SEED WORKING PAPER No. 35

Series on Conducive Policy Environment for
Small Enterprise Employment

Creating a Conducive Policy Environment for
Employment Creation in SMMEs in South Africa

by

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InFocus Programme on Boosting Employment
through Small Enterprise Development
Job Creation and Enterprise Department

International Labour Office · Geneva
Foreword

Policies, institutions and regulations that provide an enabling environment for small enterprises can make a substantial contribution to employment creation. This report is the outcome of a research project undertaken by the International Labour Organization (ILO) to analyse how the regulatory environment affects the growth of small, micro and medium-sized enterprises (SMMEs) and, in turn, the generation of SMME employment in the South African economy.

The assessment of the policy environment for small enterprises in South Africa is based on a careful mapping of existing laws and regulations. Clearly, the policy and legal framework for enterprise promotion has changed considerably since the removal of apartheid and the installation of democracy in 1994, as witnessed by the explosion of enterprises across the country. However, the practical implementation of policy and the enforcement of regulatory controls have not always been successful.

The ILO’s InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) initiated an international research project on the policy environment for small enterprises and its impact on the volume and quality of employment created by these enterprises. Seven countries participated in this research effort: Chile, Guinea, Pakistan, Peru, South Africa, Tanzania and Viet Nam. This Working Paper is one in a series of country studies and surveys on “Conducive Policy Environment for Small Enterprise Employment” published by IFP/SEED. The research has been funded through the Dutch Partnership Programme with the ILO, and the ILO and CASE would like to thank the Dutch Government for its on-going support for small enterprise development in South Africa.

The research activities are leading to new policy training materials and policy guidelines. Through action programmes at country and regional levels, SEED works with national stakeholders to assess the policy environment and to strengthen national and local capacities to design, implement and evaluate policy reform. SEED also maintains a database on national policies, laws and regulations pertaining to small enterprise development, which can be consulted on-line on SEED’s website (http://www.ilo.org/seed).

The ILO’s partner in this research in South Africa was the Community Agency for Social Enquiry (CASE). The main author within CASE was Jennifer Mollentz. The research was supported and coordinated by IFP/SEED in close cooperation with the ILO Office in Pretoria. Dominique Gross from the ILO’s Social Finance Programme provided insightful comments on the section dealing with finance and credit policies, and Geraldeen Fitzgerald edited the document.

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Director                         Director
ILO Pretoria Office               InFocus Programme on Boosting Employment
                                 through Small Enterprise Development
Acknowledgements

Thanks are owed for the comments and advice of Debbie Budlender, and the sections researched by Mark Isserow, Gabriel Jamo, Rejoice Morake and Savi Veerapan. The completion of the final report was made possible with the editing assistance and additional research undertaken by Aislinn Delaney and Robynn Sturm.
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<th>Description</th>
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<tbody>
<tr>
<td>ANC</td>
<td>African National Congress</td>
</tr>
<tr>
<td>BEECom</td>
<td>Black Economic Empowerment Commission</td>
</tr>
<tr>
<td>CBPWP</td>
<td>Community Based Public Works Programme</td>
</tr>
<tr>
<td>CASE</td>
<td>Community Agency for Social Enquiry</td>
</tr>
<tr>
<td>CMIP</td>
<td>Consolidated Municipal Infrastructure Plan</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DPLG</td>
<td>Department of Provincial and Local Government</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>DWAF</td>
<td>Department of Water Affairs and Forestry</td>
</tr>
<tr>
<td>Eskom</td>
<td>Electricity Supply Commission (Semi-privatized electricity utility)</td>
</tr>
<tr>
<td>FSC</td>
<td>Village Financial Service Cooperatives</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEAR</td>
<td>Growth, Employment and Redistribution</td>
</tr>
<tr>
<td>GFI</td>
<td>Gross Fixed Investment</td>
</tr>
<tr>
<td>GJMC</td>
<td>Greater Johannesburg Metropolitan Council Area</td>
</tr>
<tr>
<td>IDP</td>
<td>Integrated Development Plan</td>
</tr>
<tr>
<td>Khula</td>
<td>Khula Enterprise Finance (State supported financing body)</td>
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<tr>
<td>LED</td>
<td>Local Economic Development</td>
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<tr>
<td>LRA</td>
<td>Labour Relations Act</td>
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<tr>
<td>MBU</td>
<td>Master Builders Union</td>
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<tr>
<td>MEA</td>
<td>Micro Enterprise Alliance</td>
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<td>MFRC</td>
<td>Micro Finance Regulatory Council</td>
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<td>MLA</td>
<td>Micro Lenders Association</td>
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<tr>
<td>MSE</td>
<td>Micro and Small Enterprise</td>
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<td>NCOP</td>
<td>National Council of Provinces</td>
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<tr>
<td>NDA</td>
<td>National Development Agency</td>
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<tr>
<td>NEDLAC</td>
<td>National Economic Development and Labour Council</td>
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<tr>
<td>NSBC</td>
<td>National Small Business Council</td>
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<tr>
<td>Ntsika</td>
<td>Ntsika Enterprise Promotion Agency</td>
</tr>
<tr>
<td>NUMSA</td>
<td>National Union of Metalworkers of South Africa</td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay-as-you-earn</td>
</tr>
<tr>
<td>PPI</td>
<td>Producer Price Index</td>
</tr>
<tr>
<td>RDP</td>
<td>Reconstruction and Development Programme</td>
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<tr>
<td>RFI</td>
<td>Retail Finance Intermediaries</td>
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<tr>
<td>SACCAWU</td>
<td>South African Commercial Catering and Allied Workers Union</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Cooperatives</td>
</tr>
<tr>
<td>SACOB</td>
<td>South African Chamber of Business</td>
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<tr>
<td>SAIRR</td>
<td>South African Institute of Race Relations</td>
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<tr>
<td>SALDRU</td>
<td>South African Labour and Development Research Unit</td>
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<tr>
<td>SARB</td>
<td>South African Reserve Bank</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>SARS</td>
<td>South African Revenue Service</td>
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<tr>
<td>SBP</td>
<td>Small Business Project</td>
</tr>
<tr>
<td>SDI</td>
<td>Spatial Development Initiative</td>
</tr>
<tr>
<td>SETA</td>
<td>Sectoral Education and Training Authority</td>
</tr>
<tr>
<td>SEWU</td>
<td>Self Employed Women’s Union</td>
</tr>
<tr>
<td>SMME</td>
<td>Small, Medium and Micro Enterprise</td>
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<tr>
<td>Spoornet</td>
<td>(Semi-privatized railway utility)</td>
</tr>
<tr>
<td>StatsSA</td>
<td>Statistics South Africa</td>
</tr>
<tr>
<td>Stokvels</td>
<td>Informal/community lenders/savings schemes</td>
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<tr>
<td>UIF</td>
<td>Unemployment Insurance Fund</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>ZAR</td>
<td>South African Rand</td>
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1. Introduction

In South Africa, traditional sectors of employment such as mining and manufacturing, that once employed large numbers of unskilled workers, are restructuring and becoming increasingly capital-intensive\(^1\) and their labour-absorption capacity rate is diminishing.\(^2\) In consequence, Small, Medium and Micro Enterprises (SMMEs) are being viewed as highly important creators of employment.

This report aims to explore the relationship between the policy and legislative environment and SMMEs, with a primary focus on the number and quality of jobs being created in this sector in South Africa. To explore this further, answers to the following questions form the focus of this report:

1. To what extent is the identified pattern of employment in MSEs desirable in terms of socio-economic development?
2. What are the main elements of a well-designed policy and legal environment that leads to employment creation within MSEs?
3. To what extent does the MSE employment pattern depend on the policy and legal environment?

In South Africa, SMME is the term commonly used to refer to small, micro and medium-sized enterprises. The term SMME will be used in this report. However, the aim is to examine the smaller end of the enterprise scale, which coincides with the ILO definition of micro and small enterprises (MSEs). Survivalist enterprises are categorised as part of the micro-enterprise sector. Annex 1 provides a comprehensive listing of definitions of non-agricultural SMMEs, according to legislative definitions in South Africa and the ILO.

Methodology

Literature relevant to the existing policy and legal environment, as well as existing sources of data on SMMEs, were collected. This included research reports and papers, policy documents and laws as well as census and other statistical and survey information available relating to SMMEs in South Africa. To ensure this report reflects the current situation, 34 in-depth interviews were conducted with key policymakers, business service providers, NGOs, worker and employer organizations and private sector representatives. Annex 11 provides a list of the individuals consulted. These interviews gathered information on the way in which these stakeholders considered policy and legislation to be impacting on employment within SMMEs. In addition, a survey of 243 SMMEs across South Africa commissioned by the ILO was undertaken in mid 2001. Where applicable, findings have been incorporated into this report.\(^3\) Information from the interviews and literature review was analysed and compared with aggregate employment and economic data collected from various sources, including StatsSA, Ntsika, the Reserve Bank, and other sources. A cross-country discussion of the methodology and findings across the seven countries in the series assisted in the preparation of this report.

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2. StatsSA.
3. The results of this survey are included in DRA (2001). An electronic copy of this background report is available on the IFP/SEED Website: http://www.ilo.org/seed.
Historical background

The contemporary South African economy is inextricably linked to the apartheid policies that existed for 45 years prior to the first democratic, non-racial elections in April 1994. The South African economy today is still characterized by enormous racial inequalities, and the underdevelopment of small, medium and micro enterprises (SMMEs).\(^4\)

In essence, South Africa adopted an explicit policy of protectionism around 1925 that was linked with the support of White labour (Natrass, 2001). On coming to power in 1948, the Nationalist Party began to further secure the political and economic interests of the White population. An influx control of African labour, designed to turn the African population into a cheap supply of labour servicing the needs of large industries and agriculture, was implemented. The focus was on the creation of basic industries (such as mining). Parastatal corporations (which would monopolize steel production and electricity supply, transport and telecommunications) were also created. This macroeconomic approach had the effect of creating a racialized South African economy dominated by monopoly capitalism (Davies, 1985).

When the apartheid government adopted an economic strategy that moved the country towards structures of production and distribution (dominated by a few large firms), the natural growth and development of SMMEs was stunted.

Prior to democratization, support for small businesses was reserved largely for White-owned businesses, especially through the Small Business Development Corporation. However, as the focus was predominantly on large enterprises, there was no coherent government strategy for the development and support of small businesses. Policy and laws were not devised to suit the small business community. In fact, according to the current Minister of Trade and Industry, from the early 1950s and particularly in the 1960s, there was a systematic programme to reduce the scope of SMME development, particularly in central city areas – which would have been at the heart of such development.

After the first democratic elections in 1994, the new multi-racial government adopted the Reconstruction and Development Programme (RDP) as a macroeconomic strategy to tackle socio-economic reform. The RDP outlined a policy framework for the social, economic and political reconstruction of post-apartheid South Africa. The RDP was redistributive in nature and had economic development and social upliftment as its two main objectives.

Small businesses were recognized for the role they could play in promoting a better quality of life and drawing the historically disadvantaged majority of the population into the mainstream national economy. To achieve this, the RDP aimed to create an environment that was conducive to the operation and expansion of small and medium-scale enterprises (particularly among the black population). It was hoped that this would go a long way towards addressing the uneven distribution of economic resources and opportunities that had been institutionalized under apartheid.

In March 1995, the Government adopted the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa. This was the first major policy initiative addressing the needs and capacities of this sector. A year later the National

\(^4\) Alec Erwin, Minister of Trade and Industry, CDE (Centre for Development Enterprise) debate.
Small Business Act of 1996 emerged out of a consultative process with the President’s conference on small business. This Act and the White Paper identified access to finance, capacity building and the regulatory framework as key factors that needed to be addressed to achieve growth in the SMME sector.

The Act also provided for the creation of government institutions focusing specifically on the needs of this sector. The National Small Business Council (NSBC) was established as an advocacy forum for SMMEs. Khula was created to address the problems of finance and the Ntsika Enterprise Promotion Agency was established to provide non-financial support through local business support centres, manufacturing advice centres and techno-entrepreneur programmes. All three of these institutions have run into difficulties with technical and managerial capacity (the NSBC is now defunct), but their establishment is evidence of the increased attention given and the significance attributed to the SMME sector in South Africa.

In June 1996, the Government approved a revised macroeconomic strategy: the Growth Employment and Redistribution (GEAR) policy. Its core assumption is that sustained economic growth cannot be stimulated by increased government involvement or protective trade barriers, but rather through business that is internationally competitive (ODA, 2000). Thus, the main thrust of the Government’s economic policy has been to create and maintain a stable macroeconomic environment, open the economy to international competition, strengthen its competitiveness and encourage domestic competition. Accordingly, fiscal and monetary policies have been prudent.

It is presumed that a more competitive and faster growing economy, the transition to greater flexibility and productivity in the labour market and the investment by business in training and development initiatives will all work towards creating an enabling environment for the SMME sector and lead to the creation of more jobs. However, the impact of GEAR has been somewhat disappointing in terms of the broader economic and social outcomes it was intended to facilitate. Many of the historical economic and social problems remain essentially intact.

While a greater degree of macroeconomic stability has been achieved, along with a certain amount of diversification of the economy, the predicted job creation and economic growth has not been realized. Between 1996 and 1999, unemployment has increased and jobs in the formal sector have been lost rather than created. The proliferation of SMMEs in recent years has largely been in response to high unemployment levels and the inability of the labour market to accommodate the labour force.

In spite of this, there are still hopes that growth in the SMME sector can help to remedy the problems of employment and the profile of the SMME sector has grown in importance.

However, problems continue to plague this sector. Small business advocacy is in disarray, and there are acute financial constraints and a lack of technical skills. Although SMMEs may well provide a pathway to job creation and income generation, it is important that the quality of such employment is examined.
2. Macroeconomic overview

2.1 Economic structure and performance

SMMEs in South Africa are affected by the performance of the overall economy. This section examines the basic economic indicators that have had an impact on the SMME sector within South Africa, particularly over the past 10 years.

**Gross Domestic Product (GDP)**

Figure 2.1 shows GDP fluctuations and growth rate in South Africa. Real GDP increased 1.5 per cent per annum on average between 1990 and 1999. The most rapid growth occurred in 1996. Between 1991 and 1993, economic performance was disappointing, partially due to political instability. However, between 1993 and 1996, the economy performed much better and an average growth rate of 3 per cent was achieved over this period. Economic performance has not been as strong since, averaging only approximately 1.3 per cent growth per year. Financial crises in emerging markets had a severe effect on the economy in 1998, as high interest rates dampened confidence, leading to a lower than expected growth, and homeowners and entrepreneurs servicing loans struggled to make loan repayments.

![Figure 2.1: GDP and GDP growth rate, 1990-1999](image)

Note: At 1995 constant prices: Rbn = South African rand (ZAR) billion.

**GDP and GDP growth rates by sector**

The community, social, and personal service sector (CSP) and the manufacturing sector have maintained the highest output levels throughout the 1990s. The finance, trade and transport sectors follow. Mining, construction and electricity sectors have shown the lowest levels of output.

Although the transport and finance sectors are not the largest producers, they were the chief contributors to GDP growth in recent years. Figure 2.2 reports negative growth rates in the trade and manufacturing sectors in 1998, which may be a response to 1998’s high interest rates. The contraction was reversed as the interest rates again fell. An examination of the class...
size GDP and employment over time gives an indication that these two sectors may have been experiencing internal shifting towards smaller enterprise sizes.

Figure 2.2: GDP growth rates for individual sectors, 1994-2000

![GDP growth rates for individual sectors, 1994-2000](image)


Table 2.1 compares the GDP share per sector for 1993, 1996, and 2000⁵ (deflated into 1995 constant prices) and illustrates the increasing importance of the tertiary sector in South Africa’s economy. The tertiary sector⁶ is the principal source of economic growth and has expanded to comprise nearly two-thirds of South Africa’s economy. The *South African Survey*, 2000/2001 attributes growth in the tertiary sector to the expansion of the taxi industry, the provision of communications infrastructure in under-serviced areas, the growth of information technology and tourism and inflows of foreign capital and foreign banks. In addition, exemptions to the Usury Act encouraged the growth of the micro-lending industry. The continued outsourcing of work by larger companies may also have contributed to the tertiary sector’s growth.

Table 2.1: GDP sectoral shares for 1993, 1996 and 2000 (% of GDP)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1993</th>
<th>1996</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>8</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Total: Primary Sector</td>
<td>13</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Construction</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Electricity</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total: Secondary Sector</td>
<td>27</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td>Trade</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Transport</td>
<td>8</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Finance</td>
<td>16</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Other Services</td>
<td>22</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Total: Tertiary Sector</td>
<td>60</td>
<td>61</td>
<td>64</td>
</tr>
</tbody>
</table>

Note: At 1995 constant prices.
Source: StatsSA: Time Series Data.

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⁵ StatsSA: Time Series Data.
⁶ The tertiary sector includes trade, transport, finance, and other services (including general government services).
**Interest rates**

Figure 2.3 illustrates the climbing interest rates that peaked at 19 per cent in 1998. High interest rates affected capital investment, loan repayments, and economic growth over this period and have forced larger companies to contract and retrench large numbers of employees, leaving many workers to scramble for new employment. In order to survive, numbers of unemployed persons have turned to SMMEs or created their own small enterprises.

![Figure 2.3: Bank/repo rate, 1990-1999 (percentage)](image)

Note: The bank/repo rate is the rate at which the Reserve Bank lends money to banks, while the prime rate is the rate at which banks lend money to the public.


It is unclear to what extent SMMEs may have been affected by higher interest rates. In the Government view, the SMMEs are hit hardest by spiking interest rates that spur higher levels of insolvency. But SMMEs may not be as greatly affected by high interest rates as large enterprises. SMMEs tend to be labour- rather than capital-intensive and often do not qualify for finance through formal finance institutions. Undoubtedly, they are affected to some extent, at least through higher debt payments that reduce the amount of income available to start a business. Although the rate has declined since 1998, it is still higher than in 1993 and 1994.

**Disposable income**

Disposable household income per capita and GDP per capita, as depicted in Figure 2.4, experienced minimal fluctuations over the period. Between 1990 and 1993, GDP per capita showed a slight decrease, and between 1994 and 1997 a slight increase. Notice that in 1998 the growth rate of GDP per capita fell to –1.53. This corresponded to the plunging GDP growth rate in that year. Although the growth rate is still above zero, the economy is no longer expanding quickly enough to match the growth in population. A similar pattern is observed for real disposable income per capita.

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7 Statement by the Minister of Finance, Mr. Trevor Manual; *South Africa Survey*, 2000/2001.
Figure 2.4: Changes in per capita GDP and disposable income, 1991-1999


Savings and investments

Figure 2.5 captures South Africa’s individual and collective saving behaviour. The proportion of income saved is low compared to countries with comparable economies and is being progressively eroded. It is evident that both gross domestic savings, as a proportion of GDP, and personal savings, as a proportion of personal disposable income, have been experiencing a downward trend, even over the period in which interest rates climbed. The former fell from 19.1 per cent in 1990 to 14.6 per cent in 1999. The latter declined from 2.7 per cent in 1990 to 0.3 per cent in 1999.

Rising interest rates failed to attract sufficient savings to meet the demand for credit. In 1998, when the interest rates peaked, gross domestic savings/GDP hit a ten-year low and personal savings dropped to their second lowest point of the decade (with only 1999 at a lower rate). This may be partially explained by looking at the ratio of household debt to personal disposable income. If households already had significant debt, then as interest rates increased the household debt payments would also have mounted, leaving less disposable income for saving. Note that in fact the ratio of household debt to personal disposable income increased between 1993 and 1997 (in 1998 it only dropped by 0.3 per cent) corresponding with rising interest rates at that time. This has all had a negative impact on potential SMME entrepreneurs as they struggle to finance their businesses.
Figure 2.5: Gross domestic savings (share in GDP), personal savings and household debt (share in personal disposable income), 1990-1999

![Graph showing gross domestic savings, personal savings, and household debt as a percentage of GDP and personal disposable income from 1990 to 1999.]

Note: In 1995 constant prices.
Source: StatsSA: Time Series Data.

**Gross domestic fixed investment**

Figure 2.6 depicts the growth rate of Gross Fixed Investment (GFI). Where GFI experiences an upward trend, increasing investment fuels the growth of the economy. The highest growth rate of GFI occurred in 1995 due to a surge in investment following the political transition. Growth rates slowed slightly, yet remained positive thereafter until a sharp 6 per cent decrease in investment between 1998 and 1999. This may also have been a response to the peak interest rates in 1998.

Figure 2.6: Growth rate of gross domestic fixed investment, 1991-1999

![Graph showing the growth rate of gross domestic fixed investment from 1991 to 1999.]

Note: In 1995 constant prices.
Figure 2.7 indicates the changes in public and private sector investment over time. A notable feature of investment trends in South Africa has been the growing proportion of private sector real investment expenditure.

**Figure 2.7: Public and private sectors real investment, 1991-1999 (ZAR millions)**

Note: At 1995 constant prices; Rm = ZAR millions  

**Fixed capital investment by industry**

Figure 2.8 indicates fixed capital investment per sector. The manufacturing and finance sectors show high levels of fixed investment expenditure from 1992 to 1999. In general, most sectors show an increase in fixed investment expenditure, with some slight decline in recent years.
Figure 2.8: Sectoral fixed investment, 1992-1999
(as a percentage of total fixed investment)


**Inflation**

Inflation is examined in Figure 2.9 which shows the consumer price index (CPI), producer price index (PPI) and overdraft rates. The CPI compares the current and base-year costs of a standard basket of goods; the PPI is a measure of the cost of certain products to producers, including semi-finished goods. While inflation has been declining from 1992-1999 according to the price indices, SMMEs are still hampered by relatively high interest rates (due to inflation targeting) and a slowing economy.
Figure 2.9: Indicators of inflation and real prime overdraft rate, 1990-1999

Note: At 1995 constant prices. 

Exchange rate

Figure 2.10 indicates the declining value of the rand against the US dollar, making exports more profitable and hampering imports. While this is an advantage for the “economy” as a whole, it is more advantageous to large enterprises that have the capacity to sell to an international market. In fact it may even hamper the growth of SMMEs as increased profit margins for large enterprises through exports may allow them to cut prices domestically, thus undercutting SMMEs and driving them from the industry. In addition, exporting and exposure to the international market does not necessarily lead to higher employment – an issue discussed in detail in Part 3 of this report.

Figure 2.10: Exchange rate of South African rand against the US dollar, 1990-1999

Trade

Figure 2.11 depicts South Africa’s total trading activities between 1990 and 1999. Although both variables show a steady upwards trend, imports remained slightly higher than exports, implying that South Africa has been experiencing a systematic trade deficit.\(^8\) The same source of this data discusses this question further and it appears that SMMEs have not been responsible for the trade deficit to the same extent as larger enterprises. (See also Section 4.6, Trade policies, of the present report.)

Figure 2.11: Imports and exports, 1990-1999 (ZAR millions)

![Graph showing imports and exports from 1990 to 1999]

Note: At 1995 constant prices; RM = ZAR millions.

2.2 An overview of infrastructure provision

One major obstacle to any kind of economic growth in South Africa is the unequal distribution of both physical and social infrastructure along racial lines. As with any business sector, the growth and development of the SMME sector are dependent on the adequate provision of basic services such as clean water and sanitation, adequate housing, health care facilities, electricity and well-maintained roads. Although progress has been made since 1994, millions of South Africans are still without access to basic services and facilities. While South Africans still have to struggle to meet their daily basic needs, the establishment and growth of SMMEs that are more than merely survivalist enterprises will be severely hampered.\(^9\)

The extent to which infrastructure provision in South Africa impacts on SMMEs is examined below. Much of the information discussed here was obtained from the South Africa Survey 2000/2001, and the most recent October Household Survey (StatsSA, 1999).

Housing

Millions of South Africans live in shacks or informal houses. In much of the formal housing, there is overcrowding. In 1996, only 58 per cent of the total population lived in formal housing, while 18 per cent lived in traditional dwellings, 16 per cent in informal housing, and 7 per cent in backyard dwellings.\(^10\) One-fifth of African households lived in


\(^9\) Survivalist SMMEs are directed at providing minimal means to keep the unemployed and their families alive (For Ntsika definition, see Part 3, Definitions of the present report).

\(^10\) One per cent lived in non-specified dwellings, according to the StatsSA, October Household Survey 1999.
informal dwellings in 1996, compared with less than 1 per cent of Whites (Population Census, 1996). The Government has since made significant inroads in terms of housing delivery, and in 1999 the number of households living in formal dwellings had increased to 67 per cent. However there have also been large-scale challenges regarding quantity, quality and organization of delivery, as well as trying to meet huge expectations at grass roots level. By the beginning of 2000, South Africa’s housing shortage was estimated at between 3 and 4 million units, according to the South Africa Survey, 2000/2001.

The quality and quantity of housing impacts on SMMEs since many small and micro enterprises are based in entrepreneurs’ own homes. Overcrowding and a shortage of housing make it difficult to obtain the space or additional premises required to establish and to expand enterprises. In addition, people who are concerned with securing a roof over their heads are unlikely to be able to develop SMMEs that are more than survivalist enterprises.

Health and access to health services

Dealing with the overwhelming social and economic impact of HIV/AIDS is one of the largest challenges facing the country and has become a thorny political issue for the Government. AIDS-related illnesses remain the primary cause of death among sexually active youth and adults in South Africa (South Africa Survey, 2000/2001). According to ING Barings (1999), 13 per cent of South Africa’s workforce was HIV-positive in 2000. It is predicted that by 2006, over a quarter of the country’s workforce will be HIV-positive.

It is expected that GDP and real GDP growth will be curtailed by the spread of AIDS and that the epidemic will aggravate the country’s skills shortage. The effects of the HIV/AIDS pandemic in South Africa are increasingly being felt in all aspects of life, affecting work production, the ability of parents to tend to and care for their children, and placing huge strains on the economy, on health and welfare services and, as will be seen later in Section 2.3, also on education.

South Africa continues to face difficulties in terms of its health-service infrastructure, and ensuring that quality health services are accessible to all South Africans. South Africa cannot produce the number of health personnel required to meet the population’s health care needs, and many of the healthcare professionals trained within the country are lost to better working conditions and competitive salaries overseas. With the increasing number of AIDS patients requiring care, many public hospitals are in crisis. In addition, those living in rural areas are further disadvantaged in terms of access to basic health care. A study by Hurt and Budlender (1998) found that rural Africans took on average 30 minutes to an hour to reach the nearest health clinic, and over a third had to walk to get there. Without access to services as basic as health care, it is unlikely that disadvantaged sections of the population will be able to successfully engage in SMME entrepreneurship.

Access to water and sanitation

Despite concerted efforts, the provision of services as basic as water and sanitation to all South Africans is not yet a reality. Of the 11 million households in South Africa, some 61 per cent had no running tap water in their dwellings in 1999. Around 7.5 million people had no access to running water in 1999, while 21 million had no sanitation. The 1999 October Household Survey showed that only 35 per cent of the population had a flush lavatory in their

11 According to the Minister of Water Affairs and Forestry, Mr. Ronnie Kasrils.
dwellings. Nine per cent of all South African households have no toilet facility whatsoever.

Obvious racial discrepancies exist in terms of both water and sanitation facilities. The same survey showed that only 21 per cent of African households had running tap water in their dwellings, compared with 97 per cent of the White population. Similarly, only 34 per cent of African households had a flush lavatory within their dwelling, compared with 97 per cent of White households. Rural areas were also at a disadvantage in terms of water and sanitation. Only 7 per cent of households in rural areas had a flush lavatory in the dwelling, compared with 54 per cent in urban areas (the majority of rural households are dependant on pit latrines). Rural households were also far less likely to have running water in the dwelling, and 66 per cent of rural households had to travel to fetch water.

