

Support of Small Enterprises through business linkages, and assessing the role of Small Business Fairs in the eThekweni Municipality, South Africa

by

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Declaration

This dissertation is the original work of the author and has not been submitted in any other form to another university. Where use has been made from the work of other authors and sources, it has been acknowledged accordingly and referenced in the body of the dissertation.

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Opinions expressed and conclusions derived are those of the author and should not necessarily be attributed to the School of Development Studies.

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Abstract

International evidence demonstrates that Small, Medium and Micro-Enterprises (SMMEs) play a critical role in the growth and stimulation of developed and developing country economies. Within the South African context, the National Framework for Local Economic Development (LED) aims to support the development of sustainable local economies through integrated government action. This Framework will ensure that SMMEs have an element of support from a local government perspective. With greater responsibility being allocated to local government, interrogating what local authorities could do to support SMMEs is important. The dissertation reflects on the eThekweni Municipality's approach to this issue by focusing on the support of small enterprises through business linkages, and assesses the role played by Small Business Fairs in this regard. The primary empirical component of the research examines the effectiveness of the municipality's flagship SMME support initiative – the annual SMME Fair. Over 160 small businesses were surveyed. The survey found in general that the stallholders felt the Fair was beneficial. Apart from the usual problems related to the organization of the Fair, the exhibitors also identified a number of weaknesses that hinted at the municipality's strategic approach. Much of the frustrations of the respondents were linked to not receiving direct benefits from the SMME Fair in relation to business contacts and increased sales and it is argued that the municipality should explore further the benefits of business linkages. The role of local government in stimulating SMME Fairs to establish suitable business linkages with the big businesses may assist in addressing this major weakness that was identified. The SMME Fair has the potential to provide an ideal platform SMMEs from which to create business linkages.

Chapter 1: Introduction

International evidence demonstrates that Small, Medium and Micro-Enterprises (SMMEs) have played a critical role in the growth and stimulation of both developed and developing country economies. The National Framework for Local Economic Development (LED) in South Africa aims to support the development of sustainable local economies through integrated government action. The information is available in the Departmental Local Government's Web site <www.thedplg.gov.za>. This entails developmental action and is intended to stimulate the heart of the economy which comprises those enterprises that operate in local municipal spaces. These include SMMEs that play an important role in South Africa's economy, employing 55% of the country's labour force and contributing 35% towards South Africa's total GDP (eThekwini, 2007). Previous research on SMMEs in South Africa has identified constraints to growth (Kesper, 2000) and reflected on the impact of national policy (Rogerson, 2002). With decentralisation, local government is playing a more important role in supporting local economies generally and SMMEs specifically. As South Africa is deemed to be a developmental state which is interventionist in nature and promotes socio-economic development, it also affords local municipalities the opportunity to directly intervene in the developmental process, rather than rely on the uncoordinated influence of market forces in the distribution of wealth and resources. This dissertation aims to analyse an aspect of the eThekwini Municipality's policy approach to SMMEs.

The eThekwini Municipality's flagship SMME support intervention is the Annual SMME Fair. This is a high profile event where small businesses are invited to display their products, offered training and given the opportunity to network with related service providers. A survey was undertaken to evaluate this intervention by interviewing over 160 SMMEs who had participated in any one of eight SMME fairs between 1997 and 2004. The sample was drawn from the Council's records of participants. The survey not only evaluates SMME owners' experiences of the Fairs but also their experiences of local government support, the problems they are experiencing and what they feel should be done about these.

This dissertation examines the extent to which recent SMME policies and strategies have succeeded in creating a sufficiently enabling environment for SMMEs to network in the eThekweni Municipal region. This is one of the explicit purposes of the SMME Fairs. The literature on SMMEs suggests that business linkages in both developed and developing countries assist the growth of small businesses and SMME Fairs could certainly be a vehicle to stimulate this.

Chapter 2 reviews the international evidence with respect to the role of SMMEs in development. In this chapter it is shown that large firms are more attuned to the dynamics affecting the global economy than small businesses and are better able to provide infrastructure when attempting to form business linkages with the SMME sector.

Chapter 3 reflects on the SMMEs in the South African and eThekweni contexts and the policy environment in which they operate. It mentions that SMMEs in South Africa play an important developmental role, and could assist in redressing some of the inequalities from the apartheid era, in terms of patterns of economic ownership and restricted opportunities for historically disadvantaged individuals. The sector is also an easy entry level for employment seekers and promising entrepreneurs thus addressing one of the country's most critical challenges – job creation. Despite the various opportunities offered by national government for the small business sector, there has been little success in the regional level due to poor interaction between the spheres of government and the frequent restructuring of national special purpose vehicles established for these. The slowness of the municipality in designing the SMME strategy may also be a reason for the poor performance of the sector.

Chapter 4 describes the SMME Fair Research Survey undertaken in 2006. The research methodology and aspects of the survey are covered in this chapter. It attempted to assess issues such as economic impact, feedback from exhibitors and attendance. The questionnaire was designed not only to glean the demographics of the SMME owners but also to obtain information relating to types of business activity. The bulk of the questions

related to their experience of the Fair with a view to identifying its impact on business activities. From the analysis it was possible to determine some of the crucial issues affecting exhibitors.

Chapter 5 comprehensively outlines the results from the survey, by describing the demographic and other characteristics of the sampled businesses.

The final chapter – Chapter 6 – focuses on policy recommendations and areas for further research to examine aspects of linkages between small and big businesses in the eThekweni region. The opportunities for growing special skills and identifying the potential for industry clusters are also possible through this interaction. Linkages have proved very significant and have a role to play in poverty reduction, optimizing opportunities and stimulating the local economy through new contracts, business advice, new ideas, technology transfer and economies of scale.

SMME Fairs provide an enabling environment to forge linkages with large businesses, and improve the terms on which local firms source their inputs. The literature review on linkages outlines this further and cites some success stories. Despite the obvious supportive role required by local government and other institutions, the initiative to stimulate linkages also depends on a strategic integration of the private sector into the local economy through the encouragement of more local investments.

The survey found that the SMME Fair is currently securing participation from the smaller end of the SMME spectrum. There was a core group of small businesses that found the SMME Fair to be beneficial to their own business, with one in every two reporting that their turnover did increase due to participation in the Fair. It was clear from some of the responses that a targeted approach with respect to providing support to different sectors within the industry may be required, in order to encourage meaningful linkages between large and small businesses. Much of the frustrations of the respondents were linked to not receiving direct benefits from the SMME Fair in relation to business contacts and increased sales.

The results suggest that the key reason for most SMMEs exhibiting is to increase market exposure and form linkages with relevant businesses. This implies that they expect potential customers and other related service providers to attend the Fair. Linked to these expectations is also the concern that communication with the Municipality is halted when the SMME Fair ends. This would suggest that there is no ease of continuous access amongst small businesses and the City.

Linkages between large businesses and SMMEs may also be a useful strategy for developing a skilled labour pool, achieving market competitiveness, and providing access to finance and technology for emerging small businesses. The role of local government in stimulating SMME Fairs to establish linkages with the big businesses may assist in identifying and solving many of the other constraints identified in the survey by small businesses.

Chapter 2: The Role of SMMEs in Development – International Experience

This chapter reviews literature on the role of SMMEs in fostering economic development. It particularly addresses the issue of supporting small enterprises through linkages. It outlines some examples of private sector initiatives in promoting business linkages and opportunities for SMMEs, such as networks and clusters. It draws not only from existing research, but also from direct work experiences and observations, and an SME Training Program in Nagoya, Japan during 2005 to illustrate some of the roles that the state could play in stimulating SMME growth.

2.1 The role of SMMEs in Development

SMMEs are job creators, innovators and contribute significantly to economic growth. The table below shows the percentage of Asian small businesses among total enterprises, contribution to employment and percentage of total gross value added.

