. One way of doing this is to support the development of small and micro enterprises. The majority of these enterprises belong to the second economy, and by supporting them the government also supports the poorest of its population.

The South African government has put in place support systems to strengthen the small and micro enterprise sector. It also constantly reviews the regulatory environment in order to ease the regulatory burden on this sector.

This research aimed to explore how the micro enterprises experience these efforts. It looked at the reasons behind compliance and/or non-compliance with regulations, and the reasons for the utilisation, or lack thereof, of support systems.

Langa was chosen as the geographic area in which the research was carried out. In Langa, 20 micro business owners, both formal and informal, agreed to undergo qualitative interviews where they shared their experiences with regard to regulations and support systems. Non-probability sampling was used to identify the participants. The interviews were guided by the use of semi-structured interview schedules, which included the main questions of the research. An audio recording was used, and the interviews were transcribed into text. Coding procedures from grounded theory methodology were used.

Findings were drawn from the responses of the participants, and compared to findings from previous research studies. It was found that the participants to a very little degree complied with regulations. Despite the fact that most of the participants regarded complying with regulations as the right thing to do, they did not see their own enterprises as important

enough to take steps towards compliance, and thought it only to be relevant to larger enterprises.

It was also found that few of the participants had benefited from the support systems in question. The reasons given for this were a lack of information, faulty information, and mistrust in the information. Another reason was difficult requirements. Some of the participants had tried to access support but failed. Others did not want to try because they thought they would not fulfil the requirements.

It was also found that participants which belonged to an association or a forum, or had recently participated in courses and community meetings, had higher levels of information, with regard to both regulations and support systems.

It is recommended that the South African government opens business advice centres in each highly populated area, which provide relevant information and business advice. It is found that business training of micro enterprises is needed and that such training should be done locally in the townships. Efforts put in place to strengthen micro enterprises should be run through existing local structures.

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24th November 2008

Silje Klommestein Kristiansen

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List of abbreviations

ANC:	African National Congress
ASGISA:	Accelerated and Shared Growth – South Africa
BEE:	Black Economic Empowerment
CC:	Close Corporation
CCMA:	Commission for Conciliation, Mediation and Arbitration
CIPRO:	Companies and Intellectual Property Registration Office
DPRU:	Development Policy Research Unit
DTI:	Department of Trade and Industry
GDP:	Gross Domestic Product
GEAR:	Growth, Employment And Redistribution
GEM:	Global Entrepreneurship Monitor
GNP:	Gross National Product
ILO:	International Labour Organisation
IMF:	International Monetary Fund
LBC:	Library Business Corner
PAYE:	Pay As You Earn
R:	Rand (South African currency)
RDP:	Reconstruction and Development Programme
SARS:	South African Revenue Service
SAWEN:	South African Women Entrepreneur Network
SBP:	Strategic Business Partnership
SETA:	Sector Education and Training Authority
SEDA:	Small Enterprise Development Agency
SME:	Small and Micro Enterprise
SMME:	Small, Medium and Micro Enterprise
UCT:	University of Cape Town
UIF:	Unemployment Insurance Fund
UNDP:	United Nation’s Development Programme
VAT:	Value-Added Tax

CHAPTER 1: INTRODUCTION



1.1 Introduction to the study of micro enterprises in Langa

South Africa is a country with high levels of poverty, unemployment and inequality. The legacy of apartheid created a society where a minority benefited from the economic development that took place in the country while the vast majority was living outside the mainstream economy. This pattern has continued into today's South Africa and has created a division into a first and a second economy. The first economy is defined as the formal economy, while the second economy incorporates the informal economy and thereby large proportions of the population (Shisana, 2007). Social development is an approach that has been adopted by the South African government in order to address this division. Social development aims to link the promotion of human welfare to economic development (Midgley, 1995). The South African government aims to incorporate the second economy into the first economy, and through this to ensure that the majority of the population can experience social and economic development.

One way of doing this is to strengthen the Small and Micro Enterprise (SME) sector. The South African government recognizes the contribution the SME sector is making the economy, and it acknowledges that this sector functions as a tool for economic development (Department of Trade and Industry, 1995). This research focuses on micro enterprises in townships, because starting micro enterprises has represented the first step out of poverty for many South Africans. The government has put in place several agencies and programmes to support these enterprises and it constantly tries to adjust the regulatory environment to ease the compliancy burden. How the micro business owners in the townships experience these efforts was the question that led to the topic of this research: **An exploration of the experiences of micro business owners in Langa with regard to governmental regulations and support systems.**

1.2 SMEs role in the South African economy

The South African government acknowledges in the White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa (1995) the importance of supporting and promoting Small, Medium and Micro Enterprises (SMMEs):

“Small, medium and micro enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways” (Department of Trade and Industry, 1995: foreword).

South Africa is not alone in acknowledging this. Increasingly, all around the world, countries are beginning to recognize the role SMEs can play in social and economic development. SMEs create employment for individuals and at the same time they undertake productive activities that contribute to the national accounts and reduce poverty (Reinecke and White, 2004). In South Africa it is estimated that about 2 million people are employed by the SME sector (Orford, Herrington and Wood, 2004).

The development potential of SMEs lies in them being crucial interventions in the addressing of poverty, unemployment, and inequality, which were caused by the imbalances of the apartheid system of the past and are exacerbated by the neo-liberal policies of the present.

Research done on policies and regulations for small enterprises shows that SMEs that comply with governmental regulations often have better access to financial services, better social security for the workers, and are found to create more employment over time than enterprises that do not comply. This shows that regulation policies can be used as a tool for development (Reinecke and White, 2004). A survey done in 2001 indicates that more than 60% of South African SMEs are not complying with any basic registration requirements, compared to 14% in the other six developing countries that participated in the survey. South Africans are also less willing to pay income tax and Value Added Tax (VAT) (ILO MSE Surveys, 2001 in Reinecke and White, 2004).

Complying with regulations is a costly affair. In 2004 businesses in South Africa paid R79 billion in compliance costs. This amounts to 6,5% of gross national product (GNP). Compliance costs represent 8,3% of turnover for small companies, compared to 0.2% of big companies (Strategic Business Partnership, 2004). There is a wide range of businesses operating in South African townships; 88% of these are informal (Foxcroft, Wood, Kew, Herrington and Segal, 2002). Strategic Business Partnership (SBP) show in their research, Cutting the Cost of Red Tape, that even though owners of informal businesses are well aware of advantages of being registered and 45% are considering registration, the costs are too high and they fail to register (SBP, 2004). The high costs of compliance hamper the potential that micro enterprises have to address some of the socio-economic problems that currently confront South Africa.

Since 1994 the South African government has devoted considerable resources to supporting the SME sector. A national SME survey carried out by Global Entrepreneurship Monitor (GEM) in 2004 showed that these efforts failed to reach most SMEs. Few SME owners knew what support was offered, and even fewer had benefited from any support system (Goldstuck, 2004). South Africa is not the only country where such efforts have failed. Reinecke and White (2004) found in their study of seven developing countries that SME support systems had little influence on growth in the SME sector.

The SME sector's role in social development and economic growth is further elaborated upon in chapter 2. The chapter also gives an overview of the effect the regulatory environment has on SME development, as well as the aims and failures of the support systems.

1.3 Rationale and significance of the study

The main reason for undertaking this research was to develop a deeper understanding of the obstacles and mechanisms that cause a lack of compliance with regulations and the under-utilisation of support systems. By looking at government regulations and support systems through the eyes of micro business owners, the researcher aimed to explore how these can be adjusted to the needs of the business owners. The research sought to look at how governments could effectively support and nurture the SME sector, and through this combat poverty, unemployment, and inequality.

The research is of significance for any governmental institution that aims to regulate the activities of SMEs. Most governmental institutions struggle with low levels of compliance with regulations. One of the reasons given for non-compliance within the SME sector is a lack of knowledge. Efforts have been made to provide information, and through this counter the problem of non-compliance, but these efforts fail to reach the informal sector and thus those who need such information most urgently. The research is also of interest to support agencies, governmental as well as private, that aim to support SMEs. There is a wide range of support systems available, but in many cases SME owners in the townships are unable to make use of them. This research has pointed out some of the most common obstacles to the under-utilisation of support systems. The research aimed to uncover tendencies that support systems and arms of governance need to be aware of when trying to reach out to township businesses with information, and.

The research also aimed to benefit the micro business owners that participated in the study. Through the interviews, awareness of regulations and support systems has been raised. The debates that followed the interviews in many instances provided the participants with more accurate information regarding regulations, and through this, sceptical attitudes might have decreased. By raising awareness of support systems, the participants were motivated to seek more information about support available to them. This might have encouraged them to take a further step and contact available support systems.

Throughout the research process the researcher has met with staff of different offices, agencies and associations. Even though the aim first and foremost was to gather information about the services they offer, one of the additional results has been the sharing of information

and ideas. After these meetings the researcher has been contacted by different people who wanted to share further ideas or who sought advice on where to go for relevant information. The research process itself has therefore contributed towards discussions and raised levels of awareness.

1.4 Research questions

SMEs play an important role in social and economic development and in fighting poverty. Governments use regulations to control economic activities and to ensure the collection of tax-income. Most SMEs owners find regulations constraining, but research shows that regulations can potentially support the development of SMEs. The South African government sees SMEs as a potential means for development and has put in place support systems for the sector. Through this research, micro businesses in Langa township, Cape Town and their experiences of compliance with governmental regulations have been explored, as well as their experiences with support systems. This helped investigating the main research question of this study: **What are the experiences of micro business owners in Langa and what knowledge do they have, with regard to compliance with governmental regulations and the utilisation of governmental support systems?**

The research question was divided into the following sub questions:

Existing regulations and support systems

- What are the regulations applying to micro enterprises?
- Which governmental support systems support the development of micro enterprises?

Experiences of micro business owners in Langa

- What is the level of knowledge of micro business owners with regard to regulations?
- To what extent do they comply with regulations?
- What are their attitudes towards regulations?
- What motivates compliance and/or non-compliance?
- What is their level of knowledge of governmental support systems?
- What are their experiences regarding the utilisation of governmental support systems?
- What other forms of support do they have?

1.5 Main goal and objectives

The main goal of the research was: **to explore and describe the knowledge and experiences of micro enterprises with regard to compliance with governmental regulations and the utilisation of support systems.**

This again was divided into the following objectives:

- To establish an overview of existing regulations, laws and support systems regarding micro businesses through reviewing available resources such as government publications and the Internet.
- To explore, through in-depth interviews with micro business owners:
 - Their level of knowledge of and attitudes towards regulations and support systems.
 - Their level of and motivation for compliance or non-compliance with regulations.
 - Their experience with regard to the utilization of governmental support systems.

In the long run this research sought to contribute to the discourse about social development regarding the commitment by government to effectively support and nurture the SME sector as a mechanism for social development.

1.6 Research design and methodology

The research can be categorized as explorative and descriptive (Babbie, 2004). The chosen design was qualitative. This was because it was believed that this design would give a good understanding of the questions investigated (De Vos, 1998).

In order to get an accurate insight into the themes of the study, a review of policy and secondary data was undertaken prior to the research. The purpose of this was to give the researcher an overview of the regulations and support systems applying to micro business owners, as well as to draw on knowledge gathered from previous studies.

The method used to gather information was in-depth interviews. The rationale for the use of interviews was based on the fundamental position that suggests that people's knowledge,

views, understandings, interpretations, experiences, and interactions are meaningful properties of the social reality, which this research was designed to explore (Mason, 2000). Non-probability sampling was used to identify the research participants. A combination of sampling methods namely purposive sampling and snowball sampling was chosen (Babbie, 2004). The sample consisted of 20 participants, all owners of micro enterprises in Langa township. To ensure rich data the sample included both male and female business owners, both formal and informal enterprises¹, and enterprises varied in terms of years in operation, number of employees, and type of business.

A semi-structured interview schedule was used in order to gather information with regard to the objectives of the research. The interview schedule included three main areas of focus: a description of the business and the business owner; knowledge of and compliance with regulations; and knowledge of and benefits derived from support systems.

An audio recording was used to capture the responses by the participants and the interviews were then transcribed into text. The data analysis was of a practical and pragmatic nature and coding procedures from grounded theory methodology were used (De Vos, 1998).

Chapter 3 offers a thorough description of the research design and methodology used. The limitations connected to the chosen design and methods are also thoroughly discussed.

1.7 Concept clarification

1.7.1 Unemployment

Statistics South Africa define unemployment as follows: Those people within the economically active population who: a) did not work during the seven days prior to the interview, b) want to work and are available to start work within two weeks of the interview, and c) have taken active steps to look for work or to start some form of self-employment within the last 4 weeks prior to the interview. The definition leaves out those who are unemployed and have given up applying for jobs and therefore does not give an accurate picture of actual unemployment. Statistics South Africa therefore also operates with an expanded definition of unemployment. This is the same as above, but without criteria c)

¹ Formal enterprises are defined as enterprises registered with at least one governmental agency, while informal enterprises are not registered at all.

(Statistics South Africa, 2004). In this research the above-mentioned narrow definition of unemployment will be used, because this is in accordance with statistics used in other research and the media.

1.7.2 Small and micro enterprises (SMEs)

The studies carried out in the field of SMEs employ different definitions of very small, micro, small, and medium sized enterprises. The Human Sciences Research Council uses a definition of very small and micro enterprises (VSME), where they focus on business with up to 10 employees (McGrath 2005), whereas Reinecke and White define micro business with 1-9 employees, and small business with 10-49 employees (Reinecke and White, 2004). The South African government applies yet other definitions. In the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, the South African government defines micro enterprise as a business with one to four workers, and small enterprise as a business with five to fifty workers (DTI, 1995). Most governmental publications use the term Small, Medium and Micro Enterprises (SMME), which also includes medium enterprises with up to 200 employees.

In the current study the abbreviation SME will be used, and by that the researcher means Small and Micro Enterprises. This includes enterprises with 1-50 employees, where enterprises with 1-4 employees are defined as micro enterprises and enterprises with 5-50 employees are defined as small enterprises. This makes the research tally with governmental information and other studies used in the literature review. The research sample focuses on micro enterprises with less than five employees. However, when referring to information provided by the South African government, the abbreviation SMME is applied.

1.7.3 Regulations

“Regulations” is a wide term, and in this research the term includes different governmental interventions to regulate enterprise activities. Such interventions can be laws, legislation, policies, or White Papers. It includes interventions on all levels of governance - national, provincial and local - as different levels of governance are in charge of the enforcement of different regulations.

Governmental regulations are one of the two main subjects of investigation in this research. There is a range of regulations that apply to SMEs in South Africa. The focus of this study

will be on general regulations that apply to all kinds of micro businesses such as registration, VAT and tax regulations and labour policies. A further description of these regulations is provided in chapter 2, section 2.7.

1.7.4 Township

A township is an area where black people live, within commuting distance of an urban metropolitan area (Foxcroft et al, 2002). The creation of the townships in South Africa started in the 1920s and aimed to house the black population away from the white population (Govender, Mnyaka and Pillay, 2003). Even though there is currently no legislation dividing living areas according to race in South Africa, the majority of black people living in urban areas still live in townships. The race code is still upheld by the fact that other cultural groups refrain from settling within the townships. There has been a lack of economic development taking place in these areas and the majority are still living in poverty. Despite the 14-year-old democracy, actual changes in living standards are yet to be seen. This research is carried out in Langa, which is one of the oldest townships in South Africa, and the first in Cape Town (Sipoyo, 2007). A further description of the area is given in chapter 2, section 2.6.

1.7.5 Formal and informal business

As one of the two main aims of the study is to investigate micro business owners' experience with regard to compliance with governmental regulations, it was necessary to interview both business owners that comply with regulations and those that do not. Business owners with formal enterprises and business owners with informal enterprises were asked to participate. To be considered formal the business had to be registered with at least one governmental institution. The informal businesses were defined as those that are not registered anywhere. Although some of the registered businesses did not comply with all regulations, they were still regarded as formal in the current study.

1.8 Ethical considerations

When carrying out a qualitative study, there are certain ethical considerations the researcher has to be aware of. Asking participants to provide sensitive information always involves ethical aspects. Five important ethical aspects were taken into consideration while interacting with participants, namely: informed consent (Judd, Smith and Kidder, 1991); voluntary participation; emotional harm; confidentiality; and the role of the researcher (Babbie, 2004).

1.8.1 Informed consent

Before a person agrees to participate in a research he/she must be given full knowledge of the consequences involved from participation. Based on this knowledge the person can choose whether to participate or not (Judd, Smith and Kidder, 1991). The researcher has aimed to ensure informed consent by informing the participants about possible consequences and risks known to her, before asking them to participate.

1.8.2 Voluntary participation

It was of importance that the research participants participated on a voluntary basis. The researcher was in no position to pressurise business owners in Langa to participate. There were no obvious benefits from participating, as well as no obvious consequences of turning down the request to participate. The participants were informed of this and the norm of voluntary participation is therefore considered ensured.

1.8.3 Emotional harm

Interaction with people always carries a risk of emotional harm (Babbie, 2004). For this reason, the researcher undertook to remain sensitive to the impact that the research process had on the participants. This was ensured by being willing to listen to the stories that the participants wanted to share, even if they were not related to the core aims of the research. Questions of a sensitive nature would only be asked when they were directly linked to the aim of the research.

1.8.4 Confidentiality

This research was not anonymous, as the researcher knew the names and addresses of all the research participants (Babbie, 2004). However confidentiality is ensured by not revealing the names of owners, shops or any other recognisable information in this report, unless the right to do so was given. The audio recordings of the interviews have been deleted, and all recognisable information has been removed from transcripts, notes and the final report. The participants are referred to by numbers or nicknames. All legal and illegal actions carried out by participants remain strictly confidential and, with the exception of non-compliance, have not been referred to in this report. Any illicit business practices have not been and will not be reported to any member of the law structures, and if the researcher were asked by the authorities to provide information regarding the research participants, the priority would be to protect the participants.

1.8.5 Role of the researcher

The aim of the research and the role of the researcher were openly discussed with participants before the interviews. However, essential information was also gathered through informal observation and discussions with citizens of Langa. It has not been possible to inform all parties observed while working in the field about the research, but all the main parties have been fully informed.

1.9 Reflexivity

This research study has hopefully impacted positively both on the participants of the study in Langa as well as on the greater dialogue about the developmental potential of micro enterprises in the alleviation of poverty and the creation of sustainable livelihoods. The researcher's interaction with the participants has created a meaningful mutual experience where both parties have learned from each other.

As this research involved close contact with the participants, the actions of the researcher might have played a role in the outcome of the project. The researcher can therefore not be seen as an observer only, but also as an active participant (De Vos, 1998).

The researcher was aware of some of the expectations that the participants had of her. Throughout the process she experienced that she was seen as a representative of support systems and she had to clarify that she was not in a position to raise support other than by giving information and contact details of existing support systems. By being very clear about her role as a researcher and student, she tried to limit the expectations the participants had of personal gain through participation in the study.

The issue of being a European in a black community also awoke prejudices towards white people. The researcher tried to identify the attitudes of the community and the participants in order to avoid any prejudices affecting the outcome of the research. Compared to other foreigners, the researcher had the benefit of knowing the community where the research was undertaken. She had been involved in the community for eight years, and had a basic knowledge of the mother tongue spoken in the area, and this assisted her in being accepted by the participants. She also had a wide network of friends within the community, who assisted

her in gaining access and helped her in explaining her role as a researcher and thus avoiding misunderstandings.

The researcher was already acquainted with the geographical area in which she carried out this study. Because of this, her previously held knowledge, attitudes and values may have impacted on the findings. The researcher's involvement in the study and other limitations are further debated in chapter 3, section 3.4.

1.10 Outline of chapters

The research report is divided into five chapters and is structured in the following way:

Chapter 1: Introduction

This chapter contains an introduction to the research, the presentation of the research question, aims and objectives. A detailed concept clarification is included in this chapter, as well as ethical considerations, reflexivity and an outline of the chapters of which the thesis is comprised.

Chapter 2: Literature review

This chapter offers a theoretical background of social development, South Africa's economic path and the failure of capitalism. It includes in-depth information about the role of SMEs in the economy, globally, nationally, as well as locally in the townships. Theories regarding the effect of regulations on SMEs are discussed, as well as the aim and effectiveness of support systems. This chapter aims to give background information regarding the topics investigated in this study, and contributes to the final analysis and discussions of the research findings.

Chapter 3: Research design and methodology

The chosen research design and methods used in this study are described in this chapter. The choice of in-depth interviews as the data collection method is described and discussed, as well as type of sampling, the data collection tool and a description of method of analysis. Limitations connected to the chosen method and tool are also thoroughly discussed.

Chapter 4: Research findings

This chapter provides a presentation of a profile of the sample, and the findings from the interviews. The findings are analysed and discussed. The experiences of the research participants are compared and contrasted with the findings from the literature review, as well as the aims of the different regulations and support systems.

Chapter 5: Conclusions and recommendations

The findings are summarized in this chapter and the researcher offers her conclusions. Recommendations for the consideration of the key role players operating in the SME field are made.

CHAPTER 2: LITERATURE REVIEW



2.1 Introduction

Economic paths that governments choose are shown to impact radically on the social and political landscape of developing nations. South Africa, in a post-apartheid era and attempting to deal with the legacy of racialised inequality, tyranny and impoverishment, is an ideal example of how politics, society and the economy interact. Small and micro enterprises (SMEs) play an important role in the South African economy, and make a major contribution in fighting poverty and unemployment. Governmental interventions on the political-economic policy level are deemed to be crucial for the development of SMEs. This is why this research focuses on governmental interventions, through the setting up of mechanisms to regulate and support SMEs, and the SME owners' experience with these governmental regulations and support systems.

This literature review covers and critiques selected theories and perspectives on SMEs and their developmental role in South Africa. To be considered below are theories on social and economic development, South Africa's post-apartheid economic path and how it impacts on

poverty alleviation and SMEs, the role of SMEs in the economy, how business is conducted in the townships of South Africa, the regulatory environment in which SMEs operate, compliance with governmental regulations, and a presentation of governmental support systems and the efficiency of these.

2.2 Introduction of main sources informing this study

A wide variety of resources have informed the literature review and the theoretical framework of this study. Governmental information, such as White Papers, legislation, speeches, and web pages, has formed an important foundation for this literature review. Other important sources have been previous research studies, evaluative reports and articles on the issue of SME development and the effects of the regulatory environment and support systems. Theories with regard social and economic development, and articles covering the developmental progress in post-apartheid South Africa have also been useful. The researcher has visited relevant institutions, organisations and offices that are working with SMEs in order to get accurate information regarding their services. In this section some of the main sources of information are presented. Many other sources have been of great use and they are mentioned in the relevant section of the literature review, and are listed in the bibliography.

Governmental information

As governmental regulations and support systems are the focus of this research, it has been necessary to examine governmental information. This includes White Papers, laws, speeches, background documents and web pages. Some of the sources used are: The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995), the National Small Business Act (No 102 of 1996), a background document on Growth, Employment and Redistribution, GEAR (1996), Basic Conditions of Employment Act (No 75 of 1997), White Paper for Social Welfare (1997), Unemployment insurance Act (No 62 of 2001), the Integrated Small Enterprise Development strategy 2005-2014 (2005), and a background document on the Accelerated and Shared Growth in South Africa, ASGISA (2006) and the Budget Speech 2007. In addition to this, the Department of Trade and Industry (DTI), has made available many resources on the Internet and these web pages have been actively used in the research.

Global Entrepreneurship Monitor

The University of Cape Town's Graduate School of Business publishes an annual report on entrepreneurship in South Africa titled: Global Entrepreneurship Monitor (GEM). This project started in 2001 as a cooperative initiative between various countries, offering a comparison between entrepreneurship in South Africa and other countries. In their annual report a presentation of South Africa's entrepreneurial status is presented well as articles that go into depth on issues regarding SMEs. Articles that have been useful for this research are, for example, those on issues such as South Africa's educational system, the regulatory environment, SME support systems and township business. Annual reports, from 2001 to 2006, have been used in the current study.

Cutting the cost of red tape

Strategic Business Partnership (SBP) is an independent development and research company based in South Africa. They work with the private and public sectors to promote a policy, regulatory and operating environment conducive to business growth. They aim to promote strategic partnerships between business and governments, governments and donor organisations and to facilitate business development programmes. SBP's study, Cutting the Cost of Red Tape (2004), has investigated businesses of all sizes in South Africa and from this drawn conclusions on how much it costs to comply with regulations. The study also provides suggestions on how to achieve a regulatory environment that will ensure the private sector's optimal performance, particularly for small and medium enterprises. In addition the study provides a chapter on informal businesses, and the cost of and reasons for non-compliance with governmental regulations.

The Development Policy Research Unit (DPRU) working papers

These working papers aim at understanding the impact the regulatory environment has on small business in South Africa. The goal is to promote an enabling environment for employment creation, and to contribute to the government's goal of reducing poverty. The DPRU, based at the University of Cape Town, is the programme manager of the papers. In this study the following papers have been used: Trends in Poverty and Inequality since the Political Transition (2006), Recent Findings on Tax Related Regulatory Burden on SMMEs in South Africa (2006), Impact of Municipal Regulations on SMMEs (2006) and The Regulatory Environment and SMMEs (2006).

Policies for small enterprises, creating the right environment for good jobs

This is the title of Reinecke and White's study of the regulatory environment in which SMEs operate. This study aims to examine why governmental support systems and strategies promoting the development of SMEs seemed to have little or no effect. The research is based on studies carried out in seven developing countries: South Africa, Chile, Guinea, Pakistan, Peru, Tanzania and Vietnam. In South Africa they cooperated with Mollentz, and used the information presented in his paper: Creating a conducive policy environment for employment creation in SMMEs in South Africa (2002). Most of the statistics used in the book were from 2002, and the book itself was published in 2004. Reinecke and White's research examines the different countries' national laws and regulations and assesses their effect on small enterprises. They also look at the effect of SME promoting support systems put in place or the lack thereof and offer advice to governments on how to tackle the challenges. The information revealed by their research, and the comparison of seven developing countries, gives general but useful information about the environment in which SMEs operate.

Visits to offices and interviews

Getting first hand experience with relevant stakeholders was a priority when doing this research. The researcher contacted relevant institutions, organisations and offices that are working with SMEs. The main aims of these visits were to get accurate information, and to assess the availability of such information to the public. The visits include: Cape Town municipality, Langa Housing Department, Langa library, Councillor of ward 51 in Langa, Langa Traders Association, Lagunya Traders Association, Tsoga Environmental Resource Centre in Langa, South African Revenue Service (SARS), Small Enterprise Development Agency (SEDA), Umsobomvu Youth Fund, The Red Door Project, The Business Place and the Library Business Corner. Interviews were carried out at some of these resources and the informants are listed in the bibliography.

2.3 The challenge of social development

South Africa is one of the best-resourced countries in the world, with significant resources in gold, diamond, and aluminium, amongst others, a sound financial system, a well-working infrastructure and some of the most luxurious suburbs in the world. Unfortunately South Africa's wealth benefits only a minority (Turok, 2007). Dudley Seers questions the 'meaning of development' and how it is measured. In his article he writes the following:

“The questions to ask about a country’s development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse especially if all three have, it would be strange to call the result “development” even if per capita income doubled.” (Seers, 1969 in Todaro, 2000: 15).

Using the above understanding, South Africa still has a long way to go to ensure social and economic development. Despite economic growth in terms of GNP, the levels of poverty, unemployment and inequality has barely improved since the change to a democratic government in 1994 (Berg, Burger, Burger, Louw and Yu, 2006).

Turok (2007) asks a crucial question in his paper: What is distinctive about a developmental state for South Africa? Do the South African government’s economic actions make a base for overcoming unemployment, poverty and inequality and the fundamental transformation of the society? He argues that since no revolutionary movement has been able to transform a country in a single sweep, South Africa needs a developmental state that seeks to ensure that reforms contribute to fundamental change, rather than inherited distortions (Turok, 2007).

The approach of social development has been developed with third world countries in mind, where the need for social policies that are compatible with economic development is paramount. Social development can be defined as a process of planned social change designed to promote the well-being of the population as a whole. This should be done in conjunction with the dynamic process of economic development. The social development approach links social welfare directly to economic development policies and programmes. Distorted development exists in societies where economic development has not been accompanied by a simultaneous level of social development (Midgley, 1995). South Africa has inherited a system of distorted development from the apartheid era, and needs to employ a developmental approach in order to fight the injustices of the past and ensure significant reductions of unemployment, poverty and inequality (Turok, 2007).

Midgley (1995) presents alternatives on how to link social development to economic development on individual, community, and governmental levels. The individual level is based on the individualist ideology; that social welfare can best be promoted when individuals

independently pursue their own self-interest. In order for the individualist approach to be effective, the government needs to create conditions conducive to the emergence of SMEs that provide opportunities for poor people to generate the resources they need. If sufficient individuals create small enterprises, the economy will grow endogenously and expand through local effort, rather than external investment. This represents a shift from mobilizing capital for large-scale industrial development and through this employment creation. The community based approach holds the belief that people and communities have the capacity to organize themselves to ensure that their basic needs are met, their problems are solved and opportunities for advancement are created. The statist approach believes that social development can best be promoted by the state, represented by governments, their specialized agencies, policy makers, planners and administrators. It is implicit in the statist approach that the state embodies the interests of society as a whole and that it has a responsibility to promote the well-being of all citizens (Migdley, 1995). The approach of social development represents a shift away from the neo-liberal principles upheld by the South African government. The shortcomings of these principles are discussed further in section 2.4.

In this research the social development approach has been chosen as a theoretical framework. The researcher assumes that the South African government intends to enhance the well being of its citizens. One of the ways the South African government is trying to ensure social development is by supporting the SME sector. By doing this, it mirrors both the statist and the individual approach to social development. The statist approach is ensured by the fact that government puts in place agencies, planners and administrators in order to support entrepreneurs. By doing so, in addition to reviewing the regulatory environment in which SMEs operate, the government aims to ensure that opportunities for individuals to pursue their self-interest will arise. Even though the researcher sees the shortcomings of the individualist approach, she has chosen this approach as a framework for the research, due to the fact that the South African economy is ruled by neo-liberal principles. Business owners therefore have to operate within the opportunities and limitations of this economic approach.