**Electricity access**

The National Electricity Regulator (NER, 1999) found that 34 per cent of households in South Africa did not have electricity at the end of 1999, although the proportion of houses which had electricity increased from 55 per cent in 1996 to 66 per cent in 1999. Many small businesses, particularly in the manufacturing and trade sectors, are reliant on electricity to store and process their goods. An inability to use electrical equipment or even to have access to electrical lighting will inhibit the development of many SMMEs. Access to electricity is an urgent need for many South Africans, but again access is skewed along racial lines.

**Access to telecommunications**

In 1999, 65 per cent of South African households did not have a telephone in their dwelling or access to a cellular telephone. In terms of population groups, 80 per cent of African households did not have telephones in their dwellings or the use of a cellular phone, compared with 47 per cent of coloured households, 17 per cent of Indian households and 11 per cent of white households. This lack of easy access to telephones and other means of communication is likely to constrain the starting up of new SMMEs, and to limit the areas in which they can operate. However, advances in the structuring of cellular phone contracts have meant that since 1996, cellular phones have become more affordable and access has increased considerably. By the beginning of 2000, South Africa’s two cellular telephone operators had about 5 million subscribers.

**Roads and transportation**

As a result of racial policies prior to 1994, a large proportion of the South African population lives on the outskirts of towns and cities. This means that many people (particularly Africans) have to travel great distances to their places of work, shops and other facilities (NEDLAC, 2000). In 1995, African commuters spent 11 per cent of their income on transport, while other population groups spent only 8 per cent on average.

According to Moving South Africa (MSA), some 9 million South Africans are dependent on public transport (bus, rail and taxi services), while some 5.4 million people walk or cycle to their destinations. Public transport in the form of long-distance buses, municipal buses, and commuter rail services are subsidized by the Government. The MSA

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12 Official statistical terminology in South Africa for persons of mixed (black/white) race.
13 “Moving South Africa” is the Government’s 20-year transport plan.
14 These figures are based on statistics for 1996, the latest year for which they were available (cited in South Africa Survey, 2000/2001).
(1998) argues that this is inefficient: the subsidy mechanisms benefit middle-income earners in the formal workforce, rather than the poor. Although taxis remain the most accessible form of transport for the majority of the poor, the taxi industry itself is not currently subsidized by the State. Recent government plans to regulate the taxi industry and replace the ageing fleet were met with violent protests.

The road safety record remains poor, and a report by the Council for Scientific and Industrial Research found that one in every four buses and minibus taxis was involved in road accidents every year. Although South Africa has a good road infrastructure, by 1997 there was an accrued backlog of R37 billion in terms of road building and maintenance, according to the Department of Transport.

The problems experienced with public transport and roads impact on SMMEs by restricting the areas in which SMMEs can operate and expand. Mobility constraints limit entrepreneurs to selling their products or providing services in the areas in which they are based. Inadequate infrastructure also increases product and service costs. These additional costs limit the markets that can be reached, the possible demand for the products and services of the SMMEs and thus the profits that can be made.

Despite Government efforts to tackle the inequitable distribution of both physical and social infrastructure and to provide all South Africans with basic services, many of the structural obstacles to the development of the SMME sector in South Africa remain.

2.3 The labour market

As mentioned earlier, the South African labour market is still very much a consequence of South Africa’s past, and shows grave inequalities along race and sex lines, particularly in terms of employment levels, income and skills. Even where educational starting points are equal, employment outcomes do not always reflect this.

Human development indicators in South Africa

Given a real total GDP of ZAR 600 billion in 1999 (South Africa Survey, 2000/2001), South Africa is a relatively wealthy country. Yet, according to the National Economic Development and Labour Council (NEDLAC), it scores relatively low (0.695) on the Human Development Index, which is based on education levels, literacy, life expectancy and GDP per capita.

Approximately 50 per cent of the South African population lives in poverty (below a minimum living standard). NEDLAC found that poverty in South Africa is closely related to race and sex and is heavily concentrated in rural areas. Sixty-one per cent of Africans and 38 per cent of coloureds are regarded as poor, compared with only 5 per cent of Indians and 1 per cent of Whites. The proportion of female-headed households that are poor is nearly double that of male-headed households. Not only is poverty detrimental due to its effect on human dignity, but also because it limits access to resources, curbs mobility, diverts time and energy to basic survival (i.e. carrying water from the tap to the home), and creates conditions in

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15 For the purposes of this report, poverty is defined as the state of those living below the national Minimum Living Level (MLL), calculated by the Bureau for Market Research in 1997. This figure was calculated at ZAR 1,130 for a household of 4, (the average household size in South Africa). This amount would be higher for subsequent years, based on the average consumer price inflation rate, (between 6–8 per cent for each subsequent year).
which illness is more prevalent. In turn, these disadvantages affect the performance of workers and entrepreneurs.

*Access to education and skills*

The skewed distribution of poverty is aggravated by discouragingly persistent differences in levels of education. Despite undergoing significant changes since 1994 (when there was an attempt to equalize access to education), many problems inherent in the South African educational system remain. In 1999, only 49 per cent of candidates who wrote the senior certificate examinations passed, and only 12 per cent of those obtained a pass sufficient for university entrance. In the same year, an estimated 25 per cent of South Africa’s teachers were considered underqualified (Education Foundation, 2000).

Although expenditure on education has increased steadily since 1994, major discrepancies in the standard of education still exist between formerly “Black” and “White” schools. Formerly “Black” (and particularly rural) schools continue to face problems such as overcrowded classrooms, textbook shortages and a lack of resources. In addition to these structural and administrative problems, the South African Democratic Teachers’ Union said, in July 2000, that HIV/AIDS was claiming the lives of at least ten teachers a month (*South Africa Survey*, 2000/2001).

The racial demarcation in terms of levels of education is acute. Amongst Africans, 23 per cent have had no schooling, as opposed to only 1 per cent of Whites. Also in terms of higher education, Whites hold the most qualifications (68 per cent), followed by Africans (21 per cent), Indians (7 per cent) and Coloureds (4 per cent). This may be beginning to change as the proportion of African students enrolled at tertiary institutions rose from 40 per cent in 1993 to 59 per cent in 1999. Men (54 per cent) hold more qualifications than women (46 per cent).

The NEDLAC study reports that South Africa has an oversupply of unskilled workers: only 3 million people, or 20 per cent of South Africa’s economically active population, are highly skilled or skilled. Twenty per cent of full-time workers and close to 50 per cent of part-time workers were unskilled. This lack of adequate education inhibits the growth of the SMME sector, because the establishment and long-term success of small enterprises require a level of skills and training which many South Africans do not have. The 2001 DRA Survey supports this by revealing that the majority of entrepreneurs who were successful had a high level of basic schooling (but not necessarily tertiary education) (DRA, 2001).

A recent NEDLAC survey of 2600 respondents in Gauteng, KwaZulu-Natal and the Northern Province suggested that low levels of education may be highly correlated with poverty – partly due to the fact that the lack of education is also highly correlated with unemployment. The unemployed are largely either illiterate or have finished only primary schooling (NEDLAC, 2000, p. 13). Of those employed, most workers with no formal schooling are concentrated in casual or part-time jobs. Figure 2.12 shows the correlation between poverty and level of education in South Africa.
Figure 2.12: Poverty by level of education of head of household, 1997

![Poverty by level of education](image)


Even though a lack of education leads to unemployment and poverty, those who have completed their schooling in South Africa are still unlikely to find jobs. Among semi- and unskilled workers, job losses are accelerating as industry increasingly turns to mechanization to avoid the “complications” of labour legislation and basic conditions of employment.

**Composition of the labour force**

Tables 2.2 and 2.3 give an overview of the composition of management and employees, according to sector, sex and race. African men are concentrated in the mining, manufacturing and transport “employee” sections of the labour force, while African women are more concentrated in the wholesale and retail “employee” section. Management positions are dominated by White males across all sectors. Even in the trade sector, where they hold less than 50 per cent of positions in management, White males are still by far the most dominant group.

**Table 2.2: Management profile, according to economic sector, 1998**

<table>
<thead>
<tr>
<th>Sector</th>
<th>African Male</th>
<th>Asian Male</th>
<th>Coloured Male</th>
<th>White Male</th>
<th>African Female</th>
<th>Asian Female</th>
<th>Coloured Female</th>
<th>White Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community, social and personal services</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>72</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>18</td>
<td>100</td>
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<tr>
<td>Construction</td>
<td>4</td>
<td>6</td>
<td>3</td>
<td>79</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Finance, insurance, real estate and business services</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>68</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>71</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Mining</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>90</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>72</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>6</td>
<td>5</td>
<td>11</td>
<td>46</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5</strong></td>
<td><strong>3</strong></td>
<td><strong>3</strong></td>
<td><strong>71</strong></td>
<td><strong>1</strong></td>
<td><strong>1</strong></td>
<td><strong>1</strong></td>
<td><strong>14</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 2.3: Employee profile, according to economic sector, 1998
(as a percentage of total employees in each sector)

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Asian</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Construction</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>Finance, insurance, real estate and business services</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>46</td>
<td>6</td>
</tr>
<tr>
<td>Mining</td>
<td>85</td>
<td>0</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>38</td>
<td>4</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>48</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Breakwater Monitor Report, 1999 (UCT Graduate School of Business).

Whites hold 85 per cent of the management positions across all sectors. White males alone hold nearly three-quarters of all South African management positions. This is true despite the fact that only 13.5 per cent of all economically active individuals in South Africa are White (7.5 per cent are White males). In contrast, Africans make up three-quarters of the economically active population (73 per cent) and yet only hold 6 per cent of management positions in large companies (1 per cent are held by African females) in the South African economy. In contrast, African women are highly active in small businesses.

Whites make up the highest proportion of the workforce in the tertiary sector: 63 per cent of employees in community, social and personal services, 57 per cent of employees in the financial insurance real estate and business services, and 40 per cent of employees in transport, storage, and communication are White.

In contrast, African males dominate the workforce in the primary sector (85 per cent of all mining employees, 49 per cent of all construction employees, and 46 per cent of all manufacturing employees are African men). This distinction between the tertiary and primary sectors is important, as the tertiary sector is growing much faster than the primary sector, which means that increasing unemployment may disproportionately affect African males in comparison with Whites.

The slightly more recent figures on employment equity shown in Figure 2.13 indicate that enterprise size has an influence on the number of Blacks and women working as managers. It appears that larger companies tend to have a greater representation of Blacks and women managers. Unfortunately no figures were available for smaller enterprises as the reporting requirements for the Department of Labour were 150 employees and above.
2.4 Unemployment

According to one newspaper article,16 “the [South African] economy is undergoing dramatic structural transformation, with 65 per cent of activity in the tertiary, or service sector, and there is no longer demand for unskilled workers”. This source argues that capital investment in technology is replacing unskilled labour and points to the mining and business sectors, which, traditionally, have employed hundreds of thousands of unskilled labourers, as evidence. According to StatsSA, the mining industry shed almost 30,000 jobs in the first six months of 2000, while the formal non-agricultural business sector experienced a 3 per cent decrease in employment over the same period.

As South Africa’s economy is losing its labour absorption capacity in the face of a growing labour force, unemployment has become one of the most critical challenges facing the country. Between 1990 and 1999, the economically active population increased by 16 per cent; meanwhile there were 15 per cent fewer jobs in the formal sector for which to compete. More employment opportunities were lost in the private sector than in the public sector (20 per cent compared with only 4 per cent in the public sector). However, many of the public sector jobs losses were a result of both privatization and downsizing.17

Two official definitions are used to measure the level of unemployment in South Africa: the strict definition of unemployment and the expanded definition.18 The strict (official) definition of unemployment refers to people 15 years and older who are not employed but are available for work. These people must have been seeking employment in the past four weeks, prior to a given point in time. The expanded definition refers to people who are 15 years and older who are unemployed. These people must be available for work, and have the desire to work, regardless of whether or not they have taken active steps to find work.19 This definition is therefore much wider, but captures the many unemployed who have given up actively looking for work.

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17 South Africa Survey, 2000/2001 based on SARB data. This source excludes agricultural and domestic workers.
18 Annex 2 of this report contains 1996 employment and unemployment figures based on the official definition of those who are economically active and actively looking for work. The figures are an underestimation of the unemployment rate, as they are based on the strict definition of unemployment (aged 15 years or over and looking for work in the past four weeks). In addition, the figures hide the existence of considerable underemployment.
Figure 2.14 shows the declining ability of the South African economy to absorb new entrants to the labour market. As labour absorption capacity fell from 57 per cent in 1994 to 47 per cent in 1999, the official unemployment rate ballooned by 8 percentage points from its lowest point in 1995, then decreased slightly in 1999.

**Figure 2.14: Official and expanded unemployment rates, 1994-1999**

![Graph showing official and expanded unemployment rates, 1994-1999]

Note: Official definition: People aged over 15 who are available for and actively seeking work. Expanded definition: People aged over 15 who are not employed but are available for work.


Table 2.4 shows that unemployment is highest in urban areas, particularly among urban African females (40 per cent), followed by urban African males (34 per cent). This unemployment would have contributed to the increasing reliance on survivalist enterprises in urban areas.

**Table 2.4: Official unemployment rate, according to race, sex and location, 1999 (percentage*)**

<table>
<thead>
<tr>
<th></th>
<th>Urban male</th>
<th>Urban female</th>
<th>Non-urban male</th>
<th>Non-urban female</th>
<th>Total male</th>
<th>Total female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>34</td>
<td>40</td>
<td>25</td>
<td>25</td>
<td>30</td>
<td>33</td>
<td>32</td>
</tr>
<tr>
<td>Coloured</td>
<td>23</td>
<td>23</td>
<td>6</td>
<td>14</td>
<td>20</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Indian</td>
<td>17</td>
<td>25</td>
<td>**</td>
<td>**</td>
<td>17</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>White</td>
<td>6</td>
<td>7</td>
<td>**</td>
<td>**</td>
<td>6</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>31</td>
<td>23</td>
<td>24</td>
<td>25</td>
<td>29</td>
<td>27</td>
</tr>
</tbody>
</table>

Note: * Each percentage is a percentage of all people in that particular category.

** Number of responses were too few for this analysis.


The expanded definition of unemployment renders higher rates of unemployment for each race and sex. Furthermore, it demonstrates an even greater disparity in employment distribution across groups. For example, the total expanded unemployment rate for Whites is 10 per cent (up from 7 per cent using the official definition of unemployment) while the total expanded unemployment rate for Africans is 41 per cent (up from 32 per cent). Also, the gap between total female and total male unemployment jumps from 4 percentage points (females

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20 The Labour Force Survey explicitly states that this is a chart of official unemployment rates, meaning that it shows the number of unemployed out of the number of economically active. However, their note to this chart implies it is a percentage of the population rather than of the economically active population. This would thus render it meaningless.
29 per cent, males 25 per cent) to 7 percentage points (females 39 per cent, males 32 per cent).

Figure 2.15 shows that the high unemployment levels among both Africans and women is not because of lack of skills and/or higher education within these groups. At each level of education, Africans (particularly women) are less likely than Whites with the same education level to find employment. Half (50.2 per cent) of African women who have completed Grade 12 are unemployed, compared with only 5.7 per cent of White men with the same qualifications. Africans with a college degree are unemployed at a rate around 17 percentage points higher than Whites who have achieved that same level of education (19.8 per cent and 2.5 per cent respectively). In general, unemployment rates are lower for workers with more education.

**Figure 2.15: Official unemployment rate, according to race, sex and level of education, 1999**

(percentage)

Note: * Data were not available for White males and White females in the “diploma” or “degree or higher” categories, as the sample size was too small for reliable estimates.
Source: Adapted from *Labour Force Survey*, February 2000 (StatsSA).

### 2.5 Employment levels by sector

Between 1995 and 2000, the finance and trade sectors appear to show an overall considerable growth in employment, as Table 2.5 shows.

**Table 2.5: Total employment per sector, 1995-2000 (*'000s)**

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1997</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>1,400</td>
<td>1,570</td>
<td>1,470</td>
</tr>
<tr>
<td>Finance</td>
<td>500</td>
<td>640</td>
<td>840</td>
</tr>
<tr>
<td>Trade</td>
<td>900</td>
<td>1,620</td>
<td>2,430</td>
</tr>
<tr>
<td>Transport</td>
<td>300</td>
<td>280</td>
<td>550</td>
</tr>
<tr>
<td>Mining</td>
<td>600</td>
<td>450</td>
<td>470</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1,200</td>
<td>1,170</td>
<td>2,290</td>
</tr>
<tr>
<td>Construction</td>
<td>400</td>
<td>590</td>
<td>600</td>
</tr>
</tbody>
</table>

Note: This table should be interpreted with caution. The figures for 1995 and 1997 are from the *Ntsika Annual Reports*; the figures for 2000 from the *Labour Force Survey, 2000*.
Source: *Ntsika Annual Reports, relevant years; Labour Force Survey, 2000.*

Figure 2.16 shows that between 1997 and 2000, informal employment grew in the trade sector and also in manufacturing, but appears to have decreased in the finance sector.
Africans have the highest proportion of workers in the informal economy, as shown in Figure 2.17. African women are more likely to be employed in this sector than African men, and this correlates with their higher levels of unemployment.

Source: Adapted from *Labour Force Survey*, February 2000 (StatsSA).

2.6 Conditions of employment

Poverty cannot be attributed solely to exclusion from the labour market. Approximately one third of those who are employed earn below the poverty level. According to the 1996 Population Census, more than a quarter of the 9.1 million people working in South Africa earn ZAR 500 or less a month. As job opportunities continue to shrink, many workers are forced to become self-employed particularly in the informal economy. The informal economy is also characterized by the working poor – people who have limited skills, limited access to markets, little product diversity and, in 45 per cent of cases, earn below the Supplemental Living Level of ZAR 222 per month (approximately US $21 at present rates).

Although longitudinal data are not available to show the changes in employment conditions for workers in each sector, Table 2.6 indicates that the trade and transport sectors...
have a relatively small percentage of permanent workers (although more than in construction and agriculture). Manufacturing and finance have a high level of permanent workers in relation to all workers in those sectors. However while the number of workers in the manufacturing sector has remained relatively constant, the number of workers in the finance sector has increased dramatically, implying that new entrants to the finance sector are still being offered permanent positions.

Table 2.6: Terms of employment by sector, 2000
(as a percentage of total employees in each sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Permanent</th>
<th>Fixed period</th>
<th>Temporary</th>
<th>Casual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>85</td>
<td>3</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Finance</td>
<td>87</td>
<td>4</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Trade</td>
<td>75</td>
<td>1</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Transport</td>
<td>77</td>
<td>3</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Mining</td>
<td>95</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>62</td>
<td>4</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Construction</td>
<td>55</td>
<td>7</td>
<td>21</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Adapted from Labour Force Survey, 2001 (StatsSA).

The existence of written contracts varies considerably by sector. Table 2.7 shows that workers in the agriculture, construction and trade sectors are the least protected by written contracts, while the finance and mining sectors are more likely to provide written contracts for employees.

Table 2.7: Existence of written contract by sector, 2000
(as a percentage of total employees in each sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Written contract (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>66</td>
</tr>
<tr>
<td>Finance</td>
<td>73</td>
</tr>
<tr>
<td>Trade</td>
<td>53</td>
</tr>
<tr>
<td>Transport</td>
<td>61</td>
</tr>
<tr>
<td>Mining</td>
<td>86</td>
</tr>
<tr>
<td>Agriculture</td>
<td>31</td>
</tr>
<tr>
<td>Construction</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Adapted from Labour Force Survey, 2001 (StatsSA).

As in the case of Table 2.6, employment conditions such as paid leave and union membership have not been examined over time by sector, due to the lack of longitudinal data. Figure 2.18 examines paid leave for 2000. As can be expected, although the finance sector is well off in terms of its permanent staff, written contracts and leave characteristics, it is not well unionized, as Figure 2.19 shows. This is in contrast to the well unionized mining sector, with its high percentage of paid leave, permanent workers, written contracts and health insurance.
In addition to the other conditions of work, provision for health care for employees is an important consideration. As Table 2.8 shows, the mining and finance sectors score highest in terms of providing health insurance and medical aid, with manufacturing at 13 per cent. Workers in the trade construction and agriculture sectors are the worst off.

Table 2.8: Provision for (or contribution to) medical aid fund/health insurance, 2000

<table>
<thead>
<tr>
<th></th>
<th>Medical aid fund/health insurance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>13</td>
</tr>
<tr>
<td>Finance</td>
<td>19</td>
</tr>
<tr>
<td>Trade</td>
<td>7</td>
</tr>
<tr>
<td>Transport</td>
<td>16</td>
</tr>
<tr>
<td>Mining</td>
<td>24</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3</td>
</tr>
<tr>
<td>Construction</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Adapted from Labour Force Survey, 2001 (StatsSA).
Part 3 provides an overview of SMMEs in the South African economy, focusing specifically on their contribution to employment. It also assesses the relative quality of the employment created by SMMEs compared with other jobs in the same sectors in larger enterprises.
3. **Role of SMMEs in employment and the economy**

Since the early 1990s, there has been widespread support for SMMEs from all tiers of Government, civics and labour organizations as an alternative development path for job creation, income generation and economic growth. The South African National Civic Organisation (SANCO) noted, in 1995, that support for these businesses was “a promising strategy for creating sustainable jobs and opportunities for the unemployed”.

“The case for employment creation and wealth distribution through small business is based on sound economic sense. Small businesses are labour intensive, need relatively little capital and use local resources. By channelling scarce capital resources to the small business sector, particularly in a developing economy like ours, employment opportunities can be maximised and our people are enabled to contribute to the development of the economy”.

A. Ruiters, Ntsika Annual Review, 1997

With the lack of expected economic growth and job creation in the wake of the Growth, Employment and Redistribution policy (GEAR), SMMEs are viewed with increasing interest for their potential to provide jobs, especially for previously excluded sectors of the population.

Although SMMEs have a great deal of potential, it is important to examine the kind and quality of employment that they create, to avoid relegating vulnerable groups to employment opportunities inferior to those which may have been possible within the larger enterprise sectors.

3.1 **Definitions**

The definitions most commonly used in South Africa are provided by the National Small Business Act, 1996 and by the Ntsika Enterprise Promotion Agency. These class-size definitions are very similar, except that Ntsika has divided the smallest class described by the National Small Business Act (i.e. micro enterprises) into a further two classes – micro and survivalist enterprises:

**Survivalist enterprise**: In these enterprises, the income generated is less than the minimum income standard or the poverty line. Economic activity is directed at providing minimal means to keep the unemployed and their families alive. There are no paid employees and asset value is negligible. Examples of survivalist enterprises include peddlers, vendors and subsistence farmers.

**Micro enterprise**: These enterprises are not formal, do not usually qualify for VAT registration, have informal accounting and operation procedures, and conduct business in more or less make-shift structures. Typically, their compliance with labour legislation is weak. Most metal workers, furniture makers, spaza-shops, household industry and mini-taxis belong to the micro-enterprise category. It is unlikely that a micro enterprise would have more than five paid employees, the upper employment limit for this size class.

**Very small enterprise**: These enterprises employ less than 10 paid employees, except for the mining, electricity, manufacturing and construction sectors, where the limit is 20 employees. The enterprises operate on the formal market and have access to modern technology. The lower limit is the self-employed with no employees, such as artisans and professionals. The
line between micro enterprise on the lower end, and small enterprise on the higher end, can be somewhat fluid.

**Small enterprise:** The upper limit of this size class is less than 50 employees. These enterprises tend to be more established than very small enterprises, and the business practices of these enterprises are more complex. Most often the enterprise has outgrown direct supervision by the entrepreneur, and has developed a secondary co-ordinating mechanism distinguishing it from a very small enterprise. Growth into a medium-scale enterprise requires an accumulation of resources as well as the appropriate incentives for enterprise expansion.

**Medium:** The maximum number of employees is 100, except for the mining, electricity, manufacturing and construction sectors, where it is 200 employees. Although still owner/manager controlled, the ownership and management structure is more complex. Often, decentralization of power to an additional management layer, division of labour, and functional differentiation, are characteristics that help distinguish between small and medium-sized enterprises. The separation of ownership and management is the natural barrier between medium and large enterprise.

Annex 1 gives the Schedule to the National Business Act, 1996 and contrasts the ILO definitions with that of this Act.

3.2 **SMMEs in South Africa**

Many researchers have commented on the lack of usable data on SMMEs in South Africa. Longitudinal data (especially on working conditions) is scarce, and the changing definitions of what constitutes an SMME, and which firms should be included in each sector, makes analysis over time difficult.\(^{22}\)

The existence of a vibrant SMME sector often indicates the presence of an entrepreneurial spirit and an economically healthy society. Although facing many structural difficulties, the SMME sector is a significant contributor to the South African economy. According to Ntsika (2000), SMMEs represent 98 per cent of the total number of business firms in South Africa, employ 55 per cent of the country’s labour force and contribute approximately 42 per cent to total remuneration. SMMEs contributed the most gross value in the construction and trade sectors, and contributed least in electricity, gas and water (0 per cent) and mining (5 per cent).

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\(^{22}\) According to Kesper, 2000: “It is now widely agreed upon that the available secondary data on South African SMMEs is, in general, very poor and that it is little suitable to reflect the changes occurring the in the SMME economy”. And Gumede, 2000: “There is a major problem in analyzing the performance of small and medium enterprises in South Africa, mainly because of the dearth of continuous data.” “… slight differences in definitions, especially in terms of turnover. For example, the 1981 census of agricultural products defined small enterprises as having between R5 000 and R19 000 whereas the 1993 definition is that small enterprises have between R20 000 and R100 000 turnover per annum. These definitional changes depict inconsistencies in data, which in turn make time-series comparisons questionable.” (Gumede, 2000, pp. 3-4). Also, according to Ntsika (1997), the availability of economic data by size class of enterprises is extremely poor in South Africa (p. 12).
Figure 3.1: Contribution of SMMEs to GDP, 2000

![Pie chart showing contributions of various size classes to GDP: Large 65%, Medium 15%, Small 14%, Micro 6%]


Figure 3.1 shows that SMMEs collectively contribute 35 per cent towards South Africa’s total GDP. However, SMMEs contribute more than 40 per cent of GDP in four of the eight major economic sectors: agriculture, construction, trade, and transport (Ntsika, 2000). SMMEs are major contributors to economic activity in these sectors, and trade and transport are notably two of the fastest growing sectors.

Table 3.1 gives the change in contribution to GDP by size class from 1995 to 2000. Although the GDP output of small enterprises in the private sector in 1999 had grown to just more than half of that of large enterprises, the growth rate for small enterprises was far in excess of the rate for medium and large enterprises.