Table 1: Employment and Gross Value Added contributions by SMMEs in Asian countries

	Malaysia	Thailand	Philippines	Korea	Japan	China	Indonesia	India
SMME establishments	94.4	98	99.6	99	99	99.7	99.9	95
Employment	40.4	55.8	69.1	69	88	74	99.9	80
Gross Value Added	26	47	32	46	56	60	63.1	40

(Unido 2002)

The table indicates that SMMEs account for a large share of employment and gross value added in these Asian countries. Small businesses in these countries have also become strong agents of manufactured export growth and gross value added contributors. In this context, SMMEs were key contributors of employment opportunities. (UNIDO, 2002).

Honig (1998) asserts that the growth of micro-enterprises provides the most visibly vibrant and growing economic activities by interviewing 64 small and micro-enterprises

on the West Bank in Israel. Furthermore, Thakur (1998) states that entrepreneurship is a vehicle for transformation and recovery in developing countries. The sector is therefore not only important because it creates jobs but could also be an instrument of participatory development since it enables a wider section of the population, particularly the poor, to participate in the process and benefits of development. In addition it not only helps to integrate marginalized elements of society in making better use of human capital, but could also act as a breeding ground for future entrepreneurs. Moreover, in the context of economic liberalization and global economic integration, SMMEs are often viewed as the best way to overcome poverty and inequality in developing countries (Raynard et al, 2002).

2.2 SMMEs in Developed Countries

Due to the experience of successful SMMEs in industrialized countries such as Western Europe and Japan, they are viewed as a highly effective sector to alleviate poverty, create employment and produce entrepreneurs in developing countries.

SMMEs have therefore been given a priority focus in terms of economic development. The experiences from prosperous industrialized countries, especially in Western Europe and Japan does suggest that small and medium-sized enterprises are at the forefront of local economic development (LED). They are reported to resolve the persistent problems of insufficient employment growth while at the same time being highly efficient in flexibly serving global markets.

Among the usual constraints to SMME growth such as access to finance, infrastructure, skills and labour regulations, inadequate or absence of linkages also attributed to a lack of appropriate management systems that meet international standards, for example the International Organization for Standardization (ISO) standards. In the case of complex production chains, big businesses require ISO certification throughout (Thomas, 2005), but effective participation of SMMEs in developing economies has contributed in the successful development of countries such as Taiwan and Japan (Berry, 1997). Berry states that while most of the constraints mentioned have been adequately addressed in

these regions, policies around linkages are still a new and experimental area. He further argues that the advantage of large-subcontracting with small businesses lies in the fact that large firms can do some things better than small ones but other things less well.

2.3 The Role of Business Linkages and Opportunities for SMMEs

This chapter outlines some of the underlying advantages for SMMEs to forge linkages with big businesses, given the characteristic trends from global economic activity. According to the United Nations, business linkages may be categorized into four main types: backward linkages with suppliers; linkages with technology partners; forward linkages with customers and other spillover effects. These four types may have different impacts on the development of the host country and its local SMMEs (Unctad, 2000). In light of these four types of linkages, local government may have to adopt comprehensive support measures to promote such linkages to target specific types of business by understanding the dynamics of global business trends.

In the global economic environment, constant pressure to reduce costs, shorten lead times and focus on core competencies has driven businesses to change their supply chain management strategies. Large manufacturing companies now purchase a significant portion of their inputs of both goods and services from other firms. Managing the supply chain for an optimal mix of cost, quality, flexibility and strategic advantage is becoming an increasingly important source of competitive advantage (Jenkins et al, 2007).

Many firms are becoming highly transnational with an increasing presence in developing countries. Foreign direct investment (FDI) in developing countries reached the highest level in 2005 recorded at \$334 billion. (Jenkins et al, 2007), that could impact positively on SMMEs.

The cost pressures and social problems in developing countries create many opportunities and challenges for large firms to optimize cost, quality, flexibility and other considerations in the value chain. In these countries, business linkages with local SMMEs, including procurement, distribution and sales offer large firms an avenue

through which to address some of the social and economic challenges. These relationships could allow large firms to reduce input costs while increasing specialization and flexibility. They can also increase local integration and provide access to local knowledge and stimulate growth and development in the local small business industry, thus bringing positive social and economic impacts in the wider community.

Transnational companies (TNCs) and SMME linkages are seen as important for pro-poor growth. It is therefore useful to assess initiatives that promote business linkages and encourage its growth as more and better linkages between SMMEs and affiliates of TNCs could potentially improve development, especially for the low-income groups within developing countries. Business linkages with other firms help SMMEs to learn new and better production methods and help to increase employment amongst small businesses (Humphrey, 2001).

A greater integration into effective global competitiveness may also grow SMME exports. It is claimed by Philip (1998) that although considerable evidence may exist suggesting that the smaller the enterprise the less likely it is to be an exporter, there was, however, almost as much evidence to the contrary. Everette (1998) recommends that government policy should be aimed at both individual firms and the economy if small firms are to grow and export. Similar suggestions are made by Cheong (1987) and Philip (1998), that government should embark on targeted support to small firms with the potential to grow and/or export which Arrighetti (1994) confirmed, asserting that selective industrial policies should be designed.

These papers particularly suggest that other fundamental issues deserve further attention in terms of research, such as understanding the stages of business growth, types of exporting businesses, heterogeneity of exporting firms, causation and correlation of small firm dynamics, firm growth and export propensity, and export processes of small firms. However, the typical problems that are more specific or pronounced in a developing country context such as lack of demand and product diversification, inadequate

infrastructure and limited access to raw materials (Rogerson, 2001) should first be addressed.

2.4 Examples of Private Sector Initiatives to Promote Business Linkages

A large firm's willingness to form business linkages would be dependent on factors as is typical when considering expanding operations locally or globally. Some issues are firm- and industry-specific risks, costs and benefits, firm-level perceptions and strategies, such as domestic or export market orientation, government incentives and requirements and the availability of qualified support industries and/or SMMEs, the last of which is often the biggest constraint. SMMEs have limited access to market information and financing, lack management skills or production expertise, or are unable to match product quality or volume requirements.

A joint research project by UNIDO and Harvard University identified six types of mechanisms through which big firms were partnering with each other to support business linkages and SMME development, often with the goal of overcoming some of the constraints as listed above. These mechanisms include: partnerships along individual company value chains; groups of companies in the same industry sector or location working collectively together; traditional trade and industry associations enhancing their capacity to better serve SMMEs; joint public-private financing mechanisms; dedicated small enterprise support centres; and multi-stakeholder public policy structures (Jenkins et al, 2007).

These companies' business linkage efforts have been initiated in a number of ways. Firstly many of them have forged SMME linkages within their own value chains. They also focus on SMME development and linkages beyond their own value chains, whilst some have taken action to strengthen the enabling environment for SMME development and linkages. Some of the specific opportunities have included procurement, agricultural schemes, manufacturing subcontracting, outsourcing certain functions and services, distribution and retail, franchising and leasing and sales of financial services, information

and communications technologies and other productive inputs and tools. The main requirement for these programs is developing the capacity of SMMEs to meet the needs of the large firm.

The key challenges and approaches in the practice of business linkages highlight a significant role for action by the various tiers of government and large firms (Jenkins et al, 2007). In this study, there were many examples mentioned of successful collaboration between big and small to reduce individual operating costs and risks of their linkage programs and also to strengthen the external environment for their efforts. These linkages also offer large firms a channel by which to reduce costs, increase productivity, enhance reputation, access local knowledge and integrate into foreign markets while at the same time helping to create economic opportunity in underdeveloped countries.

Supply and distribution linkages have worked successfully with many old and well established companies such as Nestle in Switzerland and ExxonMobil in Chad. These two will be discussed in some detail as outlined by Jenkins et al, 2007).