2.4 South Africa's post-apartheid economic path

Since the political transformation in 1994, South Africa's economic policy has been under considerable change. Firstly the democratic government published a policy for greater regulation of the inequalities and inequities of the free market. The Reconstruction and

Development Programme (RDP) policy was published in 1994, but two years later it was joined by the Growth, Employment and Redistribution strategy (GEAR). Despite the radical and socialist origin of many of its members, the South African government has closely followed neo-liberal principles during the first decade of its ruling period (Graaff, 2003). GEAR has led to macro economic stability, but not substantial reductions in unemployment and poverty. The South African government therefore launched a new strategy in 2006, the Accelerated and Shared Growth -South Africa (ASGISA), aiming to meet the millenium development goals of halving poverty and unemployment by 2014 (Mohamed and Roberts, 2007). ASGISA offers economic policies that can be seen as a continuation of GEAR and stresses the importance of growth measured as growth in Gross National Product (GNP) (Bhorat, 2006).

2.4.1 The impact of neo-liberalism

Actual figures on the direct impact of South Africa's neo-liberal approach need to be furnished. GEAR, as well as ASGISA, closely follow the Washington Consensus (Mohamed and Roberts, 2007). Seidman and Anang (1992) point to the consequences this approach has on developing countries:

“The typical IMF package includes government measures to: Reduce budget deficits by laying off workers and reducing social welfare expenditures; freeze wages; lower taxes on higher income recipients (assumed to be potential investors) while raising those on lower income groups; increase interest rates to reduce domestic borrowing; eliminate foreign exchange controls and import licensing to foster increased competition from imported goods; privatise public enterprises and devalue the national currency to lower real costs and prices to sell more exports” (Seidman and Anang, 1992: 26).

In such an economic climate, it is the poorest that must pay the price of “economic development”, and an increase in GNP does not necessarily result in increased living standards of the total population.

In South Africa, as well as other developing countries, the increase in GNP has not automatically resulted in increased living standards of the total population. During the first three years of the democratic government, the growth in GNP was 2% (Todaro, 2000). The Development Policy Research Unit (DPRU) at the University of Cape Town found that in the first five-year period after the political transition in 1994 measured poverty actually rose

(Berg, Burger, Burger, Louw and Yu, 2006). It is also found that inequality rose in this period, and the Gini coefficient rose from 0,68 in 1996 to 0,73 in 2001. The inequality rose along racial lines with incomes of Whites, Indians and Coloureds increasing while incomes of Blacks stayed stagnant. But also within the racial groups the inequality rose. Most significant was the Black group where some increased their income significantly while the vast majority were stagnant or actually decreased their income (Leibrandt, Poswell, Naidoo, Welch and Woolard, 2006). Leibrandt et al (2006) also found that even though poverty worsened from 1996 to 2001, this worsening was not acute for the poorest of the poor and that major service delivery took place at the same time and millions got access to better housing, electricity, water and sanitation.

In 2006 South Africa experienced growth in GNP of 4,9% (Manuel, 2007) and the unemployment rate, which had risen from 19,3% in 1996 to 31,2% in 2003 (UNDP, 2003), had slowly dropped to 26,6% in 2006 (Statistics South Africa, 2006). However, in their article, Questions of growth, questions of development, Mohamed and Roberts (2007) argue that South Africa's economic performance is questionable. This is based on the fact that the government has failed to address the inherited structural and institutional weaknesses of the economy. There has been a lack of productive investment, and the economic growth that took place was in sectors like finance and communications. They argue that this type of growth will be constrained because it occurs within an inherited institutional framework that perpetuates high levels of unemployment and inequality. They also argue that the job creation that took place was in services, such as security and cleaning which both provide insecure and low-salaried jobs (Mohamed and Roberts, 2007). Despite the increase in GNP, the assumption that South Africa is experiencing economic growth is questionable. However, the DPRU claims that poverty and unemployment levels are slowly dropping in South Africa, and much of this is due to the expanded social grant system and improving labour prospects, but they also emphasise that since the social grant system is currently nearing the limits of its poverty alleviation capacity, more rapid job creation is required to make further progress in combating poverty (Berg et al, 2006).

A way of ensuring job creation is to prioritise the role of SMEs, which ordinary people engage in. Since these enterprises are deemed as crucial vehicles in addressing poverty and unemployment, they actually form an important component of social development.

2.4.2 The division into a first and second economy

The legacy of apartheid created a division of the economy in South Africa where the majority of the population was excluded from the formal economy and both social and economic benefits. The former South African President, Thabo Mbeki referred to the informal economy as the second economy and said it is characterized by underdevelopment, that it contains large proportions of the population, contributes little to the GDP, and that it is incapable of self-generating growth and development (Shisana, 2007). Shisana (2007) explains that the second economy refers to those outside the mainstream economy, meaning that they do not engage with the formal economy through the usual means such as banking, leasing and access to investments and credit. Those in the second economy have poor or no access to social protection, earnings and means of accumulation.

Former president Thabo Mbeki was also of the opinion that the second economy is structurally disconnected from the first economy. His description of dualistic economy has caused great debate. The Southern African Regional Poverty Network (SARPN) argues that it is the same processes that enrich the formal economy that also impoverish the second economy. This is because the informal economy traditionally has served as a pool of cheap labour for the formal economy, and the structures have been upheld by the post-apartheid government's choice of a neo-liberal economic approach (Frye, 2006). This view is supported by Shisana (2007), who also argues that it is widely recognized that the first and the second economy are interlinked. The problem is therefore not underdevelopment in the second economy, but rather an economic and social system that perpetuates highly unequal access to resources. Turok (2007) states that South Africa cannot depend on "trickle down" benefits from the first to the second economy, and should not expect a ladder of advancements between the two economies, because the gap is too wide. The government should rather promote productive work in the underdeveloped areas with state resources (Turok, 2007). Despite the fact that South African policy makers have spoken warmly of the need to incorporate the second economy into the first economy, they have so far failed to do so.

2.4.3 The failure of capitalism

When comparing countries in Latin America, which, until recently, followed neo-liberal principles to Asian economics, which have followed a diversity of paths, it is found that the Latin American countries are outshone by their Asian counterparts (Rodrik, 2004, in Mohamed and Roberts, 2007). As in many other developing countries, capitalism has failed to

meet the needs of the poor in South Africa. Despite a growth in GNP, the vast majority of the population still live in poverty. De Soto (2000) gives one explanation in his book, *The mystery of capital*, where he points out the fact that one of the most important ingredients in capitalism is assets. He carried out research in four developing countries, and found that the poor possess assets worth large amounts. They have houses and crops, but not title deeds. They have businesses, but no status of incorporation. Because the rights to these possessions are not adequately documented, these assets cannot be used as security for accessing finance and they cannot be traded outside the narrow local circle where people know and trust each other (De Soto, 2000). The processes for legalising their assets are in most cases so long, intricate and costly that it does not pay off to walk the path of red tape, and yet without documentation on their assets, people cannot participate in capitalism.

South Africa has a history where 80% of its population lived outside the formal economy. This did not mean that the 80% lived in total poverty, but in many cases they did not have documentation of their property, and still do not. South Africa acknowledges, in ASGISA, the need for realising the value of assets, such as land, houses, livestock, skills and indigenous knowledge, in order to incorporate the second economy into the first economy (Mlambo-Ngcuka, 2006). South Africa needs to find an efficient way to do this, in order to give people a real chance to participate in the formal economy and through this give them a chance to experience social development.

2.5 The role of SMEs in the economy

In most countries SMEs make up the majority of enterprises. It is estimated that there are between 1,6 and 3 million² Small, Medium and Micro Enterprises (SMMEs) in South Africa, that employ about 2 million people (Orford, Herrington and Wood, 2004). Furthermore it is estimated that between 69% and 80% of these enterprises are micro enterprises with less than five employees, including the owner (Berry et al, 2002, in Chamberlain and Smith, 2006). It is therefore of great importance to take a look at what leads to growth in the SME sector, and the quality of such growth. In their research, Reinecke and White found that six out of the seven countries participating increased SMEs share in employment in the 1990s. This was mainly due to downsizing in large enterprises in the public sector that was directly linked to the transition to a market economy in the country concerned. In most cases a transition of this

² The figure includes both formal and informal enterprises.

nature has led to an economic recession and increased rates of poverty. Policies of economic liberalisation have therefore caused an increase in the SME share of total employment. On the other hand, in periods with rapid economic growth, existing SMEs expand as entrepreneurs identify and respond to market opportunities. This leads to more jobs and higher incomes, but less new SMEs. In times of recession existing SMEs contract and new SMEs start up, but tend to undertake activities that yield low returns (Reinecke and White, 2004).



South Africa is no exception. The total number of registered enterprises has doubled the over past seven years from 812 000 in 1999 to more than 1,7 million in 2006 and the majority of these are SMEs (Maas and Herrington, 2006). SME growth in the post-apartheid South Africa has been promoted by people's response to unemployment, precipitated by a decline in employment in the public sector. But Reinecke and White found that it was also significant that the majority of the population was now released from the exclusionary confines of apartheid and was able to participate more fully in the economy (Reinecke and White, 2004).

SMEs develop in stages, and GEM has defined three stages of SME development. An enterprise is considered to be in the "start-up" phase during first three months of its existence. In this phase the enterprise identifies products or services that the business will trade in, accesses resources such as finances and puts in place necessary infrastructure, including staff. An enterprise is considered "new" if it has been in operation from three to 42 months. In this period the enterprise begins to trade and compete with other businesses. Finally an enterprise is "established" if it has been operating more than 42 months (Maas and Herrington, 2006).

In this section the SME sector is investigated in terms of quality of employment, difference between necessity and opportunity enterprises, how South African SMEs differ from other countries, especially in terms of education and social and social and cultural norms, and finally, how the South African government perceive the SME sector.

2.5.1 Quality of employment

SME employment is generally characterised by low standards, and the working conditions are overall worse than in larger enterprises. This is shown by lower wages, longer working hours, dangerous working conditions, lower social protection, less unionisation and lower coverage of pension schemes and health insurance (Reinecke and White, 2004). The quality gap between SMEs and larger enterprises increased globally in the 1990s caused by policy neglect or unintended consequences of policies. There is, however, a significant difference between micro enterprises and small enterprises when it comes to the quality of working conditions. One example is the membership of unions. Generally such membership is low. In South Africa membership rates increase dramatically with the size of the enterprise. In micro enterprises 13% were found to be members of a union, while in small enterprises 54% were members. In enterprises with more than 200 employees, 99% of employees were members of unions (Reinecke and White, 2004). This finding shows that employees in SMEs are less likely to organize themselves and ensure their rights being fulfilled. This makes it easier for owners of micro enterprises to exploit their workers and avoid health and safety regulations.

2.5.2 Necessity or opportunity?

There are many reasons for starting an enterprise. GEM differentiates between necessity enterprises and opportunity enterprises. If the reason for starting a business is because the owner has no other way of earning a living, the enterprise is defined as a necessity enterprise. If the enterprise is started as a response to an opportunity, whether it is an opportunity in the marketplace, an opportunity to lead a different lifestyle or an opportunity to earn more money, it is defined as an opportunity enterprise (Maas and Herrington, 2006). Usually the chances for starting and sustaining a business rise in relation to the more formal education a person has. However, the reverse is true for necessity enterprises. The lower the education a person has, the less the chances of achieving income through being employed, and therefore the greater the probability for starting their own venture. Necessity enterprises seldom provide sufficient income for the owner or for potential employees. Less than 3% of necessity enterprises in South Africa develop to employ more than six employees. Necessity enterprises

can contribute towards alleviation of poverty, but usually not to economic growth and job creation. Necessity enterprises are more likely to remain informal, and are less likely to survive the first three months (Wood and Shay, 2005). Women are more often than men, forced to start an enterprise out of necessity. In South Africa, most people employed in SMEs do this due to necessity, either because of termination of employment or a lack of job opportunities. This differentiates South Africa from the other developing countries that participated in the Reinecke and White survey where the majority of SME owners chose this form of employment because of the independence it brings, despite lower salaries (Reinecke and White, 2004). The notion that most informal businesses in South Africa are necessity enterprises is however questionable. Strategic Business Partnership (SBP) found in their research that 57% of the informal participants said they would rather run their own business than take a job (SBP, 2004).

2.5.3 How and why South Africa's SME sector differs from other countries

The SME sector has developed differently in South Africa than in other African countries. Even though the South African SME sector is highly differentiated in terms of race, gender and location, it is underrepresented in the manufacturing sector and has a weak retail and trade sector (McGrath, 2005). Simon McGrath (2005) argues, in his research titled Skills development in very small and micro enterprises, that apartheid can be blamed for the lack of development in the SME sector in South Africa. One of the reasons is that the formal economy of South Africa is well developed and South Africa still has a high concentration of very large capital-intensive enterprises. This has led to the eradication of many pre-industrial manufacturing processes and relevant skills bases. The apartheid regime also blocked enterprise development by discouraging African urbanization (McGrath, 2005).

One of the most important factors in the development of SMEs is entrepreneurial spirit. GEM also blames the apartheid legacy for the lack of entrepreneurial spirit in South Africa. Compared to other developing countries that participate in GEM, South Africa has the lowest entrepreneurial activity rate, both in terms of necessity and opportunity entrepreneurship (Broembsen, Wood and Herrington, 2005). The reason GEM found for a lack of entrepreneurial spirit is that South Africans do not recognize their capabilities. This lack of entrepreneurial self-confidence is rooted in four different constraints: Education and training, cultural and social norms, financial support, and government policies (Driver, Wood, Segal and Herrington, 2001). Regarding access to finance and government support, the South

African experience does not differ significantly from other developing countries, and these constraints will be discussed in section 2.7.

Education

The impact of apartheid on the school system is one of the major reasons that South African schools perform so weakly even when compared with much poorer countries. Although matriculation pass rates have improved since 1994, inequalities still persist. A school's pre-94 education system remains a good predictor of current performance and there is strong evidence that South African schools are under-performing in areas like comprehension, maths and science (Orford, 2004). Apartheid education damaged people's confidence and self-esteem. Passivity and learned helplessness was deliberately inculcated in South Africans. The education was rigid and authoritarian, in white as well as black schools. Critical thinking and questioning were not encouraged, though this was usually less extreme in white schools (Driver et al, 2001).

South African tertiary education prepares young adults relatively well with the knowledge and skills required to start a business. In this regard South Africans with a tertiary education are almost as likely to start an opportunity-motivated business as their peers in other developing countries. On the contrary, South Africans with secondary education or less are significantly less likely to start a business than their counterparts. GEM therefore concludes that the lack of entrepreneurial skills found in South Africa can partly be blamed on the primary schooling system. They urge the government to ensure that entrepreneurship is developed from an early age through the education system. Formal education needs to stimulate self-esteem, personal initiative and creativity in order to assist building entrepreneurial mindsets and to ensure the skills needed to be an entrepreneur (Wood and Shay, 2005). The junior enterprise system, whereby school children go through the experience of starting a small business, has been successfully implemented in many different countries. Black and white school children in Johannesburg have worked together on this kind of project and through the project been introduced to the idea of self-employment (Harper, 1984). Changing the educational system is a difficult and slow process, but remains very important for promoting an entrepreneurial spirit.

Social and cultural norms

Besides the educational system, social and cultural norms also constrain entrepreneurship in South Africa. Entrepreneurship is not sufficiently recognized and celebrated. Even though the media to a certain extent promotes and profiles successful entrepreneurs, people also need to see entrepreneurs in their everyday lives. There is a lack of successful entrepreneurs in communities who can function as role models. Entrepreneurship requires individual drive, passion, self-confidence and initiative. There is a lack of “can-do” and “there-are-no-barriers” attitudes in South Africa. Failure is very common in entrepreneurship due to the fact that few entrepreneurs succeed the first time. In South Africa, there is a social stigma connected to failure, and that makes it more difficult for people to take the risky step of starting an enterprise (Driver et al, 2001). There is a strong culture of wage labour in South Africa and entrepreneurship is not considered as a legitimate or desirable career choice. Black South Africans were historically used as pools of cheap labour for the minority population. They were therefore excluded from starting enterprises on their own (Shisana, 2007).

Another constraint worth mentioning is the lack of trust among South Africans. The notion of trust captures the invisible networks and understanding that underpin a market-based economy (De Soto, 2000). Especially in the informal economy, which is run by unwritten rules and norms, the notion of trust plays a significant role. Business owners lack collateral and fixed assets as security for assets. Creditors have no guarantees that their money will be paid back. The legacy of apartheid has instilled mistrust between the racial groups of South Africa and that lack of trust, combined with very different ways of doing business, hampers effective business development.

As mentioned, in South Africa, the norm is rather to be employed than to go the entrepreneurial route. The lack of social and cultural support for starting a business is especially prominent in previously coloured and black areas (Driver et al, 2001).

2.5.4 The South African government and the SME sector

As previously discussed, growth in the SME sector is often a result of employment lost elsewhere due to the implementation of a neo-liberal approach. However, the South African government recognises the SME sector as an important employment generator as well as a great contributor to GNP. In the White Paper on National Strategy for Development and Promotion of Small Business in South Africa (1995), the government mentions support of

SMEs as a tool for development (Department of Trade and Industry, 1995). The newly adopted economic approach, ASGISA, starting from 2006, also aims to strengthen SME development, especially through women and the youth. This will be done by making finance available as well as revising the regulatory environment, which is considered sub-optimal (Mlambo-Ngcuka, 2006). Support of the SME sector was again emphasized in the Budget Speech of 2007, where finance minister Trevor Manuel announced that the Department of Trade and Industry (DTI) will receive an additional R1.7 billion to promote industrial development, black economic empowerment and small business development (Manuel, 2007).

No employment strategy can be successful if it does not take small enterprises into account. But even though SMEs are helping a large number of very poor people to become a little less poor, they fail in most cases to provide employment of sufficient quality to be a path out of poverty. SMEs do play a crucial role in development but cannot be seen as a panacea that automatically solves the pressing problems of poverty and unemployment. Due to these facts, growing the employment share of SMEs should not be a goal in itself. The challenge for the government will rather be to enable SMEs to create jobs of better quality.

2.6 The township and township business

A township is traditionally an area where black people reside in South Africa within commuting distance of an urban metropolitan area (Foxcroft, Wood, Kew, Herrington and Segal, 2002). Townships were created as a result of the Native Urban Areas Act (No 21 of 1923), which was one of many acts created in the early twenties to ensure segregation and the preservation of white political power. The act regulated the movement of the black population in urban areas, and gave the local authority the right to administer the lives of the black population in terms of place of residence, access to the towns, and employment opportunities (Govender, Mnyaka and Pillay, 2003). The townships served as pools of cheap labour, and this division ensured that the minority upheld a lifestyle at the same level, or even better than their counterparts in industrialised countries, while the inhabitants of the townships did not earn enough to enjoy the fruits of their own labour (Shisana, 2007). This pattern of people living separately along racial lines is still upheld in South Africa, and the townships remain on the same socio-economic level as during apartheid. Townships are experiencing slower social

and economical development than the city centres of South Africa, and belong to what the former president Thabo Mbeki called the second economy of South Africa.

2.6.1 The township of Langa

The township Langa was developed in 1923 as a “model township” as a result of the Native Urban Areas Act (No 21 of 1923), and aimed to house the black population away from the city centre of Cape Town. It is surrounded by 4 boundaries, two main roads, a railway line and on the fourth side an industrial area. It was designed this way, with only one entrance, so it could be easily controlled and closed off if necessary. Langa is now one of the most established townships in the Western Cape and has raised many well-known South Africans, such as Brenda Fassie, the singer, Philip Kgosana, the boxer, and Xolile Mosi, the first victim of the 1976 uprising (Sipoyo, 2007).



2006 aerial photograph. Produced by Strategic Development Information and GIS, (City of Cape Town, 2007)

Langa is divided into two, with Langa the originally established township, and Joe Slovo an informal settlement that has emerged on the outskirts of Langa. Joe Slovo is a part of the high-prestige governmental housing project, N2 gateway, and flats are being built where parts

of the informal settlement used to be. N2 gateway aims to build flats to house those that are currently staying in shacks, both from Langa and surrounding townships (Sipoyo, 2007).

In 2001 Langa officially had close to 50 000 inhabitants (Statistics South Africa, 2001). However there are considered to be between 250 000 and 300 000 that actually reside in Langa today. Ninety-nine percent of the residents are black (Sipoyo, 2007). According to the 2001 census less than one third had passed matriculation, and less than 1% had a degree higher than Bachelor. Half of the working force was unemployed, and 72% of those working earned less than R1600 a month (Statistics South Africa, 2001). Today 33% are categorised as unemployed using the narrow definition of unemployment, but as many as 60% un- or underemployed (Sipoyo, 2007). Underemployed means that they might have employment but the jobs do not generate sufficient income to meet their needs and do not permit full use of the person's skills or capacities (Allen and Thomas, 2000).

2.6.2 Township economics

Even though South Africa is now a democratic country, the legacy of apartheid has caused business to develop differently in the townships than in the cities and the suburbs of South Africa. As the townships belong to the second economy of South Africa, they are characterized by underdevelopment and contribute little to GNP. During apartheid inhabitants of the townships were not allowed to establish businesses in the cities, which effectively prevented them from competing with established business (Shisana, 2007). The apartheid government also controlled what kind of business could take place within the township, and the traders were only granted licences for very specific forms of trade such as small grocery and barbershops. This created an economic environment of narrow choice and high competition (Langa Traders Association, 2007). Isolated societies tend to create their own ways of development, and likewise in the townships initiatives such as stokvels, burial societies and traders associations were created. The rules of engagement in these institutions were fundamentally different from those of the formal economy (Shisana, 2007). The South African government has failed to integrate the second economy into the first economy. The patterns of informal economic activities are therefore upheld in the township.

GEM carried out research focusing on 400 enterprises in four townships in South Africa in 2002. They found that 88% of the enterprises were informal, and almost half of these earned less than the minimum standard of living, which in 2002 was R1270 per month. However,

half of the enterprises that were formalized earned more than R5000 a month (Foxcroft et al, 2002).

In Langa the majority of enterprises operate informally. According to the 2001 Census there were 73 formal businesses operating in Langa in 2001 (Statistics South Africa, 2001). The Langa Trader Association (2007) was aware of 55 formal businesses operating in Langa in 2007. In addition to this they estimated the number of informal businesses to vary between 500 and 700 of whom 200 were members of the association. However, the way business is conducted differs between the formal and in the informal sections of Langa. In Joe Slovo there are no areas zoned for business, and the possibilities for growing an enterprise are small. Also N2 gateway is earmarked for residency only, and so far the municipality has failed to zone areas within the complex for business (Sipoyo, 2001).

In a meeting of the researcher with the Langa Traders Association on the 1st of November 2007 a number of constraints facing businesses in Langa were mentioned. The legacy of apartheid has left its mark in terms of what kind of business takes place. Even today the traders in Langa do not manufacture. They mostly buy and sell. The association also mentioned the lack of trust needed to build associations. People prefer to work on their own rather than cooperate with each other and as soon as individuals are making money, they rather invest the money outside the township in activities or properties that are perceived as more likely to accumulate wealth (Langa Traders Association, 2007). Another reason found for investing money outside the township was crime. Crime is a widespread problem and GEM found that one third of the enterprises in their research mentioned theft as a problem. Not only does the high level of crime act as an incentive to township business to relocate out of the township, it also discourages entrepreneurs from outside the township from opening businesses within (Foxcroft et al, 2002).

Business premises

Premises play a significant role in the success of a business. Running a business in premises other than home provides advantages such as more flexibility and greater access to markets, as the business can be set up in areas of the township where foot traffic is high. Home-based enterprises are more dependent on family, neighbours and friends for trade. This limits their opportunities for growth but makes them easier to combine with other responsibilities such as childcare. GEM found that 11% of the township enterprises were located on the street and

were therefore vulnerable to weather, spoilage and theft. This type of location also limits bulk buying and stock holding (Foxcroft et al, 2002). In Langa business premises are limited and the buildings zoned for business were built and owned by the apartheid government. The democratic government still owns the buildings but has started the process of handing the shops over to the shop owners. Neither the apartheid government nor the current democratic government have done necessary upgrades to the buildings and they are therefore being handed over in a much neglected condition.



The zoning of property in Langa also makes it hard to expand business to new areas, and even though the association has applied for several plots of land, the municipality has so far failed to earmark and provide more land for business and manufacturing. The Langa Traders Association emphasised that the lack of appropriate business premises was one of the main reasons for township business not to be able to participate in the formal economy (Langa Traders Association, 2007).

Accessing funds

GEM found that the most widespread constraint for running a business in the township was the lack of finance (Foxcroft et al, 2002). This finding was supported by the Langa Traders Association (2007). Since the government has only started the process of handing the shops over to business owners, the business owners are not able to use the shops as collateral to access funds. Resource Access has done a study in three informal settlements, including Joe Slovo, for the City of Cape Town. They found that within the informal settlements the need for credit, loans and support services was considered secondary. More pressing was the need

for access to basic services such as electricity and sanitation, as well as adequate shelters, storage and accommodation of animal husbandry (Resource Access, 2004).

Transportation

The high cost of transport was mentioned as another significant obstacle for nearly half of the enterprises in GEM's study. While 67% of the formal businesses had access to a private or business vehicle, 82% of the informal businesses used a taxi, hired vehicle, train or commuted on foot. This is a great constraint when it comes to purchasing goods, because they can only purchase small amounts, and are seldom able to take advantage of bulk discounts (Foxcroft et al, 2002). Resource Access also reported a great need for transportation for the purchasing of goods (Resource Access, 2004).

Communication and technology

Access to communication and technology is extremely important for the potential growth of a business. GEM found that out of the informal businesses in townships, 36% had no means of communicating with suppliers, meaning they had no landline or cell phone facilities (Foxcroft et al, 2002). However, the use of public phones and phone-containers is very frequent in townships and was not taken into consideration in the research. Access to the Internet was even more limited. Only 15% of formal businesses had access to the Internet and email, while less than 1% of the informal businesses had access (Foxcroft et al, 2002).

Business skills and training

Another constraint mentioned by Langa Traders Association (2007) was the lack of time for reading and acquiring necessary skills to ensure business growth. GEM also found that lack of necessary skills was frequently mentioned as a constraint. When asked, more than 50% of the business owners said they wanted training in how to keep financial records. Training in communications skills, marketing and legal rights also ranked high. Within the informal businesses, 30% indicated that they needed training in how to speak English better, and interestingly enough, 32% wanted to learn how to register their business (Foxcroft et al, 2002). However, Resource Access found in their research in Joe Slovo that the need for business skills training was secondary to the more pressing needs such as shelter and infrastructure (Resource Access, 2004).

In summary South African townships were created to house the black population away from the white minority but at the same time ensure that they were accessible in order to provide cheap labour. A formal economy within the township was discouraged, and businesses in the townships have therefore traditionally operated in the informal economy. The post-apartheid government has failed to incorporate the informal economy into the formal economy, and townships are therefore included in the second economy. There has been a lack of economic development taking place in the townships, and the economic activities that are being carried out follow the same pattern as during apartheid. Reasons for this are a lack of investment, a lack of proper buildings and infrastructure, a lack of skills and training for upgrading businesses, as well as high levels of crime. Due to the scope of the current study, micro business owners from Joe Slovo are excluded from the study.

2.7 The regulatory environment

The regulatory environment is a very important factor that affects the environment in which SMEs operate. Regulations and policies are used by governments to control economic activity, ensure tax income to the state, ensure that trade practices are done in a fair way and that different laws regarding standards of products, employment quality and protection of the environment are enforced (Reinecke and White, 2004).

The South African regulatory environment compares favourably to other developing countries, but improvements can still be made in order to achieve effective regulatory reform. As the Deputy President of South Africa mentioned in her media briefing speech on ASGISA:

"The mediocre performance of the Small, Medium and Micro businesses in terms of contribution to GDP and employment partly arises from the sub-optimal regulatory environment. The administration of tax, the planning system, municipal regulation, the administration of labour law, and in specific sectoral regulatory environments, regulation unnecessarily hampers the development of businesses" (Mlambo-Ngcuka, 2006: 3).

As much as being a tool for control, regulations can also be used as a tool for development. SMEs that comply with regulations will usually have easier access to financial services, better social security for the workers, and are found to create more employment over time (Reinecke and White, 2004). Harper (1984) argues that any government that aims to strengthen the SME

sector should first of all examine very carefully the impact of existing policies and programmes on the SME sector. Strategic Business Partnership (SBP), which carried out an extensive research on the cost of red tape in South Africa, concluded that the single most important action that a government can take to stimulate the growth of the SME sector is to get rid of inappropriate regulations. Changing the regulatory environment in which SMEs operate has a more rapid impact than for example changes in the education system (SBP, 2004). Regulation reform pays off because it allows both business as well as government to spend less time and money dealing with regulations. It also makes it easier for the informal economy to step into the formal economy and through this bridge the gap between the first and the second economy.

The following section takes a closer look at some of the regulations that affects SMEs in South African townships. Firstly, the effects of the broader regulatory environment on SMEs are discussed. Then specific regulations, namely registration, taxation and labour policies, are presented. The aims and effects of these regulations are described in this section, and later examined through the experiences of the business owners in the findings from the interviews. These regulations are chosen because they affect businesses in all sectors. Sector-specific regulations and licensing are excluded due to the limitations of the current study.