Table 3.1: GDP shares over time by enterprise size, 1995-2000 (percentage) 

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>21</td>
<td>28 (26)</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>Medium</td>
<td>12</td>
<td>13 (9)</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Large</td>
<td>67</td>
<td>49 (48)</td>
<td>46</td>
<td>65</td>
</tr>
</tbody>
</table>

Notes: These percentages only include the formal sector and usually “small” does not include micro or survivalist enterprises, so the data are limited in their descriptive value. For 1995, “small” includes “very small”, but not “micro” or “survivalist”. GDP by sector and size-class of formal sector activity for 1998 (at constant 1995 prices). Note in the Ntsika Review (p. 46) “although sectoral GDP figures for 1998 have been published in Statistics South Africa, a breakdown by enterprise size-class was not given by StatsSA. Size-class figures reported here are only estimates based on the 1995 percentage contributions of the reported enterprise size-classes to the GDP, within industrial sectors. Thus, no structural shifts within sectors are indicated. The “small” category includes very small, but excludes micro. While these are the estimates given in p. 45 in the Ntsika text, they do not fit the table on p. 46. The percentages as calculated using the table are given in parentheses. GDP by sector and size-class of formal sector activity for 1999 (at constant 1995 prices). “Small” does not include the contribution of “very small” or “micro” enterprises. For 2000, “small” does not include “micro” and it is unclear from the report whether it includes “very small”.

Source: Ntsika Annual Reviews, selected years.

Due to the problems experienced with finding suitable longitudinal data, these data are incapable of reporting structural changes which may have occurred within the SMME sector.

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23 Data exclude the catering sector.
Figure 3.2 shows that the finance and transport sectors have expanded their share of GDP most, while that of the trade and agriculture sectors declined between 1995 and 2000.

**Figure 3.2: Changes in small enterprise GDP share by sector, 1995 and 1999 (percentage)**

Note: 1999 includes micro and small, while 1995 only includes small, however there is no clear definition of what “small” includes.

Source: Adapted from Ntsika Annual Reviews, 1997 and 2000.

### 3.3 SMMEs and employment

As Part 2.3 discussed in its profile of the labour market, the South African economy has not been able to generate the expected employment opportunities in the formal non-agricultural sectors in recent years. As a result, the SMME sector has increased in its relative significance in the economy as a response to the problem of unemployment. School leavers and young graduates are finding it increasingly difficult to find employment in large enterprises and are being forced into self-employment (Ntsika, 1998).

#### Growth of firms vs. growth of jobs

Although there has been growth of firms, this is not always reflected in the number of employees. A survey of large manufacturing firms found that 85 per cent of large firms in the Greater Johannesburg Metropolitan Council Area (GJMC) experienced jobless growth (GJMC report, 2000 p. ii). The report states that 40 per cent of employers hired fewer workers, used more machinery and/or used sub-contracting in response to the new labour market legislation (Labour Relations Act, Basic Conditions of Employment Act, and Employment Equity Act) that imposes the “hassle factor” on firms. Section 4.5 of the present report explores this question in depth.

Even though conditions are now excellent in South Africa for exporting enterprises, this has not necessarily resulted in more jobs. According to Kesper (2000), exporting is likely to continue and offer more secure employment, but not necessarily more jobs, as increasing international competition often forces firms to use current labour and equipment more efficiently rather than hiring more employees (GJMC 2000 in Kesper, 2000).

#### Survivalist or a response to opportunities?

Recent surveys and literature provide no conclusive evidence on whether the growth of SMMEs is the result of responses to entrepreneurial opportunities or merely the reactions
of a labour force which has no other choice. The weight of evidence, however, seems to support the theory that many SMMEs are the result of survival tactics.

The DRA Survey\textsuperscript{24} on the other hand suggests that very few of the SMME owners surveyed were forced into becoming entrepreneurs through survivalist tactics after being fired or retrenched, or unable to find employment. Entrepreneurs were asked why they had started up their businesses, and just over one half of those surveyed (54 per cent) had become entrepreneurs so that they could work for themselves, while 18 per cent said that they were unable to find work elsewhere. Thirteen per cent of entrepreneurs said that they had been forced into running their own businesses due to being retrenched or fired. Seven per cent of the sample said that they had wished to work when and how they wanted, and 5 per cent said they had wanted to be their own boss.

The survey results seem therefore to imply that the SMME sector had attracted most of the new entrants rather than them being forced into it. However, this may be partly due to the fact that the majority of entrepreneurs interviewed had a high level of basic schooling and very few of the entrepreneurs surveyed were unemployed or students prior to commencing with their present venture (the survey purposely omitted the survivalist sector and newly started up enterprises). Newly established firms have a far higher failure rate.

According to Sengenberger et al. (1990, and OECD, 1993 in Kesper, 2000, p. 2), many of the recent start-ups in industrialized countries which have been induced by poor economic conditions and particularly high unemployment may often “rest on especially shaky ground and their failure rate might therefore be expected to be abnormally high, as either good times draw the entrepreneur back into dependent employment or bad times topple the weak firm”. This is also supported by other authors.\textsuperscript{25} Many new micro-enterprises are started out of survivalist necessity and very few manage to make their enterprises last more than the first two critical years of existence. The exclusion of these firms from the DRA Survey therefore gives an unnaturally optimistic view of the sector.

\textit{Contribution of SMMEs to employment}

The majority of South Africa’s SMMEs are micro and survivalist enterprises (predominantly retail with no signs of enterprise growth) while the most dynamic SMMEs responsible for the majority of SMME employment are medium-sized, but these are only a minority. The contribution of existing SMMEs to employment growth is therefore expected to remain low, both because the majority of micro-enterprises lack the dynamism to grow beyond one-person operations during their existence and because, in the late 1990s, even more dynamic established enterprises have adopted a strategy of “jobless growth”, according to several authors. Only a small segment of the entire SMME economy has the capacity to create employment at desirable levels. These SMMEs are generally run by highly-educated

\textsuperscript{24} The DRA Survey was limited in size (243 enterprises), but stratified according to race and sex of the entrepreneur, as well as sector and type of business to cover most types and locations of SMMEs in South Africa. For this reason, the DRA Survey results are not nationally representative and should not be viewed as providing a complete overview of SMMEs in South Africa. In order to obtain information on employment decisions in SMMEs, surveyed enterprises had to run for a minimum period of two years and have at least one full-time permanent employee. This excluded new start-ups and one-person operations, and as a result most survivalist enterprises. Business owners interviewed were found through the Department of Public Works, Small Business Associations, Business Advice Centres as well as Tender Advice Centres. This also excluded businesses that had not had the time, capacity or awareness of available services to contact these organizations. For more information on the DRA Survey methodology and results, please see DRA, 2001.

\textsuperscript{25} For a detailed bibliography, see Kesper, 2000.
and experienced entrepreneurs with skilled labour. Also, given the history of dualism and discrimination, strong SMMEs and highly-skilled labour are unlikely to emerge in substantial numbers in the near future from formerly disadvantaged segments of the population.  

**Employment contributions**

The employment contribution of micro, small and medium enterprises is 54 per cent of all the formal private sector employment, compared with 46 per cent in large enterprises, as Figure 3.3 shows. Note that, although large enterprises produce 65 per cent of the South African GDP, they only employ 46 per cent of the workers. Ntsika (1998) stresses:

“The role of [SMMEs] as an agency for employment in the country cannot be overemphasized, especially within the context of a developing nation.”

The employment contribution is of particular interest in South Africa due to the soaring unemployment levels (reviewed earlier in Section 2.4 of this report).

**Figure 3.3: Contribution of SMMEs to formal employment, 2000**

Note: Includes agriculture, but only the formal sector.


However, there appears to be a consensus among commentators in South Africa that SMMEs primarily maintain employment. Jobs are created which replace others lost within restructured sectors, rather than creating new, additional jobs. According to a study conducted by the Bureau for Market Research, 27 approximately 40 per cent of small, medium, and micro enterprises in South Africa are started due to retrenchment or unemployment. This finding is supported by Ntiska analysts that have observed the way in which downsizing in both the public sector and large firms, in addition to privatization, force retrenched workers to take up income-generating activity in the SMME sector. 28 An interviewee from the workers’ union, NUMSA concurred that SMMEs are very valuable in creating employment to provide for jobs lost by downsizing and retrenching in large enterprises. 29

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26 This section draws heavily on Kesper 2000, to which readers are referred for details.
27 SAIRR, 2000
29 Interview with Jeffrey Ndumo of NUMSA, 2001.
The DRA Survey reflects that a relatively high number of entrepreneurs (25 per cent) started their business after leaving the public service or a parastatal, which probably reflects the downsizing of the public sector in South Africa.

The shift in the labour market towards SMME employment may also reflect a heavier reliance on outsourcing. Instead of hiring permanent employees, many large enterprises are now attempting to cut wage and benefit costs by contracting work out to SMMEs that specialize in that service. Although a worker may be working in the same sector, doing the same work, for the same company as before, he or she is now officially employed by an SMME, not the large enterprise. This may also have a result in the growth of certain sectors, as the new SMME which is created may be categorized differently. For example, some of the work outsourced by a manufacturing concern may later be classified as a service rather than manufacturing.

**Entrepreneurship**

Table 3.2 shows that White males are most likely to be entrepreneurs (19 per cent) followed by Indian males (14 per cent). African women are slightly more likely than African males to run any kind of business (11 per cent compared with 8 per cent).

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>8</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Coloured</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Indian/Asian</td>
<td>14</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>White</td>
<td>19</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>10</td>
<td>9</td>
</tr>
</tbody>
</table>

Note: *Percentage of positive responses to the question: “Do you run any type or size of enterprise for yourself?”


It is not surprising that one of the striking features of SMMEs in South Africa is the uneven distribution of population groups across the different enterprise size classes. Figure 3.4 shows that in 1996, Black entrepreneurs were concentrated at the lower end of the SMME spectrum, and the overwhelming majority of survivalist entrepreneurs were Black (87 per cent). The presence of Black entrepreneurs also decreased noticeably as the size of the enterprise increased. According to Nisika (1998), Africans dominate in survivalist and micro activities, and “relatively few” very small and small enterprises are owned by individuals from previously disadvantaged groups. Of the 805 899 survivalist, micro and very small enterprises in South Africa in 1998, 58 per cent were Black-owned, as Figure 3.4 illustrates.

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30 In this case, the term “Black” refers to African, Indian and Coloured entrepreneurs.
Therefore, although SMMEs do provide previously disadvantaged groups with a source of employment and income, these continue to be clustered at the lower end of the scale, with little opportunity for expansion and growth. As a result, SMMEs do not appear to have become a vehicle for empowering the majority of Black entrepreneurs. While employment, even in the survivalist sector, is certainly preferable to unemployment, it is essential that any coherent SMME strategy provides the lower end of the SMME spectrum with enough support to be able to provide decent jobs, to nourish development and growth and to allow movement to the next enterprise size category.

**SMMEs and empowerment**

Nevertheless, some evidence shows that the SMME sector provides the opportunity for empowerment for African women in particular. When comparing staff profiles for businesses with less than 50 employees (i.e. micro, very small and small enterprises), with staff profiles for businesses overall, some interesting differences can be noted. White males dominate the upper level management positions in small and large enterprises, although less so in the SMME sector (White males fill 64 per cent of the senior management positions in SMMEs compared with 75 per cent of these positions in companies overall). Black males are represented more than Black females in management positions across companies overall, but this does not appear to be the case in the SMME sector. In this sector, Black women frequently outnumber Black men in senior positions, and African women in particular are more prominent in upper level management positions in SMMEs. African women constitute around 15 per cent of all executive directors and senior managers, 17 per cent of all junior-middle management, and 21 per cent of all professionals in companies with less than 50 employees. This is a huge leap from the overall labour market where African women occupy fewer than 9 per cent of these high level positions.

These figures suggest that SMMEs do create more employment opportunities for disadvantaged groups, and that by targeting groups previously excluded and denied equal access to resources, SMMEs can serve as a powerful instrument for redistribution and empowerment. However, these figures must be seen in the context of women in the SMME sector.

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31 Annex 3 provides detailed tables of staff profiles according to enterprise size, taken from the National Baseline Survey 1998 (Department of Labour).

32 “Black” here refers to African, Indian and Coloured workers.
Figure 3.5 shows that a substantial number of women are self-employed in SMMEs, but they are mainly concentrated in the survivalist sector of the SMME hierarchy. According to the Population Census, there were 238 300 female entrepreneurs in 1996. But in the same year, women accounted for 42 per cent of survivalist entrepreneurs, 27 per cent of micro entrepreneurs and only 11 per cent of the self-employed in the very small enterprise category (Ntsika, 1999). Thus, while SMMEs provide employment and generate income for a substantial number of women, women in the SMME sector are also far more likely to be working in survivalist industries than men.

While African women may hold more senior positions in the SMME sector than in business overall, this is because they are concentrated at the lower end of the SMME spectrum, where they are less likely to have employees and are more likely to be running their businesses themselves. The quality of employment for African women in the SMME sector is therefore a critical issue.

**SMME sectoral employment shares**

The number of workers employed in SMMEs has grown considerably. Half of manufacturing employment is in large enterprises, but this is declining over time. Table 3.3 indicates that the share of employment in small and medium enterprises in manufacturing has increased from 39 per cent in 1988 to almost 50 per cent in 1997, whereas the share of large enterprises has diminished from 61 per cent in 1988 to 52 per cent in 1997 (Gumede, 2000, p. 7).

<table>
<thead>
<tr>
<th></th>
<th>1972</th>
<th>1988</th>
<th>1993</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
</tr>
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<tr>
<td>Small</td>
<td>12</td>
<td>14</td>
<td>18</td>
<td>17</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>Medium</td>
<td>24</td>
<td>25</td>
<td>26</td>
<td>25</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Large</td>
<td>64</td>
<td>61</td>
<td>56</td>
<td>58</td>
<td>52</td>
<td>56</td>
</tr>
</tbody>
</table>

Note: Figures may not always add up to 100 due to rounding.
Source: Gumede, 2000, based on Ntsika BEPA project data.

This indicates a growth in SMME employment even before SMME policies were put in place in 1996. Although the sector did grow dramatically between 1995 and 1997 when the National Small Business Act was implemented, by 1999 (when policies could be expected to
have had a better chance to take effect) it drops back down to a level comparable with 1993 and 1995.

In the agricultural sector (see Table 3.4) small and medium enterprises have had at least 60 per cent of employment in all selected years, and the proportion of small enterprises appears to have grown substantially.

**Table 3.4: Agricultural employment by enterprise size, 1987-1999**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>24</td>
<td>13</td>
<td>17</td>
<td>56</td>
<td>47</td>
<td>18</td>
</tr>
<tr>
<td>Medium</td>
<td>49</td>
<td>53</td>
<td>53</td>
<td>19</td>
<td>21</td>
<td>52</td>
</tr>
<tr>
<td>Large</td>
<td>27</td>
<td>34</td>
<td>30</td>
<td>25</td>
<td>32</td>
<td>30</td>
</tr>
</tbody>
</table>

Note: Figures may not always add up to 100 due to rounding.
Source: Gumede, 2000, based on Ntsika BEPA project data.

In comparison with employment, output in the manufacturing sector has remained basically stable from 1972 to 1997, with around 68 per cent of output generated by large enterprises and just 11 per cent by small enterprises (medium-sized enterprises were around 21 per cent throughout). This may indicate lower productivity within smaller manufacturing enterprises. The output for the agricultural sector is somewhat different to the manufacturing sector. Table 3.5 shows that the SMME output in this sector has kept pace with the employment increase.

**Table 3.5: Agricultural output by enterprise size, 1984-1999**

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1987</th>
<th>1993</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>8</td>
<td>10</td>
<td>6</td>
<td>43</td>
<td>45</td>
<td>13</td>
</tr>
<tr>
<td>Medium</td>
<td>41</td>
<td>38</td>
<td>40</td>
<td>24</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Large</td>
<td>52</td>
<td>52</td>
<td>55</td>
<td>33</td>
<td>35</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: Figures may not always add up to 100 due to rounding.
Source: Gumede, 2000, based on Ntsika BEPA project data.

The three sectors in which SMMEs play a crucial role in employment growth are all in the tertiary sector, as Table 3.6 shows. This seems plausible, as SMMEs are generally more labour-intensive and have less access to capital. Manufacturing, mining, construction, and commercial agriculture all have relatively high initial start-up costs and benefit significantly from economies of scale. In contrast, there are relatively few obstacles to an SMME entering the tertiary sector.

The tertiary sector has been growing more quickly than the primary and secondary sectors in the same time in which the SMMEs have been increasing their share of employment and GDP. However, to what extent SMME growth has been responsible for the growth of the tertiary sector is unclear from available data. This growth may also simply be part of the established global trend in industrialized countries, to which entrepreneurs have responded, or a response to loss of jobs in the primary and secondary sectors.
Table 3.6: Employment growth, according to enterprise size and sector, 1979-1999
(average annual growth, percentage)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>-3.4</td>
<td>-2.3</td>
<td>5.3</td>
<td>5.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Mining</td>
<td>0.1</td>
<td>2.7</td>
<td>1.0</td>
<td>-1.0</td>
<td>-0.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.8</td>
<td>2.7</td>
<td>1.0</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Construction</td>
<td>1.5</td>
<td>-0.6</td>
<td>-0.8</td>
<td>-3.9</td>
<td>-2.4</td>
</tr>
<tr>
<td>Trade</td>
<td>4.3</td>
<td>1.7</td>
<td>0.6</td>
<td>6.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Transport</td>
<td>-4.6</td>
<td>-1.2</td>
<td>-0.5</td>
<td>3.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>Business Services</td>
<td>4.5</td>
<td>11.2</td>
<td>23.0</td>
<td>5.7</td>
<td>6.8</td>
</tr>
<tr>
<td>Other Services</td>
<td>12.9</td>
<td>20.0</td>
<td>-21.8</td>
<td>N/A</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Average Growth</strong></td>
<td><strong>3.4</strong></td>
<td><strong>1.2</strong></td>
<td><strong>1.0</strong></td>
<td><strong>0.9</strong></td>
<td><strong>1.3</strong></td>
</tr>
</tbody>
</table>

Source: Adapted from Ntsika Annual Report, 2000.

Ntsika (2000) considers that employment growth in one enterprise-size category for a specific sector is offset by an employment decline in another size category, implying structural changes occurring within these sectors – that is, movement between enterprise-size categories rather than new enterprises. Increasing employment in specific size categories does not necessarily indicate an increasing entry of new employees, but could be movement within the industry.33

Table 3.7 gives an indication of the proportion of workers in each sector by enterprise size. The wholesale and retail trade sector has a large proportion of enterprises with only one employee, while the mining and manufacturing sectors are predominantly made up of large enterprises. The number of wholesale and retail trade enterprises with only one regular worker may be a result of the prevalence of survivalist enterprises within this sector.

Table 3.7: Regular workers in each sector, according to enterprise size, 2000
(as a percentage of regular workers in each sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>1</th>
<th>2-4</th>
<th>5-9</th>
<th>10-19</th>
<th>20-49</th>
<th>50 or more</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry and fishing</td>
<td>20</td>
<td>28</td>
<td>11</td>
<td>12</td>
<td>14</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>-</td>
<td>4</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>74</td>
<td>100</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10</td>
<td>7</td>
<td>7</td>
<td>10</td>
<td>16</td>
<td>44</td>
<td>100</td>
</tr>
<tr>
<td>Construction</td>
<td>9</td>
<td>23</td>
<td>15</td>
<td>16</td>
<td>15</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>40</td>
<td>19</td>
<td>11</td>
<td>10</td>
<td>8</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>15</td>
<td>13</td>
<td>9</td>
<td>9</td>
<td>12</td>
<td>37</td>
<td>100</td>
</tr>
<tr>
<td>Financial, insurance, real estate and business services</td>
<td>10</td>
<td>11</td>
<td>11</td>
<td>14</td>
<td>17</td>
<td>32</td>
<td>100</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>7</td>
<td>9</td>
<td>10</td>
<td>16</td>
<td>20</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>Private households with employed persons</td>
<td>71</td>
<td>23</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>23</td>
<td>15</td>
<td>9</td>
<td>11</td>
<td>13</td>
<td>24</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Figures may not always add up to 100 due to rounding.
Source: Labour Force Survey, 2001 StatsSA.34

Table 3.8 examines each enterprise size class and which sectors fall within them. The smaller enterprises fall mainly within the wholesale and retail trade sector, while larger

34 For all values of 10,000 or more, the sample size is too small for reliable estimates.
enterprises are found mainly in the community, social and personal services, manufacturing and mining sectors.

Table 3.8: Regular workers in enterprise size categories, according to sector, 2000

<table>
<thead>
<tr>
<th>Enterprise Type</th>
<th>1</th>
<th>2-4</th>
<th>5-9</th>
<th>10-19</th>
<th>20-49</th>
<th>50 or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry and fishing</td>
<td>10</td>
<td>21</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6</td>
<td>6</td>
<td>11</td>
<td>13</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>Electricity, gas and water supply</td>
<td>2</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Construction</td>
<td>42</td>
<td>30</td>
<td>29</td>
<td>23</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Financial intermediation, insurance, real estate and business services</td>
<td>3</td>
<td>6</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>5</td>
<td>10</td>
<td>19</td>
<td>25</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>Private households with employed persons</td>
<td>28</td>
<td>14</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Figures may not always add up to 100 due to rounding.

Employment: The perspective of entrepreneurs

The DRA Survey found opinion among existing entrepreneurs was divided on whether they needed additional staff in the future, as Table 3.9 shows.

Table 3.9: Are entrepreneurs planning to employ more workers? 2001 (percentages, survey results)

<table>
<thead>
<tr>
<th>Plan to employ more workers</th>
<th>Yes</th>
<th>No</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>44</td>
<td>46</td>
<td>7</td>
</tr>
</tbody>
</table>


One fifth (40 per cent) of entrepreneurs gave their primary reason for not employing more staff as that there was no need. Financial constraints were next most cited (just over one quarter or 28 per cent). Almost one fifth (19 per cent) argued that the number of people employed in their business depended on workloads and the requirements of various tenders, so that they could not necessarily plan to employ additional staff. A minority mentioned reasons such as profitability issues, the costs of employment and the size of the business.

3.4 Quality of SMME employment

SMMEs create employment, but is it quality employment? This question is crucial. If it is not quality employment, then by supporting the sector, vulnerable groups will probably be relegated to inferior employment. Government would, therefore, need to refrain from focusing on SMME growth at the possible cost of larger enterprises.

Unfortunately, assessing the quality of SMME employment is difficult to do with the available data. The variables used to assess employment quality in Section 2.3 to 2.6 of this

35 For all values of 10,000 or more, the sample size is too small for reliable estimates.
report (terms of employment, paid leave, trade union membership, and informal vs formal employment) are inadequate. While data are available by sector, the size class of the enterprise was not included when the data were reported.\textsuperscript{36} It is, therefore, unknown how those figures would be spread among different sizes of enterprise within each sector. The question is further complicated by the limited time over which the data are available. Nonetheless, the data do provide partial answers to this question.

\textbf{Wages}

Larger enterprises tend to provide higher wages than SMMEs. According to data from the South African Manufacturing Survey, value-added per worker rises with size of firm, thus indicating that larger firms tend to manifest higher labour productivity, be more capital-intensive and pay higher wages (Natrass, 2000, p. 15).

Most SMMEs in South Africa operate in conditions of excess supply of relatively unskilled and unorganized labour. This permits SMMEs to survive by keeping labour costs low rather than relying on innovation or technological upgrading (Kesper, 2000, p. 4).

Figure 3.6 provides the salaries and wages contributed by each enterprise size class. Although SMMEs provided 54 per cent of all private-sector employment, they only contributed towards 43 per cent of the total salaries and wages in the private sector. In contrast, large enterprises contributed 57 per cent of the total salaries and wages to be distributed over just 45 per cent of the workers. It is clear that SMME workers are sharing a smaller piece of the pie.

\textbf{Figure 3.6: Share in salaries and wages in industry, according to enterprise size, 2000 (main sectors)}

<table>
<thead>
<tr>
<th>Enterprise Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>57%</td>
</tr>
<tr>
<td>Medium</td>
<td>16%</td>
</tr>
<tr>
<td>Small</td>
<td>17%</td>
</tr>
<tr>
<td>Micro</td>
<td>10%</td>
</tr>
</tbody>
</table>


The growth in employment in the service, trade and manufacturing SMMEs (see Table 3.6 above) shows that much of the growth has taken place in sectors which show the highest differences in wages by enterprise size class, therefore not boding well for good wages within SMMEs.

\textsuperscript{36} The \textit{Labour Force Survey} report does not contain data disaggregated by enterprise size category.
Table 3.10: Relative compensation per employee per firm, by enterprise size, 2000
(selected sector)

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>57</td>
<td>67</td>
<td>80</td>
<td>121</td>
<td>100</td>
</tr>
<tr>
<td>Trade</td>
<td>18</td>
<td>91</td>
<td>138</td>
<td>195</td>
<td>100</td>
</tr>
<tr>
<td>Transport</td>
<td>71</td>
<td>76</td>
<td>88</td>
<td>126</td>
<td>100</td>
</tr>
<tr>
<td>Finance (Services)</td>
<td>59</td>
<td>67</td>
<td>56</td>
<td>137</td>
<td>100</td>
</tr>
<tr>
<td>Other services</td>
<td>28</td>
<td>71</td>
<td>35</td>
<td>332</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Adapted from Ntsika Annual Report, 2000.

The trade sector in Table 3.10 shows that employees in micro-enterprises are most likely to be underpaid in comparison with larger enterprises. However, the inequalities are greatest in the services sector. According to Nstika (2000), this skewness in the trade and “other services” sectors is due to limited access to capital and the high level of skills required. Employees in micro-sized enterprises earn only approximately 38 per cent of national average earnings and, according to the South African Labour and Development Research Unit (SALDRU), 45 per cent of all those working in the informal sector earned less than the Supplemental Living Level (SLL) of ZAR 222 (US $21) per month.

More can be derived from a closer analysis of the trade sector. Employment in SMMEs in the trade sector increased from 50 to 60 per cent of all trade employment between 1995 and 1999. Over the same period, the share of GDP produced by SMMEs in the trade sector decreased from 48 to 26 per cent of the total trade GDP. This implies that fewer profits were made to pay the salaries of more workers. Also, informal employment in trade increased over that period from 13 to 40 per cent. Moreover (as noted earlier in Section 2.3) in 1999, only a very low percentage of trade workers had secure, permanent positions. The trade sector had the fourth lowest percentage of employees entitled to paid leave and only 23 per cent of trade employees were represented by a trade union.

It is important to note the limitations of these data on employment quality. They are static and do not show whether conditions have worsened or improved over the time in which small enterprises have become a key employer in the trade sector. Also, because the statistics are not broken down by enterprise size, it is impossible to determine whether, of the 60 per cent that have paid leave, all 60 per cent are small enterprise employees or whether only half of the small enterprise employees have paid leave compared to 100 per cent of large enterprise employees in the trade sector. Yet, despite the partial picture provided by the available data, it seems logical to conclude that the jobs created in the trade sector during that time were most likely low quality employment opportunities.

A move into employment, therefore, does not necessarily indicate a move out of poverty. The challenge remains to equip people with the necessary skills and training to become a part of the formal economy – through entrepreneurship that extends beyond survivalist tactics.

Perceptions about SMMEs and employment

According to the Youth 2000 Study,\(^{37}\) which included a sample of 2,500 youth between the ages of 16 and 35, 29 per cent held the opinion that they would never get a job because they were either uneducated or unskilled. Seventy eight per cent thought that self-

\(^{37}\) Youth 2000 Study: CASE Research funded by the Royal Netherlands Embassy.
employment was a good way to make money. Only around 15 per cent of youth knew of any programmes or training courses that focus on developing skills to run an SMME. About 33 per cent of youth said that they had tried to start up their own SMME, (including 36 per cent of African youth): 44 per cent said that it was either “quite successful” or “very successful”. Of those respondents who said that they had never tried to set up their own SMME, the biggest impediment mentioned was the lack of start-up funds, as Table 3.11 shows.