Firstly, ExxonMobil was part of a consortium developing oil fields in southern Chad to tap into the country's rich oil reserves. Chad, despite its rich oil reserves, is not characterized by an enabling economic environment due to its harsh desert climate and lack of skills – the majority of the citizens live on less than a dollar a day. ExxonMobil had a 'National Content Strategy' established in the areas of workforce development, community investment and supplier development, however, it was found that local businesses were ill-equipped to win contracts and had difficulty sustaining acceptable performance levels when they did win. The National Content Strategy acted as a training resource program and a source of information. After two years, over 60 suppliers were assessed for their skills in various areas, gaps were identified and based on these assessments the company recommended candidates for training at their facilities. The SMME capacity-building services included general business training, consulting and mentoring, with offerings based on a detailed mapping of 500 local SMMEs and their needs. The program also supports SMME participation in the company's e-procurement

process. The consequence of this strategy was that 300 SMMEs received training and were awarded contracts in various projects (Jenkins et al, 2007).

The Nestle concept of corporate social responsibility included linkage activities aimed at creating improved business conditions for the company, including high-quality, reliable sourcing, improved government regulatory performance, a skilled, loyal workforce and ultimately superior products that can compete successfully in the marketplace (Jenkins et al, 2007). Projects such as agricultural and distributional linkages helped to achieve economies of scale and understanding of local cultures.

Another successful strategy is industrial clustering and flexible specialization for SMMEs and is based on the discovery of Italian SME clusters and research showing that SME clusters can be competitive in the new global economy. The potential of industry clusters in developing countries has enhanced global competitiveness and encouraged research and development (Neven et al, 2001). The Italian model was determined by the evolution of the competitive environment, relevant policies at national and local levels and the local SMME's ability to adjust to the environment. Although, the SMME sector has to grow according to the local culture and traditions, the potential exists to emulate a similar strategy in terms of innovation and adjustments for the local market (Bianchi et al, 1997). Some of the lessons learned from the Italian experience will be covered in the conclusion chapter.

SMMEs could therefore learn through business linkages and improve in areas such as technical requirements, health and safety practices. Large firms dictate the standards according to which smaller firms may be selected in terms of supplying them with intermediate goods and services. They are also frequently stimulated to adopt better quality standards and this may ensure that SMMEs are constantly required to adhere to these practices. Better linkages may potentially improve development, especially for the low-income groups within developing countries.

In Malaysia, linkages have succeeded in providing emergent entrepreneurs with access to competitively priced raw materials, new market opportunities, market and demand-driven process technology training, new technological applications and access to finance (Toomey, 1998). This has shown that linkages when designed so that both the larger and smaller businesses obtained benefit, had the effect of creating an environment in which SMMEs could develop successfully. In these cases the state played an important role in promulgating the linkage concept and facilitating the actual linkages between businesses. This shows that the state has an important role to play in enabling linkages.

Other activities related to linkages include subcontracting, franchising, outsourcing, unbundling, partnership agreements, joint ventures, technological inputs, etc. Business linkages are theoretically characterised by high levels of cooperation and are driven by a profit motive, which is mutually beneficial between enterprises. Such linkages are a result of positive market forces that compel enterprises to seek the most efficient way of acquiring or sourcing the components or part of the services that make up the products or services they sell, rather than doing such services in-house. Business linkages therefore result in specialization of businesses, diversification of activities, widely dispersed benefit and widespread economy efficiency as it enables enterprises, whether sellers or buyers in the market, to concentrate on their core activities in which they have the comparative advantage and rely on commercial dealings to help in the areas where they lack competency but where other enterprises have the comparative advantage.

As pointed out by Schmitz (1989), small-scale industry has been weak in the main stream economy and when examining clusters of small enterprises in Africa, they were found to be less developed in terms of their inter-firm division of labour and institutional support (Schmitz, 1995a & 1995b). Further research in the shoe industry cluster in the Sinos Valley, Southern Brazil showed that small enterprises have derived considerable benefit through collective action to improve market competitiveness (Schmitz, 1995a & 1995b). Success in this industrial cluster was driven by the attempts to have the supply of primary, secondary and tertiary resources in close proximity. In particular, six business associations representing various segments of the shoe industry value chain and other

professional associations and training institutes were shown to have made a significant impact on the clusters' marketing in both local and international markets (Schmitz, 1998).

2.5 The SMME Sector in Japan

As Table 1 indicates SMMEs are central to the Japanese economy – employing 88% of the workforce and contributing 56% to gross value add. The sector is referred to as the Small, Medium Enterprise (SME) sector and draws from a 60-year experience of establishing and growing an industry. During the period 9 February to 13 March 2005, the writer attended a training program sponsored by the Japanese International Cooperation Agency (JICA). JICA is an independent institution established under Japanese law for the purpose of contributing to economic and social development in developing regions as well as the promotion of international cooperation. The information is available in the organization's Web site <[ww.jica.go.jp](http://www.jica.go.jp)>.

Japan's 1997 White Paper on SMEs evolved across four stages from the reconstruction period following World War II through to the present economy. The SME Agency was established in the government administration that led to the formulation of SME policy focusing on financial and organizational support and of counselling and information services for SMEs. The SME Association Law was also introduced to improve the organization structure of the sector. Support systems were also set up to provide advice and guidance (Kanamori et al, 2004).

These structures were further enhanced in the respective areas - preferential tax treatment for SMEs was introduced and financial support given through local governments to modernize obsolete equipment for SMEs. The Credit Insurance Public Corporation was also established to strengthen the credit guarantee system for SMEs. Various laws were also enacted to provide SMEs with organizational support. In accordance with this law, a number of industrial and commercial associations were set up. In the area of counselling and information, a law on guidance for SMEs was introduced (Kanamori et al, 2004).

Another significant area was human resource training and technology enhancement. The Basic Law on SMEs in 1963 stated that the purpose of SME policy was to first address the economic and social disadvantages of SMEs and to then encourage independent efforts by SMEs. Based on this law, sectoral policies for modernization and revitalization were introduced and implemented. Since the 1990s, the government has placed greater emphasis on supporting SMEs in launching new businesses or changing existing businesses, promoting research and development and streamlining and concentrating SME businesses. A major emphasis appears to be on enhancing market competitiveness instead of just protecting the sector (Kanamori et al, 2004).

Some of the main lessons learned from the programs were that the Japanese culture and tradition played a significant role in the management style employed by the firms. Employees often remained in a particular business throughout their working life and seldom changed jobs. This reinforced a sense of loyalty amongst workers and as a result their knowledge and experience of the business activity is substantial. This particular characteristic greatly enhanced the R&D and innovation components of many sectors. The Organization for Economic Co-operation and Development (OECD) report (OECD, 2004) suggests that culture is increasingly acknowledged as a factor which can contribute to building an entrepreneurial society because it helps to shape attitudes to risk-taking and reward and which has certainly been evidenced in Japan's successful SME growth.

The successful implementation of national, provincial and local SMME policies by government should be coordinated through an all-encompassing effort that must also involve other role players such as the Chambers of Commerce, private sector and related institutions. All must work according to the same strategy. In Japan the Chamber of Commerce budget is subsidized by national government. They also receive funds for projects as well as for general operational expenses from their provincial governments. The Chambers have advisors who visit SMEs and offer on-site advice such as legal, financial, marketing, managerial, technological and technical. Since 1973, the Chambers in Japan set up the SME Advancement Fund to facilitate access to finance for SMEs provincially. They recommend loans from various sources, on behalf of SMEs on

condition that the business plan is financially sound and has the potential for sustainability.

2.6 Networks and Clusters

SMMEs also need to access sources of new information, knowledge and technology that are appropriate to their businesses. The various ways of achieving this may be through networks, partnerships, clusters and intellectual property rights (OECD, 2004). The Trade Point initiative by the City (discussed in Chapter 7) and other ways such as public-private partnerships for research and innovation are also useful means to establish networks and clusters. Clusters are a regional conglomeration of businesses and services in physical proximity that encourage human networks and facilitate flows of knowledge and ideas. These clusters also encourage close cooperation between firms and government to create requisite infrastructure for innovation and the enhancement of global competitiveness, thereby affording a greater opportunity to form linkages with global markets. Access to global markets for SMMEs can offer a host of business opportunities such as niche markets, tapping into new technologies, ways of spreading risk, cost sharing, research and development and improving access to finance.