2.7.1 General regulations

Businesses in poor countries face a much larger regulatory burden than those in rich countries. The World Bank has found that companies in poor countries pay three times the cost and face twice as many procedures as companies in rich countries. The same research also found that countries with larger regulatory costs also have larger informal sectors, more unemployment and slower growth (SBP, 2004). Complex regulations exclude the poor from doing business in the formal sector. In addition to this, complying with regulations represents a much heavier burden for SMEs than for bigger companies. In 2004 compliance costs represented 8,3% of the turnover for small companies, compared to 0,2% for big companies in South Africa. In their research, Cutting the red tape, SBP found that state interference and regulations were considered the second biggest obstacle to growth within businesses in South Africa (SBP, 2004). Most business laws and regulations are designed to address larger business, even though the majority of enterprises are SMEs. Many of the fees are the same, despite the size of the enterprise and most SMEs have no trained staff to address reporting requirements and deal with complex taxation regulations (Reinecke and White, 2004). This discrimination is

not necessarily an attempt to strengthen larger enterprises against SMEs, but usually wholly unintended (Harper, 1984).

Trade policies affect access to and the prices of materials as well as access to markets, both nationally and internationally. These policies are often biased towards larger business because of quota requirements (Reinecke and White, 2004). Business laws and regulations set rules for commercial transactions and enterprise operations through business regulations and reporting requirements. These regulations give authorities the necessary information to interact with enterprises. Business laws and regulations allow and restrict enterprises as they offer rights with responsibilities. They aim to protect SMEs against unfair competition, consumers against unscrupulous business practice, and the physical environment against environmentally detrimental practices (Reinecke and White, 2004). At the same time these standards can hamper the SME sector because SMEs find it quite impossible to comply with many of these regulations. Many such standards have come from industrialised countries and are more suitable for large-scale foreign industries (Harper, 1984).

Reinecke and White argue that government's approaches are often contradictory. On the one hand, they have sponsored projects and programmes to support growth in the SME sector. On the other hand, the broader environment of laws, policies and regulations is biased against SMEs compared to larger enterprises. Government support services often fall short in delivery. They are finite in the sense that they only reach a limited number of SMEs. Their effect is undermined by the effect of the broader influences affecting the business environment. Support programmes only reach the few, while regulations and laws reach the majority of enterprises (Reinecke and White, 2004).

Formal SMEs access benefits that informal SMEs do not. The government must therefore ensure that the step from the informal economy into the formal economy is made as easy as possible. The answer is not necessarily deregulation, but smart regulation, so that rather than wasting time and effort in complying with complex regulations that do not have a clearly defined purpose, SMEs could spend time improving job quality. Business laws and regulations can be improved by simplifying them as far as possible. This includes eliminating regulations that do not serve a purpose, as well as the overlaps and contradictions. Licensing can be replaced with simple registration requirements. Reporting requirements can be harmonized across governmental agencies (SBP, 2004).

Regulations are found to be one of the main constraints hampering business growth. However, as the majority of township businesses operate in the second economy, they do not comply with any regulation. Enterprises that comply with regulations are more likely to experience growth. Regulations can therefore be used as a tool for development as much as a tool for control of business activity and tax-income. In order to incorporate the second economy into the first economy, the government must make compliance with regulations easier.

2.7.2 Registration

To register a business is the first step into the formal economy. Many countries have both complicated and expensive registration procedures and this leads to huge informal economies. This, again, results in a loss of tax revenue and a lack of compliance with other important legislation, but equally important is the disadvantage for the SMEs themselves. Their businesses remain geographically dispersed, do not access finance, and do not grow. This reduces their ability to produce jobs and diminishes the opportunities for growing out of poverty. SBP found that even though the owners of informal businesses see the obvious benefits of compliance, such as better access to credit, supplies, markets, secure premises and so on, they fail to comply due to complicated systems and high costs. Informal businesses are by definition excluded from the regulatory system, but this does not mean they are unaffected by it and the cost of non-compliance can be high in terms of harassment (SBP, 2004). SME's cost/benefit analysis of whether they should comply or not is usually constrained by a lack of information, money, and time, as well as institutional and organisational constraints. Information on short-term costs is more available than information on long-term benefits. Most SMEs have to rely on informal sources of information because formal sources are beyond their reach. Newspapers, friends, and family are major sources of business advice, and often decisions on whether to register or not are based on what other SMEs do (Reinecke and White, 2004).

South African enterprises can choose between different legal structures, and the structure chosen provides certain rights and responsibilities. However, here as well as in the other regulations, the costs represent a heavier burden for SMEs than for larger businesses, because the registration fees are the same despite the size of the enterprise. SMEs in South Africa are

required to register with CIPRO³, but there is a tendency that they register with the first office they have to interact with, for example when they apply to a relevant department for a license or to SARS for a tax certificate. The different governmental agencies are supposed to interact and report to each other, but in many cases they fail to do so. There is therefore no office that can give accurate numbers of registered enterprises in South Africa.

Reinecke and White's survey shows that more than 60% of South African SMEs were not complying with any basic registration requirements in 2001, compared to 14% in the other participating countries (Reinecke and White, 2004). In South African townships the figures were even more skewed. In 2002, 88% of the business owners had not registered their businesses (Foxcroft et al, 2002). DPRU found in their research, The regulatory environment and SMMEs, that 85% of the respondents thought the number of licenses required to start a business was reasonable. At the same time the respondents found the time costs more constraining than the money costs (Rankin, 2006).



³ CIPRO, Companies and Intellectual Property Registration Office is a register organised by the Department of Trade and Industry (DTI, 2007).

The research of Reinecke and White (2004) indicated that registration raised the probability that the SME would grow from 33% to 59%, which means that only one third of informal enterprises experience growth. Without easy registration procedures the second economy cannot be incorporated into the first economy. Governments should therefore ensure simple registration procedures, and lower the cost of registration in order to ensure access of SMEs to the formal economy. They should also ensure effective reporting within the different arms of governance in order to avoid duplicating requirements.

2.7.3 Taxation

Taxes ensure income to the state, and are used to regulate the economy. Reinecke and White (2004) found that in all seven countries included in their study, tax authorities inspected more frequently than any other authority. Harper (1984) found that tax incentives effectively discriminate against SMEs, as the majority do not pay any tax. He also found that even if tax incentives were available to SMEs they lacked the expertise and time to claim them. Many taxes are paid as lump sums, which is harder for SMEs who have lower turnover and less capital on hand. Complying with tax laws is complex and time-consuming, and SMEs do not have trained staff assigned for those tasks. DPRU found that the compliance cost of tax was the same for SMEs and larger companies, and therefore the tax-cost per worker was larger for SMEs (Rankin, 2006).

SBP found that VAT was considered the most time- and money-consuming regulation in South Africa followed by other tax related regulations (SBP, 2004). According to Reinecke and White, most SMEs pay tax in one form or another. However South Africa differed from the other countries in the survey by being far less willing to pay tax. The survey showed that in 2001, 30,5% of SMEs in South Africa had registered for tax, compared to 73% in the other six countries (ILO MSE Surveys 2001 in Reinecke and White, 2004).

In South Africa there are three forms of tax that are applicable for SMEs. All SMEs must register for **Income Tax**. When an enterprise's annual turnover exceeds R20 000 the SME owner can voluntarily register for **Value-Added Tax (VAT)**. Paying VAT becomes compulsory when the annual income exceeds R300 000. The third form of tax that applies to SMEs is **Pay As You Earn (PAYE)** but only if the business has employees who earn more than R3333 a month. If that is the case the employer is responsible for deducting tax from the employee's salary (SARS, 2007).

The South African government tried to reduce the tax burden for SMEs by expanding the VAT registration threshold from R150 000 to R300 000 in 2002 (Hudson, 2004). In addition to this the Finance Minister Trevor Manuel announced in his budget speech in 2007 that South Africa was willing to give SMEs that are outside the formal economy a new start. By introducing tax amnesty, the SMEs could come forward and register for tax. Tax outstanding from previous activities would be forgiven. Through the small business tax amnesty, SMEs could become compliant and start benefiting from the myriad of support systems available. The amnesty deadline was 31st May 2007, and businesses with a turnover less than R10 million were welcome to apply (Manuel, 2007).

The South African Revenue Service (SARS) has also taken steps to make it easier for SMEs to comply with tax requirements. They have opened four walk-in centres in the Western Cape, where business owners can get assistance in completing tax forms as well as accessing forms and necessary information. All tax forms can now be downloaded from the Internet, and they all come with manuals on how to complete them. The manuals are written in the different official languages (SARS, 2007). However, as most enterprises in the township have little or no access to the Internet, this improvement does not accommodate them. The educational department of SARS also runs workshops on tax related issues. The workshops are run in different languages and at different levels, are free and are open to the public. SARS cooperates with organisations that are working with SMEs, as well as educational institutions. SMEs are allowed to pay VAT every second month, which accommodates SMEs need for rather paying smaller amounts of money more frequently, because their cash flow does not usually allow them to have large sums on hand (SARS, 2007).

Reinecke and White urge governments to simplify tax compliance by creating a single infrastructure for tax collection. Administrative fees for tax-registration should be avoided as they can create incentives for remaining informal. Governments should also eliminate anti-SME biases caused by flat-rate taxes and duplicated taxation of economic activities at various stages. In addition the delivery of services financed from tax revenues should be improved, in order to make the link between taxes and services more visible to the taxpayers (Reinecke and White, 2004). Chamberlain and Smith (2006) argue in their paper, Recent findings on tax-related regulatory burden on SMMEs in South Africa, that reducing the burden of tax compliance is not likely to result in drastic growth of the SME sector. It may, however, facilitate development within the sector. International experience also showed that

improvements in tax compliance burden did not result in substantial growth in the SMME sector (Chamberlain and Smith, 2006). Most of the micro businesses in the townships do not qualify to pay tax, but they are still required to have a tax certificate. Even though SARS are running educational workshops, they fail to reach out to the townships with accurate information. SME owners therefore make their decision on whether or not to pay tax based on word of mouth and what other SMEs do (SBP, 2004). Due to the fact that the majority of the SMEs, and 88% of township enterprises, do not pay tax to begin with (Foxcroft et al, 2002), easier tax requirements will not lead to growth for these enterprises. However, the tax authority is often the first agency an SME interacts with, and it is therefore important to make that step towards formality as easy as possible.

2.7.4 Labour policies

Labour policies, laws and regulations play an important role in promoting quality employment. Since employment in SMEs overall is of low quality, enforcement of labour laws should be a priority. However, compliance with labour regulations is not one of the priorities of the SMEs, and neither is it a priority for law enforcement. Most countries give less attention to the implementation of labour standards, social security, social dialogue and unionisation, than to tax and business regulations. Social coverage through health insurance and pension schemes was low in all countries that participated in the research of Reinecke and White (2004). SBP found that socially important issues, such as health, safety, and empowerment were not given much attention by South African enterprises (SBP, 2004). DPRU found that South African enterprises did not see the benefits of labour regulations, and rather viewed them as costs. Only a quarter of the respondents felt that labour relations improved due to the labour regulations (Rankin, 2006).

The two most significant labour acts applying to SME owners are Basic Conditions of Employment Act (No. 75 of 1997) and Unemployment Insurance Act (No. 62 of 2001). This includes giving the workers a contract, registering them with the Unemployment Insurance Fund (UIF), ensuring healthy working conditions, maximum working hours and a minimum wage. Complying with labour laws was indicated as being the second most time-consuming and costly regulation in SBPs research (2004). The DPRU also found that labour regulations function as a disincentive for enterprises to grow, as well as a constraint to expanding full-time employment. Labour regulations are given as the major reason for the reduction in the number of unskilled workers. The negative consequences of the labour regulations are

therefore often borne by the unskilled, particularly in the SME sector (Rankin, 2006). General exemption of SMEs from labour regulations is no solution because it will leave workers unprotected, and thus have a negative impact on job quality. It also creates growth-traps, as enterprises might avoid growing past the threshold of exemption. Harper argues that anything which increases the cost of employing people beyond the minimum amount for which they would be willing to work will discourage job creation, and imposing regulations that are inconsistent with the harsh realities of the economy would be useless. He also stresses the importance of improving workers condition, but at the same time believes that labour regulations should only be imposed if they could be policed (Harper, 1984). Enterprises have different ways of responding to labour regulations. The most common strategy is to do nothing, the second to limit employment (Rankin, 2006).

In summary SME employment is generally characterized by low standards and poor employment quality, and the working conditions are overall worse than in larger enterprises. This is shown by lower wages, longer working hours, dangerous working conditions, lower social protection, less unionisation, and lower coverage of pension schemes and health insurance. There are regulations protecting workers rights in South Africa, but they are given little attention both by law enforcements and by SMEs. A reason for this may be that they are not designed for the economic reality most SMEs in the townships are facing.

Even though the government has tried to ease the regulatory burden on SMEs, there is still a range of regulations they have to comply with. Most businesses in the townships fail to do so. Reasons for non-compliance can be the high costs, the complicated systems and lack of time. Another reason is the lack of accurate information. Most SME owners lack the necessary training and business skills, and are running business in order to survive. Their most common sources of information are newspapers, word of mouth and what other SMEs do. The information they have regarding regulations is defective. It is believed that SMEs that comply with regulations are more likely to expand and experience economic growth. It is therefore of importance to motivate the SME sector to comply with regulations in order to ensure economic growth as well as healthy working conditions. The focus of this research is on micro businesses' experience with regulations, and through interviews the researcher aims to get a deeper understanding of what motivates compliance and non-compliance with regulations amongst the township businesses.

2.8 Support systems for SMEs

Many developing countries have recognized the contribution SMEs make to the economy and have put in place different support systems to accommodate growth in the SME sector. Reinecke and White (2004) found that support policies have led to improved coordination between governmental agencies and have created platforms for dialogue between SMEs and stakeholders. They have also facilitated mobilization of a broader range of resources from civil society and the private sector. SME promotion can therefore provide a useful framework for SME reform, but, as the same research also showed, in most countries governmental support systems have very little influence on growth in the SME sector (Reinecke and White, 2004). A survey carried out in Canada showed that the SME survival rate barely improved at all, despite the fact that the Canadian government had created agencies and set up venture development support (Audet and St-Jean, 2006). This finding echoes the South African experience. A national SME Survey carried out in 2004 showed overwhelming confirmation that the South African government was failing to reach most small enterprises. This is despite the fact that since 1994 the government has devoted considerable resources to supporting small enterprises, and that the survey was carried out in a period of high activity by government's small enterprises development programmes. The survey showed that SMEs are either unaware of or do not use the services offered by government (Goldstuck, 2004).

Support systems are found to strengthen the position of SMEs in the economy, more than actually stimulating growth in the SME sector. A key to ensuring that support systems reach more SMEs must be to ensure that understandable information about the support agencies and the benefits of using them reaches the SME owners. Granting benefits to SMEs does not compensate for anti-SME biases in the overall economic policies of a country, because support policies only reach a few, while other regulations and policies affect all SMEs. The government therefore needs to target the regulatory environment simultaneously with broadening support systems. Governments must also ensure that support systems do not create an environment where SME owners lean back and wait for governmental support, rather than working for their own development.

2.8.1 Financial support

Access to finance is mentioned as the main constraint for SMEs in all the sources informing this study. However, Harper (1984) questions the notion that a shortage of capital is SMEs' major problem. He argues that many SME owners have substantial resources uneconomically

employed, by for example keeping large stock, and that when they obtain finance they are likely to accumulate an even larger stock with no effect on their profit. But Harper also found that many entrepreneurs are prevented from starting a business only because they lack the initial capital. SMEs have problems providing collateral and reliable records of past economic activity, and as the majority of them operate in the informal economy their assets are not adequately documented and can therefore not be used as security (De Soto, 2000). Reinecke and White found (2004) positive correlations between compliance with regulations and access to finance in all countries that participated in their study. Registration is simply necessary to access credit. Enterprises that do comply with different regulations can more easily provide records of past economic activity required by the banks.

The role of banks

The demands for financial support from SMEs are outside the common practices of commercial bank lending and these banks are ill equipped and reluctant to meet these needs. The sums involved are small, the administrative costs are almost as high as for bigger loans, and the informal borrowers do not have the necessary collateral to secure formal sector loans (Todaro, 2000). Small-scale loans are more expensive than larger loans, and the demand for a lower interest rate to accommodate SMEs is not welcomed in the banking sector. Even when governments are willing to operate with guarantee schemes, and substitute a lower rent, the banking sector is still reluctant to accommodate the SME sector. Harper (1984) argues that the formal banking sector has got an important role to play in SME finance because they have the expertise and the infrastructure to do the operations. He argues that small-scale loans can be made more profitable by being innovative in the way banking is done and ensuring high levels of repayments by for example having weekly collections from the smallest borrowers, and agents that go to the enterprises to collect so that the business owners do not waste valuable time going to the bank. He also said that the consequences of no repayment should be fast and tangible, like having an agent visit the lender the day after payment was due, and use tradable stock and equipment as collateral rather than property because this is directly connected to the business and easier to seize (Harper, 1984). In many places in the world programmes of micro credit have been implemented with huge success - not only for the SME owners that benefit, but also for the credit institutions that actually earn money because of high levels of repayment (Todaro, 2000). The second economy in South Africa is excluded from formal banking, but they represent massive resources. If the banking sector found a way of reaching out to informal business owners they would be able to increase their customer base by a large

percentage. However for this to be beneficial for the banks as well as the SMEs, a shift in the way banking is done is required.

Saving and credit groups

Because of the lack of available funds through the commercial bank system, informal enterprises tend to create their own financial institutions such as saving groups and credit institutions (Shisana, 2007). Studies on informal rotating savings and credit associations have revealed that the repayment rates are extremely high and many informal traders prefer to save and borrow this way (Todaro, 2000). The second economy of South Africa is well acquainted with the use of saving groups, better known as stokvels, and this form of financing enterprises and individuals is still common in the townships. Todaro (2000) suggests that this principle can be used to access larger loans from governments, commercial banks or private institutions, where the group itself is responsible to repay the loan and function as a guarantee. In this way the member can access larger loans and share the expenses. On the other side there is strong moral pressure on the members to pay in time and repayment rates are higher than within formal sector (Todaro, 2000). Harper (1984) had also found strong evidence that lending to groups gave higher repayments than lending to individuals.

Many governments have put in place financial support systems for SMEs. In South Africa, Khula Enterprise Finance Ltd. provides such assistance. Reinecke and White (2004) found that such support had little effect. They argue that it is more important to improve SMEs access to credit by establishing mechanisms to help SMEs access credit at market rates, rather than providing cheap credit to a small number of enterprises. Better access can be ensured by governments providing security and by increasing competition between banks. Governments need to establish an institutional, legal and regulatory environment that encourages a diversity of financial institutions, allows healthy competition within the banking system, and facilitates credit access for SMEs (Reinecke and White, 2004). GEM on the other hand suggests that the government must find successful models for financing the lower end of the market, by providing cheaper loans and by developing and implementing a low cost and effective mentoring system (Maas and Herrington, 2006).

But as long as poor people's assets are not recognized, they will not be able to participate in the formal economy, even though they are competitive. Formalising ownership should

therefore be made a priority in order to enable people to compete legally in the market with their own assets.

2.8.2 The development of governmental SME support systems

The South African government acknowledges that economic growth is impossible without facing the injustices of the past, which have divided the economy of South Africa into a successful formal economy, and a huge informal second economy, wherein those who were economically disadvantaged in the past are still disadvantaged. One way of bridging this gap between the first and second economy, and ensuring that social and economic development is promoted in previously disadvantaged areas, is to support SMEs. A relevant example is to look at the presentation of the Accelerated and Shared Growth in South Africa (ASGISA) strategy, where the former deputy president promised to support SMEs by making available more financial support, skills support, special support to women and youth, and further support of Broad Based Black Economic Empowerment (Mlambo-Ngcuka, 2006).

When the African National Congress (ANC) came into power, they drafted “The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa”. This white paper was implemented in 1995 (DTI, 1995). As a result of this, the Department of Trade and Industry (DTI) established a range of institutions that focus on the promotion of small enterprises. The first one was the National Small Business Council, a membership organisation that aimed to represent and promote the interests of small business (Reinecke and White, 2004). The second institution was Khula Enterprise Finance Ltd, a micro-financing institution for SMEs that provides assistance through various delivery channels like commercial banks, retail financial intermediaries and micro credit outlets. Khula also provides mentorship services (DTI, 2007a). The third institution was Ntsika Enterprise Promotion Agency, established to provide non-financial support through a national network of local business support centres.

The National Small Business Council was meant to have taken on a strong advocacy role on behalf of SMEs from all sectors, but soon became defunct. The DTI therefore established the National Small Business Advisory Council, which is not a separate institution, but a part of the department and meets regularly with the Minister (Reinecke and White, 2004). Khula was, and still is, criticised for reaching too few, and GEM strongly suggested that Khula needs to reprioritise, recapitalise, and specialise in the provision of finance to a particular sector of the

small business market in order to deliver on its goals (Maas and Herrington, 2006). Ntsika had many tasks including coordination and monitoring of the sector and the provision of non-financial services, assisting SME service providers, consulting with government and service providers in order to strengthen their capacity to support SMEs, as well as undertaking national research on the sector. Its failure to fulfil these functions has led to it being reinvented as a part of the DTI and it is now a part of the Small Enterprise Development Agency (SEDA) (Reinecke and White, 2004). SEDA's mandate is to design and implement a delivery network that supports small enterprises throughout South Africa. The main focus is on developing products and services to assist small, micro and co-operative enterprises (DTI 2006b). SEDA was established at the end of 2004 and is thus still relatively new. The effectiveness of the institution has still to be assessed.

Additional government supported programmes have been established over the last few years. The most well known programme of DTI is the Sector Education and Training Authority (SETA), which aims to ensure that the skill requirements of different sectors are identified and that adequate and appropriate skills are made available through adequate education and training (DTI, 2007c). DTI has developed a programme directly aimed at women, and the South African Women Entrepreneurs Network (SAWEN), which functions as a networking forum committed to the promotion of women entrepreneurs (DTI, 2007d).

2.8.3 Non-governmental support systems

In addition to governmental support systems, there are a range of non-governmental organisations and institutions in South Africa that promote SME development. Private banks, such as Nedbank and ABSA, usually offer mentorship together with finance. However their motivation for giving non-financial support is closely linked to repayment. They can therefore not be seen as objective in their mentorship. They are also very reluctant to give financial support to SMEs in the start-up phase, and demand collateral in order to grant loans. Assets of people operating in the informal economy are not adequately documented and can therefore not be used as security. Most SMEs are for this reason not able to access assistance from formal banks (De Soto, 2000).

Many aid organisations, such as Oxfam, Red Cross, Care and Christian Aid have developed micro finance strategies because micro finance has proved to be one of the most effective ways to meet development goals. Such support strategies focus on poverty eradication and

aim at survivalist enterprises. Research shows that such enterprises usually do not grow to employ a larger number of people. Even though such support seldom contributes to economic growth that can be measured as growth in GNP, it still plays a significant role in making poor people a little less poor and thus contributes to social development.

One can also find support within educational institutions: the Graduate School of Business of the University of Cape Town has initiated a Centre for Innovative Entrepreneurship, which aims to develop talent, capacity and skills in entrepreneurship (UCT, 2007). Business owners can also seek support from organisations such as Business Partners, which is an investment company that specialises in debt and equity investment, mentorship, and property management for SMEs (Business Partners, 2007).

Overall there is a range of support systems available to SMEs and information is easily accessible through the Internet. But in Langa as well as other townships, access to the Internet is limited. In addition most SME owners have not matriculated, and are lacking to the skills needed to search for assistance both on the Internet and via the intricate network of institutions and programmes available. In order for support systems to have an effect on those who need them, they must be located where the SME owners are able to access them.

2.8.4 The challenge of governmental support systems

The South African government has admitted that measures to support small enterprises have been less than satisfactory and it continuously makes structural changes to the support systems (Mlambo-Ngcuka, 2006). GEM's 2004 survey clearly shows that SMEs are either unaware of or do not use the services offered by the government (Goldstuck, 2004). Many other countries have experienced the same. The SME survival rate barely improved at all, despite the Canadian government increased efforts to support the sector. The Canadian survey found the reason of under-utilisation of support systems to be that SME owners did not know enough about the support agencies working in their region or did not seem to understand the relevance of such services (Audet and St-Jean, 2006).

GEM found that even the SMEs that do use the support systems show overall dissatisfaction with the quality of the support. As many as 62% of the participants were negative towards governmental programmes, less than a third had benefited from any governmental programme, and only 1% had received finance through Khula. Goldstuck concludes that

greater awareness of such programmes must be promoted. The public must be made aware of the available programmes, grants, projects, and initiatives. As awareness is improved more enterprises will use the support systems and this will in return strain the capacity of the existing programmes, which in turn can affect the quality of the support offered. At the same time as communications about the programmes is improved, the quality of such programmes must also improve, because the survey showed great dissatisfaction with how the programmes were carried out (Goldstuck, 2004).

Harper (1984) points out obstacles that governmental support systems create: support systems cannot let supported SMEs die because of the loss of official face this would involve, so even SMEs that are not productive will be kept alive. He also argues that even though support systems can only reach a few, the majority of SME owners can come to believe they are entitled to assistance. In turn the SME owners may come to blame the government for their lack of success rather than realizing that prosperity can only come from their own efforts (Harper, 1984).

Support systems aim to facilitate growth in the SME sector. The majority of SMEs in South Africa are informal, but the support available is usually based in city centres, or requires access to the Internet. Due to social exclusion, the majority of SME owners do not have access to Internet or computers, and in some instances, even when they have physical access, they are not trained to use the facilities.

GEM suggests that in order to effectively meet the needs of business owners, the support systems should develop different approaches towards formal and informal business. Business support services should focus mainly on formal enterprises where the focus can be on business skills, such as how to write a business plan, basic bookkeeping, marketing, administration, and financial management. The informal sector remains enormously important in generating self-employment income, and thus combating poverty, but, as shown, they do not play a major role in creating employment for others. Informal business should therefore be targeted through social welfare rather than business support. GEM found that training in business skills would not be the most appropriate tool for the informal sector. There should rather be a focus on basic literacy, numeracy, and communication skills, with a developmental rather than a business focus (Foxcroft et al, 2002). Because of the significant differences between formal and informal enterprises, offering the same courses would be inappropriate.

The majority of township enterprises are informal, but at the same time many of the owners have high levels of education, while others have acquired business skills over time. There should therefore be more criteria for deciding on the kind of courses that should be offered rather than just levels of formality.

GEM suggests that support should be provided by the private sector, operating on a commercial and entrepreneurial basis. Business development services should be seen as private goods and ruled by the market through private-public partnerships (Goldstuck, 2004). The government has adopted this thinking and they use a wide range of private service providers to deliver support on their behalf. The use of service providers ensures SME access to specific competence, but it is a long walk to access support because they first have to go through a governmental agency, which then refers them to other agencies (DTI, 2006a). The use of service providers may assist SME owners in accessing professional business advices, but at the same time the long chain of service providers consumes much needed resources that could have been used for direct support.

In conclusion, in order for support systems to effectively meet their targets, they must market themselves more effectively. Most SMEs are not aware of the support systems available in their areas. In addition to this, the support must be given at a level that is productive for SME owners. Such training should be delivered in the community where the SMEs are based.

2.8.5 Langa and access to support systems

One of the major reasons for non-compliance with and under-use of support systems is a lack of information. Located in the City of Cape Town, different support systems have been put in place as national, provincial and local initiatives. Business owners from Langa can contact the following offices for assistance:

- **Small Enterprise Development Agency (SEDA)**, a national initiative that aims to open offices in every municipality. They offer business advice, give training in key areas such as bookkeeping, advertising as well as assisting with the writing of business plans and other important documents. SEDA aims to develop skills and tools that can encourage growth in the SME sector. Much of their assistance is given through vouchers to service providers (DTI, 2006b).
- **Umsobomvu Youth Fund (UYF)**, a national initiative that promotes entrepreneurship, skills development, and job creation for youth aged between 18 and

35 years as well as women over 35. This is done through offering training, micro finance and youth advisory centres. UYF has an extensive voucher programme, where business owners gain training from service providers (DTI, 2007e).

- **Khula Enterprise Finance Ltd**, a national initiative that aims to promote SMEs by making their access to finance easier. In addition to offering guarantees for new SMEs that are trying to access finance, they also have a mentorship programme. Some of the programmes they run are done in cooperation with the corporate world (DTI, 2007a).
- **Real Enterprise Development, RED Door Project**, a provincial initiative that offers the same kind of business assistance as SEDA, though their programmes are more limited, and they offer less training per SME. They offer free access to the Internet (Department of Economic Development and Tourism, 2007).
- **Library Business Corner (LBC)**, the only support system located in Langa. The idea behind LBC is to make business information accessible to people through an existing structure, namely libraries. The project does not employ business advisors, but supplies the libraries with updated information, books, folders, access to the Internet as well as arranging workshops (Library Business Corners, 2007).
- **The Business Place**, a private-public initiative, which in cooperation with the City Council of Cape Town and Umsobomvu Youth Fund offers business advice to access Umsobomvu's voucher programmes. Their office is employed with business advisors, access to the Internet, and meeting facilities that are available to SME owners (Mcinga, 2006).
- **Business Partners**, a private initiative that, in a public-private cooperation with Khula Enterprise Finance Ltd., aims to invest in South Africa's entrepreneurs by providing them both with financial solutions and business training. Business Partners is the only of these support systems that directly finance SMEs (Business Partners, 2007).

These support systems are chosen because they aim to supply SMEs with business skills and information. However, Khula, Umsobomvu and Business Partners also aim to assist SMEs in accessing finance. Three of the abovementioned offices, SEDA, Umsobomvu and Red Door, are using service providers through voucher programmes. This means that they do not do the actual training and assistance themselves, but provide business owners with vouchers, and connect them with a private initiative that does the actual training or gives specific assistance with regard to for example the writing of business plans. Even though only LBC is present in Langa, some of the other support systems have offices in other previously disadvantaged

areas around Cape Town, such as Khayelitsha, Mitchell's Plain and Philippi. SEDA, Red Door, Umsobomvu and the Business Place have outreach programmes that aim to go out into the communities to inform about their services and to run workshops.