Table 3.11: Why have you not tried to set up your own SMME? by sex, 2000
(% of responses, survey results)

<table>
<thead>
<tr>
<th>Reason</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a formal job</td>
<td>6</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Still studying</td>
<td>23</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Never occurred to me</td>
<td>6</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Didn’t know how</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Too uncertain</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>No funding to get started</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Is not profitable enough</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Too much competition</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Not interested</td>
<td>17</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>4</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Youth 2000 Study.

Table 3.12 shows how job aspirations varied considerably according to race, with many more Africans willing to settle for employment in “any job” than other race groups.

Table 3.12: What type of employment would you prefer? by race, 2000
(% of responses, survey results)

<table>
<thead>
<tr>
<th>Employment Type</th>
<th>African</th>
<th>Coloured</th>
<th>Indian</th>
<th>White</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any job</td>
<td>52</td>
<td>22</td>
<td>43</td>
<td>7</td>
</tr>
<tr>
<td>Clerical</td>
<td>8</td>
<td>17</td>
<td>43</td>
<td>33</td>
</tr>
<tr>
<td>Skilled menial</td>
<td>17</td>
<td>20</td>
<td>14</td>
<td>33</td>
</tr>
<tr>
<td>Skilled professional</td>
<td>4</td>
<td>2</td>
<td>*</td>
<td>20</td>
</tr>
<tr>
<td>Semi-skilled/unskilled menial</td>
<td>20</td>
<td>39</td>
<td>*</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: * Insufficient data.
Source: Youth 2000 Study.

Part 4 examines the relevant policies and laws which may have had a significant impact on the performance of SMMEs. It assesses specific SMME policies on business laws and regulations, taxation, labour, trade and finance and credit laws, as well as enabling and innovation policies.
4. Mapping and assessing the policy environment

4.1 System of governance

Laws

The South African Parliament consists of an elected National Assembly of between 350 and 400 members, and the National Council of Provinces (NCOP). The NCOP is made up of a single delegation from each of the nine provinces consisting of ten delegates. These include the Premier of the province, three other special delegates and six other permanently appointed delegates. The National Assembly and the NCOP participate together in the legislative process. At the provincial level, legislative authority rests with the provincial legislatures, and at the local level, legislative authority rests with elected Municipal Councils. All laws and policies drafted must be in accordance with the provisions of the Constitution. Generally, national legislation that applies uniformly in the country as a whole will prevail over provincial and local legislation, but there are exceptions (in section 146). According to the Constitution, each of the three spheres of Government are deemed to be equal, but different functions are assigned to each.

Legislation may be introduced to parliament via different channels and may be the result of parliament initiating or preparing legislation on a particular issue, including its acting to give the force of law to a White Paper. Draft laws (Bills) require a majority of votes of the National Assembly. The National Council of Provinces can consider, pass, amend or propose amendments to or reject any legislation before the Council if at least five provinces vote in favour of the question.

A Bill passed by the National Assembly must be referred to the National Council of provinces before being adopted, while a Bill passed by the Council needs to be referred to the National Assembly (in section 73). “Bills” should not be confused with the “Bill of Rights” which is an integral part of the Constitution and which “affirms the democratic values of human dignity, equality and freedom.” Bills can also be passed by provincial legislatures prior to their adoption.

Laws passed by Parliament and signed by the President are “Acts” and are given a number which is unique for the year in which it is passed. Acts are published in the Government Gazette by the Office of the President and are given a date of commencement which is usually the date of publication in the gazette.

Laws passed by local Government are “by-laws” and may not conflict with any national or provincial legislation (section 156). By-laws can only be enforced after they have been published in the official gazette of the relevant province.

Policies

Policies are drafted in South Africa at all levels (national, provincial and local) to set the directions and intentions of Government. Initial policy proposals at the national level are usually drafted in the form of a “Green Paper” which is then advertised for comments. The “Green Paper” then acquires a higher status when it is amended and published in the Government Gazette by the relevant government department or Parliament as a “White Paper”. White papers are policies which are tabled in parliament, but have not been converted into statutes. They fulfil an important role generally in setting priorities and assisting in executive decision-making and further legislative or regulatory directions. Regulations and
laws, which are drafted at national, provincial or local levels, all have to take into account the policies contained in an official White Paper.

Specifically for SMMEs in South Africa, a White Paper was published on 20 March 1995 to contribute to the process of stimulating small, medium and micro enterprises and thereby assist in the stimulation of sustainable and equitable growth and development. Section 4.2 describes the Paper. (See also Annex 4 for full details.)

**Courts and administrative justice**

The South African judicial system consists of: the Constitutional Court which is the highest court in the country, the Supreme Court of Appeal, the High Courts, the Magistrates’ Courts and other courts such as the Small Claims Court.

**Public administration**

Section 195 of the Constitution provides that public administration must be governed by the democratic values and principles enshrined in the Constitution. This includes inter alia:

- A high standard of professional ethics being promoted and maintained. Efficient, economic and effective use of resources must be promoted. Public administration must be development-oriented;
- Services being provided impartially, fairly, equitably and without bias;
- Citizen needs being responded to, with the public encouraged to participate in policy-making;
- Public administration being accountable; and
- Transparency being fostered by providing the public with timely, accessible and accurate information.

Numerous policies and laws at the national level affect SMMEs and, increasingly, local governments are required to administer these, although this is happening very slowly.

For this report, the policy and legal environment within which SMMEs operate has been divided into seven different policy fields. These include specific SMME policies, business laws and regulations, taxation laws and regulations, labour laws and regulations, trade laws and regulations, finance and credit laws and regulations, and enabling and innovation policies. Each of these policies or laws falling within these categories has been summarized briefly and additional information is provided in Annexes 4 to 11.

A synthesis of these policies and laws, according to these seven policy fields, follows.

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38 In addition, Annex 1 gives legislative definitions of non-agricultural SMMEs according to this White Paper.
39 Annex 4, Specific SMME policies; Annex 5, Business laws and regulations; Annex 6, Taxation policies; Annex 7, Labour policies; Annex 8, Trade policies; Annex 9, Finance and credit; Annex 10, Enabling and innovation policies.
4.2 Specific SMME policies

Since 1995, several specific policies and laws have been drafted to promote SMMEs in South Africa. The first, the White Paper of 1995, provided a National Strategy for the Development and Promotion of Small Business in South Africa. This was soon followed by the National Small Business Act in 1996.

The White Paper attempted to create the basis of a new policy to assist in the development of SMMEs, recognising their promotion as critical to the overall economy, especially in relation to their ability to generate new jobs and income, and their role in Black empowerment and reaching marginalized groups. It specifically examined the importance of SMMEs and the constraints faced by them including finance, infrastructure, education and training and the general business, policy and regulatory environment. It called for institutional reforms and for support structures to be created to assist SMMEs in addition to those which already existed. The first formalized definitions of the sector were also defined, as survivalist, micro, small, and medium enterprises. Notably, the Paper recommended that different support strategies be devised for each category rather than treating them as a whole.

The Department of Trade and Industry was to be the key implementing agency of these proposals. When the National Small Business Act was promulgated in 1996, many of these proposals were included.

**National Small Business Act, 1996**

As proposed in the White Paper, the National Small Business Act created a formalized structure to address the concerns and needs of the SMME sector through a National Small Business Council. It provided for SMME promotion and facilitation through the creation of a new agency (Ntsika). The Act went further than the White Paper in its definitions of SMMEs and provided an expanded and comprehensive, sectorally distinct set of parameters according to total full-time paid employees, total annual turnover and total gross asset value (fixed property excluded). It was thought this would allow for better standardization of information, targeting of financial and other support, and the formulation of policies to include sector-specific references to SMMEs. In addition, in a positive move to encourage the coordination between different government departments and to evaluate the impact of any policy and legislation in terms of the needs of SMMEs, the Act further provided a regulatory framework within which government departments are encouraged (but not compelled) through the application of “guidelines” to assess the impact of policies and legislation on SMMEs (see Annex 4 for details).

The Act did not include specific support measures such as financial assistance, tax incentives, special export programmes and other such measures. The purpose of the Act was more to provide a framework, and that these would only be addressed through the application or amendment of other legislation. To some extent this lack of specific measures may have been a lost opportunity for supporting the sector, in that non-specific SMME policies and legislation are not aimed primarily at facilitating the growth of the sector or protecting its workers. It will be interesting to note whether the new SMME legislation will go further in providing these.

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40 These definitions are provided in Annex 1.
41 Table A1.1 of Annex 1 gives an overview of these sector-specific definitions.
The institutional framework brought about by the Act has not been a success. The National Small Business Council, which was meant to have taken on a strong advocacy role on behalf of SMMEs from all sectors, is now defunct. Its generic role in proactively supporting and developing proposals for the sector now falls almost solely with the Department of Trade and Industry, although various other supportive policies are being developed by other government departments. The envisaged formal structure through which the SMME sector could engage with Government has not emerged and plans are underway within the Department of Trade and Industry to establish a National Small Business Advisory Council. The main difference between the proposed advisory council and the previous council is that the proposed council will not be a separate institution but rather a body that meets regularly with the Minister on a quarterly basis (interview with the Director: Small Business Promotion, DTI).

Ntsika’s tasks comprised a wide range of functions, including the coordination and monitoring of the sector and the provision of non-financial services to the sector, assisting SMME service providers (including financially), consulting with Government and service providers and strengthening their capacity to provide support to the sector, as well as undertaking national research on the sector. Its failure (in some respects) to fulfil these functions has now led to its reinvention as part of the Department of Trade and Industry rather than a separate agency. The Chief Director of this Department explained that new SMME legislation is in the process of being drafted to address the new institutional structures that are needed to support the SMME sector for the future. It is expected that it will reflect the realities of the South African business and labour market environment as well as include the most recent thoughts of Government on the importance of the sector (unfortunately the contents of the discussion paper on this new legislation were not yet available for inclusion in the present report).

Overall, the fact that South Africa took the step of specifically legislating for the SMME sector after its 1994 democratization is a positive step. This has had the effect of establishing the importance of small businesses in South Africa in legislative terms, bringing them to the notice of policymakers and providing standardized definitions for SMMEs in South Africa which can be used by Government and other agencies in researching, regulating and providing for the sector.

**Impact of policies on SMMEs**

The impact of the policy and legislative environment on small and medium enterprises appears to be largely indirect. Much of the decision to invest (as well as past and future growth of the businesses) is included in the broader economic context in which these enterprises are located and, while this can in many instances be attributed to the policy environment, it may not be the policy directly targeting small business so much as overall economic policy (DRA Survey, 2001).

The DRA findings are supported by the findings of a CASE study\(^\text{42}\) of three small towns in South Africa indicating that the regulatory and legal environment had less of an impact on the performance of SMMEs than market and macro-economic conditions. Although the impact was less direct, the regulatory aspects governing financial institutions and the broad areas of taxation and labour law impacted most significantly. These are national policies and laws and have little to do with the local authority. For example, in the town of

\(^{42}\) CASE, November 2001 (draft report).
Prince Albert, the role of the local authority in enacting and administering law is limited. It seems that it has remained largely a service provider rather than a law maker.

According to Kesper (2000), manufacturing SMMEs identified “market development and increasing labour and other input costs” as their key constraints. In the Vaal region, they identified “increased competition in output markets and rising costs in input markets”, while in Gauteng manufacturing SMMEs saw a “stagnant economy and increasing import penetration” as well as “first world labour regulations” as the impediments to growth. This researcher concluded from the survey that under current “unstable” product market conditions, the prolongation of paid sick leave and the uncertainty about HIV-infected workers and their future performance makes SMME employers even more hesitant to take on additional employees on a permanent basis (Kesper, 2000, p. 22).

Change in investment behaviour

If SMME policies had been effective, one could have expected increased investment in the sector. However, more than half (53 per cent) of entrepreneurs reported that government policies had no influence on their decision to invest. Only 12 per cent found that policy had a positive influence on their investment decision-making, yet 35 per cent decided to not invest in part because of government policy (DRA Survey, 2001).

Where investment did occur, it was most likely to take the form of purchasing new production equipment (62 per cent), followed by improvements in working equipment (52 per cent) and working environment (39 per cent) (see Table 4.1 below). While small enterprises (10 to 49 employees) were more likely to have invested in new production equipment and working equipment than very small enterprises (2 to 9 employees), more very small enterprises had improved their working environment over the 1999-2001 period.

### Table 4.1: Investment in surveyed SMMEs, 1999-2001 (% of responses*)

<table>
<thead>
<tr>
<th>Investment made</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased production equipment</td>
<td>61.6</td>
</tr>
<tr>
<td>Improved working equipment</td>
<td>51.6</td>
</tr>
<tr>
<td>Improved working environment</td>
<td>39.4</td>
</tr>
<tr>
<td>Purchased office equipment</td>
<td>25.8</td>
</tr>
<tr>
<td>Moved to better premises</td>
<td>19.7</td>
</tr>
<tr>
<td>Expanded premises</td>
<td>18.6</td>
</tr>
<tr>
<td>Established additional premises</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Note: *These options are not mutually exclusive and entrepreneurs may have made several improvements to their business. The DRA sample included enterprises with 1 to 49 employees.


Production equipment was the highest reported investment and is linked to increasing basic productivity. According to one manufacturing entrepreneur, improved and new machinery means fewer people needed to operate it, less skills needed by the operator, higher quality products and fewer maintenance costs and downtime.

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43 *Ad hoc* interview.
The most important reasons for choosing a specific investment behaviour were reported as responses to the market and advice given by others, while the least influential reasons were access to foreign markets and government incentives. Difficulties experienced with gaining access to capital impacted most negatively on these decisions (DRA Survey, 2001). It therefore appears that policy and legislation had little direct impact on decisions to invest or what to invest in, as Table 4.2 shows.

Table 4.2: Impact of policy environment on investment in successful businesses*, 2001 (percentage)

<table>
<thead>
<tr>
<th></th>
<th>Strong positive influence</th>
<th>Positive influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advice given by others</td>
<td>19</td>
<td>46</td>
</tr>
<tr>
<td>Government incentives</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Foreign markets</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Access to capital</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>Costs of employment</td>
<td>4</td>
<td>26</td>
</tr>
<tr>
<td>Business premises</td>
<td>14</td>
<td>47</td>
</tr>
<tr>
<td>Market place</td>
<td>34</td>
<td>48</td>
</tr>
</tbody>
</table>

Note: *Respondents’ perception of the influence on investment made in their enterprise.

Change in business performance

By examining the business performance of SMMEs from 1999 to 2001, the possible effects of policies and legislation may be seen. However, it appears that this has much more to do with market conditions.

The entrepreneurs who were interviewed were very positive about their business performance over the last two years. Forty four per cent described their performance as “good” while 32 per cent described it as “OK”. “Very good” performance was reported by 8 per cent of the sample. “Poor” and “very poor” performance was only noted by 16 per cent of those interviewed. Very small enterprise owners were more likely than small enterprise owners to have had performance problems over the two years (50 per cent as opposed to 26 per cent “very poor”, “poor” or “mediocre”) (DRA Survey, 2001). This may be the result of the relatively tenuous existence of smaller SMMEs.

Positive business performance was mainly attributed to low competition and a high number of business opportunities (53 per cent mentioned these as factors) while a high percentage of respondents (62 per cent) noted this as their primary reason for good performance over the last two years. Strong business networks were seen as highly positive (58 per cent of those surveyed mentioned this as a factor), but this was only mentioned as the primary factor by 18 per cent. A slightly smaller proportion felt that strong business skills and experience had been instrumental in their business performance, with just under one half (46 per cent) mentioning this as one of the factors most influential in their performance in the two-year period (DRA Survey, 2001).

The largest proportion (31 per cent) of the entrepreneurs ascribed poor business performance to high competition and few market opportunities. Of the entrepreneurs to nominate these factors, one quarter (26 per cent) felt these factors to be the most important factor influencing their performance. A lack of government support was also highlighted, with approximately one fifth (20 per cent) of the business people surveyed highlighting such a lack
of support as having a negative impact on their enterprise. Interestingly, however, respondents (12 per cent) only nominated such problems as the third most influential factor influencing their performance.

Entrepreneurs (16 per cent) considered that future business performance (in the next two years) would be hampered by too much competition, while 11 per cent felt that Government does not support small business and that would negatively influence their business. Twenty eight per cent also said that government support for small business could be a positive factor that would positively affect their business performance over the next two years. This was only the fourth most positive factor, with the majority (60 per cent) arguing that abundant business opportunities would influence their business performance.

Although the DRA sample is not completely representative of all SMMEs (see Section 3.3, footnote 24), it appears that entrepreneurs in the sector view government support as a possible important future factor in their performance.

The reasons for business performance found in the DRA Survey were supported by Gumede (2000), confirming that small-business entrepreneurs believe that demand for their products is the single most important factor to positively influence their businesses to grow. Seventy per cent of owner/manager respondents mentioned demand for their products, whilst 37.5 per cent chose access to markets, and 19 per cent considered infrastructure as very important factors which increase the possibility of growth in a small business. Other important external factors affecting business growth are inflation (88 per cent) and interest rates (44 per cent). Eighty eight per cent of entrepreneurs complained about high prices. Other constraints included poor quality of products (44 per cent), lack of skills (38 per cent), and lack of planning (81 per cent). All respondents considered that finance was the major hindrance to growth.

### 4.3 Business laws and regulations

Many SMMEs do not understand the laws governing them. In most cases they need to hire an expert to decode and simplify the laws and regulations, according to an interview with the Community Based Public Works Programme.

Numerous laws and regulations could be treated in the present section that apply to SMMEs in South Africa. For example, the law limiting the use of tobacco products, that has recently been blamed for loss of business at restaurants and bars. In addition, each local authority has the power to draft by-laws and zoning regulations which are specific to that particular area, and these may be numerous, onerous and require considerable time and money for compliance. The local impact of these laws may have an absolutely negative or positive effect on a locally established business. However, for the purposes of this report, only the policies and regulations which apply nationally and which have a reasonably large impact on most sectors of SMMEs are included, particularly as the figures provided in the report’s preceding sections have not been geographically disaggregated.

The regulation of the sale of goods and services, the licensing and carrying on of business including for hawkers and street vendors, advertising, and communicating information about a business and the competition between businesses are all included in the Sale and Services Matters Act, 1964, the Business Act, 1991, the Trade Practices Act, 1976 and the Competition Act, 1998. Only the Business Act provides specifically for small and micro enterprises in the form of business licensing.
Sale and Services Matters Act, 1964

The Sale and Services Matters Act, 1964, was written prior to the emergence of the SMME sector as a priority in the South African economy and therefore makes no attempt to provide specifically for them. However, the Act is relatively short and clearly written for its time. Record keeping and the marking of goods have been mentioned as costly and time-consuming and possibly too onerous for small companies to be expected to comply with. It was therefore suggested that less stringent accounting and recording methods be allowed and that non-professionals should be allowed to prepare the records.44

Business Act, 1991

The Business Act, 1991, which was drafted more recently, also does not make specific mention of SMMEs, however there are sections dealing specifically with hawkers, street vendors and peddlers. The Act was not written in a simplified way to make it accessible to these enterprises, which are expected to comply with its license requirements in order to operate. In addition, the license requirements overlap with other trade-related license requirements that may be applicable to a small business, causing costs and delays in starting up and carrying on businesses.45 There are also provisions relating to the examination of the past character and practices of a potential licence holder which can lead to the refusal of a business license. In the present environment in South Africa, where every attempt needs to be made to rehabilitate and assist those who may have been found guilty of offences, this provision calls for review, as stressed in the Ntsika Review. Licenses are also given to peddlers to operate in specific areas that are often not the best trade areas. There is little that peddlers can do to get the license moved. In this way, peddlers are at a disadvantage in comparison with more formal shops. However, in spite of these constraints, some control of hawkers and vendors is necessary, for reasons of health and safety and to ensure the flow of traffic and pedestrians.

Trade Practices Act, 1976

The Trade Practices Act, 1976, regulates the information contained in advertisements, statements, and communications in businesses. It specifically attempts to eliminate false and misleading information that may lead to prejudice of other parties dealing with the business or person. It makes no specific references or provisions for small and micro enterprises. The Ntsika Review suggests that the Act be amended to include unfair contract provisions to protect SMMEs against harmful contractual practices, especially of bigger enterprises.46 It has, however, not been mentioned as a factor affecting the growth of the SMME sector, or employment within the sector.

Competition Act, 1998

The Competition Act, 1998 provides for an authority to regulate competition between businesses. Most SMMEs lack the resources or the ability to approach this authority and they are therefore not helped by the Act.47 In the case of exclusive product dealings that large corporations make with popular retailers, SMMEs are still powerless. The Small Business Project (SBP) echoes this concern in commenting that the lack of access to markets is one of the major concerns for small businesses.48

46 Ibid.
48 Alert! (Vol. 2, No. 4, 1997).
The SACCAWU representative interviewed for this report said that the Government should have laws to control franchising, since larger enterprises are surviving at the expense of smaller ones through franchising:

“There is a deliberate attempt by the large enterprises to unbundle their own operations, but still have control over the small franchises. For example, there are a lot of supermarkets that are franchised. The big operations set standards in terms of prices and uniforms, but there are no standards in terms of workers’ rights and wages. Employers exploit employees, and the big operations do not interfere but they still have the main control. It is evident that the law does not protect employees in the sector. This situation is not healthy for the economy of the country, as it continues to create many employed poor.”

Small Claims Courts Act, 1984

Many small businesses find it difficult to recover money from suppliers and customers and are unfairly treated by larger corporations. Their only course of action is to approach the civil courts, which is costly and time consuming. The Small Claims Courts Act, 1984, only applies to small and micro business owners who are in partnership or sole proprietorship relationships, but an argument can be made for extending the reach of these courts to include other small businesses such as close corporations and private companies with limited turnover. The SBP has also called for this, proposing that the monetary threshold of the courts be raised from ZAR 3,000 to 10,000 and be raised annually to keep in line with the Consumer Price Index (CPI). The SBP recommended that a small user fee be charged to assist the courts in being able to afford to set up in areas other than the main urban centres. Bearing in mind the fact that the Small Claims Courts are already overburdened, the SBP also suggested the use of “procedural assistants” who could lighten the burden of the courts by assisting litigants in the preparation of statements, and that these be drawn from advanced legal students. It was also recommended that the restriction on these courts not dealing with cessions be lifted and that certain types of interdict be allowed as may be necessary in the normal course of running a small business.49

Companies Act, 1973 and the Close Corporations Act, 1984

The registration of companies and close corporations is important from the point of view of any entrepreneur wishing to start up a business without risking all of their own capital. The Companies Act, 1973, has strict compliance and registration requirements and is more suited for use by larger corporations and not-for-profit organizations, limiting the liability of those incorporating the company, as well as providing a stable entity with whom other enterprises will feel relatively safe to contract. These strict compliance and registration requirements resulted in the drafting of the Close Corporations Act in 1984 which aimed to simplify requirements and make provision for smaller companies (no more than 10 members) whereby the members would still escape full liability except in certain circumstances. However, there are still many procedures involved which would not make this suitable for some SMMEs (for example, sureties which have to be signed).

49 Ibid.
**Insolvency Act, 1936**

The Insolvency Act, 1936, is aimed specifically at insolvency and therefore impacts on small entrepreneurs who are not registered in terms of the Companies or Close Corporation Acts. In spite of this, there is no specific reference to SMMEs, even in its amended form. The Act ensures that when an individual entrepreneur or partnership is declared insolvent, creditors will still be entitled to a share of what remains. Although the personal estate of the entrepreneur is considered part of the estate, this does not unfairly advantage creditors (who have taken this into account when putting their faith in the transaction). The Ntsika Review suggests that judicial management, instead of insolvency, could be considered in the case of small businesses. Were this to happen, it is not clear whether creditors would still deal with individual business owners and partnerships, especially in cases where judicial management has little chance of turning the business around. Many businesses fail not only because of bad management but also because of prevailing business conditions.


The National Development Agency Act, 1998, and the Preferential Procurement Policy Framework Act, 2000, were specific attempts to address the uneven nature of the South African economy and to ensure that poor communities and previously disadvantaged groups could benefit. While the National Development Agency Act aimed to directly invest in poor communities and stimulate development, improve infrastructure, and undertake research, it has been unable to direct the funding to the neediest communities, and its impact has been minimal so far. The Preferential Procurement Policy Framework Act is specifically aimed at awarding contracts preferentially to previously disadvantaged SMMEs run by Black or women entrepreneurs. According to the Ntsika Review, the rate at which small business (and disadvantaged entrepreneurs) are given tenders is not being adequately monitored. In addition, rural entrepreneurs often find it hard to access information on what tenders are available and what is required to comply with the tender notice. Also, tender requirements are not uniform across different government departments and geographical areas. An employers’ union representative (MBU) agreed with this:

“Well, look at the way that they award tenders. Every department does it their own way. They do not seem to be following the same procedures. The SMMEs do not understand exactly how this is being done. The business people are even confused as to what is really expected of them or what they have to do when applying for tenders.”

From the point of view of the government agencies trying to implement the preferential awarding of tenders, it is also not clear whether the company bidding for the work genuinely includes previously disadvantaged groups or it is merely “fronting” its organization to win the tender. In addition, it should be noted that while this is poor contract management rather than the result of policy or legislation, the procurement process is still unfriendly towards SMMEs. Many businesses have experienced severe financial difficulties while waiting for payment for work done.

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50 BEE Com, 2001, p. 31.
52 BEE Com, 2001, p. 32.
**National Integrated Black Economic Empowerment Strategy, 2001**

The new National Integrated Black Economic Empowerment Strategy published in 2001 includes specific reference to small business and Black entrepreneur support. Among its objectives are that at least 50 per cent of government- and state-owned enterprise procurement at national, provincial and local levels should go to Black companies and “collective enterprises”; that at least 30 per cent of these should be Black-owned SMMEs and that at least 30 per cent of private sector procurement (for companies with more than 50 employees) should go to Black-owned companies including SMMEs and “collective enterprises”. In addition, the strategy proposes that the banking sector and Government should agree on targets which would ensure the increase in advances to Black entrepreneurs, SMMEs and Black households in rural and urban areas.

**Business registrations**

The findings of the DRA Survey suggest fairly low levels of registration with various governmental agencies on the part of the entrepreneurs interviewed. Where entrepreneurs were registered, they were most likely to have registered with the Receiver of Revenue (28 per cent), followed by a local authority (24 per cent) and the Unemployment Insurance Fund (UIF) (17 per cent), Workmen’s Compensation Fund (11 per cent), and the Department of Trade and Industry (7 per cent).

Similarly, small businesses were considerably more likely than smaller (very small) businesses to have registered with such agencies and organizations. Very small businesses were found to be more likely to have registered with the Department of Health, Education and Public Works, while small ones were more likely to be registered with business organizations and professional boards. The primary reasons for low registration according to the DRA Survey (2001) appears to be the reporting requirements, the costs involved, and the time spent registering.

**Other business laws**

As mentioned in the introduction to this section, there are a multitude of policies and laws which impact on the SMME sector that, due to their specific nature or limited impact, were excluded from this study. For example, the impact of regulations on meat safety is negatively affecting certain SMMEs. The CASE study of three small towns found that a successful venison farmer in the area was being positively influenced by new national legislation in the form of the Meat Safety Act, as it provides an important opportunity to expand his South African market share. The new law requires that all meat sold to the public must be inspected, including venison. The farmer believes that a lot of competition in the market will be eliminated by this provision since many smaller farmers will not be able to comply and the regulation will negatively impact on smaller and more informal businesses.