The initiatives mentioned in this chapter show that large firms are more attuned to the dynamics affecting the global economy than small businesses. They are also better able to provide the necessary soft and hard infrastructure when attempting to form linkages with the SMME sector. The opportunities for growing special skills and identifying the potential for industry clusters are also possible through this interaction.

Trade Fairs may be an ideal platform from which to form these types of linkages and relationships with big businesses. It may be able to identify specific constraints of small businesses in the value chain of the sectors they are involved in. The tiered government's policies affecting SMMEs could also be assessed against these constraints. Firms from a particular sector could also share ideas and resources that may enhance their value chain and better understand each other's needs.

Chapter 3: SMMEs in South Africa and eThekweni and the Policy/Institutional Environment in which they operate

This chapter outlines what is known about SMMEs in South Africa and critically analyse the current policy environment at national and local level in which SMMEs operate.

3.1 South African Definition of SMMEs

The SMME sector is segmented into three sets of enterprises (RSA, 1996). The first set comprises survivalist enterprises and operates within the informal economy and is considered to be a set of activities by unemployed people who are unable to find regular employment. In this group, there is little scope for any advancement into a formal business and income is limited. There is also little capital invested and minimal skill required. The second group consists of micro enterprises involving the owner, family members and at most four employees. At this level, businesses are able to evolve into formal small businesses with minimal skills. The third set comprises small and medium enterprises constituting the basis of the formal SMME economy – with small enterprises defined as employing between 5 and 100 workers, and the medium enterprises between 100 and 200. These are usually owner-managed and operate from fixed premises and enjoy the same privileges as those businesses in the formal sector (RSA, 1996).

The National Small Business Act 102 of 1996 (RSA, 1996) provides definitions for various SMME categories. These are all underpinned by the fact that the enterprise must be a separate and distinct business entity, and must be managed by its owner/s.

3.2 SMMEs in South Africa

The 1996 White Paper on Small Business (RSA, 1996) together with the National Small Business Development Act of 1996, represent the country's SMME policy framework for the sector. The overall objective of the White Paper (RSA, 1995) was to create an enabling environment for SMME growth to address basic inequalities in the economy.

The mechanisms for small business support outlined in the White Paper (RSA, 1995) were legislated through the National Business Act (RSA, 1996).

The institutional mechanisms arising out of this framework were the Ntsika Enterprise Promotion Agency to provide non-financial services, and Khula Enterprise Finance to support retail finance entities dealing with SMME entrepreneurs. In addition the Local Business Service Centres were established as decentralized vehicles for small business support. The Tender Advice Centres were also established to provide advice for public procurement contracts. Further Manufacturing Advice Centres were set up to provide industry-specific assessments to link SMMEs to specialised service providers.

These two agencies were combined in December 2004 in terms of the National Small Business Act of 1996 (RSA, 1996) as amended in 2004 into the Small Enterprise Development Agency (SEDA). SEDA's mandate is to design and implement a standard and common national delivery network that must uniformly apply throughout the country. The information is available on the Web site <www.bulletinonline.co.za>.

According to the Ntsika Enterprise Development Agency, in 2002 SMMEs represented 98% of the total number of firms in South Africa, employing 55% of the country's labour force and contributing 42% to total remuneration (DTI, 2002). SMMEs collectively contribute 35% towards South Africa's total GDP, but contribute more than 49% of GDP in four of the eight major economic sectors – agriculture, construction, trade and transport (DTI, 2002). In South Africa, the DTI's Small and Medium Sized Enterprise Program, and its Black Business Supplier Development Programs provide specific incentives to promote small and medium-sized enterprises (DTI, 2002).

Although SMMEs play a role in employment growth, the overall contribution of SMMEs to national employment growth has remained low since 1994 (Qualmann, 2000, Berry et al 2002, Kesper 2002 & Chandra et al, 2001). A number of reasons have been identified. First, most enterprises are not well integrated into the modern production. Second, they

lack the dynamism to expand and third there is jobless growth despite recording growing profits.

The majority of South Africa's SMMEs appear to be micro- and survivalist enterprises with no growth prospects and the most SMMEs responsible for the majority of SMME employment are medium-sized, but are in the minority, hence showing that the contribution to employment growth may be expected to be low because the business will remain a micro-enterprise or experience jobless growth. Kesper (2000) also maintains that employment creation is likely to emerge from new micro-enterprise establishments, but proposes that most of these will be started out of necessity rather than choice, indicating that there appears to be no environment for which SMMEs could emerge from identified business opportunities and which may be largely attributed to ineffective government responses to these dynamics.

Kesper (2000) argued that these efforts by national government over the past eleven years relating to SMME promotion have not been effective in growing this sector. In addition, internal constraints such as complacency among SMME businesses to measure up to global competition, or the distortion in capital and other factor markets have been identified as impediments to small enterprise growth (Manning, 1996, Kaplinksy & Morris, 1999; Chandra et al, 2001). A comprehensive set of factors responsible for the poor performance of South Africa's SMME economy has not yet been presented.

The 2004 Small and Medium-Sized Survey conducted by World Wide Worx (cited in Rogerson, 2004), showed that although 62% of SMMEs thought that government was failing in its efforts to promote small businesses, 41% thought that the effect of government legislation was positive. In addition, 63% thought the effect of overall government incentives was negative and 54% thought that the effect of SMME support structures was negative.

A significant initiative that attempted to compile a research agenda for analysing the SMME economy in South Africa was the establishment of the National Small Business

Research Programme (NSBRP) during 1998-1999. Although not very successful, some of the research by the Programme revealed that SMME research activity was supply-driven. There were more short-term research projects while long-term studies to monitor the SMME economy were non-existent (Rogerson, 2003).

SMMEs play a significant role in the development of potential growth sectors into internationally competitive businesses. Moreover, SMMEs do not directly compete with large businesses as they tend to serve niche markets that are not feasible for large corporations to enter due to the small demand or special niche requirements. In South Africa, most SMMEs prior to 1995 failed to undergo modernization efforts because they were protected by the government from external competitors, particularly during the apartheid era and the imposition of economic sanctions. As the country opened itself to external trade and foreign investment, SMMEs became exposed to direct competition with foreign products and services. As a result, many companies have gone out of business because they could not survive without the government's protection.

Mead (1998) raised a concern that outsourcing or subcontracting by South African big business is often used as a channel of escaping pressures from unionisations and policies dealing with workers rights, safety and health standards, etc., but a survey conducted by Business Education Design (Pty) Ltd, revealed that business linkage relationships in South Africa need to be coupled with intermediary participation or facilitation in order to achieve positive outcomes for both parties. Moreover, corporations tend to outsource items which are non-core and non-critical to their business activities.

To summarize, it would appear that despite the institutional establishments by national government to grow the SMME sector, there has been minimal success for various reasons. The homogenous approach may be one factor and given the diverse configuration of the sector in terms of size and operation, a segmented approach may be more appropriate. Another reason may be the absence of a comprehensive study identifying the constraints affecting the growth of the sector. The lack of adequate exposure to large firms and global economic trends, and past protection by the

government are also factors that prevent SMMEs from understanding and adapting to these trends accordingly.

3.3 National Government Macro-economic Policy and its Implications for SMMEs

Since 1994, South Africa has been faced with the dual challenges of re-integrating into the global economy, while at the same time addressing the consequences generated by the discriminatory policies from the previous government. To achieve the objective of economic growth through competitiveness on the one hand, employment generation and income redistribution as a result of growth on the other, SMMEs have been actively promoted since 1995, in an environment of macro-economic stability.