One of the two main thrusts of the current research is the knowledge, experiences and attitudes of SME owners with regard to support systems. Out of available support systems the research focuses on those that aim to supply SME owners with information and knowledge. This choice is based on the assumption that access to information is the first step for the SMEs towards accessing more specific support and enabling SMEs to comply with regulations. The above-mentioned initiatives do not include all the support available to SMEs, but represent a fairly wide range of SME support systems available to business owners in Langa. The list includes both private and governmental initiatives, and initiatives from different levels of governance. The research participants' level of knowledge with regard to these support systems will give a picture of knowledge of and experience with support systems in general.

2.9 Conclusion

A way of facilitating social development is to link the promotion of human welfare to economic development. The South African government acknowledges this in the White Paper for Social Welfare (1997). However, the South African government has chosen a neo-liberal approach to economic development, and during the first years of the democratic government little changed in terms of poverty and unemployment, and inequality seems to have grown worse. The government has seen the need for a new approach in order to include the previously disadvantaged into the formal economy and give them a chance to experience economic growth, and one way of doing this is to strengthen the SME sector. By putting in place support agencies as well as reviewing the regulatory environment in which SMEs operate, the government is aiming to create opportunities for individuals to pursue their self-interest. This is in line with theories on social development, which form the theoretical framework of the current study.

Different research shows that informal SMEs are not likely to grow past the poverty level, while SMEs that comply with regulations, on the other hand, are more likely to experience economic growth, access finance, and expand their employment. South Africa has a range of

regulations that SMEs have to comply with and most enterprises based in the townships fail to do so. The regulatory environment is under constant revision, and major changes have been made to better meet the needs of SMEs. It is left for the researcher to investigate how the micro business owners in the township of Langa experience the regulatory environment. Through this the research aims to expand the knowledge base of the regulatory environment with the experiences of business owners, and looking at reasons behind a lack of compliance.

The South African government has seen the need for support systems to help SMEs access information, training and economic support. Some of these programmes have been running for a long time, others have been put in place recently. Research shows that most SMEs are not aware of the wide network of support systems. This research aims to find out from micro business owners in the township how they experience the presence of support systems, and the reasons for their utilisation, or the lack thereof, of these support systems.

In the chapter that follows the design and methodology chosen to explore these issues further are outlined.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY



3.1 Introduction

South Africa has a range of regulations as well as support systems that regulate and support the SME sector. The aim of this research was to investigate how the micro business owners in Langa experienced the regulatory environment, and to see what motivated compliance and non-compliance. It also aimed to find out how the township business owners experienced support systems available in their area and what caused the utilisation, or lack thereof, of these systems.

In order to do this the researcher chose a qualitative research design. The methods and tools for carrying out this research are described in this chapter. This chapter gives the motivation for the chosen methodology and tools. The sampling procedures are outlined as well as the interaction with the participants. The chapter also includes the limitations of the selected tools and methodology.

3.2 Research design

The purpose of this research was to explore and describe micro enterprises' experience with regard to compliance with governmental regulations and the utilisation of support systems. This was done through conducting in-depth interviews with business owners in Langa.

The research can be categorized as explorative and descriptive (Babbie, 2004), as the aim was to explore and describe the experiences of the participants. It was basic research and it aimed to expand the knowledge base regarding micro enterprises and compliance with governmental regulations, as well as the micro business owners' experience with support systems.

A qualitative design was chosen (De Vos, 1998), because this design would give a better understanding of the questions investigated than a quantitative design, as it gives the participants an opportunity to elaborate on their experiences and the reasons behind their responses to the regulatory environment and support systems. Through in-depth interviews with business owners their experiences with governmental regulations and support systems was explored.

3.3 Research methodology

In order to gain insight into the themes of the study the researcher chose to carry out in-depth interviews with micro business owners. In order to ensure that the researcher had the necessary background information, a thorough literature review was done before carrying out the research.

3.3.1 Document and policy review

In order to understand the requirements and impediments of government regulations on micro enterprises, it has been necessary to read White Papers, policy documents, statutory acts and other governmental regulatory policy documents. The information was accessed through libraries, the Internet, governmental publications, visits to offices and interviews with key people. The governmental support systems have different goals, target groups, and aims they want to fulfil. These were accessed through the Internet, brochures, visits to offices and interviews with key people. Previous research done by other institutions regarding SMEs, compliance with regulations and the efficiency of support systems was accessed and the findings and analysis by different authors is presented in the literature review together with theories on social development and SMEs role in the economy.

The information gathered created a knowledge base for the researcher and was compared to the actual experiences of the business owners. The above information has formed part of the broader literature review.

3.3.2 Data collection method and tool

The main source of information was qualitative in-depth interviews with owners of micro enterprises in Langa. Through this method micro business owners' experiences with governmental regulations and support systems were explored. The rationale for the use of interviews was based on the fundamental position that suggests that people's knowledge, views, understandings, interpretations, experiences, and interactions are meaningful properties of the social reality, which this research was designed to explore (Mason, 2000).

The interview questions were designed to stimulate in-depth responses from the participants about their experiences vis-à-vis regulations and support systems. Thus a semi-structured interview schedule was used in order to gather information with regard to the objectives of the research. In-depth interviews with a smaller number of participants were chosen, rather than a quantitative approach with a larger number. This choice was made in order to get closer to the heart of the business owners' experiences through letting the participants talk freely around chosen subjects. This enabled the researcher to understand the complexity of reasons behind the compliance, or the lack thereof, with regulations; and utilisation, or lack thereof, of support systems.

Development of interview schedules

The formulation of the interview research themes developed through a process. The initial interview schedule was based on the research questions formulated in the research proposal. The interview schedule focused on three main areas:

- Description of the business and the business owner
- Knowledge of, and compliance with, regulations
- Knowledge of, and benefits from, support systems.

The initial interview schedule had few and broad questions. Two pilot interviews were carried out, with the owners of one formal and one informal business. The experience of the pilot interviews was that the information received was too general. Even though the researcher asked probing questions, these questions were not well enough prepared and therefore not focused enough to capture the required information. Another schedule was then developed

where the research topics were introduced by an open question. If the information received was not satisfactory, the topic would be followed up with probing questions of a more specific nature. The final interview schedule had the same three topics, each with 2-4 broad questions. The broad questions were followed with a list of probing questions. The final versions of the interview schedules are to be found as attachments to this thesis.

The pilot interview participants also provided useful feedback regarding the sensitivity of the different topics. For example, in their opinion, questions regarding their products and suppliers were more sensitive than questions on whether or not they pay tax. This was because they saw a bigger threat in increased competition than in the chances of tax enforcement closing their business down. This enabled the researcher to be sensitive towards asking questions with regard to the actual running of the enterprises, while she was less worried about asking probing questions with regard to compliance.

Data collection aid

Since the method used was in-depth interviewing, it required a means to capture the interviews. Audio recording was used to capture the responses of the participants and these were transcribed into text. On one occasion, at the time of the interview, it was discovered that the participant could not speak English, and the contact person was used for translation.

3.3.3 Sampling for qualitative in-depth interviews

The unit of analysis was individuals. This was because the aim was to explore micro business owners' experiences with regulations and support systems. Non-probability sampling was used to identify the research participants. Probability sampling, where one chooses a random sample from a list containing everyone in the population being sampled (Babbie, 2004) was both impossible and inappropriate. A list of formal as well as informal business owners in Langa did not exist. Another reason for this method being inappropriate was that it was unlikely that participants selected through a random sample would be willing to answer sensitive questions regarding compliance. A random sample, on the other hand, would to a greater degree have enabled the researcher to make general conclusions representative outside her sample.

Participants – number and criteria for selection

All research participants, except one, were owners of micro enterprises in Langa. The last participant's business had recently grown into a small enterprise. The sample consisted of 20 participants, which generated rich enough data to make comparisons and draw conclusions, but small enough to be handled during the limited time span of this research. All the participants, except one, were residents of Langa and of Xhosa origin. The last participant was originally from Ghana and resided in another township. The age varied from 20 to 68 years. The participants were selected according to the following criteria:

- **Owners of micro businesses:** The participant had to own, and be part of the daily running of a micro business, which is defined as a business with less than five employees including the owner. In one case it was discovered during the interview that the participant had 11 employees, but she was kept as a part of the sample, because she started with a micro business that had rapidly grown into a small business, and because of the valuable contribution she made to the research.
- **Formal and informal:** In order to explore both the experiences of and motivation for compliance as well as non-compliance, owners of both formal and informal businesses participated. Fourteen of the twenty participants had informal businesses, and the remaining six had formal businesses. A business was considered formal if it was registered with at least one governmental agency. This does not reflect the actual percentage of formality of township businesses as only one in ten business owner has in fact registered their business.
- **Male and female:** As men and women often reason differently in terms of business choices, both male and female business owners were approached. Half of the sample consisted of men and the other half of women.
- **Employees:** For the reason that being employers with responsibility for other people than only themselves might influence the decisions made by business owners, the sample included businesses with varied numbers of employees. The majority of the participants worked on their own, or with business partners.
- **Type of business:** In order to get varied responses, efforts were made to include owners of different types of businesses. The final sample consisted a wide variety of businesses operating in Langa.

Participants – selection procedure

In order to access reliable and in-depth information about the research topic, a combination of sampling methods, namely purposive sampling and snowball sampling, was chosen (Babbie,

2004). The majority of the participants were identified through the researcher's personal network in Langa: four residents, who were identified as contact people in Langa township, and were asked to assist the researcher to access participants. Two of them had businesses of their own, and agreed both to participate in the study and assist in finding other participants. The other two were active members of the community and assisted the researcher in identifying and approaching business owners who were willing to share their experiences. Through the four contact people 13 of the research participants were contacted. The researcher was also assisted by an employee at The Business Place, who lives in Langa himself. He identified one participant, who in turn assisted in finding additional participants. The participants were asked to help identify other research participants and through this process a total of 20 business owners were found.

3.3.4 The collection of the data

Interaction with participants

Participants were in most cases contacted first by the abovementioned contact people. Secondly, the researcher was introduced to the participants. During this introduction the researcher would explain the aim of the research, and what was expected from the participants. Participants were informed that they were one of 20 micro business owners participating and that their contribution to the research was confidential. It was explained that their names and the names of their businesses would not be used unless they gave permission to do so. They were also informed of the use of the audio recorder, that only the researcher would listen to the recorded material, and that the sound files would be destroyed after transcription. The participants were introduced to the themes of the interview at this stage. The researcher would emphasise that the interview was voluntary and that they choose whether or not they wanted to answer the different questions. The issue of honesty was stressed, and the participants were advised to rather not answer a question than to bend the truth. It was also explained that the aim of the interview was not to determine whether their actions were right or wrong, but to assess their opinions and attitudes towards and experiences with regulations and support systems. Against the background of this information, the participants would decide whether or not to participate in the research. This process ensured that the ethical consideration of informed consent was fulfilled. Usually the interview would take place within the next few days, at the participant's choice of time and venue.

Venue for interviews

The interviews were, in most cases, conducted either in the participants' business or in their homes. Most of the participants ran their business seven days a week, and they would therefore choose to have the interview at their business venue in between other activities. The interviews were therefore often interrupted. However, it seemed inappropriate to ask the participants to close down the business, or to pay someone to replace them. To carry out the interviews at night, after business hours, was never considered an option due to safety considerations. Also, it was a priority to respect the participants limited time off; therefore the interviews were conducted within working hours. It was agreed beforehand that the participant was free to attend to requests from customers, family members and others during the interview and that the recorder would be paused at these times.

3.3.5 Data analysis and interpretation

Transcription and confidentiality

The interviews were recorded by an audio recorder and then transcribed. The transcribed notes formed the basis for this report, and have been treated as confidential material and have only been read by the researcher and her supervisor. The recorded material has been destroyed. In the transcripts participants' names were replaced with numbers according to the order in which the interviews were conducted. Numbers were used even when the participant had given the researcher the right to use their name. In this report, on the other hand, nicknames reflecting the trade of the participants have been used. A list of names and contact details was kept separately from the transcribed interviews, and without information regarding type of business or their number in order to ensure confidentiality.

The interviews were transcribed word by word. Where the participants used a language other than English, the translation was given in brackets where the meaning was known. In certain interviews background noise made it impossible to extract the meaning of what was said. In these instances it was indicated in the transcript that information was lost due to background noise. All personal names mentioned by participants were replaced with capital letters in order to protect the identity of family members, colleagues and business partners.

Data analysis

The themes that surfaced from the interviews have been treated as stories of lived experiences that demonstrate how micro enterprise owners relate to regulatory policies and to support

services offered by the government. Thus the interviews serve as indications of the manner in which regulations affect micro enterprises. The data analysis was largely practical and pragmatic. The researcher used coding procedures from grounded theory methodology (De Vos, 1998).

The following procedure was used to analyse the interview transcripts (De Vos, 1998). Firstly, open coding was applied where the information was broken down, examined and categorized as smaller pieces of information. In order to identify the themes that were generated by the text, certain related concepts were colour-coded. Secondly, axial coding was applied, where data was put back together making use of the categories (De Vos, 1998). At this stage the focus was on the core categories; information regarding the business owner and the business; the level of knowledge of and compliance with regulations; and knowledge of support systems and the use of these. These main themes were then broken down into specific topics such as practical experiences with registration, taxation, workers conditions, knowledge of and experience with support systems, what kind of support was needed, and suggestions for improvements. Thirdly, selective coding was used, where the core categories were related to other categories. This data analysis method enabled the researcher to extract the experiences of the participants with regard to regulations and support systems, and the findings from this process are presented in chapter 4.

3.4 Limitations of the study

A research study is usually constrained by limitations such as time, resources, previously held assumptions, and limitations of the chosen methodology and tools. As a result there may be aspects relevant to the study which are not fully covered. This section aims to account for the main limitations to this study.

Limitations of the data collection method

The participants were only interviewed once. It was therefore not possible to follow the process of the participants' businesses. This is a limitation because their businesses changed rapidly. In most cases the participants were not familiar with the researcher and might have felt the need to impress. It was discovered that some participants used the first half of the interview to assess the researcher's true agenda, and in the second half tended to be more

willing to share sensitive information. This could possibly have been avoided if the researcher had had a chance to interact with participants for a longer period of time.

Limitations of the research sampling

Given the fact that a non-probability, purposive sample was drawn, the findings are not generalisable. The sample did not represent micro business owners in South Africa nor in Langa for that matter. All the participants were chosen from the formal side of Langa. No interviews were carried out in the informal settlement, Joe Slovo. In addition to this, it is estimated that less than 10% of the businesses in Langa were formal, while 30% of the sample had formal businesses. The research only focused on micro enterprises, and left out the small enterprises. The experiences of the business owners would probably have been different if small enterprises were included. The sample was also limited to enterprises that mainly trade locally, with their target market being within the township. Enterprises that work with tourism, or production for an external market, were excluded.

Limitations of the role of the researcher

The quality of the outcome of the interview depends largely on the skills of the facilitator. Despite the obvious limitations it is hoped that the researcher's skills and experience in communication made a positive contribution in this regard. The researcher's status as a European and an outsider to Langa had some advantages, but these are probably outweighed by the limitations. The lack of researcher's knowledge of the field, language restrictions, and issues of power relating to race, prejudices and historical injustices of colonialism and apartheid might have impacted negatively on her interaction with the participants in terms of communication, empathy, understanding, and intimacy, and impacted the feedback from the participants. In spite of the researcher's efforts of explaining the aim of the research, the participants often came with the false assumption that they would benefit from the process in terms of strongly needed business support. The disappointment caused by lack of benefits might have influenced the response in some instances.

Limitations of language

All the participants except one were Xhosa mother tongue speakers, while the interviews were carried out in English. Some of the participants were not comfortable speaking English, and even though all except one agreed to speak English, this might have influenced the quality of the answers due to the fact that some of the participants did not articulate themselves as well

in English as in their mother tongue. The researcher realised that a translator might have been useful in some of the interviews, but due to limited time the interviews were not redone with a translator. The issue of not being able to speak “proper English” was also an embarrassment to some of the participants, as was the unsophisticated approach they had to their businesses and regulations applying to them. The researcher had to be sensitive towards the possibility of participants feeling uncomfortable, and try to help them to relax and take pride in the fact that they put food on the table of their households.

Limitation of the venues

Most interviews were conducted at the business venue during working hours, or in their homes. This created challenges like: background noise; other people being present, which might have influenced which information the participant was willing to share; and customers that needed the participant’s attention. The researcher tried to meet these challenges by discussing them with the participant before the interview. She would ask for radios to be turned off and doors to be closed if there was noise. It was also agreed that participants could attend to customers during the interview. Participants were surprisingly good in remembering what they were talking about, and continuing their response as if the interruptions had not taken place. The researcher made a point of memorising the last sentences that were said so that in cases where the participants did not remember, she could help them back on track.

Limitations of the data recording

The use of audio-recording raised difficulties with regard to capturing and transcribing the non-verbal gestures and pauses in the interviews and this could also affect the validity of the data. For this reason, the researcher made notes of her observations throughout the process. In addition it took some time for some participants to get used to the recorder, and not to let their unease influence the interview.

Limitations of data analysis

In-depth interviews provide rich, complex and extensive data and this presents difficulties for data analysis. It was a challenge for the researcher to retain the richness of the data while at the same time ensuring that the large mass of data was analysed systematically. The mass of information also meant that it was easy for the researcher to get sidetracked during the analysis. For this reason, the researcher used the research objectives as a guide during the analysis so that primary attention was placed on the research questions of the study.

3.5 Conclusion

The chosen research design was based on the need to explore the experiences of micro business owners in Langa with governmental regulations and support systems. The usefulness of rich, qualitative data to illuminate how participants understand their experiences guided the research methodology towards the use of in-depth interviews. The role of the researcher, being a white person in a black area, together with other limitations presented challenges for the researcher. However, the researcher is confident that these challenges were met in a way that did not undermine the findings of the research. Data analysis presented both interesting challenges as well as surprising findings, and coding procedures from grounded theory methodology were useful in this process. There were a number of limitations to the study; however the researcher has attempted to account for them so as to acknowledge their impact on the validity of the study. Modern social scientists tend to agree that the absolutely neutral and objective researcher with infinite time and resources at hand is a fiction. As a result, transparency and accountability in the research process become crucial to ensure the validity of the study. The researcher has attempted to account for the limitations of the study, and it is hoped that this reflexivity increases the validity of the findings.

The chosen methodology proved to be effective to achieve the goal of the research: to explore and describe the knowledge and experiences of micro enterprises with regard to compliance with governmental regulations and the utilisation of support systems.

CHAPTER 4: RESEARCH FINDINGS



4.1 Introduction

The aim of this research was to explore and describe micro enterprise owners' knowledge of and experiences with governmental regulations and support systems. It has followed a qualitative research design and can be categorized as explorative and descriptive. The method used is in-depth interviews with 20 micro business owners in Langa. In this chapter the findings from the interviews are presented. The findings are thoroughly analysed and compared with the findings from the literature. The structure of the chapter is as following: framework for analysis; followed by the field description where the participants are presented. Then the findings from the interviews are presented and discussed according to the framework for analysis. The themes outlined as research questions in chapter one have guided the analysis in this chapter, and the findings regarding regulations and support systems are presented in different sections. In addition to this, there is a section on additional findings that arose from the interviews. All the findings will be summarized in the last section of this chapter. The summary will form the basis for the conclusions and recommendations in chapter 5.

4.2 Framework for analysis

The following table is a presentation of the framework used to guide the analysis process. The different categories emerged from the broad questions used during the interviews. The analysis of the data is set out according to these categories. Due to the nature of in-depth interviewing, the participants touched on a range of other topics that are not reflected in this framework. Many of the comments were valuable, but due to time constraints and in accordance with the aims of this study, they have been excluded.

Broad interview themes	Categories arising through analysis of data
4.3 Field description	Business variety Years in operation Formal and informal Gender and age Employees and helpers Business venue Levels of education
4.4 Regulations	4.4.1 Registration 4.4.2 SARS and taxes 4.4.3 Workers' conditions 4.4.4 Source of information regarding regulations
4.5 Support systems	4.5.1 Knowledge of and experience with seven chosen support systems 4.5.2 Other support systems 4.5.3 Support wanted by participants 4.5.4 Participants' suggestions on how to improve support systems
4.6 Additional findings	4.6.1 Necessity or opportunity 4.6.2 Levels of education 4.6.3 Business venues and zoning of property 4.6.4 Competition 4.6.5 Crime and poverty

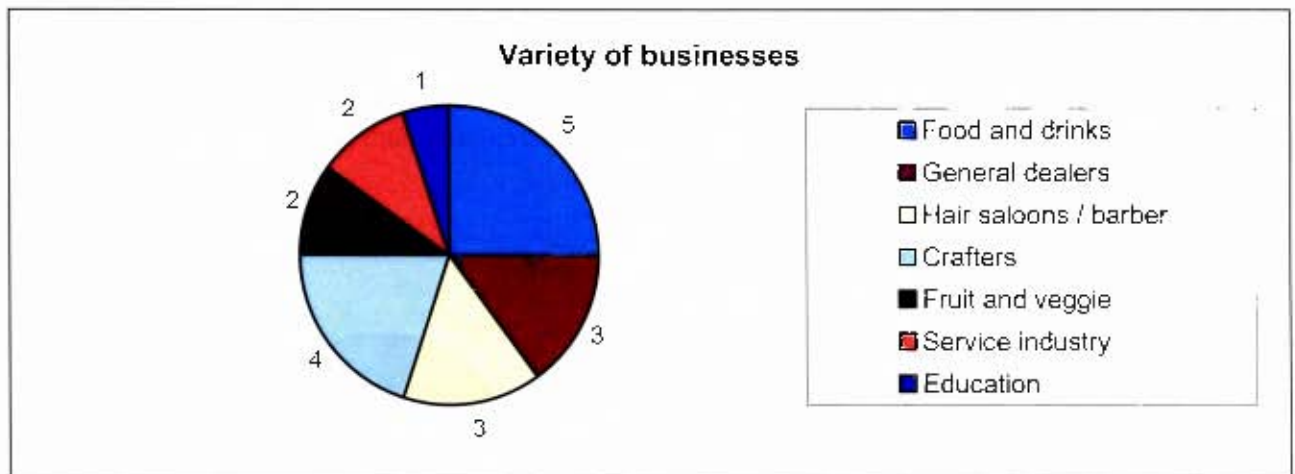
Table 1: Framework for analysis

4.3 Field description

This section gives a thorough description of the field in which this research was conducted. This is to provide background information on the informants before the research findings are presented. The participants are not presented separately, but according to different themes, in order to conceal their identities. The participants' enterprises varied in terms of type of business, formality, years in operation, business location, and number of employees. In order to ensure confidentiality the participants are referred to by their trade, such as Hairdresser and Butcher. This section includes many graphs. This is to make it easier for the reader to use it as reference while reading the findings presented in the other sections of the chapter. This section does not provide any statistics, and should only be seen as a description of the field in which the research was conducted.

Business variety

As a wide variety of different businesses are operating in Langa, the researcher aimed for this variety to be reflected in the sample. The variety of enterprises is captured in graph 1, and the different categories were created through the analysing process.



Graph 1: Variety of businesses

As appears to be the norm in Langa, there were no participants involved in production, except the Dressmaker who produces clothes on order for customers. The larger group were enterprises offering food and drinks. This group included: the Chef, offering a variety of different foods; the Café owner, running a high school cafeteria; the Shebeen⁴ owner selling liquor; the Braai⁵ selling barbequed meat on the street; and the Chicken seller offering

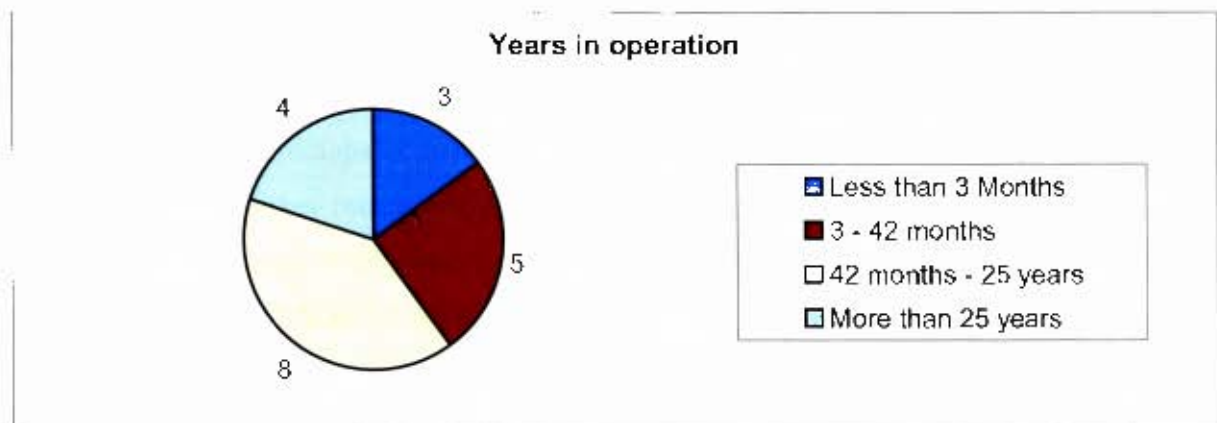
⁴ Shebeens are small liquor outlets. Usually informal.

⁵ Braai is a word of Afrikaans origin and means barbeque.

boiled chicken on the street. The general dealers included: two shops, the Shopkeeper and the Spazashop⁶ owner, which both also offered some take away food; and the Butcher. Two participants were running hair salons and are referred to as Hairdresser (1) and Hairdresser (2), and they share a category with the Barber. The category of crafters included: the Mechanic; the Carpenter; the Dressmaker; and the Shoemaker. The category of fruit and vegetables includes the Vegetable seller and the Fruit seller. A Funeral parlour owner and a Laundry owner are included in the category of service industry. Only one participant was included in the category of education, the Crèche educator.

Years in operation

According to Global Enterprise Monitor (GEM) an enterprise is considered as a “start-up” if it has operated for less than three months. Enterprises that have operated from three to 42 months are considered “new enterprises” while an enterprise is considered “established” if it has been operating more than 42 months (Maas and Herrington, 2006). As many as twelve of the participants had “established enterprises” of whom four had been in business for more than 25 years. Five participants had “new enterprises”. Three participants had been in operation for less than three months, and can be categorized as “start-up enterprises”. These three participants had in common that they had been attracted to the emerging market at the housing project of N2 Gateway⁷, and all three were located at the entrance of the N2 Gateway complex, due to the fact that it is currently not legal to open enterprises inside the N2 Gateway area.



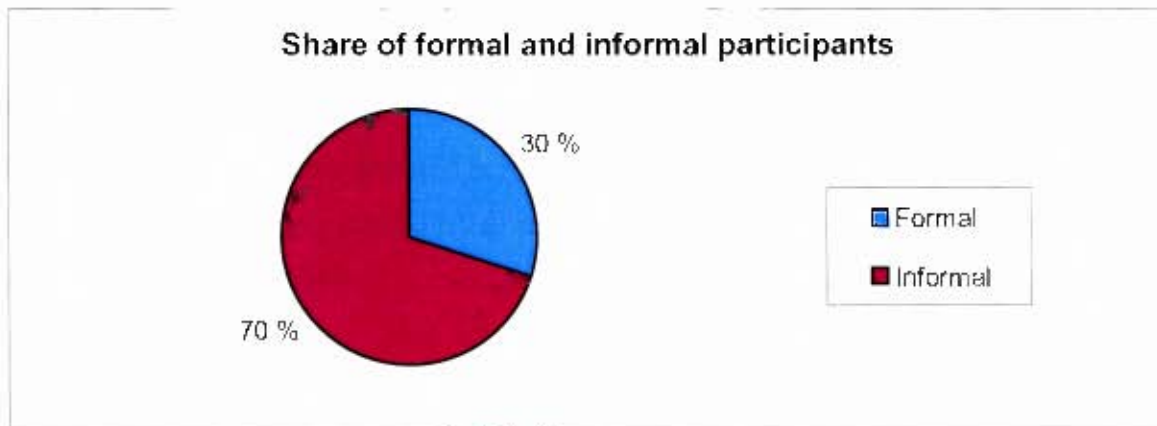
Graph 2: Years in operation

⁶ A spazashop is a small shop selling basic groceries to the neighbourhood, usually informal.

⁷ N2 Gateway is a governmental housing project. A further description is provided in chapter 2, section 2.6.

Formal and informal businesses

The participants had, to a varied degree, registered themselves with different governmental institutions. Hardly any of the participants considered themselves to be formal enterprises, but they were still categorized as formal according to the definition of formal enterprises in this study as outlined in chapter 1: to be considered formal they must have registered their businesses with at least one governmental institution.



Graph 3: Share of formal and informal participants

In Langa, as in many other townships around South Africa, only one in ten SMEs is actually formal (Langa Traders Association, 2007). In this study however, 30% have registered their business, because one aim of the research was to investigate business owners' experiences with regulations.

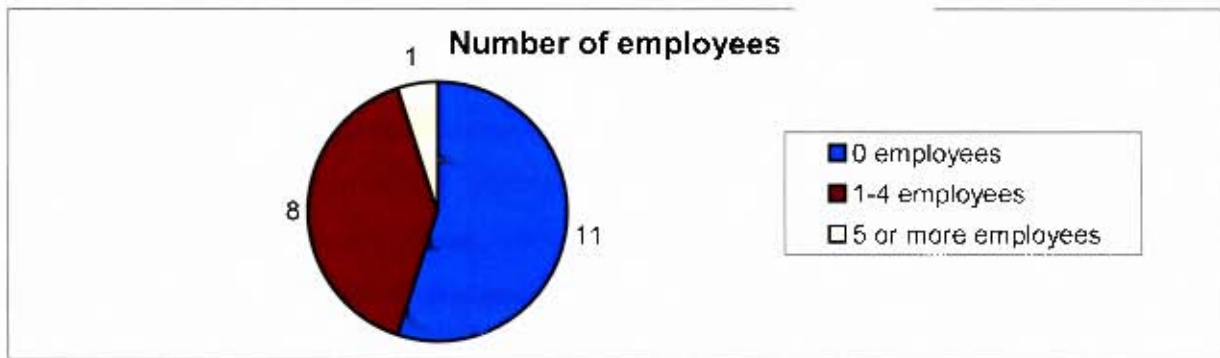
Gender and age

The participants varied in terms of gender and age. Half of the participants were female and half were male. This may not reflect the share of gender in micro businesses but it was seen as important to get the opinions of men and women. Women were represented in all the different categories of businesses mentioned above, except in general dealerships, where both were male. Of the six formal businesses, three were run by women and three by men. The age of the participants varied from 20 to 68 years.