Annex 5 of the present report summarizes the contents and legislation of business laws.

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54 Venison previously did not fall under the definition of “meat”.

51
4.4 Taxation policies, laws and regulations

The tax system in South Africa is a complex one, and it is ruled by various different laws including the Income Tax Act, 1962, the Estate Duty Act, 1955, the Value Added Tax Act, 1991, the Regional Services Council Levy Act, 1995, and the Skills Development Act, 1998. In addition, local taxes are payable to local authorities based on the value of the property owned. The legislation for the most part has not been written in plain language, making it difficult for small entrepreneurs to fully understand their obligations and rights. Small businesses are particularly affected by this as they often cannot afford (as larger companies can) the legal and accounting advice, computer and training facilities which could assist them.

Income Tax Act, 1962

The main taxation legislation is found in the Income Tax Act, 1962, which governs taxes paid by individuals and companies. Each year the South African Revenue Service (SARS) publishes new guidelines to explain the latest amendments, directives, deductions, definitions, and regulations. To some extent these are helpful to small entrepreneurs as they are written in plain language. However, the volume of reading and understanding involved and the constantly changing nature of the tax system in South Africa still means that expert advice is often needed to achieve compliance and ensure that they pay the taxation minimum required of them.

In the CASE study of three small towns, it was found that small businesses could find compliance difficult. A few entrepreneurs complained about the administrative burden imposed by the Income Tax Act. This was found to have a particularly negative effect on less formal businesses (primarily affecting African and Coloured entrepreneurs). It was suggested that compliance in Prince Albert would have been far lower if it were not for the existence of an advice office that helps a number of micro businesses to fill in their tax forms. In contrast, in Victoria West, there is no advice office to support informal micro businesses to complete their tax forms, and non-compliance may have been exacerbated. For most of the formal businesses which were tax registered, the tax burden imposed by the Income Tax Act was not raised as being a specific problem, although for one business person in Masinyusane, the tax burden was felt to be too great.

According to Ntsika (1999) the nature of loans which SMMEs take out are often not tax deductible. It suggests that additional tax benefits need to be extended to SMMEs to encourage their growth and development. For example, women SMME owners and workers could benefit if there were additional deductions allowed for expenses such as childcare.

According to the Act, income of an enterprise is taxed either in the year of receipt or the year of accrual, whichever comes first. This has a negative impact on the running of small businesses with limited capital. Such SMMEs are expected to pay tax on transactions for which they have not yet been paid and as many of them cannot afford to do this, they either go into further debt to pay the taxes due, or pay fines.

55 Act 58 of 1962.
56 When SMMEs are provided with funds lent by an investor, the investor incurs an expenditure of a capital nature, and in such cases the outlay is not tax deductible. This is not the case when a bank or moneylender provides the loan. This tax deductibility provision therefore needs to be extended to include investors (p. 11).
The Guidelines for Employees Tax and Skills Development Levy\(^{57}\) (published in terms of the Act) continues a practice of previous years, where the Minister of Finance can determine who is classified as an employee. This means that even if for all intents and purposes the SMME is a separate company, but it does outsourced work for a larger company, its employees can be deemed to be employees of that larger company. Thus, the SMME income from the larger company will have income tax deducted from it. While this lessens the concern of the South African Revenue Service (SARS) that SMMEs are not paying (sufficient) income taxes, it also means that small-scale SMME operations are overtaxed and have to claim back considerable amounts from the SARS that are deductible. In terms of job quality, this measure may discourage outsourcing of work by larger companies who have been turning employees into “contractors” so as to avoid labour laws.

**Estate Duty Act, 1955**

The Estate Duty Act, 1955, provides for the payment of duties on estates. While it does not include any definitions of SMMEs or employment issues, it does include definitions for a company and a family company. SMMEs consider the deductions have become too burdensome as a result of inflation, but this is a more general concern about estate duties, and is not limited to SMME owners.

**Value Added Tax Act, 1991**

The Value Added Tax Act, 1991, exempts certain enterprise-size categories from registration according to taxable supplies made by an individual or enterprise. It is a very long Act (180 pages in total) with lengthy sections and minimal headings to guide the reader, which makes it difficult to locate specific requirements. Close corporations and companies are not allowed to pay VAT on receipt of payments, but are required to pay based on invoices they have submitted. However, in the case of sole proprietorships and partnerships, it is still possible to pay VAT to the SARS on receipt of money from customers and clients.

In cases where VAT becomes immediately payable on the generation of invoices, an unfair and harsh burden is created, especially in cases where SMMEs are operating on a fine margin or have many bad debtors. Although the money is ultimately recoverable from the SARS as it is adjusted, it still means that SMMEs are possibly at risk of not being able to pay, having to pay fines or compromising the running of the operation. It is suggested that SMMEs with small annual turnovers be allowed to pay VAT in the same manner as sole proprietorships and partnerships, on actual receipt of the money.

The CASE study of three small towns also found that for some entrepreneurs, VAT\(^{58}\) was far too complex.

**Regional Services Council Levies Act, 1985**

The Regional Services Council Levies Act, 1985, (as amended up to 1995) only adds to the compliance and administration burdens that some entrepreneurs claimed are too high for SMMEs. They consider they are not receiving any benefits from the taxes. Levies are based on the number of employees in an enterprise, and this could have had the effect of discouraging labour-intensive operations. However, as the actual levies are very low, this should not have a negative effect on labour.

\(^{57}\) SARS: EMP 10 Vol. 42 for the 2001 Tax Year.

\(^{58}\) The Value Added Tax Act 89 of 1991.
The CASE study of three small towns found that although not many businesses or stakeholders mentioned Regional Services Council Levies\(^{59}\) as being problematic, one interviewee felt that the administrative burden was disproportionate. The levy is payable monthly and for many small businesses the amount for which they are liable per month is too little to justify the complex accounting and record-keeping procedures required. It was suggested that payment by small businesses should be annual.\(^{60}\) Again, the administrative burden is made greater by an accumulation of legal obligations, including those under labour legislation.

Generally, women in rural areas fall for the most part outside of the income tax “net”. This has been cited as having resulted in the limited services being provided in rural areas, but this has not been established as a fact. There are also problems in rural areas with understanding of the different taxes that are applicable, and, once a tax has been paid it is not understood why additional taxes need to be paid. Rural inhabitants have to pay levies and other payments that are not applicable in urban areas.

Annex 6 of the present report summarizes the contents and legislation of taxation laws.

### 4.5 Labour policies, laws and regulations

Since the 1994 elections, various new labour laws have been passed to protect the rights of workers and to ensure that the uneven nature of South Africa’s workforce is normalized over time.

According to Kesper, manufacturers reason that current wage agreements are not related to productivity increases but to rising costs of living, that retrenchment procedures have become cumbersome and costly, and that introducing a multi-shift working day requires consultation with the trade unions which prohibit performance-related remuneration. These are indicators of a more subtle “labour productivity problem” in many South African SMMEs. Expanding SMMEs in Gauteng largely seem to consider it more viable to grow production capacity without additional staff rather than to address these problems (Kesper, 2000, p. 19).\(^{61}\) Assistance to SMMEs may therefore result in SMMEs contributing more to economic growth, but does not automatically translate into employment creation (Kesper, 2000, p. 27).

In contrast, according to the DRA Survey, 2001, government incentives and labour regulations had the least effect on the decision of how many people to employ. Fifty nine per cent reported that government incentives had no influence on their decision; 50 per cent reported that labour regulations had no effect on their decision. Instead, the market place and access to capital were the determining factors (DRA Survey, 2001, Appendix 2).

#### Changes in number of people employed

The DRA Survey indicates that there was little change over the last two years of the total number of workers, as Table 4.3 shows. The majority of the successful enterprises

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\(^{59}\) Regional Services Levies Act 109 of 1985.

\(^{60}\) It is unclear whether the interviewee had information on an exception that provides that the levies do not need to be paid if they do not exceed ZAR 50 per annum. Further, if the aggregate of the levies does not exceed ZAR 50 per month, the levy-payer can pay them once annually.

\(^{61}\) See also Section 4.2 of the present report, under “Change in investment behaviour”. 
surveyed had between two and five employees both at present and two years ago, possibly supporting the theory of “jobless” growth.

**Table 4.3: Change in number of workers in surveyed SMMEs, 1999-2001 (share of workers by enterprise size)**

<table>
<thead>
<tr>
<th>Number of workers</th>
<th>2001</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>–</td>
<td>7.3</td>
</tr>
<tr>
<td>2 to 5</td>
<td>74.5</td>
<td>67.1</td>
</tr>
<tr>
<td>6 to 10</td>
<td>17.0</td>
<td>17.9</td>
</tr>
<tr>
<td>11 to 15</td>
<td>4.5</td>
<td>4.1</td>
</tr>
<tr>
<td>16 to 20</td>
<td>0.8</td>
<td>1.6</td>
</tr>
<tr>
<td>21 to 25</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>26 to 30</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>41 to 45</td>
<td>0.4</td>
<td>1.2</td>
</tr>
<tr>
<td>46 to 49</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


Although there has been an increase in the number of full-time paid workers over the two years in the enterprises surveyed, this is insufficient to indicate any trend. It may be related to the fact that, during this period, more companies were starting up and becoming established, while the companies already established – as were those included in the survey – were taking on more full-time workers.

As in the case of investment, the entrepreneurs reported that market factors (75 per cent) were also most likely to have positively influenced decisions around employment, as shown in Table 4.4. Access to foreign markets, taxation and government incentives tended to have no impact on the number of workers over the two years. Access to capital (32 per cent), followed by access to resources and employment related costs, on the other hand, seem to have had the most negative influence on employment decisions. Twenty nine per cent of the successful entrepreneurs surveyed reported that access to capital had negatively influenced their employment decisions, while 17 per cent said that the accessibility of such capital had been strongly influential in the decisions made (DRA Survey, 2001).
Table 4.4: Impact of business and policy environment on employment in SMMEs*, 2001
(survey results, percentage of responses)

<table>
<thead>
<tr>
<th></th>
<th>Strong positive influence</th>
<th>Positive influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government incentives</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>Tax incentives</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Access to foreign markets</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Access to resources</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>Access to capital</td>
<td>5</td>
<td>27</td>
</tr>
<tr>
<td>Labour regulations</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>Costs of employment</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>Market place</td>
<td>29</td>
<td>46</td>
</tr>
<tr>
<td>Business premises</td>
<td>10</td>
<td>45</td>
</tr>
</tbody>
</table>

Note: *Respondents’ perception of the influence on number of workers employed in their enterprise.
Source: Adapted from DRA Survey, 2001.

Employment of new staff, 1999-2001

Although the DRA Survey indicates that there had been little change in the number of staff reported over the two years, 40 per cent of successful enterprises interviewed did, however, feel the need to employ more people in the future because of the demands of their businesses. The primary reason mentioned for not employing more staff was that there simply was no need for additional staff (41 per cent). Financial constraints were the next most mentioned reason for not employing additional people (30 per cent). A smaller number of entrepreneurs (14 per cent) had not hired additional employees as a result of the “need to remain flexible” (DRA Survey, 2001).

Changes in training and conditions of employment

The DRA Survey found that over the two-year period, there had been no significant change in employment levels, composition of the labour or conditions of employment. Over two-thirds of surveyed entrepreneurs claimed to have provided on-the-job training over the two-year period. Small enterprises were found to be considerably more likely than very small enterprises to have provided on-the-job training (83 per cent compared with 67 per cent, see Table 4.5). Market forces were again described as being most influential on the decisions made by entrepreneurs to provide job training. Seventy per cent of successful entrepreneurs surveyed were influenced either positively or strongly positively by the market place in this decision. Sixty two per cent said they were positively or strongly positively influenced by the advice of others. Those who did not provide training said that lack of access to capital (42 per cent) and access to skills and resources (35 per cent) had influenced their decision (DRA Survey, 2001).
Larger businesses were considerably more likely than smaller businesses to have introduced improvements to their workforce over the two years surveyed. This was particularly the case for improvements such as the provision of production incentives (71 per cent as opposed to 28 per cent), ensuring safer working conditions (71 per cent compared with 39 per cent) and the provision of written contracts of employment (43 per cent as opposed to 12 per cent). This may point to the fact that larger businesses are generally better able to support such improvements (DRA Survey, 2001)

Even though the above data give a general indication of improvements made to the workforce in SMMEs, it does not give an idea of scale. Salary increases may have been given, but may have been considerably smaller than increases in larger enterprises. Similarly, training may have been much less intensive or educational than workers in the large enterprises may have received. The extent to which labour legislation impacted on these behaviours is not clear.

**Labour Relations Act, 1995**

The Labour Relations Act, 1995, regulates the rights of trade unions, collective bargaining, the right to strike and lock out and the participation of workers in decision-making, including provisions for resolving labour disputes.

Although it was drafted recently, it is a long and complex Act of 281 pages, with detailed descriptions of procedures and requirements. Attempts have been made to make the law more accessible to readers, but it is still complex. SMMEs are not provided for specifically in the Act, and some informants have mentioned difficulties in complying with the provisions and resolution measures, for example the formal mediation and conciliation procedures. SMMEs, and particularly the smaller side of the sector, are also not well organised and therefore not well represented in cases brought before the Labour Court. An interviewee from an employers’ union mentioned that the law provided too much protection for workers and not enough for employers, who often have to take decisions to downsize their operations based on market demand. On the other hand, labour unions felt that the law was

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62 It should be mentioned that since this report was written, the Labour Relations Act has been revised. See M. Bennett, 2002, pp. 25-26.
definitely a step forward for labour, but that in some aspects it does not go far enough in protecting the worker’s right to strike.

The rights that workers now have as a result of this Act has made it much more difficult for enterprise-owners to retrench or fire workers without following strict rules. In many cases, owners have found themselves engaged in lengthy conciliation and mediation actions (unlike the past). In addition, the increased rights of workers and trade unions has often meant that enterprise-owners now have to accept possible increased strike actions and pressure from their workers. While this has resulted in increased bargaining opportunities for workers, it has also led to the practice of turning employees into contractors who undertake outsourced work. This avoids conflict and increases flexibility for employers. Accelerating outsourcing is having the opposite effect on labour conditions to that intended in the Act. It is possible that one result of outsourcing may have had the effect of expanding the SMME sector unintentionally.

As bargaining councils are dominated by large firms (where it is easier to organise workers), the bargained wage is more likely to suit capital- rather than labour-intensive activities. Compulsory extensions of collectively bargained agreements to non-parties, therefore, probably harm labour-intensive firms and activities and reduce labour absorption in manufacturing. Even though there have been various policy documents and statements in support of resolving this problem, the Department of Labour has not yet acted to amend the provision pertaining to compulsory extensions of collective bargains to non-parties (Natras, 2000b).

**Basic Conditions of Employment Act, 1997**

The Basic Conditions of Employment Act, 1997, was drafted to assist in the establishment of fair labour practices by regulating basic conditions of employment and complying with the obligations that South Africa has as a member state of the International Labour Organization.

It specifically addresses the need for maternity leave for working mothers. The SBP raised a concern that the leave entitlements have significant effects on human resource management, particularly of small business, and that some degree of flexibility should be allowed. However, it is necessary to have minimum standards especially in a labour market where employees find it difficult to bargain for better conditions of employment.

The Act contains potentially costly provisions for SMMEs such as overtime payment, working hours, leave requirements, severance pay requirements, and minimum wages. It was recognized that the Act may not be suitable for all types of employment, and provision was made for Sectoral Determinations to lay down, where necessary, differing conditions of employment in certain cases, but with certain basic conditions to apply universally. The Act refers to the SMME sector, but does not provide its own definitions of these. A recent sectoral determination for small business was made, however, and it defines small businesses as those employing fewer than 10 people.

Unlike South Korea where large firms function as catalysts of growth to their subcontractors, corporate subcontracting to small and mostly “informal” firms in Africa is

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63 For more details on the functioning of Bargaining Councils in South Africa, see M. Bennett, 2002, p. 7-8.
more often a means to reduce costs by exploiting labour-surplus conditions and circumventing regulations and trade union organizations (Kesper, 2000, p. 4).

This view was supported by union representatives who were particularly interested in the basic conditions contained in the Act. According to them, while the SMMEs are creating employment, it is poor quality employment and employers often do not comply with the laws. Mduduzi Mbongwe, the general secretary for the Commercial, Catering and Allied Workers Union, SACCAWU, regarded SMME workers as the most vulnerable. They can be exploited easily and, although the employers’ situation could be understood to some extent, SMMEs should not be promoted at the expense of decent work for employees.

In the CASE study of three small towns, the Basic Conditions of Employment Act was the primary legislation in respect of which issues were raised in the area of labour law. It was difficult to establish the degree of compliance by micro and small businesses with labour legislation. The bigger, more formal businesses comply with the legislation and did not mention that they found it problematic. But it was difficult to ascertain the degree to which less formal businesses have problems of compliance with this legislation. However, instances where there appeared to be non-compliance, particularly with overtime, pay and leave provisions, were found. In addition, some employers did not appear very conversant with the law and there also seemed to be a perception that, if an employee does not work every day for an employer, the legislation does not apply.

Non-compliance with legislation was also in certain instances defended as being necessary for the survival of a business. Some employers claimed they intend to shut down operations if they are not allowed this degree of flexibility. Another employer who complies with the legislation in all respects was concerned about the limitation on maximum overtime hours. He is happy to pay his employees the overtime which he requires from them and they are keen to have the additional work.

Natras (2000b) criticized the lack of reform in relation to the Basic Conditions of Employment Act: “…despite calls for greater lenience for small business with regard to minimum wages and labour standards, very little concrete reform has been done”. According to this researcher, this factor, together with the problem mentioned above with bargaining agreements, are in contradiction with the Department of Labour’s stated commitment to job creation and support for small business.65


The Employment Equity Act, 1998, aimed to eliminate discrimination in the workplace and to achieve a more representative workforce in South Africa. Affirmative action provisions are limited to companies larger than SMMEs (employing 50 or more employees, or having more than a specified annual turnover). Most SMMEs are therefore exempt, but the other sections of the Act apply to them. The Act therefore has had a positive impact on SMMEs, although equity plans may have cost implications for SMMEs.

The Skills Development Act, 199866 is inter alia aimed at improving the skills of South Africans and helping workers to find work and get work experience. All businesses are

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65 pp. 15-16
required to pay a levy towards this. Annex 6 of the present report summarizes the contents and legislation of taxation laws and includes more detailed provisions of this Act.

Certainly, the aims of the Act are all well founded and skills development and qualifications are needed. However, small businesses cannot be relied upon to establish training programmes for their workers and to provide sufficient time for such training to take place. To some extent, this issue is addressed through the provision of general training for different businesses through Sectoral Education and Training Authorities (SETAs).

An SMME-owner in the manufacturing sector indicated that they pay the levy, as it is compulsory and cannot be avoided, but that time was too precious to spend on devising and implementing their own workplace training programmes in order to get some of the money back. Unlike large firms, smaller businesses have fewer staff to devote to the preparation of these plans. Instead, most training happens on the job as required. Thus, although the levy is being demanded of small business, little formal training as envisaged by the Act occurs. SMMEs experience difficulty in accessing training funds and in affording the levy. The Ntsika Review also mentions this concern, stating that the Act does not provide for small contractors who train workers on the job or for unregistered and unaffiliated contractors who use the old apprenticeship system. An SMME-owner indicated that they pay the levy, as it is compulsory and cannot be avoided, but that time was too precious to spend on devising and implementing their own workplace training programmes in order to get some of the money back. Unlike large firms, smaller businesses have fewer staff to devote to the preparation of these plans. Instead, most training happens on the job as required. Thus, although the levy is being demanded of small business, little formal training as envisaged by the Act occurs. SMMEs experience difficulty in accessing training funds and in affording the levy. The Ntsika Review also mentions this concern, stating that the Act does not provide for small contractors who train workers on the job or for unregistered and unaffiliated contractors who use the old apprenticeship system.67 A concern of the SBP was that the training that small businesses put into their workers is often wasted – as their newly trained employees then find it easier to find work with larger more formal companies (interview with SBP). In the CASE study of three small towns, some entrepreneurs felt that the Skills Development Act benefits big organizations and is useless for smaller organizations.

According to Ntsika, the Employment Equity Act precludes firms from optimally staffing positions as the ‘right colour mix’ meets their skills requirements sub-optimally. The Skills Development Act seemingly discourages smaller SMMEs from intensifying training efforts. SMMEs reportedly feel burdened with the administration costs of recovering levies in the form of grants for training undertaken; the costs of designing a workplace training programme as an alternative to using external training institutions; and the relatively high charges by private training institutions after the closure of the former industrial training boards which had been directly subsidized through levies from the industry (Ntsika, 1999b).


The Unemployment Insurance Act, 1996, caters for those who have lost their job, become ill or take maternity leave. It is a safety net that assists workers to overcome temporary unemployment and then return to work. The implications of this Act for SMMEs is limited to the contributions which have to be made for employees earning below a threshold amount. In the CASE Study of Small Towns in South Africa, most of the registered businesses seemed to be paying Workmen’s Compensation but a few do not pay into the Unemployment Insurance Fund on behalf of their employees. A local farmer said that he pays only half of the amount for his farm workers.

Similarly, the Compensation for Occupational Injuries and Diseases Act, 1993, is a safety net for those injured or killed or who fall ill as a result of their employment. From the perspective of SMMEs, the Act requires that they be registered and keep records of injuries, as well as be charged a tariff which is paid into the compensation fund.

68 Contributions to the Unemployment Insurance Fund in terms of the Unemployment Insurance Act 30 of 1996.
The Occupational Health and Safety Act, 1993, has specific requirements to be met by SMME owners and, in some cases, places administrative and financial burdens on them. Apart from the reporting requirements, enterprise owners have to maintain a safe working environment, provide training and safety equipment where necessary, and comply with other safety and preventative measures (details of these are contained in Annex 7). According to the type of work being done, specific requirements may have to be fulfilled. Also, although health and safety representatives are only required in companies with more than 20 employees, in certain cases, inspectors may direct employers to have such representatives when deemed necessary.

General

Many of the provisions of current labour legislation are not complied with in the survivalist sector. In this sector, there are also few unions to represent workers, and inspectors very seldom apply the legislation as it was intended. According to one interviewee, the lack of flexibility in labour legislation is felt to be one of the main problems. To some extent, flexibility has been brought in with the new sectoral determination for small business. Although some might consider that it does not go far enough in providing adequate flexibility, the quality of jobs must be protected – the SMME sector cannot be promoted at all costs.

4.6 Trade policies

Trade policies include barriers to imports, as well as taxes on and incentives for exports. Various prohibitions and restrictions on business activities and difficulties in complying with registration requirements have been cited as constraints. SMMEs involved in foreign trade are performing relatively well, as the gap between imports and exports is smaller than in the case of larger businesses. The case could therefore be made that SMMEs should be encouraged to become involved in foreign trading.

Although only a small percentage of SMMEs export or import goods, trade policies are still considered to be impeding the growth and success of the sector. Higher premiums, difficult administrative requirements, and no special lower duties and rates have been complained of as constraints. Annex 8 of the present report summarizes the contents and legislation of trade laws.

The Export Credit and Foreign Investment Reinsurance Act, 1957, provides for the reinsurance by the State of export insurance contracts, to ease trade with other countries. Although this form of protection is still helpful to SMMEs, they have complained of the inability to comply with the complex administrative requirements, higher premiums as a result of lower volume deals and higher risk contracts, as well as the expense of having to pay for a full 12-month contract while their exports may be erratic.

The Customs and Excise Act, 1964, provides for the levying of duties on imports. SMMEs do not get any special reductions on duties. However, this is not considered to be a factor impacting on SMMEs negatively in comparison with larger companies.

The Board on Tariffs and Trade Act, 1986, is aimed at protecting industrial development within South Africa and discouraging the import of goods that are also being made locally. While it protects some SMMEs from the influx of foreign equivalent goods,
companies who import goods may have to pay higher prices for certain goods. SMMEs do not get any special treatment in terms of this Act. While the Ntsika Review cited this as a problem, the lack of special rates in itself should not be seen as the issue. If specific problems relating to SMMEs are found to exist, these should be examined.

A workers’ union representative complained that there had been a reduction in tariffs as part of trade liberalization which was meant to benefit the SMME sector, but that it had had the opposite effect. As he put it:

“Let me give an example. Check the issue of tariffs, especially in the automobile sector. The Government is committed to cut down tariffs. The people who benefit are the auto assemblers, because they are able to export and import cheaper components in bulk, whereas the small businesses are not able to do that. SMMEs are highly affected by this cut of tariffs because of the increased competition from bigger enterprises. These policies are contradictory because, at an industrial policy level we are committed to the development of SMMEs. But, at the practical level, which is the micro economic policy that says, we have to liberalise, the people who suffer most are the SMMEs.”

(Interview with NUMSA representative).

4.7 Finance and credit policies, laws and regulations

This section includes the policy, legal and regulatory instruments that affect the access of SMMEs to capital.\(^\text{71}\)

According to interviewees, the lack of finance for SMMEs is one of the major constraints facing the sector. Although the problems are not only legislative in nature, legislation to encourage lending appropriate to the SMME sector (both in terms of loan size as well as collateral and credit requirements) could ease this problem considerably. Some of the more general problems faced by lenders when considering lending to an SMME, include the difficulties in determining risk, lack of information, problems in communicating with clients, and assessing the willingness and ability of lenders to repay debts. These factors, together with the attitudes of lenders and discriminatory lending practices have made it difficult for SMMEs to access finance.\(^\text{72}\)

In response to recommendations from the Ntsika Review, the DTI established a reference group specifically focusing on increasing SMME access to finance. The purpose of the reference group is to engage all the relevant stakeholders in the financial sector (including Khula) to develop a strategy which would enhance financial mechanisms that would ensure that SMMEs could easily access finance (interview with Director: Centre for Small Business Promotion, DTI).

**Banks Act, 1990 and the Usury Act, 1968**

South Africa has a sophisticated formal banking system, on a par with banking systems in developed countries. The Banks Act adopted in 1990 requires banks to have an initial capital of ZAR 50 million for commercial banks and ZAR 10 million for mutual banks.

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\(^\text{71}\) See also Annex 9 which summarizes the contents and legislation of finance and credit laws.

\(^\text{72}\) Ibid.
No enterprise can conduct the business of a bank, such as deposit taking, unless it is registered as a bank. There are some exemptions to this such as Village Financial Service Cooperatives (FSC), Stokvels, and Savings and Credit Cooperatives (SACCO) (see Appendix 9 for details).

The DRA Survey found that banks remain the most likely to be approached by SMMEs. However, they are not necessarily the most likely to provide loans. Family and friends are also still seen as a source of finance for many entrepreneurs and were more likely to provide loans than were banks (DRA Survey, 2001). New, very small, and even small enterprises simply do not have the collateral required to leverage loans from banks: 67 per cent of all entrepreneurs who had experienced difficulties trying to access a loan claimed that the bank had refused them due to lack of suitable collateral. Many SMMEs are not capital-intensive, have little or no property or equipment that can be lodged as security, and have no credit records with the institutions. The lack of collateral and high interest rates were the two most severe constraints according to entrepreneurs surveyed. The DRA Survey concludes that banks remain relatively inaccessible to small entrepreneurs, despite attempts by Government to facilitate access, and that public initiatives and family remain the first option of the majority of entrepreneurs in South Africa (DRA Survey, 2001).