In 1996 the government released its macro-economic strategy Growth Employment and Redistribution (GEAR) (RSA, 1996). The SMME sector does not feature prominently in this policy document. They are merely acknowledged as an instrument for job creation and income generation. There is also very little reference made to GEAR in terms of a strategy relating to SMMEs in the context of its overall macro-economic policy which was adopted in 1996. The GEAR strategy assumes that accelerated economic growth is more likely to be achieved by supply side measures rather than demand side measures. In other words government is attempting to create an environment where the private sector will be willing to take the lead in economic growth and this can only occur through businesses that are internationally competitive. Within this framework, the SMME sector would be able to follow suit only if there are meaningful linkages between the big and small businesses.

The GEAR outcomes are accelerated investment, lower inflation and employment growth. Gross Domestic Product (GDP) growth was targeted at 6% for the year 2000 and employment growth was set at 409 000 jobs annually. But since GEAR's inception, the policies, as outlined, have not led to job creation. Between 1996 and 1999 unemployment has increased and jobs in the formal sector have been shed. As a result the role to be played by the SMME sector has grown in importance.

Since adoption of the White Paper, the government has introduced a range of macro-economic and sector-specific reforms and development programmes that influence the capacity of SMMEs to ensure they operate competitively in national and international markets. This is also marked by the formulation of the Micro-economic Reform Strategy of 2002 which aimed to impact six key performance areas – growth, competitiveness, employment, small business development, black economic empowerment and geographic spread of economic activity.

The Accelerated and Shared Growth Initiative for South Africa (ASGISA) was introduced by the national government in 2007 and its main mission is to halve unemployment and poverty in SA by 2014 (RSA, 2006). In the first phase, between 2005 and 2009, an annual growth rate averaging 4.5% or higher is sought. In the second phase, between 2010 and 2014, ASGISA seeks an average growth rate of at least 6% of gross domestic product (GDP). In addition to these growth rates, the social objectives are geared towards improving the environment and opportunities for more labour-absorbing economic activities. More broadly, it seeks to ensure that the fruits of growth are shared in such a way that poverty comes as close as possible to being eliminated, and that the severe inequalities that still plague the country are further reduced. The strategy has a section focusing on ‘Eliminating the second economy’. One would assume that this process would signify the SMME sector is of far greater importance in this regard as it would be the next phase of entry for those in the ‘second’ or ‘informal economy’.

To summarize, the government, despite ignoring the SMME sector in initial economic strategy initiatives, has since then acknowledged that they may have the potential to contribute to the national growth initiatives.

3.4 National Government’s Policy Approach to SMME Support

The objectives of SMME support are to create an enabling environment for small enterprises and facilitate a greater equalization of income, wealth and earning opportunities (RSA, 1995). It also attempts to address the legacy of apartheid-based

disempowerment of black businesses and support the advancement of women in all business sectors. The creation of long-term jobs and the stimulation of sector-focused growth is also a significant focus.

In terms of entrepreneurial development, it hopes to strengthen the cohesion within small businesses and level the playing field between bigger and small businesses as well as between rural and urban businesses and prepare small businesses to comply with the challenges of an internationally competitive economy. It could be observed that the ability of local government to support and encourage business linkages is inextricably linked with most of these objectives.

National government established several institutions to undertake the task of providing various levels of support to SMMEs. The Ntsika Enterprise Promotion Agency had a budget of R125 million from 2000 to February 2004 (Ntsika, 2004). The National Empowerment Fund (NEF) was established in 1999 with a budget of R233 million in the start-up phase with a planned R2 billion allocation in June 2004. This information is available on the NEF Web site <www.nefcorp.co.za>.

Although national government has committed itself to finding creative ways to combat unemployment and end poverty, the funds allocated to these development agencies have given minimal returns to date. Some of the core problems as mentioned have been mismanagement and corruption, disruptive changes in leadership and sometimes changes in the mandates. Agencies appear to be stuck in perpetual restructuring. A World Bank survey had also indicated that no more than 20% of SMMEs were aware of Khula and Ntsika Programmes (Chandra, V, Moorthy, L, Nganou-J-P, Rajaratnam, B & Schaefer, K, 2001).

The two main agencies Ntsika and Khula were set up to provide non-financial support and business development services to SMMEs. It was the intention of Khula to partner with the banking sector and act as a loan guarantor, but is now acting as a lending institution instead.

From 1996 to 1999 the expenditure to promote SMMEs increased by approximately 19% on average over the 4 years (Ntsika, 2000). In 1999 expenditure on small business promotion in terms of the national strategy was sitting at less than 5% of the DTI's budget. The allocation for the SMME sector appeared to be fairly constant during this period, however, it was recommended by the Minister of Finance in the 2006\07 budget that agencies and entities falling under the DTI receive an additional R1.7bn to promote industrial development, BEE and small business development. These agencies include the National Empowerment Fund (NEF), Khula Enterprise Finance, the SA Micro Finance Apex Fund (SAMAF) and the Small Enterprise Development Agency (SEDA), (Radebe, 2007). In his address to the National Assembly on 31 May 2007, the Minister of Trade and Industry Mr Mandisi Mphahlwa recommended that the House approve a budget of R4.8bn for the DTI's 2007/08 financial year (Mphahlwa, 2007). This would mean that the share of monies allocated for small business development would exceed 35% and is an improvement over the past decade.

Against this background, the national government revised its present enterprise support strategy with a view to firstly increasing the contribution of SMMEs to the growth of the South African economy; creating an enabling environment for SMMEs with a level playing field between big business and SMMEs, that reduces the disparities between urban and rural enterprises and is conducive to entrepreneurship; creating sustainable long-term jobs in the SMME sector; ensuring equitable access and participation in terms of race, gender, disability, age, geographical location and sector and finally increasing the competitiveness of the SMME sector so that it is better able to take advantage of opportunities emerging in national, African and international markets.

The new strategy focuses on the micro-enterprises, especially black-owned enterprises with an emphasis on women- and youth-owned enterprises as well as those located in rural areas. Another focus is on start-up or expanding enterprises in particular growth sectors, including agriculture and agri-processing, construction, small-scale

manufacturing, tourism, craft and cultural industries, mineral beneficiation and the Information, Communication, Technology (ICT) sector.

The Small Enterprise Development Agency (SEDA) is now in operation, and is a merger of Ntsika, the Manufacturing Advice Centres and the South African Micro-finance apex Fund (SAMAF). Khula will continue to function as a financial services support structure and will be implementing a new strategy that is informed by government's new focus areas.

During July 2007 the DTI identified the integration of SMMEs and the improvement of participation opportunities in the economy as one of three broad objectives in its Economic Cluster Programme (DTI, 2007). This followed the realization that significant interest needed to be generated on the demand side for products and services offered by SMMEs. The DTI are setting the example by identifying ten products frequently and extensively used by government, which will in the future be procured from SMMEs.

The national government and the DTI have evolved from designing policies for the SMME industry to compiling strategies, following the establishments of the various SMME service providers (DTI, 2005). Since 1994 and after the restructuring into SEDA, it might be said the government were undergoing teething problems with respect to understanding and providing adequately for the industry. The improvement in the budget allocation in the 2007/08 financial year for the sector bears testimony to this.

3.5 Evaluation of SMME Policies

In South Africa, SMMEs have been given a priority focus to achieve the goals of economic growth through enhanced competitiveness on the one hand, and employment generation and income redistribution on the other.

It was also observed that small firms accounted for a substantial share of employment creation, and were subject to similar economic pressures affecting the formal businesses in that with varying market conditions they remained either small or experienced stages

of growth. One of the added problems in South Africa is that with the shift of industrial policy away from import-substitution, tariff protection and of trade policy towards trade liberalization, SMMEs are now expected to weather the effects of global competition, in which may also lie potential opportunities for linkages in various horizontal and vertical value chains. SMMEs therefore form an important part of a country's economy and although they are able to deal with market instability and uncertainty the underlying issues relating to the success or failure of these firms remain unclear (Kesper, 2000).