Employees and helpers

Most of the participants had started and ran their businesses by themselves, and 11 participants had nobody helping them. Eight participants had between one and four helpers, and one participant had 11. With the exception of the participant with more than 11

employees, the participants chose to use the word “helpers”, rather than employees. The reasons for this varied, and will be discussed later in this chapter.

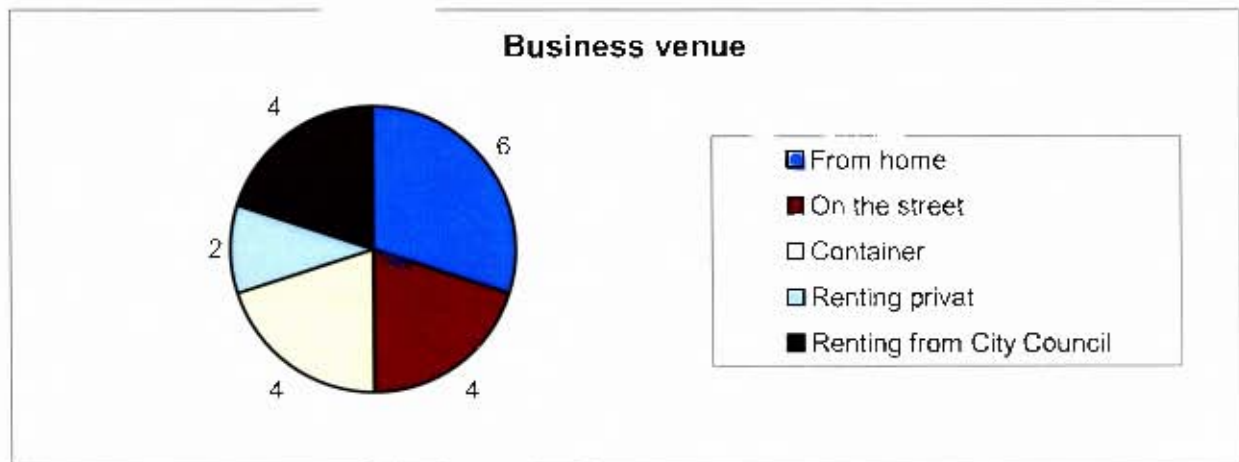


Graph 4: Number of employees and helpers

Only four of the participants said that they needed employees/helpers throughout the year. Three participants would call in extra people when the workload was too much for them to handle, and two were either using helpers part time or only during the busiest months of the year. None of the participants had registered their employees/helpers with the Unemployment Insurance Fund (UIF) or given them written contracts.

Business venue

The venue of the business is crucial to how sustainable it is, and determines how vulnerable the enterprise is to weather, theft and removals.



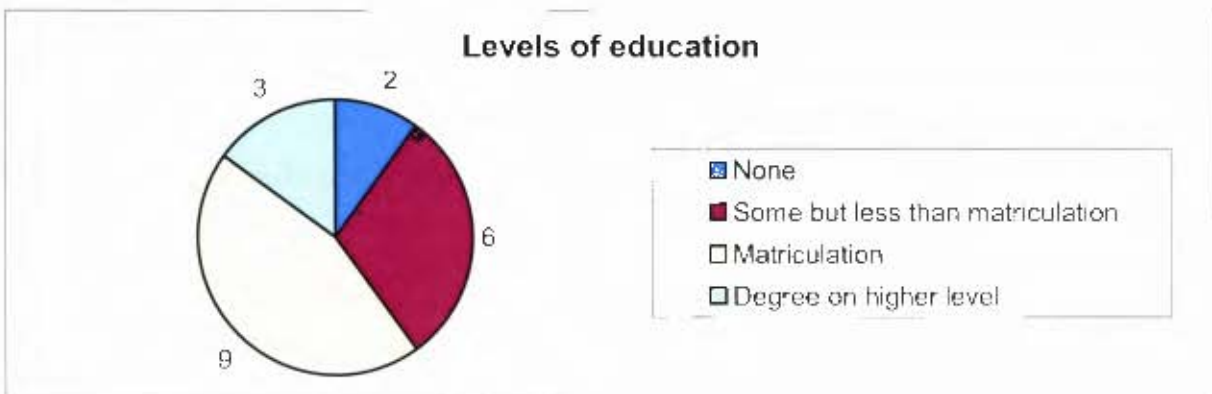
Graph 5: Business venue

None of the participants owned a suitable business venue zoned for business, but four were renting venues owned by the municipality and two rented suitable business venues from private people. Six participants worked from home, while another four operated from containers. Two of them had placed the container on the pavement in front of their homes,

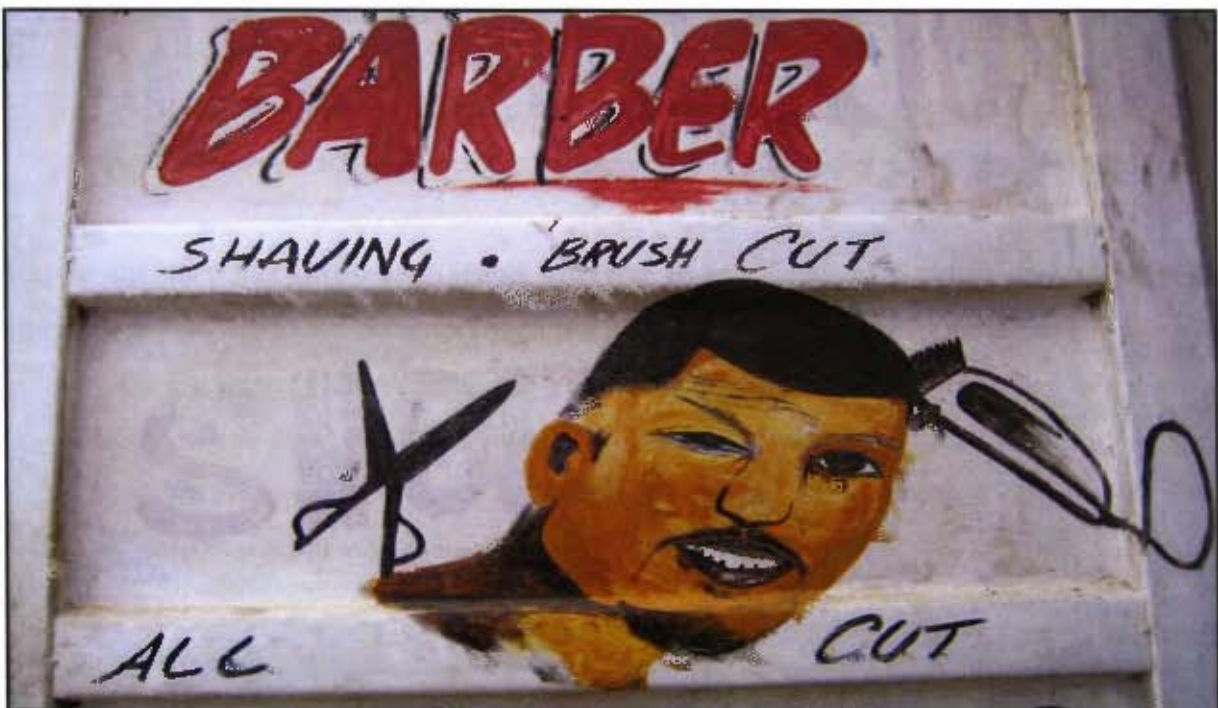
and the other two had placed their containers in areas with a lot of pedestrians and traffic. The last four of the twenty participants were operating on the street, with no shelter.

Levels of education

In this research 17 out of 20 participants had grade 12 or less. This means their educational level was higher than that of the average citizen of Langa, where less than a third had matriculated (Statistics South Africa, 2001). Nine of the participants had matriculated, and another three had completed education on a higher level. Six participants had not matriculated, and two had no formal education, one of whom was illiterate.



Graph 6: Levels of education



4.4 Regulations

Regulations and policies are used by the South African government to control economic activity. The aims are to ensure and regulate tax-income, fair trade practice, and standards on products. They also ensure employment quality and environmental protection. The regulations affect the market in which SMEs operate, but as well as being a tool for control and income; they can also be used as a tool for development. According to Reinecke and White (2004), SMEs that comply with regulations will usually have easier access to financial services, better social security for the workers, and are found to create more employment over time (Reinecke and White, 2004). This finding was supported by Strategic Business Partners (SBP), who encourages the South African government to change the regulatory environment. They argue that regulatory reform will have a more rapid effect than, for example, changes in the education system. By making “smarter” regulations that are easy to comply with, both government and business can save time and money (SBP, 2004).

As many as 70% of the sample of this research did not comply with any regulations, and expressed that they did not think much about regulations. When being questioned about regulations many of the participants indicated a lack of knowledge, for example:

“I’m not aware of any regulation regarding my business.” Café owner.

“I’m not aware about what what about business.(...) I don’t want to be involved in those things.” Laundry owner.

“We don’t even know about those things. People who think about things are people who have money, who are making money. We are not making money.” Hairdresser (2).

Despite the fact that most participants did not comply with any regulation, some still expressed a wish to be able to comply with regulations. As the Braaier formulated:

“We are gonna be registered and we will comply with any regulation that are gonna be thrown in front of us. We intend to comply with them. Although they are kind of complicated sometimes. (...) Why? We are loyal citizens. We want to do business and we want to comply with business ethics.”

The notion of complying with regulations in order to be regarded as a responsible citizen was strong amongst the participants. The six participants with formal enterprises also expressed a

wish to be able to comply with more regulations. The Shopkeeper formulated the advantages of compliance like this:

“One; you’ll become an honourable and respectful citizen. Two; you do not have any guilty conscience because everything you do is proper. Three; you set an example to others. They can always see you and say: See that man! That is how you should run your business. Because now, you see, by not following the rules you have to be ducking and diving, bobbing and weaving. You don’t come straight. You got to avoid this, unless they’ll catch you.”

Most of the participants lacked the necessary information of how and with what to comply, and constraints such as money and time were mentioned as reasons for non-compliance. Most of the participants were not aware of tangible benefits as a result of complying with regulations, and spent little time worrying about regulations and the consequences non-compliance could have for their businesses. Much greater was the worry of competition, how to make enough income to keep the business, themselves and their families up and running, ensuring proper location, and avoiding being victims of crime.

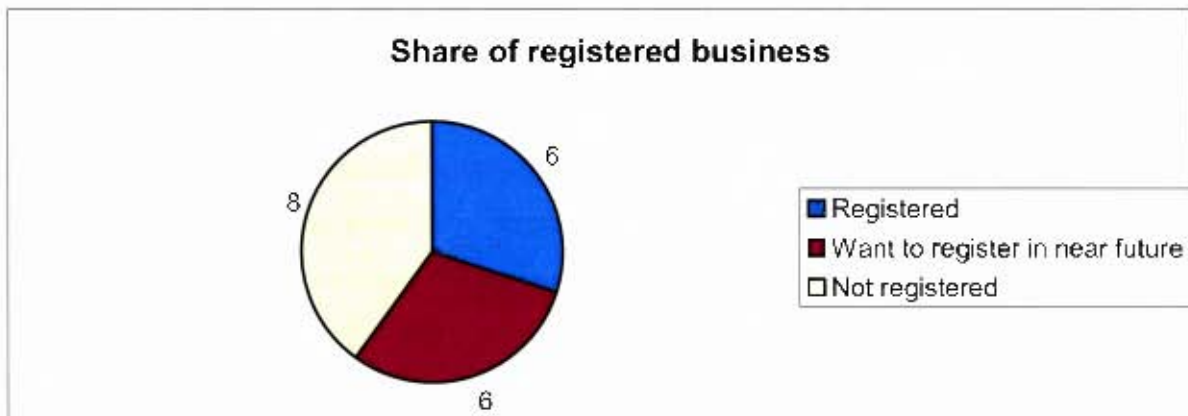
The participants of this research were asked to share their experiences with three of the most common regulations applying to micro businesses; namely registration, taxation, and labour policies. Their responses on these topics are presented and analysed in the following sequences.

4.4.1 Registration

The twenty participants were asked to share their thoughts and experiences regarding registering their businesses. Six of the participants had succeeded in registering their enterprise with at least one governmental agency and were therefore considered formal. Fourteen of the participants had not registered, but interestingly, as many as six of these 14 said they intended to register their business in the near future. Three of the 14 participants with informal businesses had tried to register and had either failed to do so, or were still waiting for a response.

In the following sections, the responses from the participants with informal enterprises and the participants with formal enterprises is presented and analysed separately, and compared to

findings in the literature review. The findings will also be analysed in terms of whether or not registration had any influence on the enterprise's growth.



Graph 7: Share of registered enterprises

Informal business owners

The majority of the participants belonged to the second economy. Some of them were aware of the disadvantages of being informal as the Braaier points out:

"People are not being taken seriously, you know, and it is a shame, or it is an unfortunate situation. Because people are not being taken serious, because they are doing informal businesses. And people who are doing informal businesses are really struggling, you know."

The informal business owners make up the majority of the sample, with 14 of the 20 participants having not registered their businesses with any governmental agency. Three of the participants with informal businesses had tried, but had either failed or were still waiting for a response. One of these three, the Carpenter, had applied for a licence when he started his business in the early eighties but was turned down because he used his backyard as a workshop. He now considered himself too old to try to make his business formal. The Dressmaker had tried to register her enterprise with CIPRO in 2007, but all her name options were already taken. She wanted to try again, but because of death in the immediate family, and the costs of the funeral, she had not had funds or time to try again. The third of the three, the Chicken seller, was selling chicken at the taxi rank, and after an information meeting with SMEs in the complex where she was located, all the ladies selling chicken went together and applied for licenses. *"The other man, there in terminus, he told us we must get a license before registering. We are waiting"*. At the time of the interview, a year had passed without any response from the meat board. She did not have more information regarding registration.

Another four of the 14 participants with informal businesses said they aimed to register their businesses, and they all gave a specific month when they aimed to register which was within four months after the interview. The fact that the interviews were carried out in the last four months of 2007 might have influenced this finding, and the wish of starting the New Year as a registered business might be reflected in the answers. Three of these participants had start-up enterprises connected to the N2 Gateway complex⁸, and all three said that they had not registered yet because the place they were doing their business was not their property, and they were worried about eviction: “...we were kind of wondering, aren't we gonna be moved, because of the location itself is not a proper location”⁹. But as time passed, and nobody told them to move, they had gained confidence in the sustainability of their businesses and wanted to register their enterprises. The fourth participant, the Chef, had been selling food from her own house for 27 years, and felt that now, when she turned 60, it was about time to do serious business and register: “Yes. I still want to do it now. That's why I say, really I mean from next year January, I want to be very serious”.

The remaining seven of the 14 participants with informal enterprises gave different reasons why they had not registered. The Laundry owner did not regard “doing laundry” as business: “You can say uR¹⁰ is making a business. But me, I'm helping people. That's all. I'm not in business. I'm not serious about making a business. I do it just for pleasure. To keep myself busy.” She said she would not involve herself in business related things such as registration or taxes. Another two participants, the Barber and the Shebeen owner, did not take their businesses seriously enough to register them, and had never thought about it. As the Shebeen owner said: “It is because I never thought of that. Of going to register it. I never had a plan for the business”. Two participants, the Café owner and the Shoemaker, said that nobody had approached them about registering. They claimed that they would register if they were approached and the Café owner formulated it like this: “My business is not registered at all. Why, because, hmm how will I say why not? Because nobody has ever come”. The Mechanic said that he could not register because he never went to school: “That business, I do under the Xhosa line, mos. Not to the municipal or under government. Because government wants that person to go to school, mos, and certificate”. His reference to the Xhosa line implies that he was doing his business the way the Xhosas had been doing it during the apartheid era when

⁸ The trades of the participants are removed to ensure confidentiality.

⁹ The trade of the participant is removed to ensure confidentiality.

¹⁰ In Xhosa, when mentioning names, u- will be put in front of the name which reflects him/her, e.g. uSilje. Due to confidentiality the participant's name is replaced with R, therefore uR.

black people were not granted licenses to do business. Since he never went for proper training he could still not apply for the necessary certificates and had continued to do business the same way. The seventh participant, the Fruit seller, was illiterate and did not have any thoughts regarding registration.

Most of the informal participants were convinced that registering their business should bring some benefits, though some of them could not articulate what such benefits would be. The Shebeen owner said for example: *"I think if I had registered, there should be benefits then. Some people get assistance"*. The Café owner was not sure about what registration would bring: *"Maybe there are not benefits, or even benefits, if you are registered, and I don't know"*. Others had more specific ideas about what kind of benefits registration would bring. The Braaier connected registration to the ability of the business to grow: *"The business has to grow. In order for it to grow, firstly we are going to have to register it. That's number one."* The benefits mentioned by participants with informal enterprises in relation to registration were: firstly the ability to get support for the business; secondly to be recognised and seen as responsible citizens; and thirdly that they would be able to attract tenders. Especially the crafters were concerned about attracting tenders, as the Dressmaker said:

"Let's say you are looking for traditional table cloths, it is easy to give the business to me. Whereas if I'm not registered it can be given to someone else, whereas I make good stuff, or beautiful things. But because I'm not registered, I cannot get that business".

None of the participants expressed fear of being harassed by representatives from the government because of their informal status. They regarded themselves too small to be of interest to the law enforcers. But some said that if their business grows, they would have to register it, because as soon as there is a large turnover in the business, SARS would start keeping an eye on their activities.

According to Strategic Business Partnership's (SBP) report, Cutting the cost of red tape (2004), most owners of informal businesses see the benefits of registration as better access to credit, suppliers and markets. This finding seems to shed some light on the data of the current research. Even though some of the participants were not able to formulate what kind of benefits registration would bring, they would still assume that there are benefits, and express a wish to have more information. In addition to the benefits mentioned by SBP, the participants of this research mentioned access to support as the most important benefit of being registered.

Formal business owners

Six of the 20 participants had succeeded in registering their businesses with at least one governmental agency. Not even one of the six claimed to comply with all the regulations required for their particular business. Four of the six reported that they were trying to advance into complying with more regulations. Two of the six participants, the Butcher and the Shopkeeper, were doing their business in municipal shops during the apartheid era, and were therefore forced to apply for the licences requisite at that stage. Since then they have followed the changes introduced by the democratic government. These two participants had been doing business for decades and were not satisfied with their own level of compliance. The Butcher had experienced such a reduction in turnover that he had applied for a tax-free certificate. He declared that his business ceased being formal when he got the certificate:

“The business, you see, it was registered, before I got a tax-free certificate, and then if you get a tax-free certificate you are exempted from tax.

Researcher: But is it registered as a business?

No it ceased the minute I was exempted from tax, the minute I closed the business. Exemption from tax is closing down.”

He would still report to SARS about his activities though, and he continued to operate from the same venue. This participant was from a business family and had taken over the family business at an early age. When the turnover of the business was reduced dramatically, from being a butcher to selling mainly eggs, he no longer regarded his activities as doing business and claimed that it is no longer registered. But because his business was still receiving letters from SARS at the time of the interview, and because it still carried out daily activities, it was considered formal according to the definition of formality of this research.

The Shopkeeper considered his business as partly registered: *“Yes in that sense that they are aware of it there. But no, because I do not have what I mostly want, a VAT number”*.

The other participants with registered businesses had different reasons why they had registered. The Spazashop owner registered his business when he started operating because he had faith in the benefits of registration and a wish to be professional:

“Why I registered my business? Because I thought then I'm going to benefit from whatever. And not to be against, or to avoid tax and so forth. Really I thought I was starting a business, and when this business is going I don't want to be in trouble.”

The Crèche educator registered her education centre as a non-governmental organisation to ensure that she fulfilled the requirements to get support from the Department of Social Development and also to ensure children's safety whilst in her care. She was very disappointed with the response of the department because she was not given the necessary information on how to comply correctly. This slowed down the start-up of her crèche and she had not received much needed support from the Department.

The Funeral parlour owner firstly registered her business for VAT, because she had heard that there were returns to gain. At the time of the interview she was trying to get her income tax right, while she also aimed to register her workers with the Unemployment Insurance Fund (UIF). The sixth participant who had registered her business, the Hairdresser, simply registered with SARS because that was the only way for her to open accounts and get discounted products.

In summary, out of the six participants with registered enterprises, two had registered firstly with SARS, one as an NGO, one through CIPRO and two through licenses issued during the pre-94 apartheid government era. Some of them had advanced and registered with other agencies, while some had registered with only one agency. The reasons for registering varied from being able to get benefits, a necessity to be able to grow the business, to avoiding trouble, and being responsible citizens.

Registration and business growth

According to the research of Reinecke and White (2004), registration of an SME raised the probability that the SME would experience growth from 33% to 59%. This is because registration gives better access to finances and markets (Reinecke and White, 2004). Even though the participants with registered businesses had ideas about what kind of benefits they would attract by registering their business, there was only one participant who had actually managed to take advantage of such benefits and ensured her business' growth. At the time of the interview the Funeral parlour owner had grown from being a micro business into a small business with 11 employees in less than five years. The growth may have been affected by increased death rates due to the AIDS epidemic, but other funeral parlours located in the same area did not seem to have experienced the same growth. The other five participants with registered enterprises had not experienced growth as a result of registration.

These findings might have been different if small businesses, with five to 50 employees, had been included in the sample, as more examples of enterprises growing out of their micro status might have been found. This research has focused exclusively on micro enterprises. Four of the participants with registered businesses had established enterprises older than 42 months, and their experience with regard to absence of growth is therefore relevant. This finding shows that even though an enterprise is registered, it does not necessarily follow that the owner has access to relevant information about how or with what to comply as well as available benefits.

Summary on registration

Registration is seen as the first step to formalize an enterprise and opens the door to markets, tenders and support systems. During the apartheid era most enterprises in the townships of South Africa were forced to operate illegally and the majority of them have continued to operate in the second economy. Most participants in the current study saw benefits from registering, such as access to support, being recognised and attracting tenders. Some of the participants also mentioned being loyal citizens and gaining respect from others as a reason for operating legally. The business owners with registered enterprises tended to see more benefits from being registered than those with informal enterprises and four of them expressed a wish to be able to comply with more regulations. Most of the participants with informal enterprises had inadequate information regarding how and why to register, consequences of not registering or the benefits of registering. They therefore made their decisions based on word of mouth, what other business owners do, and coincidental knowledge. The data of the current research may also indicate some support to the findings of Reinecke and White (2004) that SME owner's choices are usually constrained by a lack of information, money and time.

SBP mentions in their report that registration procedures in South Africa are both costly and complicated (SBP, 2004). None of the participants with registered businesses mentioned the high costs of registration as a constraint, but the fact that none of them had been able to register with all agencies required of their particular business indicates that a lack of information and complicated procedures could well be constraining the registration process.

Many of the participants with informal enterprises, on the other hand, said that they could not afford to register. They linked registration with paying taxes, and they were not aware that

they were under the threshold for paying taxes. This shows that their decision not to register was constrained by a lack of information.

Other studies have concluded that an enterprise increases its chances for growth by registering the enterprise (SBP, 2004 and Reinecke and White, 2004). This is not reflected in this research, where only one participant has experienced such growth.

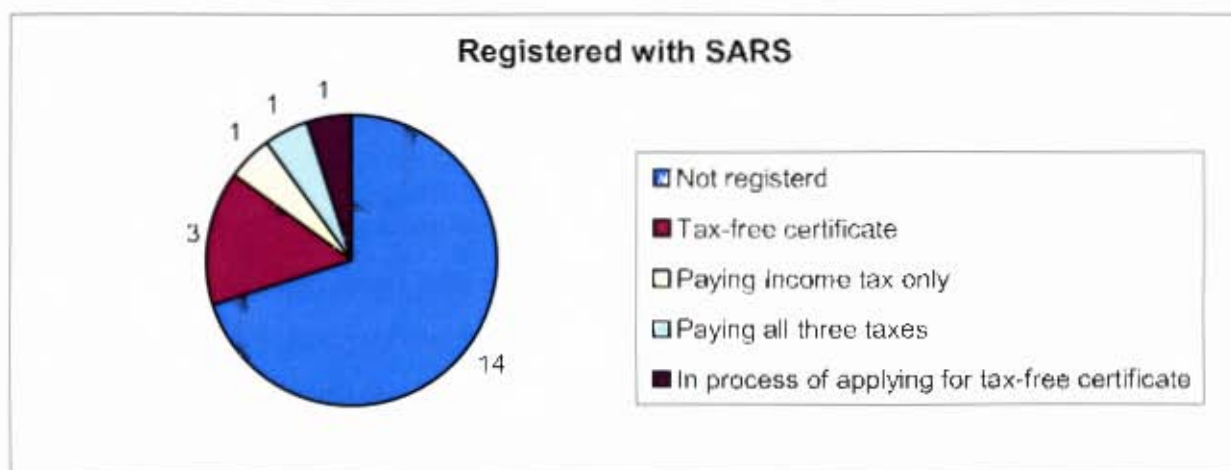
The levels of awareness of registration and the importance of making the enterprises formal were low and most participants had other worries that concerned them more than the regulatory environment.

4.4.2 SARS and taxes

Registering for tax purposes is closely linked with being registered. Out of the six participants with registered enterprises, five had registered with SARS, while the sixth participant had applied and were still waiting for a response.

Taxes ensure income to the state and are also used to regulate the economy. In most countries tax authorities inspect more frequently than any other authority (Reinecke and White, 2004). SBP found in their research that tax related regulations were the most time- and money consuming regulation for enterprises of all sizes, and that out of the tax related regulations VAT was the most difficult regulation to comply with (SBP, 2004). In South Africa tax collection is coordinated by the South African Revenue Service (SARS). The three most important forms of tax that apply to SMEs in South Africa are Income Tax, VAT and Pay As You Earn (PAYE). All enterprises are supposed to register for Income Tax, and have a tax certificate, even though whether they are supposed to pay or not depends on the type of enterprise and level of income. If the income is under the given threshold for that type of enterprise the enterprise is supposed to have a tax-free certificate. When an enterprise's annual turnover exceeds R300 000 it has to register for VAT, but the enterprise can voluntarily register for VAT when the turnover exceeds R20 000. The third tax, PAYE, is applicable to salary earners earning more than R3333 a month (SARS, 2007)¹¹.

¹¹ More information on SARS and taxes is to be found in chapter 2, section 2.6



Graph 8: Registration for tax purposes

While registering for a tax certificate is compulsory for all enterprises, only five of the 20 participants had tax certificates. Three of these had income under the threshold for paying tax and had tax-free certificates. One participant was paying income tax and only one participant had registered for other tax purposes such as VAT and PAYE. Most participants in this research were under the threshold of paying VAT, and therefore did not have to register for this. However, the participants with informal businesses were not aware of the threshold and only one participant mentioned the threshold as the reason why he had not registered. Nine of the participants had employees, one of which had employees who earned more than R3333 a month. The others did not have to register their workers for PAYE, but again, the participants were not aware of this threshold. The only participant who had registered for PAYE had done so because her own salary, as the owner, was above the threshold, but her employees were not registered. There were other participants whose businesses made a profit of above R3333 a month, but because they did not differentiate between the profit of their business and their own salaries, it is unknown whether or not they were above the threshold for PAYE.

In the section that follows the participants' experience of and attitudes towards SARS and taxes is presented and analysed. A separate section is given to the experiences with VAT, because out of all regulations, VAT was mentioned most frequently, both by participants with formal and informal enterprises.

Formal business owners and their experiences with tax

The participants gave different reasons for why they registered with SARS. One reason was to be recognised as an enterprise and that way to access accounts and benefits. As the Hairdresser (1) said:

“So now I needed to open something, like maybe I want to, some account, you see. They are not, they can’t take me because I’m self-employed. They must have a proof that I am self-employed and how much I make a week or a month. (...) So obvious you must give it to them, that SARS thing, to show them that your business is registered.”

Others wanted to be loyal citizens and serious business people who complied with the law. The Butcher and the Shopkeeper who had licenses during the apartheid era had automatically been registered for tax purposes. The Shopkeeper was still paying Income Tax, and wanted to register for VAT, while the Butcher had been registered for VAT before, but had now been given a tax-free certificate because of the lack of income of his business. Both of them regarded paying taxes as the right thing to do. Besides being a loyal citizen, avoiding trouble was also mentioned as a reason. The Spazashop owner said it like this:

“And not to be against, or to avoid tax and so forth. Really I thought I was starting a business, and when this business is going I don't want to be in trouble.”

The only participant who had registered for all three applicable taxes, namely income tax, VAT and PAYE, started off with registering for VAT because she was told about the returns she could get at the end of the financial year. When the VAT registration turned out to be beneficial, she decided register for other taxes as well. She saw complying with taxes as a necessity for taking her business a step forward.

“So when I talk about this to the accountant I said: Fine. Let’s do Pay As You Earn, let’s do everything, because I don’t want to be in future debt, avoiding tax and everything. It is just that ignorance can put you there. And they say that in law you don’t talk about ignorance. You didn’t do it! So I’m trying. I did get my tax certificate. I’m busy with my UIF right now. And then I’m doing VAT for this year, and then what I want is to do PAYE.”