This is further supported by the findings of the Reserve Bank, which state that the number of micro-lenders lending to SMMEs is limited, and the majority of moneylenders are “cash lenders” lending money mainly for consumption purposes. For this reason, the exemption to the Usury Act, 1968 to “encourage the positive potential of the fast-growing micro loans sector and to limit the increasing abuses which have resulted in borrower overindebtedness and the lack of credit access for small business” has not necessarily had a positive impact on the access of small businesses to finance in terms of amount of money which is loaned. It has had a significant impact on the growth of small businesses (micro-lenders) in the finance sector.

SMMEs who have financial needs which are greater than the loan sizes in the exemption to the Usury Act cannot be served by micro-lenders who have a loan ceiling of ZAR 10,000 or commercial banks who in most cases only give loans for startups in the ZAR 100,000 to 250,000 categories. It is not clear that SMMEs would choose to lend from micro-lenders even if the loan sizes were adjusted, as the interest rates charged do not support longer term lending. At present, the micro-lending industry is continuing to lobby Government to increase this limit to ZAR 50,000. It is generally held that micro-lending in its current form tends to exacerbate dissaving in the economy, and there have been increasing abuses and unethical practices in this sector.

The micro-lending industry, primarily fueled by private capital, is now being increased through large investments from the formal financial sector which has seen an opportunity to enter the micro loans market since the revision of the exemption in June 1999. Because of the increased formal investment in the sector, there has been some movement towards consolidating smaller micro-lenders and the buying up of micro-lending

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74 The exemption relaxed the Usury Act to allow higher than usual rates of interest to be charged on loans below ZAR 6,000.
76 BEE Com, 2001 pp. 22-23.
77 Ibid, p. 20.
78 Dissaving is the excess of consumption expenditure over disposable income.
enterprises by larger, corporately structured lenders. As competition increases in this sector and new technologies develop to ensure the repayment of loans, there may be a decline in the interest rates charged for smaller loans, and these may then become more attractive for SMME owners.

**Credit Agreements Act, 1980**

The Credit Agreements Act, 1980, is only significant for SMMEs in that it protects them as sellers and purchasers of goods on credit and, at the same time, extends some protection to the customers who buy from them on credit. Certain minimum deposits are payable on goods bought on credit, and although this may to some extent hamper a small SMME in accessing the necessary goods through this route, it provides some protection and guarantee for the credit grantor.

The problems that SMMEs have in accessing finance will not be solved by lowering or doing away with the requirements of this Act. However, according to an interview with the Banking Council, issues of credit fairness, credit disclosure, and credit extension remain concerns due to “inappropriate credit legislation”. There are huge disagreements between moneylenders and retailers because the distinction between money-lending and credit has become blurred. For example, due to the irregularities of the credit regulation, some furniture retailers have gone into the lending market by extending credit and providing insurance instead of selling furniture. The Micro Lenders Association representative backed this viewpoint.

**Finance for women**

While previously, women married in traditional/customary marriages had very limited capacity to enter into contracts, this has now been addressed by the enactment of the Customary Marriages Act, 1998, and women can now run their businesses more easily, as long as they have registered their marriages.80

4.8 Enabling and innovation policies81

In South Africa at present, the only policy that promotes technological innovation in the SMME sector is the recently published Green Paper on E-commerce “Making it Your Business” (November 2000). This Paper does not yet have any formal status and is only an indication of the direction in which policy is presently aiming. The policy aims to regulate and facilitate business through e-commerce. For details of this policy, see Annex 10.

Those businesses that can conceivably use e-commerce are generally the more formal SMMEs, although the Green Paper82 mentions supporting the informal sector in its use of e-commerce. This point needs to be developed if it is not to remain a well-intentioned but impossible-to-realize idea. The Green Paper also suggests using e-commerce for government procurement – which could, in fact, disadvantage SMMEs who do not have access to computers and relevant equipment.

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81 This section draws heavily on CASE Research for the Department of Communications on the Green Paper on E-Commerce, 2001.
82 p. 10.
To put in place business structures which open up profit opportunities, contacts, information and e-power to a few will only perpetuate and deepen existing inequalities. Those with access to and knowledge of modern information technology are likely to benefit enormously from support for e-commerce, while others will be left behind. Disadvantaged sections of the population will need to be empowered before they can take advantage of these new opportunities.

Policymakers should acknowledge that it is unlikely that an e-commerce policy, whether sensitive to the challenges faced by women and small businesses or not, will be able to address imbalances without prior and well-targeted intervention.

The majority of small businesses operate with relatively small profit margins, and the Green Paper does not adequately address the issue of start-up costs and continuous overheads. Those who wish to engage in e-commerce will either have to finance their own technological equipment or make use of public computer service providers, as owning computer technology is not a viable option for most of South Africa’s small-scale entrepreneurs. If only businesses with adequate financial backing are the main targets and beneficiaries of the promotion of e-commerce, then it should be acknowledged openly.

According to the BMI-TechKnowledge survey (1999), only 16 per cent of 600,000 registered SMMEs engage in e-commerce, but the report does not give the size of these SMMEs, the goods and services offered by them, or their location. All these factors are likely to have an impact on the adoption of e-commerce. Section 12.4 of the Green Paper also mentions that “sadly” 31 per cent of these SMMEs “don’t think they will ever make use of the Internet”, without clarifying why these answers were given by the responding SMMEs. This would be helpful in enabling SMMEs to overcome their particular obstacles, or in identifying SMMEs to which e-commerce is not applicable.

In addition, research has shown that women have lower access to information technology in South Africa. Only 18 per cent of African women have access to and 16 per cent know how to use a computer, while only 7 per cent of African women have access to the Internet and 4 per cent know how to use it. One of the major shortcomings of the Green Paper is that it does not adequately acknowledge the limitations of access and knowledge, and that it makes no suggestions as to how they might be overcome.

In the section entitled “Questions for policy consideration”, questions are asked about how SMMEs can be empowered to make use of e-commerce. It is important that these questions do not remain unanswered in the final policy, if e-commerce intends to have a beneficial impact on SMMEs. Research needs to be done urgently to find solutions to address these issues, or the adoption of e-commerce by small businesses will never reach its full potential.

4.9 General comments and observations

Design of policies and legislation

There is a move in South Africa towards more “plain language” drafting of laws. This was done in the case of the Constitution and to a certain extent with the new labour laws, but it has not been applied consistently elsewhere.
Plain language drafting would definitely benefit SMMEs. At present, many SMMEs do not understand the laws which apply to them. In most cases they need to hire an expert to decode and simplify the laws and regulations on their behalf (Interview, Community Based Public Works Programme, 2001 and CASE Study of Three Small Towns in South Africa, 2001).

Although the National Small Business Act has provided definitions that can be used in relation to SMMEs and that take into account the differences between each sector, there are still too many conflicting definitions in different legislation. Their regulations can be confusing (confirmed by a labour union representative from SACCAWU). These different definitions also lead to difficulties in collecting and analysing data.

**Coordination in government departments**

Coordination across government departments still appears to be a problem. In terms of funding, many different departments are providing funding for SMMEs through various projects and programmes, and it is difficult to make sure that they do not overlap and have sufficient coverage.

According to an interview with the Department of Provincial and Local Government (DPLG), the coordination of government line departments is difficult and the Local Economic Development Fund coordination across government departments is relatively weak. The DPLG is addressing this problem by establishing provincial coordinating committees. According to them, the problem of coordination at the national level is problematic because departments are territorial about their sectoral interests, there is competition amongst the departments about performance, and officials from one department do not always want to be coordinated by officials from another department. Sometimes the logistics of organising officials from different departments can also be a difficult process. In cases where programmes are directly related to the LED or other DPLG programmes, cooperation improves.

**Coverage of SMME policies and regulations**

Policies and legislation in South Africa target SMMEs at all levels, through national, provincial and local legislation. Nationally, the National Small Business Act provides the basic framework for SMMEs, and together with legislation targeted to address specific business issues or sectors, SMMEs of all types and in all geographical areas are covered.

A concern was expressed by the Micro Enterprise Alliance (MEA) that the Government is shifting away from development policies that assist SMMEs. According to them, it is a major concern that the Government’s interests are more focused on the sophisticated small to medium enterprises, with a shift away from poverty reduction programmes (interview with MEA). Concerns have also been raised by some authors about the lack of specific targeting to some SMME groups. The diversity of the South African SMME sector requires custom-made policy responses for different groups.

**Participation in the policymaking process**

The participation of SMME owners, workers and representatives in the framing of policy and legislation is not yet adequate or effective enough – or information about coordination efforts have not filtered down sufficiently. According to a workers’ union (NUMSA) representative, the Government has not invited all SMMEs to meet and deliberate
on how small enterprises and the Government can work together and establish bodies that will act as vehicle to ensure the development of the SMMEs.

This might only be a temporary problem as the Government is still relatively new. On the other hand, in an interview with a private sector SMME promotion agency (SBP), the concern was not about being invited to participate in meetings or knowing about channels to express concerns, but was related to their effectiveness:

“Even though there are avenues available to the SMMEs to lodge complaints, their voices are not being heard. There are a lot of organizations such as NEDLAC and the Black Management Forum that are supposed to be representing SMMEs, but they do not seem to be effective enough”.

Active participation and lobbying by employers’ organizations and other agencies may be very limited. The employers’ organization MBU considered that they had not really participated in any policymaking or any lobbying, although they had commented on the new Preferential Procurement Act. No reason was given for their not participating. It appears that although their role is to represent the builders and they consider it important to help their members, the organization finds it difficult to assist their constituents. “There is nothing that we can do. We are not a financial institution, and we do not lend money. So we cannot do anything about that situation.” (Interview with the Assistant Director, MBU).

Small businesses in this sector are not well represented within policymaking spheres. Most of the employers and employees in this sector are not affiliated with unions or representative bodies and are not well organized. In the SMME finance sector, this view was further supported by a private sector agency (Marang Financial Services): “Even if we can say we are representing them it is not true. We are lenders and we are representing our own interests because we want to ultimately make a profit.”

According to Kesper (2000), there is a need for active marketing of support measures to SMMEs. The report also suggests that industry specific consultants become involved in the implementation process.83

Information on policies and legislation

SMMEs are still experiencing difficulties in finding out about policies and legislation which apply to them. Reliance on the media for information is insufficient, as many of the policies and laws are not published or available through this channel. Worker and employer organizations do not appear to have sufficient information or understanding of what is applicable to their constituencies.

According to a workers’ union representative (SACCAWU), laws are not accessible “to all people”. People rely on the media and this is very misleading because the media does not cover all areas of the laws. In the light of this, he said that there “is not enough transparency and efforts to make the information available to people”.

There seems to be some degree of ignorance of what laws are applicable on the part of worker and employer representatives – and not only on SMME workers and employers. The Government needs to do more: it needs to educate SMME representatives so that they can

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negotiate for their members from an informed position. The question of lack of knowledge about applicable laws (particularly labour legislation) was also raised in the CASE Study of three small towns (November 2001).

**Costs and benefits of compliance**

Some SMMEs do not comply with some regulations because they are time-consuming and expensive. Compliance with the Income Tax Act and VAT requirements were seen as some of the most problematic areas, with considerable paperwork to submit these taxes. One interviewee stated: “For instance, some of them do not pay VAT, probably because they do not know what to do or where to go. And for those that try to comply, it is such a long, complex procedure. People give up in the end. Some of the businesses are cash dealings so they do not pay tax or have time for complicated procedures, because they are dealing with such little amounts.”

Other administrative burdens on SMMEs include compliance with the Regional Services Council Levy Act, 1995, the Labour Relations Act, 1995, and the Occupational Health and Safety Act, 1993. The CASE study of three small towns also highlighted the problems that many SMMEs are having with compliance, particularly informal enterprises.

**Implementation**

Some interviewees found the implementation of SMME-related policies to be uneven and ineffective. In the KwaZulu-Natal, there are only four inspectors to monitor the safety regulations for the building industries. “This shows that the regulations are not being enforced, regardless of the fact that safety is one of the most important aspect in the building industry” (interview with MBU). Lack of enforcement of labour regulations (in particular) was also raised in the CASE study of three small towns (CASE, November 2001).

According to an interviewee from the private sector SMME promotion agency, SBP (the only interviewee who complained of this):

“... the Government is only effective when it comes to collecting money, like UIF and VAT, the Skills Development Levy and the PAYE. However, it is failing when it comes to monitoring and implementing some of the laws that would benefit SMMEs, for example the procurement policy. People get awarded tenders but fail to execute the services because they do not have capital.”

In addition, implementation of policies could only occur if there was sufficient funding. The Government should ensure that there are enough funds in organizations such as Khula to lend to SMMEs. “Otherwise, it is like the Government is setting people up to fail.”

**Women entrepreneurs**

There is no obvious discrimination against women entrepreneurs in terms of policy or legislation. In practice, women are still discriminated against in the awarding of tenders or jobs. Maternity and childcare policies and legislation could also be made more favourable, particularly for women working in the SMME sector who have more difficulties than women working in larger or more formal organizations. In addition, attention needs to be paid to the fact that African women are situated in the poorest SMMEs, with the least chance to improve their position, and working under conditions far worse than women of other races, and men.
Some of the workers’ union representatives interviewed (NUMSA and SACCAWU) agreed that, in theory, laws do not discriminate on the basis of gender, but that there are other issues discriminating against women. For example, concerning maternity leave, the laws do not do enough to cover all aspects and needs of women. To a certain extent, they “leave women having to choose between reproduction and working”. According to the SACCAWU representative, most SMMEs hire women for “super exploitation”. Women in this sector are mostly illiterate and very vulnerable because they are most concerned about the survival of themselves and their families. They have no job security and do not enjoy most of the benefits of the labour legislation. There is also a lot of sexual harassment in the sector. Some women are afraid to take steps against this because they fear being victimized or losing their jobs, while others are simply not aware of the laws that protect them. This has a huge impact on the quality of life of these women and their families. For this reason, special attention needs to focus on protecting and empowering them.

Laws such as the Preferential Procurement Policy Framework Act, 2000, assist SMMEs which have been historically disadvantaged, including women. However, there is still a problem of women not being offered equal opportunities in the SMME sector. Men are favoured. “Women are being discriminated against and are perceived as being unable to run businesses” (interview with SBP).

Rural and urban SMMEs

Rural SMMEs are at a disadvantage compared with urban SMMEs, not only in terms of infrastructure and access to markets, but also access to information and assistance. The representative of the Self-Employed Womens’ Union was particularly concerned with the distances which have to be travelled and the poor provision of infrastructure.

Part 5 concludes this report by summing up the present SMME situation in South Africa in relation to the policy environment and making some suggestions for action.
5. Conclusions

Information on SMMEs

In South Africa, data on employment within the SMME sector is very limited. Household data, such as the Population Census and October Household surveys, cannot be disaggregated sufficiently to determine employment shifts in different sectors and enterprise-size categories. Establishment data have limited coverage (geographically or sectorally) or else are too recent to provide a longitudinal perspective. Similarly, information on company registrations was inadequate for the purposes of this report, as it does not identify enterprise size or type, or whether registrations are of subsidiary companies, re-incorporations, or new start-ups.

While the Labour Force Survey 2000 has additional information on conditions of employment, which will be useful to track in the future, it also does not contain sufficient disaggregations to facilitate an analysis of the impact of policies and legislation on employment conditions within SMMEs.

Conditions of employment

The SMME employment pattern in South Africa shows a growing and large number of survivalist enterprises that provide a precarious living for many who work under poor conditions of labour. Although no data are available over time, it is clear that SMME employment is increasing far faster than the growth of SMME GDP. Furthermore, SMMEs employ a larger share of the workforce, but provide a smaller share of total compensation and wages than their larger counterparts. This implies that SMMEs, and the trade sector in particular, have lower output per worker and, thus, less money available for remuneration. Moreover, the trade and transport sectors – although growing at the fastest rate – have a smaller percentage of permanent workers and relatively fewer workers with trade union membership and paid leave benefits.

Policy and legislation appear to have had little direct effect on the performance of the SMME sector, either in terms of GDP output or employment. Indirect effects do not clearly show in the limited data available. Much of the decision to invest occurs within the overall economic context in which small businesses are located. Past (and future) SMME growth may be less influenced by SMME-specific policy and more attributable to the broader economic policy environment.

With the inception of the new democratic Government in South Africa in 1994, efforts have been made to relate policy and legislation to both labour and SMMEs. Many employment shifts and a growth in GDP subsequently occurred. The rights of workers – as a result of new labour legislation, such as the Labour Relations Act and the Basic Conditions of Employment Act – may have had an impact on SMME growth. The introduction of this legislation correlates with the sector’s expansion, particularly finance and transport. Many other factors may also be responsible.

The MSE contribution to GDP and employment in South Africa are growing at a far faster rate than medium and large enterprises. Most of this growth appears to be in the tertiary sector. The reasons are not clear from the data and may derive from several interacting effects. These include:
- a general increase in the services sector worldwide;
- unemployed or newly retrenched workers entering sectors which have low start-up costs (especially in the trade, finance and other services sectors);
- outsourcing and jobless growth. Instead of hiring permanent employees, many large enterprises cut wage and benefit costs either by contracting work out to SMMEs that specialize in that service or by improving productivity with new technology or equipment;
- the growth in the finance sector is most likely attributable to the exemption to the Usury Act, which has allowed the expansion of the micro lending industry;
- new investment and evolving SMME and labour policies. Since 1994, the Government has attracted considerable foreign investment and set about revising labour and SMME policy.

Current constraints on the growth of the SMME sector, observations on the main policy issues, and some suggestions for improvement follow.

**Finance**

Access to finance is still of major concern for SMMEs, in terms of investing in their business, or increasing employment. Financial institutions prefer customers who can offer lower transaction costs, less risk, and adequate collateral, but the exemption to the Usury Act (albeit instrumental in expanding the SMME finance sector), has made no significant impact on providing suitable finance for SMMEs. Instead, micro-lenders primarily provide loans for private and household purposes rather than funding for businesses. The issue of access to external finance is urgent, given the lack of private resources among the potential entrepreneurs. Although family and friends have been providing a large proportion of finance, particularly for the smallest enterprises, South Africa’s (already) low and decreasing savings rate is increasingly closing this source of start-up capital.

**Coordination**

Coordination, especially of funding, still appears to be a problem: multiple government departments and organizations provide for SMMEs through various independent projects and programmes. This disjointed approach, combined with insufficient public awareness activities, has made it difficult for SMMEs to access information about the policies and legislation that apply to them.

**Race and gender perspectives**

Black-owned companies dominate the lower end of the SMME spectrum, particularly the survivalist and micro categories. Although it has been recognized in the National Integrated Black Economic Empowerment Strategy that promoting the SMME sector is one way of assisting in Black empowerment, it is necessary to keep quality of jobs in mind when promoting the sector. Black women, who comprise the largest proportion of survivalist entrepreneurs and workers, suffer under precarious employment and poor working conditions. In terms of policy and legislation, there is no discrimination against women entrepreneurs and workers; in practice, women are still being discriminated against in the awarding of tenders or jobs.
**Skills**

Although the SMME sector has been able to absorb a considerable proportion of the labour force over time, it is rapidly reaching a point beyond which it will be no longer able to successfully absorb more unskilled workers. The lack of skills, concentrated in previously disadvantaged groups, leads to the failure of SMMEs and reduces their capacity to create sustainable, quality employment for those groups. Along with access to capital, the entrepreneurs surveyed cited lack of skills as the two main inhibiting factors to SMME success.

**Specific support measures**

The National Small Business Act, 1996, although providing a general policy direction, includes no specific support measures to place SMMEs on an equal footing with their larger counterparts. There is also no clear differentiation between the support needed by different parts of the SMME sector. Most entrepreneurs surveyed indicated that the market was the primary determining factor in their success or failure. Support in the future, especially for the smaller end of the SMME sector (which is particularly in need of support) should take this into account.

Inadequate access to finance, lack of skills and poor business conditions remain the primary factors constraining SMME performance.

In addition, due to lack of information and poor drafting, many of the policies and laws are not understood by entrepreneurs. The burden of time and money required to complete the plethora of administrative tasks required by legislation encourages limited compliance.

Finance, provision of information and training, and ensuring an enabling environment are the most important variables when devising a support framework for micro, small and medium enterprises. It is hoped that policymakers see a way forward to improve the growth, development and sustainability of the SMME sector in South Africa.
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Annex 1: Definitions of SMMEs

Survivalist enterprises:


“…are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises. Support strategies should primarily help these people – a large percentage of whom are women – to get out of this sector. Given the large number of people involved in survivalist activities, this constitutes a vast challenge, which has to be tackled within the broader context of the RDP (section 3.5.7).”

*Definition from the National Small Business Act, 1996*

In the National Business Act, the survivalist sector is categorized as part of the micro-enterprise sector.

Micro enterprises:

*Definition from the ILO Consultants’ Manual:*

Non-agricultural enterprises with one to nine workers (including self-employed workers).

*Definition from the White Paper, March 1995:*

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

*Definition from the National Small Business Act, 1996*

“Small business” means a separate and distinct business entity, including co-operative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy mentioned in column I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule. The Schedule is reproduced at the end of this section on definitions.

Very small enterprises:

*Definition from the White Paper, March 1995:*

None

*Definition from the National Small Business Act, 1996*

See “Micro” above.

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84 Referred to in this section as the White Paper, March 1995.
Small enterprises:

*Definition from the ILO Consultants’ Manual:*
Non-agricultural enterprises with 10 to 49 workers.

*Definition from the White Paper, March 1995:*
“…constitute the bulk of the established businesses, with employment ranging between 5 and about 50. The enterprises will usually be owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirement. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.”

*Definition from the National Small Business Act, 1996*
See “Micro” above.

Medium enterprises:

*Definition from the White Paper, March 1995:*
“…constitute a category difficult to demarcate *vis-à-vis* the “small” and “big” business categories. It is still viewed as basically owner/manager controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit. In terms of this White Paper, we are concerned with medium-sized enterprises which face obstacles and constraints which cannot be solved through normal market forces and private-sector action.”

*Definition from the National Small Business Act, 1996*
See “Micro” above.

Table A1.1 provides the Schedule to the National Small Business Act.
<table>
<thead>
<tr>
<th>Sector or sub-sectors in accordance with the Standard Industrial Classification</th>
<th>Size or class</th>
<th>Total full-time equivalent of paid employees</th>
<th>Total annual turnover</th>
<th>Total gross asset value (fixed property excluded)</th>
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<td>Less than</td>
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<td>R10m</td>
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<td>R1m</td>
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<td>Micro</td>
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<td>R.15m</td>
<td>R.10m</td>
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*Micro in this Act refers to both survivalist and micro enterprises as defined by Ntsika.*
### Annex 2: Work status – Employed and unemployed, 1996

#### Table A2.1: Work status of head of household, according to sex and race for weighted household86

<table>
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<tbody>
<tr>
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<td></td>
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<tr>
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<td>814 294</td>
<td>2 956 329</td>
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<td>635 593</td>
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<td>103 018</td>
<td>126 312</td>
<td>229 330</td>
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<td>14 867</td>
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<td>124 279</td>
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<td>272 618</td>
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<td>Not working - pensioner/retired person</td>
<td>486 898</td>
<td>651 510</td>
<td>1 138 408</td>
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<tr>
<td>Not working - disabled person</td>
<td>42 229</td>
<td>29 481</td>
<td>71 710</td>
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<td>37 963</td>
<td>42 963</td>
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<td>22 118</td>
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<td>0</td>
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<td>2 828 703</td>
<td>6 533 999</td>
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<tr>
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<td>389 415</td>
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<td>480 117</td>
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<td>56 868</td>
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<tr>
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<td>3 494</td>
<td>9 119</td>
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<td>34 868</td>
<td>35 944</td>
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<td>17 318</td>
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<td>6 007</td>
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<tr>
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<td>801</td>
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<tr>
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<td>335 921</td>
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<td>1 335</td>
<td>5 736</td>
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<th>Total</th>
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Annex 3: Staff profiles by enterprise size

Table A3.1: Staff profiles, according to enterprise size (all enterprises)\textsuperscript{87}

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<td>Officials</td>
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<td>3</td>
<td>53</td>
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<td>Technicians and Associate</td>
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<td>7</td>
<td>44</td>
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<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Workers</td>
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<td></td>
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<tr>
<td>Service and Sales Workers</td>
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<td>2</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Skilled Agricultural and</td>
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<td>1</td>
<td>4</td>
<td>7</td>
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<tr>
<td>Fishery Workers</td>
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<td></td>
<td></td>
</tr>
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<td>Craft and Related Trades</td>
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<td>5</td>
<td>11</td>
<td>32</td>
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<td>Operators and Assemblers</td>
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<td>7</td>
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<td>6</td>
<td>1</td>
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<td>Total</td>
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Table A3.2: Staff profiles, according to enterprise size (0–49 employees)

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<td>White</td>
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<td>64</td>
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</tr>
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<td>Officials</td>
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<td>Junior–Middle Management</td>
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<td>6</td>
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<td>Technicians and Associate</td>
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<td>44</td>
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<td>Professionals</td>
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<td>workers</td>
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<td>14</td>
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<td>Skilled Agricultural and</td>
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<td>5</td>
<td>23</td>
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<tr>
<td>Fishery Workers</td>
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</tr>
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<td>Craft and Related Trades</td>
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<td>2</td>
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<td>33</td>
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<td>Operators and assemblers</td>
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<td>10</td>
<td>6</td>
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<td>Labourers and Related</td>
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<td>5</td>
<td>1</td>
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\textsuperscript{87} All tables on staff profile by enterprise size are from the National Baseline Survey 1998 (Department of Labour).
Table A3.3: Staff profiles, according to enterprise size (50-149 employees, in %)

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<td>Senior Managers and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officials</td>
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<tr>
<td>Junior–Middle Management</td>
<td>15.6</td>
<td>6.7</td>
</tr>
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<td>Professionals</td>
<td>8.9</td>
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<td>Technicians and</td>
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<tr>
<td>Associate Professionals</td>
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Table A3.4: Staff profiles, according to enterprise size (150-499 employees, in %)

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</tr>
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<td>4.2</td>
</tr>
<tr>
<td>Senior Managers and</td>
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<td></td>
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<tr>
<td>Officials</td>
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<td>Junior–Middle Management</td>
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<td>6.2</td>
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<td>Professionals</td>
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<td>2.4</td>
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<td>Technicians and</td>
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<td>0.9</td>
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<td></td>
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<tr>
<td>Craft and Related Trades</td>
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<td>9.9</td>
</tr>
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<td>Operators and</td>
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<tr>
<td>Workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Permanent</td>
<td>35.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary and Casual</td>
<td>44.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39.6</td>
<td>4.0</td>
</tr>
</tbody>
</table>
## Table A3.5: Staff profiles, according to enterprise size (500 - 1499 employees, in %)

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Indian</td>
</tr>
<tr>
<td>Executive Directors and</td>
<td>5.1</td>
<td>1.9</td>
</tr>
<tr>
<td>senior managers and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>officials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior – Middle</td>
<td>8.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals</td>
<td>6.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Technicians and</td>
<td>13.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Associate Professionals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerical and Administrative Workers</td>
<td>15.2</td>
<td>3.8</td>
</tr>
<tr>
<td>Service and Sales Workers</td>
<td>34.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Skilled Agricultural and Fishery Workers</td>
<td>4.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Craft and Related Trades</td>
<td>43.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Operators and Assemblers</td>
<td>46.4</td>
<td>1.3</td>
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<tr>
<td>Labourers and Related</td>
<td>70.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Permanent Employees</td>
<td>39.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Temporary and Casual</td>
<td>35.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>37.2</td>
<td>2.3</td>
</tr>
</tbody>
</table>

## Table A3.6: Staff profiles, according to enterprise size (1500+ employees, in %)

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<tr>
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<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Indian</td>
</tr>
<tr>
<td>Executive Directors and</td>
<td>7.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Senior Managers and</td>
<td></td>
<td></td>
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<tr>
<td>Officials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior – Middle</td>
<td>11.4</td>
<td>4.3</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals</td>
<td>7.7</td>
<td>5.4</td>
</tr>
<tr>
<td>Technicians and</td>
<td>17.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Associate Professionals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerical and Administrative Workers</td>
<td>26.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Service and Sales Workers</td>
<td>22.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Skilled Agricultural and Fishery Workers</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Craft and Related Trades</td>
<td>50.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Operators and Assemblers</td>
<td>57.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Labourers and Related</td>
<td>75.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Permanent Employees</td>
<td>46.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Temporary and Casual</td>
<td>36.2</td>
<td>3.5</td>
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<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>35.3</td>
<td>4.5</td>
</tr>
</tbody>
</table>
Annex 4: Specific SMME policies

National Small Business Act, 1996

Summary of contents

The Act provides for the establishment of a broad institutional framework for small business support and the voicing of concerns of small businesses in the form of the National Small Business Council (NSBC), now defunct. It also provides for the establishment of Ntsika Enterprise Promotion Agency (Ntsika) to facilitate and promote small businesses. The Act also contains definitions of small, medium and micro enterprises, a regulatory framework in which government departments are encouraged to assess the impact of laws on SMMEs and parameters for the relationships between small business promotion functions at provincial and national government levels. The Act does not include support measures such as financial assistance, tax incentives, special export programmes and other such measures. It is purely a framework from which such initiatives can be implemented.  