Other arguments relating to the types of policy approaches that should be used to develop the small enterprise sector have varied. In the conventional sense, there is the approach that relies principally on market forces and which usually favor the development of big businesses. This has principally occurred through government intervention in pricing policies, export incentives, and the use of non-market mechanisms to allocate resources. Policies of these kinds were linked to import substitution strategies, very prevalent in South Africa during the previous government, whereas in post 1994, much of the support for small businesses was of a direct kind and at the micro level (Schmitz and Musyck, 1994). These involved support services pertaining to training, access to finance and real estate. Later this was replaced by structural adjustment policies aimed directly at removing the so-called market distortions to create a level playing field in which enterprises of all sizes have access to resources.

Kesper (2000) argues that the research on South African SMMEs suggests a mismatch between the reality and the model of the SMME sector used by South African policy makers. She argues that the South African SMME sector is not a homogenous one and may require specific sets of interventions rather than the generic approach currently provided. Kesper (2002) further shows descriptive findings on SMME turnover and employment growth trajectories from survey findings that confirm that the present manufacturing SMME economy as a whole is not sufficient to address the problem of unemployment growth. This conclusion was derived by showing that small firms emerged in many industrialized countries during the 1980s due to large businesses experiencing difficulties and this subsequently reduced the employment numbers. It was

then discovered that these small firms were creating most of the new jobs and warranted research on new employment trends in small businesses.

Kesper (2002) also mentions that SMME success depends not only on the identification and removal of constraints through supportive supply-side measure, but also on macro-economic conditions and the dynamics within the particular market structures. This further suggests that a comprehensive strategy to identify linkages amongst small and big businesses may be required to address the constraints on the demand side.

Another assessment of the effectiveness of SA's institutional support network in the Western Cape by Berry et al (2002) indicated that emerging and established SMMEs have shown little awareness of the existence of SMME support initiatives. They conclude that national government's attempts at outreach programs are weak. It was also argued that there was an uneven distribution of services in terms of where, how and in which fields they should be offered. Other reasons cited were the high costs of service providers, cumbersome administration and discontinuity of programs. When certain schemes designed for SMME support were changed at a national level by the DTI, they were not communicated adequately to small businesses.

These findings were based on a survey in the Western Cape and may not necessarily reflect a national status of the SMME sector. One of the key issues raised during analyses of the support programs is that they have often been in the form of 'generic' packages, while ignoring the fact the SMMEs are not homogenous. This is also confirmed by Rogerson (2005) that although the SMME sector is recognized as being diverse, comprising different groups of enterprises requiring different kinds of support interventions, there still exists limited research in this regard. The other main conclusions from Rogerson (2005) were that there is a need for continual monitoring of the impact of national programs and that the sector is a weak contributor to employment as SMMEs as yet are not growing. The existing national SMME programs have also catered more for medium and small-sized businesses and have largely ignored micro-enterprises and the informal sector.

The SMME economy is therefore unlikely to fulfill all of the goals as set out in the White Paper (RSA, 1995). SMMEs that are able to develop the capacity to create employment will be achieved by highly skilled and experienced entrepreneurs, presently not substantially prevalent amongst previously disadvantaged individuals (PDIs). This suggests that strong SMMEs and highly-skilled labor are unlikely to emerge in substantial numbers from formerly disadvantaged groups, hence the target of employment growth might only be achieved at the expense of economic empowerment and income distribution.

It is also not possible to assess the impact of linkages in the industry through empirical research as this entails long-term observations of SMMEs many of which have not demonstrated the potential to survive for lengthy periods of time. The research should, however, identify and focus on more established, larger and formal SMMEs that have a higher propensity for survival and growth (McPherson, 1996, Mead & Liedholm, 1998, Manu, 1999).

Kesper (2002) confirmed that there had been little systemic evidence on how structural factors such as the organization of inter-industry linkages, spatial location of markets, shortages of skilled labour or insufficient infrastructure affect SMME growth.

Internationally there are many instances of SMME initiatives that played a crucial role in the economic progress through labour absorption, penetration of new markets and generally expanding economies in creative and innovative ways. Over the last decade the SMME sector has played an increasingly important role in the growth and development of the South African economy.

Academic and policy-linked research papers and Ntsika / SEDA publications were written on the national SMME economy. There are also works by Mead (1999), Chandra et al, (2001) and Berry et al (2002) on enterprise development and Kesper (2002) respectively on success factors and exporting by SMMEs, Dorfling (2001) on small

business support policy, and Lund (1998) on the informal sector and survivalist SMMEs. These studies have focussed on policy issues and have been measured against current debates affecting the SMME sector internationally.

In South Africa, the SMME industry, while subject to the vagaries of trade liberalization, competitive markets and globalization, has not adapted to meet challenges such as skills upgrading and the restructuring of complimentary and competitive firms that have been associated with the success of SMMEs in other industrialized countries.

Successful initiatives in Europe and Asia suggest that local sectoral policies may be critical elements for sustainable local economic development and point to the need for research by local municipalities to prioritise and seek out opportunities for potential growth sectors and of the impacts and opportunities for the SMME economy (Rogerson, 2003).

Against this scenario SMMEs are subject to harsh global impacts and are unable to address constraints relating to skills, infrastructure and acquisition of new technologies and markets on their own and may require the assistance of government to ensure sustainability.

Given the decentralisation of authorities since 1996, local government has been tasked with supporting local economic development. This sphere of government's role in creating an enabling environment is crucial for the successful development of SMMEs and promoting efficiency-enhancing business linkages between the industries. Evidently SMMEs as a business link have flourished in environments where governments have allowed the markets to operate freely and firms have been allowed to compete with each other.

3.6 SMMEs in eThekweni Municipality

Before exploring what is known about SMMEs in the eThekweni Municipality it is important to locate this within the context of the local economy. Durban is the second

largest metropolitan area in South Africa, contributing 9% of the Gross Domestic Product (GDP), 12% of manufacturing output and 18% of total manufacturing exports. Approximately 60% of the Gross Geographic Product (GGP) of the KwaZulu-Natal province is attributed to the Municipality (eThekweni, 2006). The main sectors in manufacturing are food and beverage, pulp and paper, automotive and automotive components, tourism, transport & logistics and chemicals. The local SMME industry has a presence in the metals and metal products, retail, furniture, food and beverage, construction and tourism industries. When South Africa was re-integrated into the global economy, some of the sectors such as clothing and textiles, food and beverages and other activities in the manufacturing sector began shedding jobs, as these sectors could not compete with foreign imports. As is apparent in other developing countries, there emerged in South Africa a contingent of small businesses from this complement of unemployed groupings from skilled and semi-skilled, thus adding to the existing number of SMMEs in the region.

During 2000/02 a study was initiated on the SMME sector in the eThekweni Municipality. The study formed part of a wider project that sought to identify constraints to economic growth in the region from a micro-economic perspective. The idea was to then examine issues affecting the micro-economy to detect areas of possible intervention for both local and national government. The project was funded by USAID and co-ordinated by the World Bank.

In terms of the SMME survey, a total of 801 micro-sized to small firms were interviewed. The 2001 Industrial Register of the Bureau of Market Research, University of Pretoria was used as the population of SMMEs from which the sample frame was drawn. Interviewed participants included 'micro-sized', 'very small', and 'small' firms with less than 50 employees located within the boundaries of the eThekweni region. The sampling process did not generate a stratified random sample of the Municipality's SMME economy, but the sample was sufficiently heterogeneous and large to allow for statistical inferences. The study was conducted between March 2002 and April 2003.

The 801 firms interviewed spanned five manufacturing sectors and five service sectors – 24% of the firms were micro (1-5 employees), 47% were very small (6-20) and 28 were small (21-50). The sampled firms employed a total of 12 500 workers. Full-time employment in the firms had grown by 25% between 2000-2002 and part-time employment in the firms doubled during this period. Approximately 30% of the firms were run by Previously Disadvantaged Individuals (PDIs), mostly Indian (31%). About 40% of the firms were founded prior to 1995 or during the apartheid era and the remaining SMMEs had started operating thereafter.