The two participants that paid taxes had external qualified people assisting them, as they did not have the competence to comply with tax regulations themselves. The participants with formal enterprises had in common that they registered with SARS in order for the businesses

to be recognised and taken seriously. Tax avoidance was seen as inappropriate, besides it would hamper their growth, and it could cause trouble. Only one participant, the Butcher, mentioned that taxes were hampering his business and the main reason for him closing down.

Informal business owners and their experiences with tax

As 14 participants had informal enterprises they were not registered with SARS. Most of the participants had reflections around taxes, even though as many as seven of the participants admitted that they did not have enough knowledge about taxes, and that they did not worry much about it:

“I don’t really understand that the tax certificate or something. I don’t really understand that trade issues. Nobody told me about that. It is the first time when you ask me now. So I don’t have knowledge of that.” Shebeen owner.

“Maybe there are not benefits, or even benefits if you are registered, and I don’t know. In terms of VAT. I’m not sure. I’m not sure about that thing.” Café owner.

“Researcher: Did you ever pay taxes? No, my dear, no. I mustn’t lie. Never.” Chef.

The Chef did, however, see that times have changed and that paying tax might be the right thing to do: *“I must. Things have changed now. I must really”*.

The worry about additional expenses was mentioned frequently and four of the participants gave this as the main reason why they had not registered for tax purposes:

“If it is not took so much money, ja I can afford it.” Shoemaker.

“With SARS? But, kaloku (because) I must be sure of the money I’m making, because SARS needs money, 40%!” Dressmaker.

“I haven’t got money to register.” Chicken seller.

“We don’t even think about those things. People who think about those things are people who have money, who are making money.” Hairdresser (2).

When asked about thresholds for paying taxes, none of them were aware of them. They were both worried about registration fees, and the running expenses of paying taxes.

Two of the participants with informal businesses claimed that registering for taxes is the right thing to do and necessary for growth. But the Carpenter saw himself too old to worry about that at this stage, and the Vegetable seller said he would worry about it at a later stage when his business had grown:

“Taxes? No lady, maybe if I can get something like a container, I can try to grow so that I can go and register my business to SARS. Now I don’t care to pay tax.”

Only one of the participants with an informal business, the Braaier, seemed to have appropriate information regarding taxes and had made his choice of not registering based on information given to him by an accounting firm:

“Yes, one of the regulations is that one does not have to pay tax if the business makes under 300 000 turnover. So one as well, we are advised by our accounting firm that there is no need to worry about that, simply because we are not doing a turnover of more than 300 000 yet, you know, but we intend to have a tax certificate, you know.”

The majority of participants with informal enterprises gave a lack of information about taxes as the main reason why they had not registered with SARS. Four of the participants said they could not afford to register despite the fact that none of them were above the threshold for paying taxes. The participants were not aware of thresholds or that they could apply for a tax-free certificate and carry on their business as usual. Only one participant with an informal enterprise was aware of thresholds and gave this as the reason why he had not registered his enterprise. These findings indicate that a lack of accurate information can be seen as the main reason for non-compliance with taxes.

Experiences with and attitudes towards VAT

VAT is considered the most expensive and time-consuming regulation in South Africa (SBP, 2004) and was the subject of both frustrations and expectations amongst the participants. Because the participants had much to say about VAT, this topic is given attention additional to that in the previous two sections under point 4.4.2.

Most participants talked about VAT with frustration. The Butcher gave VAT as one of the main reasons for why he had to reduce his business, and was now only selling eggs, and only occasionally, meat.

“It came to such a state where meat is so expensive that the area in which I am, there is mostly elderly people and unemployed people. They can’t afford it. So I wrote to revenue services and I told them. They gave me a tax-free certificate so I’m no more selling meat. So just to put some bread on the table for myself, I’m selling eggs now.”

Also the Spazashop owner, even though he was under the threshold for paying VAT, was frustrated about VAT, and when asked about potential benefits from paying taxes he shared his frustration: *"I am paying tax. Do you know that? What do they call it now? VAT. They benefit. (...) I pay VAT, whenever I go and buy, I pay VAT. (...) You see, they benefit. I don't!"*

The additional expense VAT represented when purchasing stock was a common frustration, and the Café lady made her point clear: *"The only thing; I cry with VAT. When I go and buy things and they say VAT is so much, and I'm not making that much, and then they still take so much money from me."*

Other participants, on the other hand, had heard about VAT returns, and thought this could benefit their enterprises. As the Chicken seller said: *"After some times wouldn't I get the money from the VAT? The tax? I must get back, ne?"* The rumour regarding VAT-returns was the main reason for the Funeral parlour owner registering with SARS:

"So he came to me and said he'll help me with book-keeping and so on, and I can help you get the rebates. You must just register for VAT. I registered for VAT. But I only registered for VAT. They don't care about PAYE. They don't care about the business tax. They don't care about anything. And you are alone here. You don't know about anything. So he helped me."

Only later she learned about the other taxes applicable to her and started the process of registering for those. The Shopkeeper was paying income tax, but had not registered for VAT. His reason for not having registered before was suspiciousness:

"I do not have what I mostly want, a VAT number. (...) Well, we were under this impression then that this VAT number will harm you, blablabla. You see it is a matter of the unknown. But now I see things. VAT seems to be more appropriate than not having it. I'm made to understand that there is some money that you'll get back."

Also this participant touched into lack of knowledge as a reason for not to register for VAT. He claimed it was fear and suspiciousness of the unknown consequences registering for VAT would have for the business that made him not register for it. Only lately had he come to realise that avoiding VAT regulations was actually hampering his business, and that registration was a necessity for his business to progress.

Summary on SARS and taxes

Out of all regulations applying to SMEs tax regulations were given most attention by the participants during the interviews. This gives some support to the finding of Reinecke and White (2004) that the tax authorities inspect more frequently than any other authority, which results in this regulation being taken more seriously by business owners. The tax given most attention was VAT. Though only one participant had registered for VAT and was paying VAT regularly, all participants had to relate to it, whether or not their businesses were registered, because they were paying VAT on purchased goods.

The participants with formal enterprises had all registered with SARS, or were in the process of doing so, but only two were actually paying taxes. The reasons for paying tax varied from this being the right thing to do, being seen as loyal citizens and avoiding trouble, to more tangible benefits such as VAT returns, a necessity for attracting tenders, and ensuring business growth. In most cases, the participants with informal enterprises admitted that they did not have the necessary information about taxes, and four of them thought it was too expensive for them to consider, despite the fact that they were under the thresholds for paying tax. Three of the participants running informal enterprises said paying taxes is the right thing to do and that it is a necessity when the business grows, but only one had accurate information about thresholds and the points at which paying taxes becomes applicable. The other participants with informal enterprises said that they would worry about it when the business had grown bigger. This indicates that they do not regard compliance with taxes as relevant to their enterprises at this stage. Though they have the idea that compliance with taxes is the right thing to do, this notion is not strong enough for them to look for information with regard to tax compliance.

Only two of the participants of this research were required to pay tax, but all enterprises were required to have a tax certificate. Even though SARS is running educational workshops, they have failed to reach the participants of this research with accurate information.

4.4.3 Worker's conditions

Nine out of twenty participants had people helping them on a regular basis, while two had had employees previously but had to reduce employment due to reduced income. Another two said that sometimes friends helped them out, but not regularly. The Carpenter said he picked up workers on the street if he needed assistance and paid them per day. The remaining six

participants had no employees or helpers: three operated alone and three in partnership with other owners.

SMEs around South Africa employ millions of people, but unfortunately this kind of employment is characterized by low standards and poor quality, such as long working hours, low salaries, and lack of social security and stability. Labour policies, laws and regulations play an important role in promoting quality employment. However, compliance with labour regulations is not one of the priorities of the SMEs, and neither is it a priority for law enforcement (Reinecke and White, 2004).

South African employers are supposed to comply with a range of labour laws; the most important, and common for all enterprises, are the Basic Conditions of Employment Act (No 75 of 1997) and Unemployment Insurance Act (No 62 of 2001). Complying with labour laws is both time-consuming and expensive (SBP, 2004). The most common strategy to avoid complications with regard to labour laws is to do nothing, which implies not to register the employees at all. The second most common strategy is to limit employment (Rankin, 2006).

The participants were asked about employment and how they interact with their helpers. In the next section these findings will be presented and discussed. The employees of the enterprises participating in this research were not interviewed and their views are therefore not represented.

Employee, worker, assistant or helper

Out of nine participants who had helpers on a regular basis, the Funeral parlour owner was the only one comfortable using the word “employee”. The Mechanic used the word assistants for his employees. The remaining seven participants used the expression “somebody who is helping me”. Some of them gave a specific reason for this, like the Spazashop owner who said the word employee involves legal implications: *“I don't even call them employees because they are not registered.”* The Crèche educator gave a similar reason for why she preferred her employees not to be called workers:

“I don't want to call them with the word workers, because that comes with complications. So we are co-running the project. We are using those terms at the moment. When I'm financially compatible, then I can pay them and then I can start saying this and that and this and that and this and that.”

The Hairdresser (1), on the other hand, had a totally different reason for why she did not call her helpers employees:

"Everyone wants to stand on their own two feet. No one wants to work for someone.

Researcher: So they don't want you to say that you are employing them?

Ja, they doesn't want that name. They say they are helping me."

This attitude was reflected amongst more participants who did not regard themselves as employers, and in many cases their helpers were relatives helping out in the busy months of the year, or the busy days of the week. The participants were therefore reluctant to call the helpers employees, both because of the legal implications the concept implies, such as minimum wages, limited working hours, writing contracts and registering with the Unemployment Insurance Fund (UIF), as well as the social implications of calling a relative or friend "employee".



The sensitivity regarding the use of the word employee, led the researcher to rephrase the concept and use 'helper'. The concept 'helper' includes employee, worker and assistant. It does not include partners or co-owners.

Contracts, salaries and working hours

The helpers' working hours varied from participant to participant, but none of the participants let their helpers work more than six days a week. None of the participants had written contracts with their helpers, but said they had verbal agreements. The Café owner formulated it this way: *"Because I just talk to a person: Do you want to come and help me? There are no formalities."* None of them indicated that they would change the way they relate to their workers, except the Funeral parlour owner: *"Somebody is going to do the contracts for them."* She was complaining that out of all sources of support she had been in contact with, nobody had explained the labour law to her. She was not made aware of regulations regarding

employees until one of her helpers opened a case against her in CCMA¹². However, she considered awareness regarding labour policies so important that she suggested that enterprises should be required to receive training on such regulations when they receive support from a support system:

“...then she said: - No Ma’am, when you have the employees you must have a contract! But then I have a book-keeper. He doesn’t give a damn about writing me a contract for my employees. And there is a standard contract, but I didn’t get it because I didn’t have... some what? Some labour something. I didn’t have some documents, labour documents something. If you can get into business, and instead of getting money from anybody, if the person that gave you money can say: Ok I’m gonna give you money this month, but you must know there are regulations.”

This participant had a registered enterprise, and had benefited from different support systems. Despite this she lacked knowledge about basic workers rights. She regarded these regulations as so important that they should be imposed on business owners at the same time as they were given support. The idea of linking economic support to training with regard to regulations is worth further considering.

One of the participants, the Shopkeeper, did not have workers at that stage: *“In fact I used to have staff, but because of these robberies... (...) Give me a chance to revivify my business, and thereafter I’ll call them back again.”* He was concerned about how he had treated his workers in the past and how he wanted to treat them in the future:

“I’d like to be professional and everything must go accordingly now. And when I employ these, whoever, I also want a way so that they can get their pension fund etc. Everything, everything, like the other workers in the companies. They must get their full rights. (...) Then I can’t say people, more especially your employees, they must feel at home. They must feel that they are known. They must feel that they are getting a fair deal. You know what I mean? During the past years we used to even underpay our staff. Because we were aware that some are desperate. It is wrong.”

He was not the only participant that was concerned about the treatment of the helpers. Some of the other participants also had a strong wish to be able to give their helpers better working

¹² The Commission for Conciliation, Mediation and Arbitration (CCMA) is a dispute resolution body established in terms of the Labour Relations Act (No 66 of 1995). It is an independent body, does not belong to and is not controlled by any political party, trade union or business.

conditions. The salaries of the full time helpers varied dramatically from R500 a month to R3500. Only one participant paid her helpers more than the minimum wage for retail and service industry, which was R2280 a month (Kane-Berman, 2007). One paid R2000, another R1200 and the remaining paid less than R1000 a month. The common payment was R200 a week, which equals R800 a month for fulltime helpers. Most of the helpers were paid on a weekly basis, like the helpers of the Café owner: *“Ja I pay them, R200 a week, because I told them I won’t be able to pay them monthly.”* The reason given for this was the limited cash flow of the enterprises. They would rather pay smaller amounts more times a month, than larger amounts at the end of the month.

The only participant who paid her helpers above the minimum wage was the Funeral parlour owner, and she did this to ensure that she got quality workers: *“When it comes to the salaries of my workers, let them have good salaries. Because good salaries mean good people.”*

Reinecke and White’s (2004) research shows that even though SMEs employ a large proportion of the population, they fail to help people out of poverty, and employment conditions in this sector are of a poor quality. Only one participant in the current study was able to pay the helpers above minimum wage of unskilled workers in South Africa. The remaining participants were not able to ensure that their helpers earned a sufficient income to combat poverty.

Unemployment Insurance Fund (UIF)

None of the participants had registered their helpers with the UIF. Nonetheless some of them were concerned about this and expressed a strong wish to be able to provide this security for their helpers:

“I always say I would love to, to... I would love them to have UIF. Unemployment Fund. Uyabona (you see)? That when they stop working at least they got something. I’d love, but how can you do it when I pay them so so so little? But that is something I would love to do if my business could grow and be ok. I would love to do that for them. I think that I’m getting this little bit because of them.” Café owner.

Her gratitude towards her helpers was based on the fact that she would not be able to carry on the enterprise without them. Her wish to ensure social and economic security for her helpers was constrained by the low income of the business. The Funeral parlour owner had registered

herself with UIF and was in the process of doing the same for her helpers, but only after UIF had phoned her and asked for this to be done: *“Somebody is going to do the contracts for them. To do the contracts, and then register them with UIF.”* The other participants did not say much about registering their helpers with UIF, other than that they could not afford it at this stage and that they would have to look for more information regarding these regulations when their enterprise had grown. To ensure workers’ social security did not appear to be a priority of the participants. This can be seen in connection with the fact that the participants, despite being owners of business, were not able to provide such security even for themselves.

Training

As is common in the SME sector most of the helpers, as well as the owners, were unskilled. The Funeral parlour owner expressed a wish to give her helpers proper training. She saw training as essential to avoid mistakes, to help the business to grow, as well as to raise their commitment to the business:

“And the mistake you do, you employ people who don’t have skills at all. Because the fear you are having is that you don’t have money to pay them. And by doing that you lose a lot of money because of the mistakes they do. (...) But also they must be trained. I must keep them in the workshops, and get somebody else to tell them about marketing. And get somebody to tell them of the importance of putting in the business. Because it is not my business. Them also are going to get something from it. If they don’t do their tasks, I won’t get money to pay them. They must have that devotion.”

The other participants trained their helpers themselves, and were proud to do so. The Dressmaker had trained two relatives who helped her in busy periods:

“Because I’ve trained them in different ways. They know how to sew. They know how to bead. Even the finisher. (...)I think if I can get the opportunity I can be able to help other people. Like those ladies who are helping me. I can employ them fulltime, and train more people. Because at the end, if I can have business I will need more than two people.”

Also the Spazashop owner saw his shop as a place where people were getting useful training:

“Now apparently that’s an institution. There are so many people that are helping me. (...) They come there and get the experience. Now if they are there for three months, or whatever time, they are up for experience. They gain experience, you see.”

The Mechanic, who also spent a lot of time training his assistants, had experienced negative consequences of doing so:

“But I try to teach all staff. But those assistants I have now, those that are there now. I can’t train another staff. Before with my assistants, I’ll teach them until they know. But after they know, they go to open a mechanic.

Researcher: How many did you train?

Six.

Researcher: Six? And then they went and opened on their own?

Ja.”

He was tired of losing his workers and made sure that his current assistants did not get enough knowledge to open their own business. This had the consequence that he could not leave his assistants with the business; he had to be there to supervise constantly.

The passing on of skills plays a significant role in township business where levels of formal educations are low. However this represents a major challenge for township business. Because most of the business carried out in townships requires few skills, it is easy for people to copy what has been done, and open their own enterprise. Many of the business owners had themselves learned by observing others, and then opened an enterprise on their own. On the other hand, as the Dressmaker and the Spazashop owner expressed, the passing of skills is a valuable contribution they can give to their helpers, and somehow this can substitute for low salaries.

Summary on workers’ conditions

According to Strategic Business Partners (SBP), socially important issues such as health, safety and empowerment were not given much attention by SMEs (SBP, 2004), and most SMEs simply avoided labour regulations (Rankin, 2006). Reinecke and White (2004) found that employment in the SME sector is characterised by longer working hours, lower social protection, less unionisation, and lower coverage of pension schemes and health insurance. These findings are all confirmed in this current research. None of the participants had given their helpers written contracts, only one paid her helper above minimum wage, none had registered their helpers with UIF, nor with any other social security, health or pension scheme.

However, the participants concern for their helpers was considerable. Most of them expressed both respect for and gratitude towards their helpers and stated that they would not be able to carry on their business without these people. Some also expressed a wish to be able to take better care of their helpers by giving them higher salaries, securing employment throughout the year, and registering them with UIF. But this wish was constrained by the low income of the enterprises, which were dependent on a cheap work force for financial survival.

None of the participants had sent their helpers for training. Some of them took pride in passing on knowledge and training their helpers. They viewed the passing on of knowledge as a kind of substitute for low salaries.

4.4.4 Source of information regarding regulations

The source of knowledge regarding regulations varied significantly within the group of participants. The participants with formal enterprises all indicated different sources of information about registration, taxes and labour laws. Some participants had heard about regulations through community meetings, or from other business owners in the area. Some had attended courses where they had been encouraged to comply with regulations. Others were surprised by the fact that all enterprises are to be registered. The Dressmaker had attended a meeting with other crafters in Cape Town at which representatives from SARS had provided information on regulations:

“We didn’t know that if you are working in a room you can register your business. And they told us that as long as it is a business, whether it is in a garage, or it’s in your house. As long as you make profit, you can register it.”

This participant was working in her one-roomed flat, and she had never thought that she would have to register such an enterprise.

Participants that belonged to an organisation or an association, or had attended sector specific courses, were more likely to have information regarding regulations and on the importance and benefits of compliance than those who had neither attended courses nor belonged to an association. Participants with informal enterprises who had received information recently about formalizing their enterprises were more willing to consider registration.

The overall impression was that the knowledge about why and how to comply with regulations was coincidental. Most participants had a vague idea about regulations and most

of the participants with informal enterprises had an idea of who to ask, if they wanted to take the next step. As the Shebeen owner expressed: *“I’m going to ask the one, maybe the other one who got a business, where to register.”* But few of the participants could give exact information about registration procedures, which agencies to register with, what taxes were applicable or workers basic rights. This was despite the fact that the research was done at a time when the South African government ran motivational registration campaigns in the media.

4.4.5 Summary of findings with regard to regulations

The majority of the participants belonged to the second economy and did not comply with any regulation. Even the participants with formal enterprises failed to comply with all regulations applicable to them. The most obvious reason for the non-compliance was a lack of knowledge. None of the participants had enough information about regulations, with what to comply and how to comply correctly, but there was a significant difference in the level of knowledge between the participants with formal enterprises and the participants with informal enterprises. Only one out of the 14 participants with informal businesses gave the fact that his business was under the threshold for paying tax as the reason why he did not bother with registration.

It was also found that participants who belonged to an association or had participated in courses tended to have more accurate information than those who did not. Participants that were approached directly by government agencies were more likely to access accurate information, and had more positive attitudes towards compliance with regulations. Some participants said they would consider formalising their enterprises if they were approached directly.

All participants knew that regulations existed, and most of them thought complying with regulations was the right thing to do. Most of them also thought complying with regulations should bring some benefits, though the participants with formal enterprises tended to see more benefits from complying with regulations than participants with informal enterprises. However, in most cases these attitudes did not translate into taking steps towards compliance. The most common reasons given by the participants for not formalising their enterprise was that their enterprise was not important enough for them to worry about regulations, and they thought that compliance applied to bigger enterprises only. The other common reason was

that it was expensive, this despite the fact that the participants were under the threshold of paying tax. Fear of harassment was almost non-existent, though it was mentioned as a problem that could appear if the business grew. The legacy of apartheid, where they were forced to operate illegally, was also given as reason for non-compliance, and a participant said he just continued to do his business the informal way in the post-1994 dispensation.

One participant suggested that training with regard to regulations should be made a condition for receiving financial support. This was in order to raise awareness of regulations and ensure workers' rights being fulfilled.

The general impression given by the participants was that they spent little time worrying about regulations and the consequences that non-compliance could have for their businesses. Of greater concern were the issues of competition, how to make enough income to sustain the business, themselves and their families, ensuring a proper location for the business and avoiding being victims of crime. These issues are discussed further in section 4.6.

4.5 Support systems

The South African government acknowledges that economic growth is impossible without facing the injustices of the past. Supporting SMEs is one way of narrowing the divide between the rich and the poor and ensuring that social and economic development is promoted in previously disadvantaged areas (Mlambo-Ngcuka, 2006). The South African government has, alongside non-governmental organisations and the corporate world, put in place a range of agencies supporting the SME sector. This section will take a closer look at the participants' awareness of such support systems. Themes that are subject to analysis are the participants' knowledge of the support systems, their experiences with support systems, whether or not they have benefited from any support system and how they would like the support systems to meet the needs of their community. The main focus has been on governmental support systems, but other support systems have also been explored.

4.5.1 Knowledge of and experience with seven chosen support systems

There is a range of different SME supporting agencies in the municipality of Cape Town. However, as mentioned in section 2.7, there is only one that is located in the township of Langa. The Library Business Corner is located in Langa Library and supplies the library with business related information and equipment such as computers and the Internet. The other

support systems mentioned are located either in the City of Cape Town, in the surrounding suburbs or in other townships. The participants were asked about seven chosen support systems. Their knowledge of and experience with these support systems is set out in this section. The seven programmes were chosen because they serve business owners in the Cape Town municipality, and they offer a range of different kinds of support, both specifically to SMEs, but some also to larger enterprises. This list does not include all the support systems available to SMEs in Langa but it represents a wide range of SME support systems available to the public, and gives a picture of the participants' knowledge of and experience with support systems in general.

Knowledge of support systems

The support systems taken into consideration in this study are Small Enterprise Development Agency (SEDA), Khula Enterprise Finance, Umsobomvu Youth Fund, the Red Door Project, Library Business Corner, The Business Place and Business Partners¹³. The responses of the participants have been divided into four categories: they have never heard about the support system; they have heard the name, but do not know what the support system offers; they have heard about the support system and have an adequate idea about what the support system offers; and lastly, they have received assistance from the support system. In the following table findings related to the knowledge of and experience with the seven chosen support systems is presented.

Support system	SEDA	Khula Enterprise Finance	Umsobomvu Youth Fund	Red Door Project	Library Business Corner	The Business Place	Business Partners
Never heard of the support system	14	12	4	11	19	16	11
Heard the name	1	3	5	4	1	2	6
Know the support system	4	5	10	4	0	2	0
Received assistance	1	0	1	1	0	0	3
Total	20	20	20	20	20	20	20

Table 2: Knowledge of and experience with support systems

¹³ A further description of these support systems is given in chapter 2, section 2.7: Support systems for SMEs.

The lack of knowledge about the support systems amongst the participants was overwhelming. With the exception of Umsobomvu Youth Fund, less than half of the participants had heard of the different support systems. The one support system present in Langa, Library Business Corner, was only known to one participant, and even this participant did not know that the service existed in Langa. Again, with the exception of Umsobomvu, less than a quarter of the participants had specific knowledge regarding what kinds of services were offered by the support systems. Most of the participants had heard about one or two support systems, but as many as three participants did not recognise any of the names, and another six participants said they recognized some of the names but had no knowledge of what kind of support was actually offered by the support system. Like the Chef said: *“I don’t know these places. I don’t know where to go”* and the Fruit seller said plainly: *“When I say no, I mean no, I don’t know any of those places.”*

Experience with support systems

Out of those participants who had knowledge of support systems, most had failed to benefit, and they expressed great dissatisfaction with the way the support systems were organised out. Accessibility was mentioned as a great obstacle by the Braaier:

“Even the support systems that are there are far away from them (the business owners), which takes their time and their money. Once you take time from them, they are losing their money, which they don’t have.”

Some of the participants were surprised to hear about all the support systems that claim to cover the Langa area, and they wonder why they never see them. The Spazashop owner expressed his frustration:

“Why don’t these people come? They don’t come to us, man. And most of the time you’ll find that, we are having meetings here, and we have asked them to come and attend our meetings, and to tell our people all these things. They don’t come.”

The Hairdresser (1) also said that she had never seen the support systems, and she did not have faith in the rumours she heard about them:

“But I just hear some rumours there. So you can’t believe everything people are saying. Unless the people who are doing this thing must come and explain it to me.”

The Braaier gave the attitudes of business owners as a reason for them not responding to initiatives that actually take place. He explained these attitudes and lack of interest through distrust caused by promises that had been made, but not implemented, by government:

“Ja there are some programmes that are being run, but it all depends on individuals as well. In terms of interest to go, you know. Sometimes these things are being publicised, but our people are being caught up into the township stereotypes, so they ignore this stuff sometimes. They don’t know what is real and what is not real sometimes, you know. Because many promises has been made, so people are kind of losing interest.”

The Butcher acknowledged that the support systems were there, but he was not impressed by the accessibility, and even less with how the recipients were chosen:

“Now there is Umsobomvu Trust for the youngsters out of school, to encourage them to do entrepreneurship and business. But what I’ve heard from the youngsters, is that very few who get helped there. (...) And then what you do get, the people who are running it is a relative. That person is a relative! Relatives and close friends benefit from Umsobomvu. I haven’t heard of any youngster here that was helped by Umsobomvu. So I’ve heard of support systems, but I can’t tell about anybody who was helped.”

In addition to inaccessibility and corruption, a lack of collateral and other requirements were frequently mentioned as obstacles. As the Spazashop owner said:

“And then the government is there to tell everyone that they are busy assisting their people. But then when you want that, they’ll ask you a lot of things. And you’ll think that your application will be successful, a small thing will catch you. And then you are going down.”

The Butcher was also concerned with the high requirements for getting support:

“Then if you come to Umsobomvu, the one cousin I know, who is very business minded, went to Umsobomvu. They wanted collateral. They wanted this. They wanted that. Resulting that then she gave up.”

Being formal was also a requirement frequently mentioned by the participants:

“The main reason that we are not benefiting, the business is not formal.” Braaier.

“To be honest, I don’t think that somebody can support me, when I am not registered. I don’t think so.” Shebeen owner .

Such requirements are common when micro enterprises apply for support in terms of finance. However, the main aim of some of the support systems under focus in this research was to give SMEs access to information and to assist these enterprises on their way to formality. Informal enterprises were therefore also welcome to ask for assistance. However, the belief that an enterprise had to be registered, amongst other requirements, made the participants not to put any faith in the support systems, and not to take further steps to gain information.

Another obstacle frequently mentioned was the lack of user-friendliness of the support systems. The Funeral parlour owner was particularly concerned about the use of language:

“So they don’t make things user friendly to the people. They don’t come straight to the point. So when you come to these people. You call somebody from SEDA; somebody from SETA, somebody from wherever, you’ll find that they’ll tell you... they come with big words.”

Other examples of lack of user friendliness, such as difficult forms were also mentioned:

“When you get there, inside the office, you find that it is difficult. Then some, you cannot even fill those forms.” Carpenter.

“In any place you go wanting the money, they got those forms, those difficult forms of theirs, asking questions that sometimes you can’t answer.” Café owner.

The complicated procedures added to the participants’ reluctance to even try.

Many of the participants linked a lack of support to a lack of growth, concluding that their enterprises were stagnant because they could not access support. The Spazashop owner had lost faith in business growth after three years in business:

“Whatever I’m doing, I’ll remain there. It is either I remain there or I’ll go down.

Researcher: You don't think you are going to grow?

No it won't.

Researcher: Why?

Because I don't get support.”

The fact that some of the participants blamed lack of support for their lack of growth gives support to Harper's (1984) theory. He concludes that even though support systems can only reach a few, the majority of SME owners can come to believe they are entitled such assistance and in turn come to blame the government for their lack of success.

In summary, the participants' knowledge of support systems was insufficient, and even those who recognised names of support systems did not know how to actually access support. This gives support to GEM's survey, What do small enterprises think of government support?, which concludes that the South African government, despite its efforts, was failing to reach most small enterprises and that SMEs were either unaware of or did not use the services offered by government (Goldstuck, 2004). Another key finding is that the participants showed mistrust in the information they received regarding support systems. The mistrust was in some cases based on actual experiences where participants had tried to follow a rumour but failed to gain support. In other cases the participants had observed others try and fail to gain support, or they had not seen any examples of people accessing support. Another reason given by the participants for not accessing support was the belief that they would not fulfil the requirements for accessing support. This belief combined with the general mistrust in support systems prevented some of the participants from even trying to access support.

Benefited from support systems

As the knowledge of support offered by the support systems was limited amongst the participants, the actual use of support systems was even more limited. As shown in the table above, the support system most frequently used was Business Partners, where as many as three participants out of the 20 had received financial assistance. One of the three had also received assistance from SEDA, Umsobomvu, as well as from the Red Door project.

The three expressed gratitude for the assistance they had received. The Butcher shared the following experience:

“I was once helped by Business Partners. I had overdraft. Just before I closed this place. And I was on the verge of closing it. I was banking with FNB (First National Bank), and then the business became scanty, and losing strength, ok? And then I went to Business Partners. My overdraft was... my limit was R10 000, and my overdraft was just above R9000. And I calculated the impact of the overdraft and I thought it was too heavy for the business. So I went to Business Partners, and I qualified. I had all they

required for a loan. So I took a R10 000 loan, and I spent everything. I paid up my overdraft and then I closed my banking account. And then I paid it for a little while here, paying Business Partners. Even before the time, I paid them. The interest was less than the overdraft. Then I got helped. That's the way Business Partners helped me."