Definitions of SMMEs

The Schedule to the Act provides definitions of SMMEs which are meant to be applied widely and standardize their use in South Africa. The aim was to provide clear definitions for use in formulating appropriate policy. It was hoped that they would also be used for applied economic research by government departments and other organizations involved in developing SMME support programmes. They were also meant to clarify which enterprises may qualify for support offered by both the public and private sector through targeted support and assistance programmes.

The Schedule to the Act sets out the different thresholds applicable to each sector including annual turnover, total gross asset value and total full time employees. The Small Business Project (SBP) conducted some research into the initial threshold values per sector (as in the draft legislation) in an attempt to determine whether the quantitative values would ensure the long-term economic viability of SMMEs, and commented at that stage that given the nature of the South African economy, higher thresholds for the number of employees should have been proposed. This was to some extent taken up in the final legislation.

Table A1.1 of Annex 1 of this report dealing with definitions of SMMEs includes the detailed definitions contained in the Schedule to the Act.

Implementing agencies

The Act falls under the Minister of Trade and Industry who is responsible for its implementation along with the Director General of the Department of Trade and Industry.

Coordination of laws and policies

Chapter 4 of the Act includes general provisions allowing the Minister to publish guidelines for all organs of state in national, provincial and local spheres of Government to promote small business and the National Small Business Support Strategy. These may include guidelines on:

88 Alert!, March 1996.
89 Ibid.
- Procedures for consultation with the Department of Trade and Industry on all proposed legislation as may be identified by him;
- The assessment of the effect and application of legislation on small business;
- Coordination between organs of the State in order to promote the consistent application of the National Small Business Support Strategy;
- Procedures for consultation with small business organizations, trade unions and other representative organizations; and
- The review of the effect of existing legislation on small business and the National Small Business Support Strategy.

The Minister may also identify the type of legislation that may have an effect on small business and the National Small Business Support Strategy and for which consultations should be conducted.

Organizations representing SMMEs

Ntsika was given the following main functions in terms of the Act:
- To expand, coordinate, and monitor the provision of training, advice, counselling, and any other non-financial services to small business in accordance with the National Small Business Support Strategy;
- To provide financial support to service providers that provide these services;
- To consult with any organ of Government, the Council (now defunct) or a service provider in order to facilitate the provision of business advice and counselling services to small business and access by small business to raw material and other products, and international and national market access for products and services of small business and to generally strengthen the capacity of services providers to support small business, the capacity of small business to compete successfully in the economy; and
- To formulate and coordinate a national programme of policy research, collection and dissemination of information concerning small businesses.

Coverage

The Act is applicable to the whole of South Africa.


Summary of contents

The White Paper aimed to create an enabling framework for the development of SMMEs. It was drafted after consultation with key stakeholders in the SMME sector, prior to the promulgation of the National Small Business Act (see above). It recognizes the promotion of the small enterprise sector as a critical area which requires detailed attention and concerted action. The sector is seen as having great importance in job creation and income generation, and as deserving special attention (since it has been neglected in the past), in particular Black-owned and -controlled small enterprises.

The White Paper gives a general overview of the SMME sector and its contribution to the economy, especially in labour absorption, the low average capital cost per job created in the sector, the possibilities that it may hold for more equitable income distribution, competition and exploitation of niche markets, enhancing productivity and technical change, as well as the sector’s ability to meet basic need and help marginalized groups, such as female heads of households, disabled persons, and rural families. The White Paper also outlines the
constraints facing the sector, including the legal and regulatory environment, access to markets, finance and business premises at affordable rentals, the acquisition of skills and managerial expertise, access to appropriate technology, the quality of business infrastructure in poverty areas, and in some cases, the tax burden. It recognizes that the constraints have been particularly hard in rural areas and on women.

It recognizes the need to look at international best practices, conduct reliable research on the sector, and address the constraints mentioned above. It sets out the need for institutional reforms and the creation of efficient channels for support of SMMEs without undermining the diversity of agencies that already exist. It also recognizes the important role of local authorities, NGOs, and organized business in promoting SMMEs. The White Paper concludes with a programme of action to set the process in motion.

Definitions of SMMEs

The White Paper includes four categories in the SMME sector: survivalist, micro-enterprises, small enterprises, and medium enterprises, and recommends that different support strategies be devised for each category. However, it does not mention what strategies should be developed for survivalist enterprises, while it has much to say about strategies for the others. In its present form, it has little relevance for the survivalist sector, in particular for street traders and home-based workers.

Implementing agencies

The White Paper viewed the Department of Trade and Industry as being the key actor that would implement its proposals.
Annex 5: Business laws and regulations

Sale and Services Matters Act, 1964

Summary of contents
This Act, (as amended up to 1995) provides for the sale of goods and the rendering of services and other related matters. It includes the regulation of the sale of goods and the auctioning of goods. The Act makes provision for a Controller who is appointed by the Minister of Trade and Industry to vary requirements of the sale of goods at auctions according to different classes or categories of sellers or auctioneers. This leaves discretion for him or her to make special arrangements which could benefit SMMEs, but only at auctions. The sale of goods and the rendering of services which are subject to conditions are also regulated by regulations published in the Gazette by the Controller. These may vary according to the goods or services sold and the classes or categories involved in their sale.

The Act prescribes that persons purchasing foods for resale or for use in the processing, manufacture or production of any class of good for sale, may be regulated in certain circumstances to keep records of these (section 11). It also prescribes that information may be asked for by the Controller from certain persons who supplies goods or services (section 12). A supervisor or inspector may enquire, examine or seize records to see that the provisions of the Act are upheld (section 13).

Definitions of SMMEs
No definitions of SMMEs are given and no references are made in the Act to employment issues.

Implementing agencies
The Minister of Trade and Industry performs the functions set out in the Act. These include the appointment of and assigning of powers and functions to a Controller.

Gender aspects
None.

Coverage
The Act is applicable to the whole of South Africa.

Business Act, 1991

Summary of contents
The Act (as amended up to 1996) aims to repeal, amend and create new laws relating to the licensing and carrying on of businesses and shop hours, and for related matters.

Definitions of SMMEs
SMMEs are not specifically defined, however there are sections dealing specifically with hawkers, street vendors and peddlers, and provisions which have been made to regulate specific types of enterprise.
Implementing agencies

The Minister of Trade and Industry, the Premiers of the nine provinces within South Africa, and the local authorities falling within these provinces are the main implementing agencies.

The Premier of each province has the powers to designate a local authority or appoint any person or body as a licensing authority for a specific area. Once such a licensing authority is established, no person shall carry on any business in the area of that authority unless: that person is a holder of an apposite license issued to him by that authority in respect of the business premises concerned, or is the holder of a hawker’s licence issued to him by that authority. The authority is compelled to provide such a license unless it is in conflict with town planning or health and safety regulations applicable to those premises, or the equipment, apparatus, storage space, working surface, structure, vehicle, conveyance or other article or place used for in connection with the preparation, handling or sale of foodstuffs is not in compliance with health regulations. The licensing authority can also decline a license where it is satisfied that the person who is to be in control of the business is not a suitable person to carry on the business, whether by reason of his character, previous convictions, precious conduct, or for any other reason. Licensing authorities can also issue licenses subject to conditions, and the Premier of a province can make specific regulations for his province to regulate businesses.

Local authorities have powers to make by-laws relating to the business of street vendors, peddlers and hawkers and to restrict such business to specific areas or distances from certain places, to specific goods, specific time-limits, make plans to regulate the presence of such businesses, and regulate the health and safety aspects of such businesses.

Gender aspects

There are no specific gender aspects, although this Act tends to impact greatly on women, as they constitute the majority of street vendors and hawkers.

Coverage

The Act is applicable within the whole of South Africa, but specific regulations are made by each authority.

Trade Practices Act, 1976

Summary of contents

The Act (as amended up to 1988) regulates the information contained in advertisements, statements, communications, descriptions and indications. It specifically attempts to eliminate false and misleading information that may lead to prejudice of other parties dealing with the business or person. It provides for the creation of offences in relation to this and penalties which must be paid.

Definitions of SMMEs

There are no specific references to SMMEs or provisions made for smaller businesses.

Coverage

The Act is applicable to the whole of South Africa.
The Competition Act, 1998

Summary of contents
The Act envisages a Competition Authority to regulate inter-business competition.

Definitions of SMMEs
None.

Gender aspects
None.

Coverage
The Act is applicable to the whole of South Africa.

Small Claims Courts Act, 1984

Summary of contents
The Act provides for the establishment of a system of Small Claims Courts throughout South Africa.

Small-claims courts allow plaintiffs to bring civil proceedings of a limited amount (amended from time to time) against defendants themselves, without the help of lawyers. The judicial officer of the court (the commissioner) plays a much more active role in the proceedings than in a magisterial or high court, and in this way the parties are assisted in presenting their case. The small claims system relies on much less complex procedure than the ordinary magistrates and supreme courts and is therefore more accessible to all. This less complex procedure and the absence of lawyers has also allowed claims in the small claims courts to be made much more cheaply. Because of this, litigants may feel more at ease attempting to win their cases in these courts. In ordinary courts, plaintiffs are often unable to reclaim costs from the losing party, who may be without funds and are left with sizeable legal costs to pay.90

Unfortunately for a large proportion of SMMEs, only individuals (‘natural persons’) may bring a case to the small-claims court as a plaintiff. ‘Juristic persons’ or legal entities such as companies, close corporations, ordinary corporations and statutory bodies are not allowed to institute claims in the court, but they may be sued and may defend cases brought against them in the small-claims court. However, partnerships are not juristic persons and the individuals who constitute a partnership are natural persons, and may sue in a small-claims court jointly as individuals. There is therefore scope for the use of the small-claims courts where SMMEs are run as sole proprietorships or partnerships. SMMEs need to have easy and cheap access to legal remedies, especially in cases where suppliers and customers default or where circumstances have arisen as a result of the action of others that could negatively influence the running of the business. There must be due regard to the possible impact of such a proposal on the citizens who are being sued.

SMMEs are not necessarily in a better position than natural persons to sue in the ordinary courts. The widening of the definition of who can bring actions as plaintiffs in the small claims courts to include SMMEs of a particular size and turnover should therefore be considered.

**Companies Act, 1973**

**Summary of contents**
The Act applies to all companies, with a few exceptions relating to the insurance and banking sectors. It includes the regulation of companies with and without share capital, public and private, as well as incorporated as not-for-profit. It contains very detailed provisions on the nature and functioning of the different types of company. Each company must comply with specific formation requirements, and must state its main objects in its memorandum of association which will limit the activities of the company. The Act also includes the registration of companies, issues relating to equity, winding-up of companies and other related matters.

**Definitions of SMMEs**
There are no lower limits on the number of members of a business required to register as a company. However, the Act provides that in the case of businesses consisting of more than 20 people which have as their object the acquisition of gain they must generally be registered in terms of the Companies Act (section 30) unless they are operating subject to another law.

**Design**
The Act is long and complex and is not very accessible to those business owners who do not have a legal or accounting background.

**Gender aspects**
None.

**Implementing agencies and Coverage**
The Companies Registration Office and the Registrar of Companies. The Registrar has to submit a report to the Minister of Economic Affairs on the registration/deregistration and general information concerning companies of each type. The Act is applicable to the whole of South Africa.

**Close Corporation Act, 1984**

**Summary of contents**
The Act provides for the formation, registration, incorporation, management, control and liquidation of close corporations and for related matters.

**Definitions of SMMEs**
According to the Act, only natural persons can be members of a close corporation and no juristic person shall directly or indirectly hold a member’s interest in a corporation. A close corporation can have one or more members, but at no time shall the number of members exceed 10 (section 28).

**Gender aspects**
Section 32 provides that a married woman, whether subject to the marital power of her husband or not, shall require no representation or assistance to act as a member of a corporation.
Implementing agencies and Coverage
The Minister of Trade and Industry is responsible for the Act, however, registrations of the founding statements of corporations take place at the Close Corporations Registration Office. The Registrar of Close Corporations is appointed by the Minister and is responsible for the administration of the Registration Office. The Act is applicable to the whole of South Africa.

Insolvency Act, 1936
Summary of contents
The Act (as amended up to 1998) provides for the regulation of insolvent persons and their estates. It includes provision for the protection of creditors upon the insolvency of debtors and the procedures connected with this to ensure equitable distribution of the estate. It also includes the publication of notices of the intended sequestration and surrender; rights of retention of property; claims against partnerships and sole proprietors, and liquidation of assets.

Definitions of SMMEs
The Act does not include any references to SMMEs.

Implementing agencies and Coverage
Applications for insolvency are lodged with the Master of the Supreme Court. The Act is applicable to the whole of South Africa.

National Development Agency Act, 1998
Summary of contents
The Act aims to establish a National Development Agency (NDA) which will promote an appropriate and sustainable partnership between the Government and civil society organizations to eradicate poverty and its causes and related matters. The NDA is a conduit for granting funds to civil society organizations and its primary functions include carrying out projects and programmes aimed at meeting the development needs of poor communities, and strengthening the institutional capacity of civil society organizations involved in direct service provision to poor communities. The secondary objectives are to promote consultation, dialogue and sharing of development experience between civil society organizations and relevant organs of the State and to debate on development policy and, thirdly, to undertake research and publication aimed at providing the basis for development policy.

Definitions of SMMEs
There are no specific references to SMMEs in the Act.

Gender aspects
Women are not specifically mentioned as potential recipients of funding.

Implementing agencies and Coverage
The Minister of Finance controls the implementation of the Act. The Act is applicable to the whole of South Africa.
Annex 6: Taxation policies, laws and regulations

Income Tax Act, 1962
Summary of contents
The Act aims to regulate the payment of tax by persons and companies within South Africa.

Definitions of SMMEs and Design
The Act contains no definition of SMMEs.
The Act is particularly difficult for SMME owners to easily access and apply.

Coverage
The Act is applicable to the whole of South Africa.

Estate Duty Act, 1955
Summary of contents
The Act (as amended up to 2000) provides for the imposition of an estate duty on the estates of deceased persons and related matters. The rate is set out in the schedule and is currently 25 per cent of the dutiable amount of the estate, but fluctuates in cases where the deceased dies within various dates of the first-dying person. In cases where the deceased dies soon after the first-dying person, the rate is reduced.

The Act does not include any definitions of SMMEs or references to them or employment issues. It does include definitions for a company and a family company (in which the deceased had any control either alone or along with other family members). These may be either incorporated, registered, or not.

The Commissioner of the South African Revenue Service and the Master of the Supreme Court are responsible for the implementation of the Act. The Minister of Finance may make further regulations relating to the implementation of the Act.

Review and monitoring
Review and monitoring take place on the initiative of the Minister of Finance and according to the normal legislative process. The legislation is gender-neutral.

Value Added Tax Act, 1991
Summary of contents
The VAT Act provides for the taxation in respect of the supply of goods and services and the importation of goods. Certain goods are zero-rated or are exempt according to the Act. The Act also regulates registrations, tax returns, payments, assessments, compliance and special provisions. Special circumstances apply to different types of enterprise.

Section 9 of the VAT Act determines that the time of supply of goods is deemed to take place at the time an invoice is issued by a supplier or the recipient in respect of that supply, or at the time a payment of consideration is received by the supplier in respect of the supply, whichever time is the earlier.
**Design**

The Act has very long sections with limited headings. It is difficult to locate specific requirements, and the Act as a whole is very extensive (180 pages in total).

**Definitions of SMMEs**

The Act does not make any specific reference to SMMEs. It does exclude certain size enterprises from registration requirements. A person becomes liable at the end of any month where the total value of taxable supplies made in the 12 preceding months, in the course of carrying out all enterprise activities, has exceeded ZAR 300,000; or at the commencement of any month where there are reasonable grounds for assuming that the total value of the taxable supplies to be made in the period of 12 months reckoned from the commencement of the said month will exceed the above-mentioned amount (section 23).

**Costs and benefits of compliance**

Where people become liable to be registered they must register not later than 21 days after becoming so liable by applying to the Commissioner.

There are three basic categories of tax period stipulated in the Act (section 27): two months (Categories A and B), 12 months (Categories C and E), and six months (Category D). Only companies with large turnovers where the total value of the taxable supplies exceeds ZAR 30 million in 12 months or is likely to exceed that amount (Category C) or trust fund or enterprises which let fixed property or rent moveable goods or other companies which only issue invoices once per year as payments become due (Category E) have a long tax period of 12 months. Those with tax periods of 6 months are limited to enterprises carrying out agricultural, pastoral or other farming activities (Category D). In the case of small businesses, their taxable period would be set at every two months (Categories A or B).

**Implementing agencies and Coverage**

The Act falls under the Minister of Finance and is administered by the Commissioner for the South African Revenue Service (SARS).

The Act is applicable to the whole of South Africa.

**Regional Services Council Levies Act, 1985 (as amended up to 1995)**

**Summary of contents**

The system of regional services levies was put in place in 1985 with the promulgation of this Act. The aim was to fund Regional Services Councils who in turn would use the funds to provide for infrastructure where required.

**Definitions of SMMEs**

There are no specific references to SMMEs, however, based on the number of people employed, the levy may be so low as not to be payable or only to be payable once per year.

**Implementing agencies and Coverage**

The taxes are collected by the local authorities acting as Regional Services Councils. The Act is applicable to the whole of South Africa, but certain areas as rural areas are excluded from this.
Annex 7: Labour policies, laws and regulations

Labour Relations Act, 1995

Summary of contents
The Act aims to provide for the section in the Constitution dealing with labour relations, to regulate the organizational rights of trade unions, to promote and facilitate collective bargaining at the workplace and at sectoral level, to regulate the right to strike and the recourse to lock out, to promote employee participation in decision making through the establishment of workplace forums, to provide simple procedures for the resolution of labour disputes through statutory conciliation, mediation and arbitration, and through independent alternative dispute resolution services, to establish the Labour Court and the Labour Appeal Court as superior courts with exclusive jurisdiction to decide on matters arising from the Act, to provide for a simplified procedure for the registration of trade unions and employers’ organizations, and to provide for their regulation to ensure democratic practices and proper financial control, and other related matters.

Definitions of SMMEs
Although the Act does not contain any specific references to SMMEs, it does provide that in the resolution of disputes, the commissioner must consider *inter alia* the nature of the workplace and the nature of the sector in which the workplace is situated (section 21(b)).

Workplace forums contemplated by the Act are intended to promote the interest of all employees in the workplace. They seek to enhance workplace efficiency and are entitled to be consulted by the employer on certain issues. They may only be established in enterprises with more than 100 employees. However, even in these cases, they have not been formed and are slow to appear.

Design
This is a long and complex Act of 281 pages, with detailed descriptions of procedures and requirements. Attempts have been made to make the law more accessible: 14 flow diagrams attempt to simplify explanations of the various procedures to follow, in resolving some of the more important disputes that may arise and are referred to in the text of the Act.

Implementing agencies and Coverage
The Minister of Labour is responsible for the implementation of the Act. The Act is applicable to the whole of South Africa.

Basic Conditions of Employment Act, 1997

Summary of contents
The Act aims to give effect to fair labour practices as set out in the Constitution by establishing and making provision for the regulation of basic conditions of employment and to comply with the obligations of the Republic as a member state of the International Labour Organization.

The Act regulates working time, all types of leave, particulars of employment and remuneration, termination of employment, the prohibition of child labour and forced labour, and allows for sectoral determinations (to provide for specific needs within different sectors) and an Employment Conditions Commission.
Section 50 of the Act allows the Minister to make a determination or replace or exclude any basic condition of employment provided for in the Act in respect of any category of employees or employers, on application by employers, registered employers organizations or both of these.

The determination cannot revoke certain basic conditions relating to hours of work, child and forced labour (sections 7, 9, 17(3) and (4), 43(2) 44 or 48) or regulations made in terms of section 13 as well as (to a limited extent) section 43(1) which allows for the employment of children in certain restricted activities.

The Minister can make sectoral determinations to establish basic conditions of employment for employees within a sector and area. Before these determinations are made, the conditions of employment in the sector must be investigated by the Director General of the Department of Labour. The terms of reference of the investigation have to be published and the public may comment on these. After the investigation, a report must be written and submitted to the Employment Conditions Commission for its consideration (section 54). The Commission has to consider the following when advising on the report:

- The ability of employers to carry on their business successfully;
- The operation of small, medium or micro enterprises, and new enterprises;
- The cost of living;
- The alleviation of poverty;
- Conditions of employment;
- Wage differentials and inequality;
- The likely impact of any proposed condition of employment on current employment or the creation of employment;
- The possible impact of any proposed conditions of employment on the health, safety or welfare of employees; and
- Any other relevant information made available.

The Commission then advises the Minister on the sectoral determination of the relevant sector and area. The Minister must consider the report and recommendations of the Commission and, if in disagreement with any recommendation, must again refer the matter back to the Commission for its reconsideration. After considering the further report and recommendations, the Minister may make a sectoral determination.

The Commission is appointed by the Minister and includes three people knowledgeable about the labour market and conditions of employment, including the conditions of employment of vulnerable and unorganized workers. One of the three is designated as chairperson. The other members of the Commission are one representative of Labour as chosen by the voting members of NEDLAC and one representative of organized business as chosen by the voting members of NEDLAC.

Definitions of SMMEs
Although the Act makes reference to the Small Medium and Micro business sectors, it does not define these. However, in a recent sectoral determination for small business, the criterion used was companies employing less than 10 people.
Before the publication of the Act, concerns were raised by business and workers’ representatives, and the possible harmful impact of the Act on small businesses was discussed.

Implementing agencies
The Act falls under the authority of the Minister of Labour and the Director General of the Department of Labour.

Labour inspectors ensure compliance with the basic conditions. Inspectors may promote, monitor and enforce compliance with these conditions by advising employees and employers of their rights and obligations, conducting inspections, investigating complaints, securing undertakings and issuing compliance orders and other related tasks. Inspectors have the power of entry at any reasonable time into any workplaces that are not homes, even without notices or warrants. Employers have to keep a record of various aspects of their employees’ conditions of work, and proof of compliance with the provisions of the Act.

Gender aspects
The Act makes provision for maternity leave and for specific provisions relating to working during and after pregnancy.

Coverage
The Act regulates all employers and employees within the Republic, except for members of the South African National Defence Force, the National Intelligence Agency and the South African Secret Service, unpaid volunteers working for an organization serving a charitable purpose, and to some extent to persons employed on vessels at sea.

Employment Equity Act, 1998
Summary of contents
The Act has as its aim the provision of employment equity. It specifically seeks to address the results of apartheid and other discriminatory laws and practices, disparities in employment, occupation and income within the national labour market, and the disadvantages for certain categories of people which cannot be redressed simply by repealing discriminatory laws. The Act therefore aims to promote the constitutional right of equality and the exercise of true democracy, eliminate unfair discrimination in employment, ensure the implementation of employment equity and achieve a diverse workforce broadly representative of South Africa as a whole, promote economic development and efficiency in the workforce and to give effect to the obligations of the Republic as a member of the International Labour Organization. Testing by employers of HIV status is specifically prohibited and other forms of testing are limited.

Definitions of SMMEs
The chapter of the Act dealing with Affirmative Action (Chapter III) is limited to “designated employers” which includes employers with 50 or more employees and those with less than 50 employees but with a total annual turnover that is equal to or above the annual turnover of a small business in terms of Schedule 4 of the Act (ranges from ZAR 2 million for agricultural employers to ZAR 25 million for employers in the wholesale trade, commercial agents and allied services sectors), as well as employers bound by collective agreements in terms of the Labour Relations Act. The other chapters of the Act are not limited in application in this way.
Monitoring and review
Monitoring occurs through employees and trade union representatives. Labour inspectors may then request and obtain a written undertaking from a designated employer to comply. Employers may object to compliance orders by making representations to the Director General.

Organizations that represent SMMEs
In the Chapter dealing with the Commission for Employment Equity (Chapter IV), provision is made for representation of two persons nominated by those voting members of NEDLAC who represent organized labour and two persons nominated by those voting members of NEDLAC who represent organized business. No specific mention is made of representation of SMME organizations on the commission.

Gender aspects
Women are specifically included in the “designated groups” (section 1).

Implementing agencies and Coverage
The Director General of the Department of Labour is responsible for the implementation of this Act.
The Act is applicable to the whole of South Africa.

Comments
The Employment Equity Act eliminates discrimination in the workplace, but entails costly provisions around equity plans. However, there is no cut-off in terms of employees and revenue (as described above). Later (delayed) reporting is available for smaller enterprises.

Skills Development Act, 1998
Summary of content
The Act is meant to assist in developing and skilling the South African workforce, using various means, including the financing of skills development through a levy-grant scheme and a National Skills Fund, as well as to provide for and regulate employment services and other related matters.
The express aims of the Act are inter alia:
- To develop the skills of the South Africa workforce through:
  - Improving the quality of life of workers, their prospects of work and labour mobility;
  - Improving productivity in the workplace and the competitiveness of employers;
  - Promoting self-employment;
  - Improving the delivery of social services.
- To increase the levels of investment in education and training in the labour market and to improve the return on that investment;
- To encourage employers to:
  - Use the workplace as an active learning environment;
  - Provide employees with the opportunities to acquire new skills;
  - Provide opportunities for new entrants to the labour market to gain work experience;
  - Employ people who find it difficult to be employed.
- To encourage workers to participate in learnership and other training programmes;
- To improve employment prospects of persons previously disadvantaged by unfair discrimination and to redress those disadvantages through training and education;
- To ensure the quality of education and training in and for the workplace;
- To assist
  - Job seekers to find work;
  - Retrenched workers to re-enter the labour market;
  - Employers to find qualified employees.
- To provide and regulate employment services.