Two-thirds of the firms were started by people formerly employed in other businesses who identified an opportunity, although long-term unemployment was a key motivation with African entrepreneurs. The majority of owners had used private savings or retained earnings to fund the establishment of their businesses, while less than 15% utilized bank loans to help fund their business establishments. Although 50% of the firms had used banks occasionally in the previous 5 years, almost 65% of African firms complained of difficulties in accessing loans from banks.

With respect to training, 25% of SMMEs struggled to find appropriately skilled employees and less than one quarter of SMMEs invested in training for their staff. The bulk of SMMEs favoured in-house training. At the time of the interview, government sponsored training and the Sector Education Training Authority (SETA) programmes had not made a significant impact.

Some of the feedback in terms of requirements by SMMEs included an increase in demand and increased visibility. Others wished for a lower interest rate and some wanted more government promotion of SMMEs, in addition to more and larger business contracts from the state (procurement). While most of these requirements are not surprising it seems to indicate that SMMEs would be able to grow their businesses through a combination of various support strategies from government to seek more meaningful business linkages, greater marketing and requisite skills.

In addition to the constraints such as access to finance and markets, the findings of the SMME Fair survey also confirmed that most exhibitors wanted government to provide more resources and effort in promoting SMMEs and to make more accessible the existing service providers within the Municipality.

3.7 The eThekweni Municipality's SMME Strategy

The eThekweni Municipality acknowledged this emerging sector by establishing a special SMME Department in the Economic Development Unit during 1995. Since then it has attempted to provide various kinds of support to the sector. One of the main initiatives arising out of the Department was the idea of hosting an SMME Fair so that small businesses could network and seek wider markets for their products as is typical of Fairs held in other parts of the world.

The aim is to provide SMMEs with a platform to showcase their products, network with other businesses and service providers, and to encourage the formation of effective linkages between small and big businesses. The overall theme of the Durban Fairs is 'Bridging the Gap' so drawing attention to the intention to build linkages. The Fair is hosted and sponsored by the eThekweni Municipality's Economic Development and Business Support Units. The Municipality has budgeted substantial amounts from its annual operating budget since 1997 towards this event.

The Fairs commenced during 1997 and has been held annually in Durban since that time. The Municipality has spent an average of R2 million per year. By 2005 in excess of R10 million has been spent (Chetty, 2007). Invitations are usually sent out to SMMEs recorded in the database of small businesses and the norm was to extend an invitation to all of them in the belief that 'bigger is better'.

In addition, the Business Support Unit completed the SMME Strategy during 2006. It should be noted that prior to this strategy the Municipality undertook various studies relating to issues affecting the sector, such as access to finance, skills constraints and

access to relevant infrastructure. There was no comprehensive strategy from which to design any long-term development framework for the sector.

The Strategy basically presents a way forward in promoting and developing the SMME sector in the region over the next ten years (2006-2016). The strategy recognizes that SMMEs are not a homogeneous group as they operate in different sectors and industries and face different challenges at various stages of their development. The challenges that have been identified in the SMME sector include lack of skills; access to finance; access to markets; business premises; lack of infrastructure and levels of education. Challenges that are specific to the eThekweni Municipality include limited resources; poor co-ordination of SMME Programmes; poor information flows and BEE and procurement policies and processes. The strategy hopes to seek interventions to bring about sustainable and dynamic SMME development in the region by acting as a framework for the promotion of local SMMEs and as a guide for all stakeholders.

The Strategy identifies four programmes to address the challenges mentioned. A number of sub-programmes and projects are expected to emerge as the means of addressing SMME development needs, all of which are expected to interact with and feed into each other to offer maximum benefit to SMMEs in the eThekweni region. The four programmes are a conducive business environment; business opportunities; capacity building and networking and linkage formation.

As mentioned, the Accelerated and Shared Growth Initiative for South Africa (ASGISA) seeks among other things to improve conditions for business, to close the skills gap in the short and long term, to link the first and second economy, to improve on governance and red-tape and to ensure that accelerated growth is shared by all South African citizens. In designing the SMME Strategy, it is apparent that the goals of ASGISA were not acknowledged as there seem to be few supporting initiatives that dovetail with it. It may require that the Strategy be re-assessed to accommodate the vision of ASGISA with new and more appropriate objectives and timeframes.

Access to networking and linkages opportunities will be outlined in greater detail, as this is the main issue being investigated. The strategy has highlighted access to markets as one of the major constraints that SMMEs face and it hopes to unlock market opportunities and deepen existing participation. Meaningful networks and linkages may only succeed if the SMMEs are able to produce high quality goods and services at low cost while consistently striving to improve their production processes. They must also be able to adequately utilize their comparative and competitive advantages. SMMEs must also be sensitive to market trends and their production should be market rather than supply driven.

The national government through the Department of Trade and Industry (DTI) recognizes that small business development policy should seek to strengthen the effective linkages between national policy and of initiatives for local economic development through SMME assistance (Rogerson, 2003). It is at the local government level that effective strategies could be formulated to address poverty and provide an enabling environment for SMMEs to thrive and sustain themselves.

Local economic development around SMME growth in the eThekweni Municipality is concentrated on a range of initiatives. This has been a significant initiative in the Council involving large resources. Other initiatives relate to business infrastructure such as street trading stalls, factory units, business incubators and the establishments of co-operatives. A third initiative includes support structures such as Local Business Services Centres (LBSCs) to provide grants, training and the opportunities for networking. Another initiative involves public procurement (also affirmative public procurement).

To summarize, the feedback from the SMME has served to confirm some of the characteristics mentioned in this Chapter and the Municipality's SMME Strategy has attempted to address the issues affecting infrastructure, business linkages and access to finance.

3.8 Fairs and Exhibitions in the eThekweni Municipal Region

The eThekweni Municipality has, since 1997 hosted SMME Fairs to expose small businesses to bigger markets. It was believed that fairs and exhibitions provide an effective marketing platform, creating business linkages, networking opportunities and to obtain feedback about their products from a wide mix of potential buyers and members of the public. The Fairs also provide an avenue for SMMEs to test the demand for their products and identify areas of improvement.

This research assesses the SMME Fair in the eThekweni Municipality through the use of a survey. Interviewing previous participants will allow an assessment of whether the local state has assisted in creating effective linkages with formal businesses.

The SMME Fair was first held during 1997. The rationale behind the event was to allow small businesses to showcase their products and to network with other SMMEs. Other agencies linked to small businesses, such as training- and finance institutions were also given the opportunity to exhibit. The Municipality subsidized the Fair by providing a suitable venue and sponsoring the related costs borne by small businesses to exhibit, such as rental and design of exhibition space. The Municipality was expected to play a facilitatory role to ensure that SMMEs are able to participate in other local, national as well as international fairs and exhibitions through the DTI and other internationally-sponsored programmes. The Fair in 2007 also held a business conference which featured experts in the business fraternity and focused on increasing the competitive edge of SMMEs to access global markets, using procurement as a tool for broad-based Black Economic Empowerment. The conference was held in partnership with SEDA and the Durban Chamber of Commerce.

The SMME Strategy mentioned that fairs and exhibitions would need to have a targeted approach such as facilitating sector-specific exhibitions with a proactive business linkage initiative attached to each of them. The strategic objective for the business linkages component within the SMME Strategy reads *“To encourage and build mutually beneficial and sustainable relationships between big business and SMMEs”*. The

Strategy notes that business linkages encompass various activities or business transactions conducted between large and small businesses (EThekwini, 2007).

3.9 Tradepoint Durban

Tradepoint Durban was launched in October 2007. It was established to assist SMMEs with queries regarding making their products accessible to the international market, irrespective of the industry or sector involved. Essentially attempted to link through an electronic database of suppliers and markets, thereby improving and supporting business linkages.