In spite of the support he got, he could not save his business, but it helped him to close his business without debts. However, as mentioned earlier, the Butcher expressed very little confidence in the support systems put in place by the government.

The Carpenter was also helped by Business Partners:

"And that was easy to get money those years. Like I remember, I took a photo of what I'm doing, and then I went to them, and they gave me some money. And really it helped me those years."

But though he was assisted previously, he did not have faith that they could assist him again because of difficult requirements:

"I didn't go after those things now, because why? Some people told me it is so difficult to get it and I can see. If you haven't like a security, and you are small, and you don't work. You don't work now, but you want the money now to start your business. Or you haven't got an insurance to start a... It is so difficult to get the money. Like really those years, I didn't have to even produce the security I've got. I had to produce nothing. (...) But today you find the people, they can say well, you can do that, but if you go and ask for help to start... from mountain and right up again to Table mountain, and you find out now that you get sick and tired and then you say no, let me forget about that".

The mere thought of the requirements prevented this participant from looking for support.

Only one participant, the Funeral parlour owner, had recently made use of the mentioned support systems. She had received vouchers from SEDA, Umsobomvu and Red Door as well as a loan from the women's section of Business Partners. According to her reflections, it was only after four year in business that she was able to actually benefit from the support systems.

"It is only now that I'm benefiting from support systems. As I told you, I've gone to SEDA, I've gone to Umsobomvu. I think, in my case, this is the time I need support systems. The first years I was trying to establish myself in the business. And then in the fourth year I can see that there is business, and now I feel that ok, if I go to anybody to

support me, I'm not going to be that kind of a person, because at least now I know this is what I want. I will be in a position to say this is what I want. This is what I have, and this is where I made a mistake."

Even though she was happy with the assistance she finally got, she had to walk a long route to access assistance from Red Door, and she was not satisfied with the way she had been sent from place to place.

As mentioned, only three out of 20 participants had received assistance from the above-mentioned support systems. Of which one had been able to benefit from more than one support system, and that participant happened to be the one with the highest level of education. This participant claimed that she needed four years in business before she was able to make use of the support systems. This statement gives support to Harper's (1984) argument that support is most likely to benefit the strongest of the SMEs who can afford to go through the process of attaining it, while those who are most in need of assistance will be excluded. The other two participants that had received assistance in the past showed a lack of trust in the current support systems, and did not believe that any of these systems could support them.

4.5.2 Other support systems

When asked about support systems, the participants would touch on a range of other systems, both formal and informal, in addition to those mentioned above. These sources of support varied from associations, meetings, stokvels and group initiatives to courses put in place by the corporate world and finance from banks.

Community meetings

Community meetings were frequently mentioned as places where participants had accessed relevant information with regard to support. Both the Chicken seller and the Shoemaker had attended meetings where they had signed up for support. They did not know the name of the agency organising the meeting and they were both still waiting for a response. But the little information they had about regulations and support came from those meetings.

The Dressmaker had also participated in a meeting where Umsobomvu was present:

"They (Umsobomvu) visited, there was something of a workshop in a church for the community, and they invited the small business people. And they gave us information on all the things they are offering."



Most of the support systems, but especially SEDA, Umsobomvu and Red Door Project have outreach programmes where they go out in areas where they do not have offices to inform people about their services. Despite this, only a few of the participants had heard of the support systems through such meetings. However, community meetings are an efficient source of information and should therefore be used frequently by support systems to reach out to business owners in the townships.

Associations and forums

Cooperation between businesses within the township was also mentioned as a source of support. Three of the participants said they were members of the Langa Traders Association, which assisted in terms of arranging information meetings and attended to obstacles faced by the business owners. Lagunya, Langa, Gugulethu and Nyanga Business Association, was another forum mentioned as a place where business owners dealt with common issues.

The Crèche educator showed great excitement about the fact that the crèches in Langa had organised themselves, and met regularly:

"I say it is also a support system, although doesn't support financially, but to support among ourselves, we formed a forum since July last year. We are meeting every second week of the month. (...) That is how we are able, in the long run, to invite the social services to us, and ask them some questions. We always invite whoever. (...) It is successful. It is. I must say."

Through this cooperation they had hired an accountant to do the books for all the crèches. He also helped them to apply for assistance from for example the Department of Social Development. In addition to inviting people from relevant offices to speak to them about issues, it also enabled them to share experiences and draw on each other's knowledge. The Chicken seller also participated in cooperation with others selling chicken. Though this

seemed to be a more informal type of cooperation, they collectively agreed on prices, and they had also applied for licenses from the meat board together.

The Spazashop owner was very frustrated with the cooperation between Langa Traders Association and the support systems. As a member of the board, he said they had never been approached by any support system. He also said that the support systems refused to come and attend their meetings:

“You make an appointment, and you ask them that you are from a certain area. Can they come and give a presentation? They don't turn up.”

He was also concerned about the fact that people had lost hope and stated that was why it is even more important that the support systems make themselves visible in the townships. By going through existing structures the support systems could reach out to business owners:

“You know most of the people are disorientated. They don't know where to go now. They've lost hope. They must come. They must come to the people. Announce or try to get the relevant structures.”

The associations and forums provided support for their members, and it was clear that active members of associations had more information regarding both regulations and support systems than other participants in the current research. It is, however, remarkable to note that the support systems did not appear to actively use the existing structures in the township to reach the business owners.

Assistance to groups

Two female participants had been invited to be part of a group applying for support. The Café owner shared her disappointing experience:

“We needed to be five women. And then we applied for this money from the government, which is R300 000 that the group is going to get. (...) No those people who came and talked about that, it's not true. They are just misleading people. And my hopes were so high, you know? I flopped.”

The Laundry owner was encouraged to participate in a similar initiative where they needed to be five to apply for support. But she did not trust the information she received through fellow laundrette owners and therefore did not pin her hopes on the initiative.

None of the participants had benefited from group incentives put in place by government, though the Café owner had benefited from a micro credit scheme offered to groups of women by the First National Bank. The knowledge of these initiatives was based on word of mouth in the township.

Stokvel

The use of group saving schemes was mentioned by the Butcher as a common way of accessing finance for informal businesses:

“Sometimes these businessmen they come together and they form like stokvel or something like that. Means of saving and what not. And supporting one another. Like for instance, if I had a Stokvel then this month everybody comes to me. We have nice things to eat and what not, and if the stake is R250 then everybody ... we’ll take a book and write A: 250, B: 250, C: 250 and what not. And from the 50 250s you have a little bag which you can sort of support your business from. So that is a support system which is very common with us.”

He did not take part in any stokvel, and the reason for this was:

“No, no, no. Because I am well-sorted. I grew up in a business, as I said, we grew up in a business. You learn and you are taken into the stream. You know how to keep and sustain your money.”

No other participant indicated participation in stokvels.

Courses run by government

Another common source of relevant information and support was courses, seminars and workshops. Two participants had attended courses sponsored by a Sector Education and Training Authority (SETA). The Vegetable seller had attended a business course some years back, but he had not contacted any support system after he started selling vegetables.

The Dressmaker had been fortunate to hear about the Cape Craft Design Institute (CCDI). They assist crafters to build their businesses and offer skills training. Through them she attended SETA sponsored courses:

“They help us in design, how to run a business, like budgeting, financially, where can you get the sponsors, the loans. If you want to get a loan from the bank, they assist you with which steps to take. They are not offering any money, but they do help you on places where you can get money. (...) There is also a mentor there, at CCDI. Like

everything you do, there is a clinic. We call it the clinic. He assesses all the clothes and tells you to correct this and this and this and this. You pay 50 Rand every Wednesday. Until your product is professionally.”

Through the assistance of CCDI this participant was able to quit working as a teacher and focus on her enterprise full time. Even though she had still not registered her enterprise, and was still working from home, she had access to information on how to grow her business, how to access and manage the finances, how to market and how to comply with regulations.

The Braaier was participating in a course dealing with tourism and the Crèche educator was participating in a course run by the Department of Education:

“The Department of Education, they offered us some learnership. Ja, I’m doing level 5 in early childhood development at the moment. At a college in Cape Town. It’s an 18-months course and it is divided to three semesters.”

These four participants were satisfied with the knowledge and assistance they gained from these courses. Most other participants did not know that such training was available, or they thought that courses were too expensive for them to consider. Other participants did not see the need for further training.

Courses run by the corporate world

Three of the participants said that they had attended courses organised by the corporate world. The Shopkeeper used to attend workshops hosted by Standard Bank and Tastic Rice, and the Chef once attended a seminar hosted by Snowflake:

“At Snowflakes, the big flour factory. We used to go there, but it was a matter just of three weeks, and in the end they are going to write to us to come back, but they didn’t.”

The Spazashop owner had also attended seminars through his previous employers, where he had learned business skills:

“I worked for a couple of companies. At these companies they used to workshop us. A lot. (...) Companies used to organise some institution, you see. There were institutions recognised by the industry. And then we used to go and attend those courses, like selling skills, like marketing, management skills courses.”

However these courses had the disadvantage that they were limited in time, and there was usually no follow up. The Shopkeeper expressed his dissatisfaction like this:

“Like you would go there for three days, eh? Take notes, do some exercises. That is practical, I mean theoretical. You do theory. But practically there was no follow up. Nobody could come from that firm to see whether this was being implemented.”

He also said it had been three or four years since the last time he had been invited to a seminar. He used to get information about such seminars through corporate representatives that delivered stock to his shop or through word of mouth.

Courses ran by the corporate world seemed to give valuable information and skills to the participants. However, these courses were limited in time and had little post-training or follow up. None of the participants had participated in such courses recently, and the courses were therefore not perceived as relevant sources of support and information.

Banks

Commercial banks were frequently mentioned by the participants, both with regard to accessing finance, but mostly in connection with obstacles. Many of the participants were not even able to open accounts, because of requirements such as a payslip or proof of residency. One participant, the Shopkeeper was frequently trying to access finance from banks, but did not fulfil the requirements, despite being in business for 27 years, and keeping financial records. The Spazashop owner was also frustrated over the high level of requirements:

“Firstly if you go to the bank, there is a lot of things that they will require from you, and then they'll just tell you: You do not qualify. We cannot fund you.”

Both the Butcher and the Funeral parlour owner had managed to open credit accounts. The Funeral parlour owner shared her experience with how the banking almost destroyed her business:

“And then again, when it comes to the banking now. I got a bank. I also have a savings account, and then they told me that your turnover is this much and offered me a credit account. But nobody told me about overdraft. Nobody told me that if I don't, if I don't pay by the end... Not a thing. The bank system, if they can have somebody. Maybe from the word go, when you open a business account with them, have some sessions. Whether they send you a cassette or what. At least then you could listen and hear some things, because I blunted a lot with my banking system.”

The Café owner had participated in a micro loan scheme with First National Bank, where a group of five women went together, opened an account and applied for a loan:

“One of the other women approached me, and said they have also found FNB, First National Bank. They are also, there is this upliftment they are doing for women. So in May, June, July, August. In May we were borrowed R900 each person and we paid R290 every month. (...) They’ve got people who are going talking to small groups, small businesses. So then, when we pay back, their interest is very little. It is about 1,5 interest.”

It is interesting to note that the participant was told the interest rate was 1,5%, whilst, looking at the actual repayment, the interest was closer to 22%. After repaying the loan the group of women qualified for a bigger loan. The repayments of the second loan indicated an interest rate of 25%. She expressed satisfaction with the assistance she had received though: *“It did help. That’s the only support I got was from the First National Bank.”*

With the exception of the micro loan received by the women’s group, none of the participants had received finance through the banks. Two participants had managed to open credit accounts. Other than that the banks were not mentioned as a mean of getting support or finance. They were on the other hand frequently mentioned as inaccessible because of difficult requirements, and in connection with participants’ frustration over a lack of collateral. The Funeral parlour owner was aware that she had not been given necessary information when she opened the credit account, and that had resulted in additional costs to her business. She called on the banking sector to give training at same time as they give credit or finance in order to avoid debt traps. The Café owner on the other hand, did not seem to be aware that the real costs of the loan were much higher than the bank had informed her. A lack of business related education, and difficult financial situations made these three participants vulnerable to creditors.

4.5.3 Support wanted by participants

Most of the participants in this study said that they needed support. When asked about what kind of support, support in terms of finance was the most frequent response:

“All I need, personally, is finance. That is all. If I can get someone who can boost me up, I think nothing can go wrong here.” Shopkeeper.

"The thing is, if I can get some subsidies. Because I can't go above the fee I have now." Crèche educator.

"But we are thinking if we can get money. I don't know from where." Hairdresser (2).

When asked what they would do with financial support, the most common answer was to buy more stock, followed by equipment:

"If I can get R500. I can buy things that are short. Like if I am short of a fruit, let's say apples, I can take it there and buy stuff." Fruit seller.

"I needed to sell some products more." Hairdresser (1).

"Oh, if they can help me with, like I said, more products, and also machines. Things like that." Barber.

"With what can I start? But with my equipment first. Each and everything comes out of that." Chef.

As many of the participants operated from the street, in containers or from home, the need for more space and a proper location were also frequently mentioned:

"What I need now is the space. Because I don't have the space." Shebeen owner.

"I need more space. If I can get more space, I was trying to get another business." Chicken seller.

"But if I can get a container. If I can borrow money for a container to start my business." Vegetable seller.

"The priority is accommodation and the equipment." Dressmaker



Lack of a proper location also includes a lack of other necessities such as electricity, water, and toilets:

"If I could get electricity, water and everything. When I grow maybe I got something, maybe push a lot of money. That's why I'm going to go there to the Civic centre and ask there. Water, electricity and toilet." Vegetable seller.

Access to training was also mentioned occasionally:

"At least some lessons. Because it's like it's expensive when I go by myself. Sometimes I can't afford that much." Hairdresser (1).

"Ja, the support systems can help us with information, like in terms of the marketing part of it" Braaier.

Most participants did not see the importance of obtaining business skills and said they would be fine if they could get finances. Even the participant who was illiterate did not see the use of training as shown in the following conversation:

"No, I don't know how to advertise or how to write."

Researcher: *And if ever there was any way you could get those skills, would you be interested?*

No.

Researcher: *No, meaning you don't know where, or that you are not interested?*

I am not interested in writing or in advertising.¹⁴"

The Funeral parlour owner, on the other hand, saw getting assistance of a financial nature as a potential obstacle:

"But I did get money, some R15000. (...) Being given money by its own was a huge handicap. I was just fumbling. And looking back I made a lot of losses, but I know that, at least now I know. But if I was well equipped during that time I would have done far by now. (...) It doesn't have to be money first. It is supposed to be skills. The ideas, the skill and then the money. How can you have money when you don't know what to do with your money?"

¹⁴ Profession of the participant omitted to ensure confidentiality.

The Funeral parlour owner stressed the importance of skills before financial support is given. Her experience with regard to finance gives some support to Harper (1984) who questions the notion that shortage of capital is SMEs' major problem because many SME owners have substantial resources uneconomically employed, and when they obtain finance they were likely to accumulate a larger stock with no effect on their profit. Both the Chicken seller and the Fruit seller said they would buy larger stock if they had more money. Despite the fact that they had had leftovers by the end of the day, and had to throw away food because it got spoiled. The fact that most of the participants in this research requested support in terms of finance is supported by GEM's findings regarding township business where they found that the most widespread constraint was said to be a lack of finance (Foxcroft et al, 2002). However, as the Funeral parlour owner pointed out, with the right business skills the accessed finance could be employed much more effectively.

Resource Access has done a study in Joe Slovo, the informal side of Langa, and they found that the major support needed by businesses included access to basic services such as electricity and sanitation, as well as adequate shelters and storage. Second was the need for business skills training, access to credit and loans, and security support services (Resource Access, 2004). The tendency of informal SMEs to not see the need for training and acquiring of business skills, because other needs are more prominent, was reflected in the current study.

4.5.4 Participants' suggestions on how to improve support systems

The participants did not lack ideas on how the support systems could benefit more people. In this section some of the ideas on how support systems could improve are presented and discussed.

Bring the support systems to the townships

Some of the support systems have opened branches in other townships, but with the exception of the Library Business Corner, there are none holding offices in Langa. Many participants raised the issue of the availability of support systems in the township. One way of making support systems accessible is to bring them closer to the people. As the Funeral parlour owner suggested:

"Some people are working for SAMSA. Then they had to open a branch of SAMSA in Site C, because the women from Site C cannot go to town. They don't know where is town. But the problem is with them. So I think they must bring things to the township."

The Spazashop owner was clearly frustrated when he talked about all the different support systems that existed, but that do not avail themselves to the people:

“You know most of the people are disorientated. They don't know where to go now, they've lost hope. They must come. They must come to the people. Announce or try to get the relevant structures. And then organise a date and do their presentation. And try to help people. I don't know if I'm talking bad about them, but they don't come.”

One way of bringing the support systems to the township, as the Café owner suggested, was to visit each ward:

“And then call a meeting of that ward. But firstly visit this people. Visit them. And see and ask these kinds of questions that you have asked me. And then after that call the people and inform them about all this. Like me, I would like to have a little knowledge about how to run a business, nê. If there is a place that I could go to. A place that will accept a deaf person like me, I would go. I'm serious, I will go.”

The Café owner was touching a basic principle necessary for making a support system work effectively. By interacting with the target group, a support system would be able to address the most pressing issues. And by making themselves known in a community before holding courses and information meetings, they would increase the interest of the target group and have more credibility amongst the participants. She also raised another very important issue: how the structures were not accommodating disabled people, like her. While the question of how to integrate disabled business owners is an important issue, it will not be further discussed in this study.

Langa is considered to be a small township, still it is estimated to house between 500 and 700 enterprises, where only one in ten is formal (Langa Traders Association, 2007). With such a big target group in a small geographical area it would be beneficial for the support systems to open a local branch within the township.

Ensure that existing support is properly publicised

Proper information about events was also raised as a cornerstone for making support systems more visible. People were often not aware of what was happening. A seminar might have been held without business owners from the neighbourhood participating. The local newspapers, Vukani and City Vision, were mentioned as important sources of information, and the Funeral parlour lady emphasised:

“If just, like you mentioned, Langa library got a business corner. If we can bring that out to the people. (...) The local newspaper here in Langa. It must be advertised in Vukani. People must stop going to far places, when there is help around here.”

The fact that local newspapers were frequently mentioned shows the importance of this source of information, and support systems could use this source more effectively. Other studies conducted in this field have not emphasised the use of local media as an important tool for information, even though they all touch on a lack of information as one of the most common reasons for under-utilisation of support systems.

Use an understandable language

One obstacle that was frequently mentioned was the jargon used by support systems. When business owners contacted support systems for assistance, the language barrier would hamper them in using the services. The Funeral parlour owner, who had firsthand experience with many support systems, stressed the issue of language:

“They come with big words. I’m learned so I don’t have a problem, but there are ten millions who’d say that this jargon is out of question for them. They don’t know what is it. And if I’m learned I will ask: -What does this mean? But if I’m not, I’ll be afraid to ask what does this mean, because I’m not learned”.

As most SME owners have equal to or less than matric, the point mentioned by this participant is very important. Though most support systems aim to give professional business advice, this would be useless if the majority of their users do not understand the language and terminology used. The Funeral parlour owner went on to suggest the use of mother tongue, rather than English: *“I know that it is not easy to do it in Xhosa, but if they are Xhosa they can even try.”* Her argument for using mother tongue was that many people had good business ideas, but were unable to access the tools to express and act on the ideas. She said the support systems had to be sensitive to a lack of education, and gradually give the users the right tools so that they can effectively benefit from the support systems:

“There is a lot of people, they have the brains. They have ideas. But they don’t have the education. That is going to be coming from whatever. Once they are somewhere, once they get to an office in town, people start speaking and they don’t understand. If these people can be trained. They must know when offering these kind of services, people got to understand. Then you can gradually introduce those concepts, those supporting systems and so on.”

A common critique of support systems is that they do not reach those who need them the most. To use an understandable language is a very basic requirement for interacting with a target group.

Do not base support on the Internet

With regard to how to make support systems user friendly, the Funeral parlour owner said that anything that needed computers and access to the Internet was out of the question:

“They told me I must go to the computer and download. What is download? I mean I don’t have a computer and I don’t want to know about computers because I’m busy with what I’m busy with. So that is out of question for me.”

None of the participants were using computers or the Internet in their businesses on a daily basis. The Funeral parlour owner was the participant with the highest level of education and the largest enterprise. The fact that even she said that Internet based support was out of the question gives a strong indication that the second economy is not ready to benefit from Internet based support. It also gives a strong indication that basic computer skills need to be developed, and should therefore be emphasised in all levels of support.

Make support affordable and accessible

As most of the participants did not have accurate knowledge of or experience with the services offered by the support systems, they also offered suggestions that were already implemented, like this example from the Butcher:

“The first problem to anybody who is starting a business, because people who draw business plans they are charging. They are CHARGING! So those are the areas where the government must come into. They must offer the people an office where a person can sit down with you, talking, and sort of draw up a business plan for you. Or tell you, ok I’ll draw up a business plan, but firstly within a year you pay, or something like that. Assist the people you know. And that is what’s not there.”

Interestingly, assistance to draw up a business plan is offered by SEDA, the Red Door Project, Umsobomvu, as well as by the Business Place. Only two of the participants seemed to be aware of this. The Butcher was unaware despite being in business his whole adult life, being registered and being a member of two different traders associations.

Some participants stressed the importance of making support affordable. However the Shopkeeper, who had participated in different types of training, had the following advice:

“In fact the last one was the first time for us to pay. To pay the fee about R100. It was very, very, very more than reasonable for the information that they give us, you know. But once again, on account that of not giving out some money you’ll do what you like. But if you have invested your money you’ll say: -I can’t just lose my money, let my money go like that. I must go and attend. That was the trick you see.”

His argument was that people would be more serious about attending courses that they had invested in. By making people pay a fee, even though it is small, the support systems offering training could increase the chances that the users of their course would be more committed.

The voucher system, where support systems like SEDA, Umsobomvu and the Red Door Project, give their clients vouchers to attend courses held by service providers, incorporates this thought. When given a voucher, the business owner has to pay a small amount depending on the total price of the service.

Training through mass media

Many participants mentioned TV and radio as media through which they had heard about different support systems. This shows that mass media plays a major role in passing on information to SME owners. When asked about support systems, some participants suggested the need for more business information and training through the media. The Funeral parlour owner had the following suggestions:

“The radio, they do train people. I mean as business people you don’t have time to read anything. You can only listen to whatever that’s on radio. Maybe attend a little workshop and hear what is going on.”

“On Sunday morning there is something on e-TV. Talking about business and all those things. I think if they could have a tax section after that that would be fine. “

The effectiveness of mass media, however, is limited. This is shown by the fact that so many participants had not heard about the support systems despite the fact that some of them had been heavily promoted through mass media. But considering the fact that most business owners have very limited time to attend courses, the possibility of doing training through mass media should be explored further.

Summary on how to improve support systems

Most of the participants did not have experience with support systems. Therefore most of the suggestions on how to improve support systems were related to making them more accessible.

These are some of the suggestions:

- Open branches in the township
- Cooperate with local structures
- Run courses regularly in the township
- Use the local newspapers to promote support systems
- Use other mass media effectively

The participants who had experience with support systems, however, had the following suggestions on how the assistance offered could be improved:

- Use understandable language and terminology
- Use mother tongue where possible
- Do not base assistance on the Internet and computers
- Make the participants pay
- Make assistance affordable

4.5.5 Summary on findings with regard to support systems

This study shows that existing support systems did not satisfactorily meet the needs of their target group within Langa. Only the participant with the highest level of education had managed to access support from more than one out of the seven chosen support systems. Nine out of 20 participants could not specify what was offered by the different support systems, and as many as three had not heard of any of them. The current study found that the support systems only reached the participants with high levels of education and advanced businesses. On the other hand they failed to reach those who needed them the most.

The most common reason for the under-utilisation of support systems was a lack of knowledge. The participants did not have enough information about what kinds of support were offered or how to access it. Many participants blamed this on the fact that support systems kept offices far away and did not come to the township. Another key finding is that the participants showed mistrust in the information they received regarding support systems. The mistrust was based on actual experiences where promises had been made to participants

but had not been kept, and on observing others who tried and failed to gain support. Obstacles such as corruption within the support system and difficult forms and language were mentioned as reasons why the participants did not benefit from them. One participant claimed that she was only able to make use of the support systems after four years in business. This indicates that the support systems are too complicated for the ordinary informal business owner to access. Difficult requirements such as being formal and needing to have collateral, experience and insurance made it almost impossible for the business owners to access financial support. Despite the fact that some of the support systems did not have such stringent requirements, the mere thought of these requirements kept the participants from even trying to access support.

As the support most needed was said to be financial, in terms of money, stock, equipment or a proper location, most participants did not see the use of contacting support systems that gave other types of support. This finding tallied with other studies, which also found that SME owners do not have enough knowledge of support systems, and do not see the benefits of using them (Reinecke and White, 2004 and Goldstuck, 2004).

The participants in this research touched on a range of other support systems, both formal and informal. Some had found ways of supporting each other through associations, community meetings, and stokvels. Some also had experiences with banks and the corporate world. It was found that associations and community meetings to a great degree contributed to the participants' levels of knowledge. Those participants who were active in associations and those who had participated in courses and meetings had more information and a more positive attitude towards both support systems and regulations.

The participants had many suggestions on how the support systems could meet their needs. Most of the suggestions were general such as: increased availability, more information, and fewer requirements. Other suggestions were more specific such as: open branches within the township, cooperate with local structures, promote themselves in local newspapers, use mother tongue, and do not base support on the Internet and computers.

4.6 Additional findings

In-depth interviews also generated findings that were not directly related to the main research questions and objectives. However, these findings add valuable information to the research as they identify factors that influence the participants of this research and the environment they operate in. This section covers findings with regard to necessity versus opportunity enterprises, and levels of education. As townships differ from other parts of the city, the development of businesses is also significantly different. Three of the most common obstacles mentioned by the business owners in Langa will be discussed.

4.6.1 Necessity or opportunity

The motivation for starting a business is an important indicator for the sustainability of the enterprise. GEM found it useful to differentiate between necessity enterprises, started because the owner has no other way of earning a living, and an opportunity enterprise, started out of a wish as a response to an opportunity. Necessity enterprises seldom provide sufficient income for the owner and tend not to grow out of their micro status (Maas and Herrington, 2006)¹⁵. Although twelve of the twenty participants indicated that their enterprise started out of a wish, as many as six of them were either unemployed or had income insufficient to meet their needs prior to starting their business. Out of those eight who started their enterprise out of a need, four expressed satisfaction with the work they were doing, and had chosen their type of business out of interest and passion. The remaining four participants with necessity enterprises had grown into enjoying their businesses, and wanted to see them grow. When asked whether they would leave the business and be employed, none of them said that they would happily leave the business. An illiterate participant with a necessity enterprise said:

“I’ll never leave my business, whether I can get a job or not. I will continue with the business. I enjoy doing this, because if I was working I would not get the R120 a day. That’s why I’m so happy with it.”

This finding that none of the participants wanted to leave their business, might have been influenced by the participants wish of presenting themselves as successful in an interview situation. However, SBP found in their research that 57% of the informal participants said they would rather run their own business than take a job (SBP, 2004).

¹⁵ More information on necessity and opportunity enterprises can be found in chapter 2, section 2.4.

The findings of the current study show that participants with opportunity enterprises often showed disappointment with the low turnover and lack of growth while participants with necessity enterprises were enjoying the income and the freedom of working for themselves. It is hard to determine whether or not an enterprise is actually started out of a wish or a need, and even when it is started out of a need the participant still had a choice regarding type of business. Furthermore, it is clear that the division of necessity and opportunity enterprises does not determine whether or not a person is satisfied with the opportunities generated by the enterprise. However, the study gives some support to Wood and Shay's (2005) notion that a necessity enterprise is less likely to grow; to give income above poverty level and become formal.

4.6.2 Levels of education

Levels of education often influence choices regarding business and this makes the participants' level of education an interesting factor. Most entrepreneurs, 75,4%, in South Africa, have a qualification equal to or lower than Grade 12 (Maas and Herrington, 2006). It is interesting to note that the three participants with higher levels of education were women and they were all educated as teachers. They had started different enterprises, funeral parlour, educare, and dressmaking, but they had in common that they all had started their enterprises out of a wish and they had all tried to formalise their enterprises, although only two had succeeded. The two participants with no education were both running informal enterprises operating on the street. Two of the participants with less than matric had registered their enterprises, as well as two of the participants who had matriculated. Maas and Herrington (2006) found that the chances for starting and sustaining an opportunity enterprise rise in relation to the more formal education a person has, whereas the reverse is true for necessity enterprises where they found that the less education a person has, the less are the chances for achieving income through being employed, and therefore the greater the probability of starting a necessity enterprise. This research found a tendency that the level of education influences the choice of enterprise and the willingness to register and comply with regulations. This study also found that the participants with tertiary degrees had a more advanced business approach than most of the participants, while those with no education at all had the least advanced businesses. But surprisingly this study did not find a significant difference between those who had matriculated and those who had not. One reason for this might have been that some of the participants who had not matriculated had managed to replace the missing formal education with many years of business experience.

4.6.3 Business venues and zoning of property

To have a proper business venue is significant in order to run a viable business. When Langa was built in 1927, shops were also put in place. The municipality has rented out these shops to business owners up until today. In addition to this, specific areas were zoned for business purposes. After the elections in 1994, the democratic government agreed that the shops should be sold to the people of the township, but the actual process has taken a long time. At the time of this study two of the participants were in the process of claiming the shops they were renting. The Butcher saw this as an opportunity:

“Right now at the very moment it doesn’t belong to me. It is only now that the government has decided that these buildings are so old, so anyone who wants to continue can buy the land. It is only then when I have the title deeds that I can use that as collateral to go to any finance institutions to improve the place and to do whatever business. Because that disadvantage, is the fact that we can’t go to banks. We can’t get finances. We have no title deeds as collateral. So it is only now we will be having that opportunity.”