Definitions of SMMEs

Although the Act does not define SMMEs or make specific provision for them in the Act, there is a reference to small enterprise in the Act. Small businesses are specifically included in the composition of SETAs (see below).

Implementing agencies

The Minister of Labour and the Director General of the Department of Labour are responsible for the implementation of this Act.

The purposes of the Act are meant to be achieved by establishing an institutional and financial framework comprising the National Skills Authority, the National Skills Fund, a skills development levy-grant scheme, SETAs (Sector Education and Training Authorities), labour centres and the Skills Development Planning Unit.

This is intended as a joint effort between the public and private sectors to ensure education and training in and for the workplace, to be effected in cooperation with the South Africa Qualifications Authority.

Amongst other duties, the SETAs approve the workplace skills plans; allocate grants to employers, education and training providers, and workers, and monitor the training that takes place within their particular training sector. Each SETA includes members representing labour, organized employers (including small business) relevant government departments and if appropriate, professional bodies and bargaining councils within the jurisdiction of the Council.

Specific ‘learnerships’ can be established by SETAs to provide skills in particular areas, particularly those that lead to qualifications registered by the South Africa Qualifications Authority and related to an occupation, and agreements between workers and employees and accredited training providers can be entered into for this purpose. If the learners are already contracted to work for an employer, this is not affected by the ‘learnership’ agreement, and if no such contract exists, then a contract with the employer for the duration of the ‘learnership’ is entered into.

The National Skills Fund is funded by 20 per cent of the Skills Development Levies, and all skills development levies for which there are no SETAs and from government, donations or other sources. The fund is used for funding projects identified in the national skills development strategy as national priorities or for other projects related to the purposes of the Act as determined by the Director General of the Department of Labour.

There is no mechanism for coordination of policies and laws affecting the SMME sector.
Coverage
The Act is applicable to the whole of South Africa.

Unemployment Insurance Act, 1996
Summary of content
The Act provides for the provision of some relief to those who have lost their work, in cases of illness or for maternity. Employees earning less than a fixed amount have to contribute one per cent of their earnings to the Unemployment Insurance Fund (UIF). Those employees earning more than the threshold amount do not contribute, but cannot claim in the event of losing their work.

Gender aspects
The Act provides for payments in the case of maternity absences from work.

Coverage
The Act is applicable to the whole of South Africa.

Compensation for Occupational Injuries and Diseases Act, 1993
Summary of contents
The Act provides for the compensation for disablement caused by occupational injuries or diseases of employees in the course of their employment or for death resulting from those injuries or diseases, and for related matters.

Definitions of SMMEs
No specific references are made to SMMEs.

Implementing agencies
The Minister of Labour is responsible for the implementation of this Act along with the Director General of the Department of Labour. The Minister has to appoint a Compensation Commissioner who receives notices of accidents and occupational diseases and claims for compensation, inquires into accidents and occupational diseases, adjudicates on claims and other matters, issues orders on the payment of compensation, and other related functions. The Commissioner also determines liability for compensation payments, decides on the need for the nature and sufficiency of medical aid insurance, recovers amounts paid out by the fund where possible, records statistics on accidents and occupational diseases, institutes inquiries and performs other such functions as may be necessary. Even if the employee was acting contrary to the orders of his careful employer or any law applicable to his employment, or without any order of his employer, if the Commissioner is of the opinion that the employee was so acting for the purposes or in the interest of the business of the employer, such accidents will be deemed to have arisen out of and in the course of the employment of an employee.

Employees must report such accidents to their employer, and the employer must report the accidents to the Commissioner. Commissioners can then inquire into the circumstances around the accident.
Employers have an obligation in terms of the Act to register with the Commissioner and to keep records. Employers are assessed by the Commissioner as deemed necessary, in accordance with the tariff of assessment (calculated on the basis of a percentage of the annual earnings of employees, with due regard to the requirements of the compensation fund for the year of assessment). In spite of this, the Commissioner may, however, assess a particular employer or category of employers on whatever basis deemed equitable. However, the UIF has limited capacity to make individual assessments and this clause is not generally applied.

Gender aspects
Maternity aspects are covered under this Act.

Coverage
The Act is applicable to the whole of South Africa.

**Occupational Health and Safety Act, 1993**

*Summary of contents*
The Act provides for the health and safety of persons at work, of persons in connection with the use of plant and machinery and the protection of outside persons against hazards to health and safety arising out of or in connection with the activities of persons at work. It also establishes an advisory council for occupational health and safety and related matters.

*Implementing agencies*
The Advisory Council for Occupational Health and Safety advises the Minister of Labour on policy and other matters relating to occupational health and safety. It may also undertake research and conduct investigations as deemed necessary to perform other functions assigned to it by the Minister. It may advise the Department of Labour on the formulation and publication of standards, specifications or other guidance for the purpose of assisting employers, employees and users to maintain appropriate standards of occupational health and safety, promote education and training in occupational health and safety and collect and disseminate information on occupational health and safety. The Chief Inspector may direct employers to prepare written policy concerning the protection of the health and safety of workers, including a description of the organization and the arrangements for carrying out and reviewing that policy. Employers are required to prominently display a copy of this policy signed by the CEO in the workplace where the employees normally report for service.

Employers are tasked by the Act to:
- Provide and maintain as far as reasonably practicable, a working environment that is safe and without risk to the health of the employees and provide and maintain the systems of work, plant and machinery that are safe and without risks to health;
- Take such steps as may be reasonably practicable to eliminate or mitigate any hazard or potential hazard to the safety or health of employees, before resorting to personal protective equipment;
- Make arrangements for ensuring as far as is reasonably practicable the safety and absence of risks to health in connection with the production, processing, use, handling, storage or transport of articles or substances;
- Establish, as far as is reasonably practicable, what hazards to the health or safety of personal are attached to any work which is performed, any article or substance which is
produced, processed, used, handled, stored, or transported, and any plant or machinery which is used in the business, and what precautionary measures should be taken;
- Provide information, instructions training and supervision as may be necessary;
- As far as is reasonably practicable, not to permit any employee to act without taking the necessary precautionary measures;
- Ensure that work occurs under supervision of a person trained to understand the hazards associated with it and that the precautionary measures are implemented; and
- Various other measures.

Certain works are listed by the Minister and in such cases specific hazards and steps which need to be taken to comply with the Act are identified and programmes and monitoring may be instituted.

Every employer with more than 20 employees at any workplace has to designate health and safety representatives. However, in workplaces with 20 or fewer employees the inspector may also direct employers to designated health and safety representatives.

Inspectors have special powers and functions including examination, performing, seizing, inspecting. Inspectors also have special powers (section 30) to prohibit an employer from carrying on an act or using specific machinery or permitting employees to be exposed to any article, substance, organism or condition if in the inspector’s opinion it will or is likely to threaten the health or safety of any person. This prohibition can be revoked in writing by the inspector when the threat which gave rise to the prohibition has passed. In the case of non-compliance, the inspector can enforce a prohibition, or take the necessary steps as may be required. Inspectors may also undertake investigations of any incidents which have occurred. Formal enquiries may also be launched by the chief inspector to investigate incidents.

The Minister of Manpower can also augment the provisions of the Act by making regulations in connection with the purpose of the Act.

Definitions of SMMEs
Although no specific definitions are given, enterprises of 20 or less are excluded from some of the requirements of the Act.

Coverage
The Act is applicable to the whole of South Africa.
Annex 8: Trade policies

Export Credit and Foreign Investment Reinsurance Act, 1957

Summary of contents
The Act (as amended up to 1996) was created to promote trade with other countries by providing for the reinsurance of insurance contracts in connection with export transactions, investments and loans or similar facilities connected with such transactions. The reinsurance is provided by the State entering into contract with an insurer.

The basic aim is to protect those carrying on business outside of South Africa, particularly in cases where a monetary loss or monetary detriment is attributable to circumstances beyond the control of the individual suffering the loss. Specific causes are listed, and the maximum amount of loss insured is limited according to the contract between the Minister of Finance and the insurer.

This reinsurance protection is available to any ‘person’, and in the Act, ‘person’ is defined as including a company, an association, a partnership, an individual, a government agency or a semi-government agency. SMMEs are therefore fully covered by this.

Coverage
The Act is applicable to the whole of South Africa.

Customs and Excise Act, 1964

Summary of content
The Act provides for the levying of duty on goods brought into South Africa.

Definitions of SMMEs
There are no specific definitions of SMMEs and no special reductions are made for products imported by SMMEs.

Coverage
The Act is applicable to the whole of South Africa.

Board on Tariffs and Trade Act, 1986

Summary of contents
The Act (as amended in 1997), establishes a Board on Tariffs and Trade and related matters. The object is to regulate trade and to thereby promote industrial growth within South Africa.

Definitions of SMMEs
There are no special provisions for small businesses regarding exemptions from tariffs.
 Annex 9:  Finance and credit policies, laws and regulations

Usury Act, 1968

Summary of contents
The Act (as amended in 1996) provides for the limitation and disclosure of finance charges levied in respect of money lending transactions, credit transactions and leasing transactions and related matters. The Minister of Trade and Industry can determine the maximum percentage finance charges payable by notice in the Gazette.

Definitions of SMMEs
No specific references are made to SMMEs, and the Act covers all such transactions, even those done by stokvels (community savings and loan clubs).

Implementing agencies
The Minister and the Department of Trade and Industry are primarily responsible for the implementation of the Act, along with the Registrar who is appointed by the Minister.

Credit Agreements Act, 1980

Summary of contents
The Act (as amended up to 1995) provides for the regulation of certain transactions in terms of which movable goods are purchased or leased on credit or certain services are rendered on credit and for related matters. The Act is meant to regulate and protect credit grantors and purchasers of movable goods.

Definitions of SMMEs
There are no specific references to SMMEs.

Implementing agencies and Coverage
The Act falls under the authority of the Minister of Economic Affairs and Technology. The Minister may decide on certain exemptions to the Act from time to time by publication of a notice. The Minister may also publish regulations which can be applied to a particular person or persons which prescribe the maximum period within which the full price under a credit agreement shall be paid; prescribe the portion of the cash price of any other consideration which shall be paid or delivered as an initial payment or initial rental in terms of a credit agreement; prescribe the manner in which the price of any goods or service shall be displaced or advertised; and prohibit advertisement if it is deemed that the contents conflict with the provisions of this Act, or impose any other conditions deemed necessary on any credit agreement.

The Minister may assign the powers and duties conferred on him/herself and the Director General of the Department of Trade and Industry to a competent provincial authority. Inspectors may conduct investigations as required to ensure compliance with the Act.

The Act is applicable to the whole of South Africa.
**Banks Act, 1990**

*Summary of contents*

The Act (as amended up to 1996) provides for the regulation and supervision of the business of public companies taking deposits from the public and related matters. Banks, micro-lenders and other deposit takers are regulated by the Act. No person or company can conduct the business of a bank without being registered in terms of this Act. It provides for specific procedures and regulations and for codes of conduct to be followed, and for prudential measures to be taken so that deposits are protected.

*Implementing agencies and Coverage*

The Act falls under the authority of the Minister of Finance, together with the Registrar of Companies and the Registrar of Banks. The Registrar can issue guidelines and carry out inspections amongst other powers.

The Act is applicable to the whole of South Africa.

**Development Bank of Southern Africa Act, 1997**

*Summary of contents*

The Act makes provision for the Development Bank of Southern Africa (DBSA) to act as a development finance institution which has the primary purpose of promoting economic development and growth, human resource development and institutional capacity-building by mobilising financial and other resources from the national or international private and public sectors for sustainable development projects and programmes and related matters. With the advent of the new constitution in 1996, it became necessary to amend the focus of the DBSA, to promote and facilitate socio-economic development within South Africa while promoting efficiency, fairness, transparency and responsibility.

According to the provisions of the Act, the DBSA is not limited to providing funding for large enterprises and is more restricted by the type of funding or purposes of the project rather than the size of projects. There is no statutory reason that SMMEs cannot be funded by the DBSA.

Amongst other ancillary functions, the DBSA is meant to:
- Mobilize funding on a wholesale basis;
- Appraise, plan and monitor the implementation of development projects and programmes;
- Facilitate the participation of the private sector and community organizations in development projects and programmes; and
- Provide technical assistance in the form of human resource development and training in regard to the identification, preparation, evaluation, financing, implementation and management of development projects and programmes, amongst others.

The DBSA can:
- Appraise, approve, or mobilize wholesale funding;
- Lend or advance money to any person or private of public body engaged in or proposing to engage in development projects and programmes in the region; and
- Acquire an interest in projects, provide capital for them or assist in the acquisition of capital for them, among other powers.

*Coverage*

The Act is applicable to the whole of South Africa.
Comments
The Trans-African Road Concessionaire (TRAC) was the consortium hired by the DBSA to build the Maputo Corridor. One of the requirements of the tender was to ensure that SMMEs be included in the project. The DBSA managed the social contract aspect that included providing support and training to SMMEs and involved facilitating consultative and training workshops with the SMMEs (Interview with Glenn Havermann, Construction SMME Development, DBSA, 2001).

In this interview, a strong opinion was expressed as to why the SMMEs cannot survive especially in the construction industry. He identified problems such as access to finance, understanding tendering procedures, and lack of equipment and resources, as stumbling blocks for SMMEs in the construction industry. According to Havermann, in most cases SMMEs lack the ability to identify opportunities and need assistance.

In the example of the Maputo Corridor project, there were many factors that needed planning especially in the preparatory phase. Training was provided to appropriate individuals in tendering procedures because many of the SMMEs did not understand the requirements of the tender document. Although training was provided the content of the courses were mainly supply driven and did not always meet the needs of the community. The factors that improved the implementation phase included disseminating information through the local press or community notice boards, encouraging women-based SMMEs to participate and providing mentorship to emerging construction enterprises.

In the construction of the Maputo Corridor, just over 4,000 jobs were created for SMMEs (Interview, Havermann, 2001, DBSA). In a separate study of the problems and participation of SMMEs in the construction of the Maputo corridor, Rogerson (2000) found that South Africa emerged as one of the most innovative examples of applying targeted procurement policies towards stimulating the involvement of the SMME sector in the construction industry. However, Rogerson recommends that identifying key performance indicators in the preparatory and implementation phases could enhance the monitoring procedures in areas that require support, and suggests that this be coordinated from the provincial SMME desk (Rogerson, 2000, p. 40).

Cooperatives Act, 1981
Summary of contents
The Act (as amended up to 1996) provides for the formation, incorporation, functioning, winding-up and dissolution of cooperative societies and cooperative companies and related matters. Three types of cooperative are provided for: (a) an agricultural cooperative, (b) a special farmers’ cooperative, and (c) a trading cooperative. Community banking is incorporated under (c) where the objectives of the cooperative are described in the Act as ‘any object’ (section 23). Section 49 outlines the many powers and restrictions on cooperatives. These include all actions relating to holding money, insuring, investing, and borrowing and raising money, subject to various restrictions. Cooperatives can also issue debentures, and register mortgage and notary bonds. Membership of trading cooperatives is not restricted to any group of persons.
Definitions of SMMEs

In order to form a trading cooperative, 11 or more individuals are required. Where a primary trading cooperative is formed for the purpose of manufacturing and disposing of any article, it may be formed by as few as two individuals (section 19(c)).

Implementing agencies and Coverage

The Registrar of Cooperatives is appointed by the Minister of Agriculture and he together with his officers administer the Division of Cooperatives. Registration is done by filling in application forms and creating a statute containing details about the cooperative and how it will operate. Registration fees are payable to the Registrar. Inspectors enforce compliance with the Act and the statute. Membership of the cooperatives is recorded in a specific register, also including the member’s interest in the cooperative. The affairs of a cooperative are managed and controlled by a board of directors elected at a general meeting who hold office for a limited time.

Cooperatives must keep accounting records to fairly reflect the state of affairs and business of the cooperative, including assets and liabilities, register of fixed assets, daily entries of cash transactions, turnover and annual stocktaking. An annual financial statement is required, which must be in compliance with the GAAP, and these must be sent to the registrar. There are also specific auditing requirements. There are very detailed provisions on the winding-up of cooperatives, similar to those for companies. Cooperatives can be converted into companies, and companies converted into cooperatives.

The Act is applicable to the whole of South Africa.

Recognition of Customary Marriages Act, 1998

Summary of contents

The enactment of the Customary Marriages Act, 1998 provided for the recognition of customary marriages, which had previously not been recognized as marriages. The Act includes sections dealing with the requirements for a valid customary marriage, the registration of customary marriages, the regulation of the property and contractual rights within such marriages, the dissolution of such marriages and related matters.

Customary marriages are those concluded in accordance with customary law, and customary law includes the customs and usages traditionally observed among the indigenous African people of South Africa, which form part of their culture.

The Act gives men and women in such marriages equal and full status and capacity, including the capacity to acquire and dispose of assets and to enter into contracts. Before this legislation, women were regarded as minors with little contractual capacity. Such limited capacity was in impediment to women being able to run their own businesses. Marriages included in terms of this Act are deemed to be in community of property and profit unless the spouses exclude such consequences in an ante-nuptial contract.

Definitions of SMMEs

The Act contains no specific reference to SMMEs.

Gender aspects

The Act specifically aims to equalize the status of married women with men and give them the same ability to enter into contracts.
Annex 10: Enabling and innovation policies


Summary of contents
The Paper provides for the facilitation of businesses through e-commerce including issues of taxation, jurisdiction, enforcement, intellectual property rights, privacy, procedure, payment systems, marketing, infrastructural requirements, access to and affordability of e-commerce, and most importantly for this paper, the way in which e-commerce can be utilized to achieve sustainable socio-economic growth including strategies of promoting new business opportunities, market development, education and training, awareness and enablement, skills and jobs (Chapter 12).

Section 12.2 discusses the economic and social impact e-commerce might have on the population by allowing for the expansion of internal markets, low-cost international expansion and access to financial services for formerly marginalized groups. However, no proof is offered that would substantiate such claims, and no evidence is offered that e-commerce in particular (as opposed to greater access to information technology in general) would have a beneficial socio-economic impact.

One of the main concerns for legislators regarding e-commerce is the legality and enforceability of commercial transactions executed in electronic space. The aim is to achieve legal recognition for e-commerce and equal status with traditional commerce. Policymakers hope to build on the existing legislation and shape the extension of these laws according to international standards governing e-commerce.

Definitions of SMMEs
The overview of the South African e-commerce market focuses primarily on large companies with high revenues. Small and medium sized businesses are only mentioned in as much as that they “appear to be slow in embracing the use of the Internet and thus the ability to benefit from an increased global market” (p. 68).

Section 12.4 claims that e-commerce has the potential to facilitate growth of SMMEs and concludes that because a third of jobs are created by SMMEs, the faster adoption of e-commerce would create jobs in South Africa. However, these claims do not take into account what type of SMMEs or jobs are being talked about.

Implementing agencies
The Department of Communications is responsible for the writing of the Green Paper and any further implementation of an e-commerce policy.

Gender aspects
The Green Paper does not adequately acknowledge the limitations of access and knowledge or women to information technology.

Coverage
The Green Paper is applicable to the whole of South Africa.
Other laws, relating to environment and empowerment

Local laws
Local government town planning schemes provide many restrictions and there are problems with information provision and procedures that have to be followed to comply. By-laws are often not synchronized with national laws.

National Environmental Management Act, 1998
Summary of contents
The Act aims to provide for a system of cooperative governance of the environment through the establishment of principles that can be utilized during decision making on matters affecting the environment. It also provides for the establishment of institutions that will promote cooperative governance and procedures for coordinating environmental functions that are exercised by organs of the State.

The Act basically aims to promote a healthy living environment while assisting in meeting the needs of previously disadvantaged communities. It recognizes that the inequality in the distribution of wealth and resources and resultant poverty are among the important causes as well as the results of environmentally harmful practices.

The Act provides primarily for the compliance of the state organs themselves with its environmental implementation and management plans (chapters 3 and 4). In addition, the integrated environmental management provisions allow the Minister (in conjunction with the MEC(s)) to regulate the commencement of specific activities, in general or in specific areas, as well as to assess existing authorized activities by any person or business or organ of state (chapter 5). The procedures to be followed in assessing potential impacts can include considerable investigation, participation and conflict resolution measures, etc.

Chapter 7 of the Act also provides for remediation measures to be taken where necessary due to pollution or degradation. The land owner, or the user of land who causes this to occur may be liable to undertake investigations, inform/educate employees about potential risks, cease the activity in question, contain the spread, eliminate or remedy the effects of pollution or degradation within a specified “reasonable” date, at the cost of such person or entity. The law also provides for employees to rightfully refuse to work if such work would imminently result in a serious threat to the environment (section 29).

In emergency situations, containment, clean-up, remedy and assessment can be enforced (section 30). The Act also provides for criminal proceedings to be brought in certain cases (section 34).

National Empowerment Fund Act, 1998
Summary of contents
The Act aims to establish a trust for the promotion and facilitation of ownership of income-generating assets by historically disadvantaged persons and related matters. It is basically aimed at redressing the economic inequality which resulted from South Africa’s earlier discrimination.
Definitions of SMMEs
The Act contains a specific reference to SMMEs in its “preamble”. It states that “the restructuring must distribute wealth, boost the small and medium enterprise sector, have sustainable affirmative action implication and facilitate genuine black economic empowerment”.

References made to employment issues and gender aspects
Reference is made to employment issues through the objects of the Act which also aims to include the historically disadvantaged in the ownership of enterprises, and the creation of employment opportunities.

The historically disadvantaged persons defined in the Act include only those that were discriminated against on the basis of race, and no specific mention is made of women.

Implementing agencies and Coverage
The Minister of Trade and Industry, the Minister of Finance, the Minister of Public Enterprises are primarily responsible for the implementation of the Act.

The Act is applicable to the whole of South Africa.

Constitution Act, 1996
Summary of content
To provide for constitutional matters and for a Bill of Rights.

Section 22 provides for freedom of trade, occupation and profession, section 23 includes rights to fair labour practices, such as to form and join trade unions and participate in them, to strike, to form and join employers organizations and participate in them etc. section 24 includes rights to a healthy environment, and environmental protection; section 25 protects rights to property, section 28 provides for protection from child labour and exploitative labour practices.

Chapters 3 to 11 provide for the system of government and administration in South Africa (see section on System of Governance and Law in South Africa, above). Chapter 12 includes provisions for traditional leaders/customary law. Chapter 13 provides for matters related to finance, including how priorities on spending must be determined, such as the national interest, ensuring that the provinces and municipalities are able to provide basic services and perform the functions allocated to them, the fiscal capacity and efficiency of the provinces and municipalities, developmental and other needs of provinces, local government and municipalities, economic disparities within and among the provinces, etc.

The Constitution also provides for procurement procedures. Section 217 states that when an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. It also allows that there can be categories of preference in the allocation of contracts, and the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.
The Constitution provides for the imposition of taxes. Section 228 allows a provincial legislature to impose taxes, levies and duties other than income tax, value-added tax, general sales tax, rates on property or customs duties, and flat-rate surcharges on the tax bases of any tax, levy or duty that is imposed by national legislation, other than the tax bases of corporate income tax, value-added tax, rates on property or customs duties.

The Constitution also outlines municipal fiscal powers and functions. Section 229 provides that a municipality may impose rates on property and surcharges on fees for services provided by or on behalf of the municipality; and if authorized by national legislation, other taxes, levies and duties appropriate to local government or to the category of local government into which that municipality falls, but no municipality may impose income tax, value-added tax, general sales tax or customs duty.

The power of a provincial legislature/municipality to impose rates on property (in the case of a municipality), taxes, levies, duties and surcharges may not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal/provincial boundaries, or the national mobility of goods, services, capital or labour. For a municipality, such power may be regulated by national legislation. For a provincial legislature, it must be regulated in terms of an Act of Parliament, which may be enacted only after any recommendations of the Financial and Fiscal Commission have been considered.

When two municipalities have the same fiscal powers and functions with regard to the same area, an appropriate division of those powers and functions must be made in terms of national legislation. The division may be made only after taking into account at least the following criteria: The need to comply with sound principles of taxation, the powers and functions performed by each municipality, the fiscal capacity of each municipality, the effectiveness and efficiency of raising taxes, levies and duties and equity.

**Gender aspects**

The Constitution specifically eliminates any form of gender discrimination. It provides for equality before the law and includes the full and equal enjoyment of all rights and freedoms. It also provides for actions to be taken to protect or advance persons who may be disadvantaged by unfair discrimination.
Annex 11: List of individuals consulted in the course of this report

Interviews were undertaken with the following key stakeholders, including Government, non-government organizations, the private sector, and worker and employer organizations.

**Government organizations**

Coetzee, Willem: Manager, Policy and law application and direct taxes, South African Revenue Services (SARS) (18 April 2001).

Damane, Wawa: Chief Director: Enterprise Development Unit, Department of Trade and Industry (DTI) (21 August 2001).


Harrison, Karen: Manager of Local Economic Development (LED), Department of Provincial and Local Government (DPLG) (17 April 2001).

Majija, Nthuthu: Director, Policy, Research and Legislation Centre for Small Business Promotion, Department of Trade and Industry (DTI) (3 May 2001).

Manjome, Clayton: Manager, Corporate Affairs, Khula Enterprises Finance Ltd. (7 May 2001).

Mohoto, Mojalefe: Deputy Director, Policy, Research and Legislation Centre for Small Business Promotion, Department of Trade and Industry (DTI) (19 April 2001).

More, Bongani: Chief Director of Community Based Public Works Programme, Department of Public Works (DPW) (17 April 2001).


Nobanda, Julius: Department of Trade and Industry (DTI) (2 April 2001).

Radebe, Jabu: General Manager, Telecommunications Policy, Department of Communications (2 April 2001).

Rauch, Hubert: Chief Technical adviser from ILO, Department of Social Development (26 May 2001).

**Private sector representatives**

Darrol, Chris: Director, Small Business Project (SBP) (June 2001).


Machaba Phil and Phil Thobela: Small Business Project (SBP) (June 2001).

Morekhure, Salome and Mokgle, Evodia: Managers, Credit Guarantee Ltd and institutional support (29 May 2001).

Stokes, Alan, Stokes and Kenyon, Pierce: Managing Director and Executive Director, Equity Africa, (9 March 2001).

**Non-government/community based organizations**


Du Plooy, PC and Paul, Gary: CEO and Manager of member services, Micro Lenders Association (MLA), (12 April 2001).
Workers’ organizations
Irons, Craig: Regional Representative (Personal Care Sector), United Association of South Africa, Fedusa (1 June 2001).
Mbongwe, Mduduzi: Deputy General Secretary SACCAWU (Workers Organization) (June 2001).
Ndumo, Jeffrey: Researcher, NUMSA
Nthunye, Gubuso: Secretary, Self-Employed Women’s Union (SEWU) (June 2001).

Employers’ organizations
Mashitini, Gabriel: Deputy Director, Policy, South African Chamber of Business (SACOB) (12 April 2001).

Regulatory bodies
Davel, Gabriel and Setou, Peter: CEO and Manager - Education and Communication, Micro Finance Regulatory Council (MFRC) (11 April 2001).
Mali, Lincoln: Manager, Banking Council (25 April 2001).

Other
Bond, Patrick: Political economist, Wits University, (27 May 2001).
Oricho, George and Maloba: General manager, (development markets and brand manager bronze, silver and special mortgage), Land Bank (6 April 2001).
Radinku, Yvonne: MD, Marang Financial Services (June 2001)

Gave information without an interview
Goldblatt, Wendy: President of the Craft Council, Craft Council (June 2001).
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