Since he did not own the shop, he could not use the property as collateral to access finance, which is essential for running and expanding an enterprise. According to the Butcher the apartheid government aimed to ensure that the African population remained poor by refusing them ownership:

“If you own the business and you have the title deeds, you access to finances then you got scope to... Not like before. The Blacks, they wouldn’t be able to get overdrafts. They wouldn’t have finances. You were restricted to be small and stay small.”

The shop buildings in Langa had been neglected for many years. As mentioned above these buildings were erected in 1927 and were therefore in very bad conditions. The Shopkeeper had wanted to upgrade his shop for a long time but was faced with the following constraint:

“I wanted to uplift this store, this business. As a matter of fact I made an application, with the help of an architect, I made an application to have a double storey here, and those things. To have a supermarket and a restaurant. (...) But unfortunately then nobody was able to assist us in that regard. So that was that. That fell off. Because they cannot loan me on something that does not belong to me. That I mean is obvious. You cannot invest money in a property that does not belong to the person you are

trying to boost. Because anything can happen and then if anything goes wrong that money, you lose that money."



In the meeting with Langa Traders Association on 1st November 2007, the association raised the issue of municipal shops, because these buildings allocated for trade were falling apart. They complained that the shops still “looked like apartheid”, and asked how one could expect business to grow in such an environment. They had requested the City of Cape Town to upgrade the shops before they were handed over to the business owners, but had been unsuccessful. Some of the business owners had taken the matter into their own hands and upgraded the shops they were renting, and modernised and built second floors, but the majority of the business owners could not access the necessary finance, and would not risk upgrading a building that did not belong to them. In addition to a lack of proper shop buildings, few areas were zoned for trade and industry in Langa. The association had applied for land but the City Council said they had no land to give them. The space and buildings available to do business were very limited and that was given as one of the reasons for the lack of growth in township business by the association (Langa Traders Association, 2007).

The Spazashop owner shared his frustration over the lack of land. He was renting a municipal shop, but had no right to claim ownership, because he was renting from somebody who was himself claiming. He had applied many times for empty sites in Langa, but all his requests had been turned down by the City of Cape Town.

“There is a lot of businesses that can be done, and a lot of businesses that can be established here, but now how can these businesses, for instance sites are not available. (...) They don't want to come and invest. But now usually there is lot of good people there (investors), who say go and look for a site and then come in and develop this site. But when you go to these people, the council, no there is no site available.”

Without access to proper buildings, and without access to sites to build on, and without title deeds to use as collateral, it is very hard for business to grow. These were some of the main reasons offered for why business development in the township of Langa was hampered. In his book, *The mystery of capital*, De Soto (2000) points out the importance of assets as a main ingredient in capitalism. Without documented assets, business owners struggle to access funds. Without an efficient way of transferring and legalising property in the townships, the business owners will not be able to participate in the economy. In ASGISA, the need for realising the value of assets, such as land, houses, livestock, skills and indigenous knowledge is recognized (Mlambo-Ngcuka, 2006). However, the realisation process is taking a long time and the township business owners are faced with many of the same constraints as during apartheid.

4.6.4 Competition

The legacy of apartheid left a pattern in the way township business is done. By only granting licenses to general traders and barbers, an economic environment of narrow choice and high competition was created. This pattern is still visible in Langa. The Spazashop owner described it like this:

“You see, firstly, in the area that we are, we have to accept competition, because we have been just put together, and then you'll have to accept the challenges. Because they will come in, each and everyone. For instance if you look, most of the businesses are the same. In one street there are three shebeens, four shebeens, there are ten spazas in the street, selling the same product.”

The acceptance of competition was common amongst the participants. The Laundry owner was one of the first to open a laundrette in the township, and the idea caught on:

“Since me, I started this, I always hear now, there's another one, there's another one, there's another one, who says, sisR., we saw it from you.”

Most enterprises in the townships demand low skills. So when an entrepreneur comes up with a concept that becomes popular, others can easily copy the business idea. Soon there is a high level of competition. However, the Laundry owner was not worried about this:

"I don't feel bad about it. It is nice. Because me, I can't finish the whole location. That's the only thing. I can't wash all these bachelors, women and children. Never. I'm not jealous about that. I like it because it is not nice people always do one thing. If I sell sweets here, you sell sweets here. I sell meat, you sell meat."

She saw laundrettes as a valuable contribution to existing businesses. According to her there were too many people selling sweets, meat and alcohol.

The Chicken seller, the Crèche educator and the Braaiier were all constrained by fixed prices due to high competition. The Chicken seller said that it was good that the chicken sellers had decided on the selling price of R30 per chicken. But when taking into consideration the stock price at R25 per chicken, transport and the salary for her helpers who slaughtered, cleaned and boiled the chicken, the business did not carry opportunities for growth, and was barely surviving. But for the Chicken seller there was security in knowing that the price was set, and that nobody would compete by selling for less.



The Crèche educator said that the price for having a child in a crèche cost R100 per month. From the R2500 she got, she still had to buy food for the children and pay her three workers:

"I can't go above the fee I have now. Then they'll take their children out. Definitely they will take them out."

The Braaiier was also constrained by set prices. Because of the low prices of barbequed meat, he was not able to increase the price despite the fact that he strived to ensure high quality

meat and special sauces. People were simply not interested in paying more for meat. This again made it impossible for him to improve his business beyond working from a container.

The Langa Traders Association laid the blame for the lack of variety in township business on the apartheid government, who refused to grant them permission to manufacture and only granted licences to a few businesses. But they also criticized the mentality of the people staying in the townships. When people see a good idea, they like to copy, until the competition is so high that the businesses struggle to be sustainable (Langa Traders Association, 2007).

4.6.5 Crime and poverty

The participants frequently mentioned crime as a constraint. Some participants had experienced people breaking into their shops; others knew business owners who had been killed. Having a successful business was considered a risk, and two participants offered this as a reason why they were reluctant to expand their enterprises. The Shopkeeper had experienced so many break-ins that he had installed burglar bars in the roof. When asked about insurance he just laughed:

“Insurance? For the shop? No, no. It is only now we are able to get this, what do you call, this insurance. They used to say this is a high-risk area. They can’t risk it.”

The Butcher pointed out how poverty has played a role in increasing crime:

“And if you go around you’ll find that most of these businesses has closed down. And that is because of unemployment. Because of poverty. Because you can’t do business. You can’t have money when people are hungry. The next thing you get robbed every day. You get burgled every day. You lose your life. So many people has lost their lives through being held up and shot eventually during the hold-up.”

He had reduced his business because of low income and high taxes, but also because of crime. And he blamed privatisation for the negative development.

“You see, with privatisation for example, people lost their jobs eventually and unemployment grew to an alarming rate. Immediately changing the scenario. So poverty rise. Ok, things are getting better now, but still a lot of people are unemployed, hence I lean to that if jobs are created, it will be viable to start again.”

Many of the participants wanted the government to reduce crime levels. Doing business in an unsafe environment is constraining. This, combined with the fact that none of the participants had insurance, makes township business owners more vulnerable to crime than their counterparts in the suburbs. In a survey done among township businesses in 2002, GEM found that crime was a widespread problem for township business and one third of the enterprises mentioned theft as a problem. The high level of crime acts as an incentive for township businesses to relocate out of the township as soon as the opportunity arises, and it discourages entrepreneurs from outside the townships from opening businesses within (Foxcroft et al, 2002). Even the resourced people from the township are unwilling to invest in the township, and rather invest in the suburbs (Langa Traders Association, 2007).

Businesses in townships do not develop at the same rate as economic development in South Africa. Crime can partly be blamed for this. The lack of willingness to invest in the townships results in underdevelopment in these areas, and the lack of security hinders the existing enterprises from thriving and developing. Crime is closely linked to poverty, as the Butcher said: *“You can’t have money when people are hungry”*.

4.7 Summary on findings

The participants of this research were faced with a range of constraints. They were faced with a lack of proper business buildings, a lack of sites on which to build businesses and a lack of skills to do business. Apartheid’s discriminating licensing system and a lack of higher education had resulted in a many enterprises in the same field and an extremely high level competition between them. This again resulted in many small enterprises, barely surviving and without opportunities to grow. The lack of ownership and collateral prevented the participants from accessing finance and investments. In addition to this, the township was stricken with poverty and unemployment, which in return led to high levels of crime. The crime rate constrained the running of enterprises for many participants and for others it functioned as a disincentive to grow.

The South African government sees SMEs as a tool for social and economic development. But even though SMEs are helping a large number of very poor people to become a little less poor, they fail in most cases to provide employment of sufficient quality to be a path out of poverty (Reinecke and White, 2004). Also in the current study it was found that the majority of the participants’ enterprises did not represent a path out of poverty. Salaries below poverty

levels, long working hours and no social security characterised the employment of the participants, both for the owner and for their helpers.

The South African government is constantly renewing the regulatory environment in order to ease the regulatory burden on SMEs. At the same time, they have put in place support systems to support growth within the SME sector. The findings from this research indicate that there are shortfalls of these efforts.

4.7.1 Regulations

Governmental regulations impact significantly on the environment in which SMEs operate. Most of the participants in the current study, both those with formal as well as those with informal businesses, were not aware of tangible benefits of complying with regulations, and spent little time worrying about regulations and the consequences non-compliance could have for their businesses. Of greater concern were the issues of competition, how to make enough income to keep the business, themselves and their families running, ensuring a proper location for the business, and avoiding being victims of crime.

The participants had different levels of information regarding the regulations applicable to their businesses. Those participants who belonged to an association or had participated in courses tended to have more accurate information than those who did not. It was also found that participants that were approached directly by government agencies were more likely to access accurate information, and had more positive attitudes towards compliance with regulations. The responses from the participants with informal enterprises showed that they made their decisions based on faulty information. Also the participants with formal enterprises failed to comply correctly with regulations due to a lack of information on how and with what to comply.

Registration is the first step to formalising an enterprise. Even though only six out of 20 participants in the current study had registered their business, most of them saw potential benefits from registering, such as access to support, being recognized and attracting tenders. Some of the participants also mentioned being loyal citizens and gaining respect from others as reasons for operating legally. Participants with registered enterprises tended to see more benefits from complying with regulations than those with informal enterprises. Participants with informal enterprises tended to have inadequate information regarding registration and the

costs thereof and most of them did not spend much time worrying about making their enterprise formal. The most common reasons given by the participants for not formalising their enterprise was that their enterprises were not important enough for them to worry about regulations, and that they thought the need to comply applied to bigger enterprises only. Fear of harassment was almost non-existent, though it was mentioned as a problem that could appear if the business grew. The legacy of the apartheid era, during which they were forced to operate illegally, was also offered as reason for non-compliance, and this participant said he just continued to do his business the informal way.

Tax was the regulation given most attention by the participants. Most of the participants with informal enterprises did not have information about which taxes were applicable to them, or the thresholds of these. Only one participant offered the fact that his enterprise was under the threshold for paying tax as the reason for why he had not registered for tax purposes. It was also found that only two of the 20 participants actually paid taxes. The other participants did not seem to worry much about taxes, and most of them openly admitted that they did not pay tax. The majority of this sample, and also township enterprises in general (Chamberlain and Smith, 2006), do not pay tax to begin with, so easier tax requirements will not necessarily lead to the growth of these enterprises. However, the participants in this research had more information about taxes than any other regulation, and taxes were emphasised as the most important regulation to comply with.

Being employed by an SME in a township does not in most cases present a way out of poverty. Nine out of twenty participants had employees or helpers. But none of them had given their helpers written contracts and only one of the nine paid her helpers more than the legislated minimum wage, while the others paid less. None had registered their helpers with UIF. However, the participants concern for their helpers was considerable, and many wished they were able to give their helpers better working conditions. Some of them expressed both respect for and gratitude towards their helpers and stated that they would not be able to carry on their business without these people. Some also took pride in passing on skills to their helpers, and by doing so believed that this compensated for low wages.

4.7.2 Support systems

This study shows clearly shows that existing support systems do not satisfactorily meet the needs of their target group within the townships. Only the participant with the highest level of

education had managed to access support from more than one out of the seven chosen support systems. Nine out of the 20 participants could not specify what was offered by the different support systems, and as many as three had not heard of any of them. The lack of information was the most common reason for the under-utilisation of support systems. The participants did not have enough information about what kinds of support were offered or how to get it, and they showed great mistrust in the information they accessed.

A range of obstacles was mentioned regarding accessing support, such as corruption within the support system and difficult forms and language. One participant claimed that she was only able to make use of the support systems after four years in business. This indicates that the support systems are too complicated for the ordinary informal business owner to access. Also while trying to access support, the difficult requirements like being registered, having collateral, experience and insurance made it almost impossible for the business owners. In many cases, the mere thought of these requirements kept the participants from even trying to access support.

In addition to the above-mentioned seven support systems the participants mentioned a range of other support systems, both formal and informal, and some had found ways of supporting each other through associations, forums, community meetings, the sharing of information and stokvels. Some had also experienced support from banks and the corporate world.

The participants had many suggestions as to how the support systems could meet their needs. Most of the suggestions were general such as: increased availability, more information and fewer requirements. Other suggestions were more specific such as: open branches within the township, cooperate with local structures, promote themselves in local newspapers, use mother tongue and do not base support on the Internet and computers.

The findings of the current research indicate that the government's efforts to uplift the SME sector do not appear to have had a satisfactory effect in Langa. Very few of the participants had benefited from any governmental support system, and the lack of knowledge was significant. The little knowledge the business owners had about support systems was faulty, and was in many cases expressed with distrust and dissatisfaction. The government has a huge task ensuring that the support offered by the support systems effectively meets the needs of township business owners. This will be further addressed in the following chapter.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS



5.1 Introduction

This research aimed to explore and describe the knowledge and experiences of micro enterprises with regard to compliance with governmental regulations and the utilisation of support systems. The chosen methodology of using in-depth interviews proved to be effective in this regard. Interviews with 20 micro business owners from Langa were carried out and the responses from the participants were compared with the findings set out in the literature review.

This chapter offers the conclusions with regard to the objectives of the study. It also offers recommendations directed at different key role players with regard to both regulations and support systems.

5.2 Conclusions

5.2.1 The nature of township business

Overall constraints facing business owners in Langa were not included in the initial research questions or objectives. However, while analysing the responses from the participants certain constraints were frequently mentioned. These constraints were said to significantly hamper the development of the participants' enterprises and therefore they are included in the conclusions of this study.

The business owners in this study were faced with high levels of competition. During the apartheid era only a few types of enterprises were granted licenses to operate, which led to many enterprises offering the same goods. This pattern, combined with the fact that these enterprises used unskilled, low paid workers, has led to high competition, which in turn has led to artificial low prices on goods and services and low turnovers. The high levels of competition made it impossible for many of the business owners to make their businesses grow.

Crime was also mentioned as a great obstacle, and a disincentive for business growth. The business owners of this research were very vulnerable to crime, both because of increased poverty within the area, but also because they did not have access to security in terms of insurance and safety. Without effective ways of dealing with crime within the township, it will be difficult to create an environment that makes economic growth possible. One of the most important elements in fighting crime is to eradicate poverty.

Another factor that constrained the business owners in Langa was that the buildings allocated for business purposes were still owned by the City of Cape Town, and could not be used as collateral to access finance. Even though the City of Cape Town had decided to hand over the shops to the long-term tenants, the process had taken very long, and the condition of the shops being handed down was poor. Only when they have the title deeds will business owners be able to access finance and develop their enterprises, including upgrading the actual buildings.

5.2.2 Regulations

This study has looked at the experiences of business owners in Langa with regard to regulations. More specifically it has looked at three regulation areas, namely, registration,

taxation, and labour policies. This section is guided by the research questions with regard to regulations, and conclusions are based on the findings.

The level of knowledge about regulations

All of the participants were aware that there are regulations, but none of the participants had enough information about those regulations applicable to them. The lack of accurate information amongst the participants with informal enterprises was very high. The participants with registered enterprises had more information about regulations, but even amongst these participants the level of knowledge was low and but none had succeeded in complying with all applicable regulations. The South African government has taken steps to ease the burden of compliance of SMEs by offering simplified requirements for SMEs with a low turnover. However, the participants in this research seemed unaware of these efforts. This study indicates that the South African government has failed significantly with regard to reaching the participants, both those with formal and those with informal enterprises.

Participants that belonged to an organisation or an association, or had attended sector specific courses were more likely to have information regarding regulations and the importance and benefits of compliance, than those who had never attended any course and did not belong to any association. One can therefore conclude that existing structures, such as traders associations and forums, are of the uttermost importance when it comes to ensuring higher levels of knowledge.

Extent of compliance with regulations

The majority of the participants did not comply with any regulation. Only two participants paid taxes. Another four had tax-free certificates or were in the process of getting one. Even the participants with registered businesses did not comply with all regulations applicable to them. This study shows that the participants lacked information regarding how to comply, with what to comply, and the benefits of compliance as well as consequences of non-compliance. Even registered enterprises had seemingly not been given this information.

Attitudes towards regulations and motivation for compliance and/or non-compliance

Attitudes towards regulations and motivation for compliance were presented as different research questions, but practically it seemed impossible to keep them apart, and they are therefore concluded in the same section.

Most of the participants said that complying with regulations was the right thing to do, but at the same time they considered their enterprises to be too small for them to worry about regulations. Regulations were perceived as something bigger enterprises had to deal with. The fact that the participants did not show fear of harassment caused by non-compliance, may indicate that the government has neglected enforcement of regulations in this sector. This negligence may be caused by the fact that the government did not see micro enterprises as potential tax contributors, as most of the SMEs are under the threshold for paying taxes, or because of the political unpopularity such enforcement would cause.

The lack of compliance can also partly be blamed on the apartheid era when most township business owners were refused licenses and were therefore forced to operate illegally. There is therefore no culture of compliance amongst the township business owners.

The findings of this study show that the participants were willing to formalize their businesses if they were told how to do so. But their willingness was in most cases not strong enough for them to go and look for the necessary information. The lack of interest was also influenced by the impression they had that registering would complicate the daily running of their business and add additional costs, and the fact that they did not see how compliance would benefit their enterprises.

In summary, regulations can be used by governments to control economic activities, but because enterprises that comply with regulations have a higher chance for growth, the regulations can also be used to strengthen the SME sector. Registration is the first step of compliance and essential in order for SMEs to be able to participate in the formal economy. It is therefore of the utmost importance that the way to formality is made as easy as possible, and that accurate information regarding registration reaches the SMEs. Registration with the taxation office is often the first interaction with governmental agencies, and it is therefore important that the tax authorities have an efficient way of reaching the informal sector. Compliance with regulations should not significantly hamper the daily running enterprises or add an unbearable additional cost.

5.2.3 Support systems

Growth in the SME sector is seen as a tool for development by the South African government. They have therefore put in place different support systems. Although the support for SMEs

has been intensified over the last few years, this study clearly shows that this kind of support failed to reach the participants of this research. This section concludes on findings with regard to the research questions connected to support systems.

The level of knowledge of governmental support systems

The participants of this research were asked about their knowledge of seven prominent support systems. The study found that the majority of the participants had little, faulty or no information about these support systems, and that this in return led to under-utilisation of them. Despite their efforts, the support systems did not succeed in making themselves visible or available to the participants, and therefore failed to reach their main target group. The information that participants had with regard to support systems was on the other hand faulty and often expressed with mistrust. An example of faulty information was the belief that an enterprise had to be formal before they could apply for assistance, and this in turn led to under-utilisation of support systems.

The experiences regarding the utilisation of governmental support systems

The participants who knew about the support systems considered them faulty and corrupt and were of the opinion that the difficult requirements made them inaccessible. Only the participant with the highest level of education had effectively benefited from more than one out of the seven named support systems. This suggests that the support systems failed to give assistance to those who needed it the most. Difficult requirements were frequently mentioned as an obstacle to gaining support, and many had personal experience with being turned down, others had adapted the attitude that they would not fulfil the requirements, and therefore did not even try.

Community meetings, forums and associations were found to be good sources of information and support. The participants who belonged to an association, and participated in community meetings, had higher levels of knowledge of both support systems and regulations than those who did not. The participants who belonged to such structures stressed the point that there are also benefits for the support systems if they work through existing structures in the townships because they give access to the business owners as they were already organised. The willingness of business owners to participate in information meetings and courses seemed to be higher if they were run through familiar structures, and took place in the neighbourhood.

Financial institutions and banks had not played a significant role for the participants. One of the main obstacles to the accessing of finance was the lack of collateral. As business in South Africa has grown to be very advanced, it is no longer enough for the Carpenter to bring a photo of his products to access finance. The participants with informal enterprises had a long way to go to develop their ways of doing business in order to be able to meet the complicated requirements of the financial institutions, and most of the participants did not even consider trying that route. The South African government has tried, through Khula Enterprise Finance and Umsobomvu Youth Fund, to make business finance accessible, but the participants did not know of, or had no faith in these efforts.

In summary, South Africa does not need more support systems. This study found that there were many offices offering the same kind of support. Even though the target market is big enough for all of them to be occupied, busy, high-standard offices in urban areas, and voucher programmes offering services from service providers can only reach businesses at a certain level. The support systems investigated in this research seemed to reach fairly advanced businesses, but were unavailable to the informal business owners. The informal street traders of the current study would need much knowledge and training before they could make use of existing support systems. The current study found both misconceptions and distrust with regard to support systems.

5.2.4 Conclusions related to research design and methodology

This study was done through drawing on completed research, exploring regulations and their aims, and conducting in-depth with business owners in Langa, a township in the Cape Town municipality. The research can be categorised as explorative and descriptive (Babbie, 2004) as it has explored and described the experiences of the participants. The choice of a qualitative design provided data that generated a good understanding of the questions investigated, as it gave the participants an opportunity to explain the reasons behind their responses. The rationale for the use of in-depth interviews was based on the fundamental position that suggests that people's knowledge, views, understandings, interpretations, experiences, and interactions are meaningful properties of the social reality (Mason, 2000). The chosen methodology gave the researcher insight in the complexities of reasons that led to compliance and/or non-compliance with regulations, as well as tendencies that led to utilisation and/or under-utilisation of support systems. This methodology allowed the researcher to explore the experiences of the business owners. The research design did not, on

the other hand, give the researcher quantitative data on which she could draw general conclusions relevant outside the sample of this research. Since the aim of the research was not to provide numerical data, but rather the deeper exploration of experiences, the chosen methodology proved to be effective in achieving the goal of the research.

This research has contributed to the social and economic development knowledge base regarding micro enterprises and compliance with governmental regulations, as well as their experiences with support systems.

5.3 Recommendations

5.3.1 Open business advice offices in the township

One of the main reasons given for non-compliance with regulations and the under-utilisation of support systems was that these services were not available to the township business owners. It is therefore recommended that:

→ The government ensures the existence of a business advice office in each highly populated area.

These offices:

- could be coordinated together with other municipal services such as housing offices, libraries or high schools.
- must have qualified business advisers.
- must offer information on relevant regulations.
- must offer information about relevant support systems.
- must provide SARS walk-in facilities.
- must work closely with the local structures, such as traders associations.

5.3.2 Work through existing structures

Prominent reasons for both the lack of compliance with regulations and the under-utilisation of support systems were: a lack of information, faulty information, and distrust. Many of the participants did not see how regulations concerned them, and they did not see how support systems could assist. Local structures such as associations and community meetings seemed to be an effective tool to employ participants with information. It is therefore recommended that:

→ Support systems and enforces of the law work through existing structures in the township.

5.3.3 Training of business owners

The informal business owners need to be taught how to comply and the importance thereof. They also need to be informed about available assistance. It is therefore recommended that

→The support systems and the law enforcers need to bring this information to the business owners through information meetings and courses.

Such training should be:

- done in the townships where business owners are located.
- sensitive to the level of formal education and business experience of its participants.
- done in cooperation with existing structures in the township.

5.3.4 Make land and buildings available

Proper buildings and available land for business is essential for economic development. So are documented assets that can be used as security for accessing finance. In this regard it is recommended that the City of Cape town must:

→ Make land and buildings zoned for business and industry available within the townships.

→ Intensify the process of handing shops over to business owners.

5.3.5 Suggestions for further research

Due to the limited time frame and scope of the study, there are many topics left to investigate in order to find efficient ways of supporting the SME sector and ensuring social and economic development in the townships. The researcher has identified shortfalls in her approach, and identified topics that need further investigation.

Quantitative research in reasons for non-compliance and under-utilisation

This research has pointed out certain tendencies, but it is left to see whether these findings are representative of SME's in general. Quantitative research with a representative sample from all the townships in the Western Cape should therefore be carried out.

The potential of associations and forums

As an organisation that ensures the interests of SMEs, Nafcoc should carry out research into how township traders associations and forums function, their potential and their needs.

The City of Cape Town

The process of handing municipal shops over to township business owners should be investigated.

The apparent reluctance of the city council to make sites available to business owners from the township should be investigated.

Support systems performance

As the support systems mentioned in this research significantly failed to reach the township business owners, further research should be done into support systems' actual performance in relation to their aims, and how frequently and in what manner the support systems visit an area. Such research should also include support systems put in place for street traders, or the lack hereof. The needs of this group, and what form assistance should take in order to be effective should also be investigated.

The performance of SARS

Investigation into how SARS can cooperate with existing support systems, associations and forums in order to effectively meet their own targets.

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Attachments

Interview schedule formal enterprise

Interview schedule informal

INTERVIEW SCHEDULE FORMAL ENTERPRISE

Regarding the business and the business owner

Please describe your business.

(products, services, working hours, income etc.)

- Tell me when and how you got started
- Tell me about your products
- Your working days and hours?
- Do you have people working for you? How many? What do they do?
- The financial aspect of your business. How much do you make a week? A month?
- Tell me about your future plans for your business?

Please tell me about yourself

(background, education and motivation for starting the business)

- How old were you when you started this business?
- What motivated you to start a business?
- What did you do before starting this small business?
- What is your level of education?
- What experience, if any, did you have with business before you started?
- How did you learn how to run a small business?

Regarding regulations

Please tell me all you know about the regulations regarding running a business *(Registration, paying of taxes etc.)*

- Is your business registered with CIPRO or any other governmental register?
- Please tell me about your experiences getting registered.
- How did you register?
- When did you register?
- How much did you pay?
- What, in your opinion, are the benefits (if any) of being registered?
- What are the disadvantages (if any) of being registered?

Please tell me about SARS and taxes

- Are you registered with SARS?
- What motivated you to register?
- Do you pay income tax?
- Do you pay VAT?

- In your business, how are you dealing with the requirements of SARS? Who works with this?
- What do you know about the small business tax amnesty
- How (if at all) did this influence you?

If you have staff, please tell me about their form of employment.

- Are your staff members formally employed?
- What social security, if any, do your staff members have?

Aside from the regulations we've been discussing, what other regulations are you aware of? Are there any other regulations you comply with?

Where did do you get your information on regulations?

Please talk to me about the benefits of complying with regulations

Regarding support systems

Please tell me about the support systems you know about. Both financial and non-financial.

Please tell me about your experiences of using any of these support systems.

- Have you received any support, financial or non-financial, for you business.
- What made it easy for you to use those support systems
- What makes it difficult for you to use support systems?
- What is your opinion about the support systems?
- Where did you find information on these support systems?
- Have you heard about the following support systems (if not mentioned):
 - SEDA?
 - SETA?
 - Khula?
 - Umsobomvu Youth Fund?
 - Red Door project?
 - Library Business Corner?
 - The business Place?
 - Business Partners?
- In what ways (if any) is the government currently supporting or helping you?
- In what ways (if any) would you live government to support or help you?

Any other comments?

INTERVIEW SCHEDULE INFORMAL ENTERPRISE

Regarding the business and the business owner

Please describe your business.

(products, services, working hours, income etc.)

- Tell me when and how you got started
- Tell me about your products
- Your working days and hours?
- Do you have people working for you? How many? What do they do?
- The financial aspect of your business. How much do you make a week? A month?
- Tell me about your future plans for your business?

Please tell me about yourself

(background, education and motivation for starting the business)

- How old were you when you started this business?
- What motivated you to start a business?
- What did you do before starting this small business?
- What is your level of education?
- What experience, if any, did you have with business before you started?
- How did you learn how to run a small business?

Regarding regulations

Please tell me all you know about the regulations regarding running a business

(Registration, paying of taxes etc.)

- Is your business registered with CIPRO or any other governmental register?
- Why not?
- Do you see any reason to register?
- What, in your opinion, are the benefits, if any, of being registered?
- What are the disadvantages, if any, of being registered?

Please tell me about SARS and taxes

- Are you registered with SARS?
- What would motivate you to register?
- What do you know about the small business tax amnesty?
- How, if at all, did this influence you?

If you have staff, please tell me about their form of employment.

- Are your staff members formally employed?
- What social security, if any, do your staff members have?

Aside from the regulations we've been discussing, what other regulations are you aware of?

Where did do you get your information on regulations?

Please talk to me about the benefits of complying with regulations

Regarding support systems

Please tell me about the support systems you know about. Both financial and non-financial.

Please tell me about your experiences of using any of these support systems.

- Have you received any support, financial or non-financial, for you business.
- What made it easy for you to use those support systems?
- What makes it difficult for you to use the support systems?
- What is your opinion about the support systems?
- Where did you find information on these support systems?
- Have you heard about the following support systems
 - SEDA?
 - SETA?
 - Khula?
 - Umsobomvu Youth fund?
 - Reed Door project?
 - Library Business Corner?
 - The business Place?
 - Business Partners?
- In what ways, if any, is the government currently supporting or helping you?
- In what ways, if any, would you like government to support or help you?

Any other comments?