Tradepoint offers two main services – electronic trade opportunities that allow businesses to post their services or products online for responses all over the world. The second is the global trade directory system that is a comprehensive database providing registered companies with instant global visibility and the opportunity to penetrate new markets. The information is available on the institutions Web site <www.tradepoint.org>.

Trade Point will also provide businesses with a trade development and facilitation service to initiate and complete export transactions smoothly. This is a useful tool for the industry, especially those looking to expand their markets in the global economy and provides a great potential to interface with existing big businesses in the hope of creating meaningful linkages between the city and the rest of the world. The success of Tradepoint will hinge largely on the industrial policy's effectiveness in affecting business linkages on both the demand and supply side.

This chapter has demonstrated that SMMEs in South Africa play an important developmental role. SMMEs could assist in redressing some of the inequalities from the apartheid era, in terms of patterns of economic ownership and restricted opportunities for previously disadvantaged individuals. Due to their lack of skills and employability constraints, this sector may be an easy entry level for employment seekers and promising entrepreneurs thus addressing one of the country's most critical challenges – employment

creation. Despite the various opportunities offered by national government for the small business sector, there has been little success at regional level due to poor interaction between the spheres of government and the frequent restructuring of national special purpose vehicles established for these. The slowness of the municipality in designing the SMME strategy may also be a reason for the poor performance of the sector. It also shows that governments should play a catalytic role in providing support services by undertaking its own initiatives as well as seeking the participation of the private sector. Support institutions should be strengthened at all levels and their capacities should be enhanced to enable them to deliver adequately to SMMEs. The available support services should be identified and the nature of their services and information should be widely disseminated. The prioritization of key sectors in the national government's strategy for SMMEs may also be a useful guide from which local government could segment specific programmes in the Trade Fairs to stimulate business linkages.

Chapter 4: Research Methodology

This chapter reports on the methods used to elicit views of exhibitors who had participated in the 2004 eThekweni Municipality SMME Fair. The research process, the content of the questionnaires and potential biases are reflected on.

4.1 The Research Process

In September 2004 telephonic interviews were conducted with the exhibitors randomly selected from lists of exhibitors provided by the Business Support Unit and Mirror Productions, the organizers of the Fair who have records of exhibitors at the Fair since it was started in 1997. This database consists of all small businesses that have exhibited since the first SMME Fair. These businesses were contacted every year since 1997 and were invited to participate in future SMME Fairs. The eThekweni Municipality also has a database of SMMEs as part of the Council's procurement policy and since 1997 it has been continually updated after each Fair.

It was originally intended to interview 200 exhibitors by adopting a stratified random sample of previous participants from these lists. However, from a list of 197 exhibitors some were repeat participants and therefore all exhibitors on the list were contacted telephonically. Eventually 163 interviewees were interviewed.

The author designed the research process. A portion of the actual interviewing was outsourced to a research company. The author conducted 40 of the total of 163 interviews. The company coded the data and the analysis undertaken by the writer.

4.2 The Questionnaire

The survey attempted to assess issues such as economic impact, feedback from exhibitors and attendance. The questionnaire was designed not only to glean the demographics of the SMME owners but also information relating to types of business activity. (Appendix 1) The bulk of the questions related to their experience of the Fair with a view to identifying its impact on business activities. The SPSS software system was used to

collate and analyze the data. From the analysis it was possible to determine some of the crucial issues affecting exhibitors.

The questions on the linkage component were related to the types of products exhibited, number of years in operation, size of business and the main objectives for exhibiting at the fair. It was important to understand the age and sectoral mix of the businesses as these may assist the local government to conduct long-term research to test the effectiveness of future SMME strategies and policies from the Fairs. The difficulty to conduct research over many years was highlighted by Kesper (2000). The businesses' main objective for exhibiting at the Fair was also significant to confirm if their intent was to establish business linkages with relevant role players.

In terms of qualitative feedback, the questionnaire also invited businesses to offer suggestions to improve the effectiveness of Fairs in the future and outline difficulties experienced from previous attendances. These questions also elicited information pertaining to some of the other popular constraints identified by SMME studies such as access to finance, skills, financial management and market exposure. Interviewees were asked what more should the city be doing to support their businesses. From the readings it was obvious that the government institutions played a vital role in supporting and growing the sector and this type of feedback would be useful to assist in future strategic planning and support.

The questionnaire surveys focused on relevant key aspects from which to draw conclusions on the positive or negative impacts occurring during the period of the Fair. Typical quantitative data such as the demographic profile of SMMEs (gender, age, historical racial category and educational level) were expected to be gleaned from the survey. Other aspects related to the economic profile of SMMEs (type of business, size of business, location of business, etc) and also exhibitors' knowledge of SMME Fairs (influencing mediums and suggestions to improve marketing of event). It was also useful to obtain data relating to their previous participation in SMME Fairs (years exhibited, participation in regional Fairs, objectives for exhibiting, perceived benefits,

workshop attendance, satisfaction with various aspects of Fairs, problems experienced and suggestions for improving the event).

The perceived impacts of SMME Fairs such as business contacts, turnover, employment of additional persons and the future of SMME Fairs would also be obtained. An important aspect of the survey was an attempt to obtain feedback on what they felt the role of the eThekweni Municipality should be in regard to these Fairs. This related to their understanding and level of awareness of the important service providers in the Council such as the Business Support Unit in the Municipality. Other aspects referred to current problems experienced in their respective businesses and whether future support and training would be required in the future.

4.3 Problems Encountered and Potential Biases

Some of the problems encountered in relation to contacting and interviewing respondents were that contact details were not updated and some of the businesses had relocated to other premises. The sample is thus biased towards established businesses. In addition, some individuals refused to participate indicating they were either not interested or were too busy during that time. This may have biased the findings in favour of those who had a positive experience of the Fair and were thus willing to take the time out to answer questions.

It is important to note that a key complaint of many of the exhibitors in the sample was insufficient sales, implying that the event is largely attracting people who want to network with and gain exposure to wider markets. It may therefore be necessary to clearly communicate the key objectives of the Fair to all stakeholders to ensure that unrealistic expectations are not raised.

Chapter 5: Survey Analysis

This chapter starts by outlining the demographic profile of the respondents - gender, age and racial profiles of the sample of businesses interviewed. The qualitative aspects will be examined further as this would provide feedback regarding the Municipality's ability to promote and facilitate appropriate business linkages through the SMME Fairs. Some of the results do confirm several inadequacies evident from national and local government policies on strategically addressing and growing the sector. In all cases the number of respondents is equal to 163 but it should be noted that the tables reflect only the significant responses in descending order of frequency, and may not add up to 100 percent.

5.1 Demographic profile

There were almost equal proportions of males and females interviewed in the sample (49.7% males and 50.3% females). The average age was 35.3 years and ranged from less than 20 years to more than 70 years. The majority, however, were between the ages of 21 to 30 years (33.1%), 31 to 40 years (35.6%) and 41 to 50 years (19.6%). In terms of historical racial categories the majority were Africans (51.5%) followed by Indians (37.4%). In addition 9.2% were Whites and 1.8% Coloureds. The demographic profile of Durban at present comprise 68.7% Blacks, 9.4% Whites, 2.4% Coloureds and 19.6% Asians (Global Insight Database, Economic Development Unit, 2007). This profile indicates that the SMME Fair is fairly representative of the eThekweni Municipality's racial mix.

While 3.7% indicated they had no formal education, the rest had some level of formal education and a significant proportion had post-matric qualifications, particularly certificates (21.5%) and diplomas (27.6%). Close to a third (33.1%) had secondary level education with a few (1.8%) having primary education. Additionally, 8.6% had degrees and 3.7% had postgraduate degrees. The challenge posed by the range of educational levels is to provide a programme of events at the SMMEs Fairs, especially in relation to the workshops, that addresses the differing educational levels. These findings may

undercut one of the popular constraints relating to skills and does indicate a fairly educated group in the sample. It must be noted that most of these exhibitors have participated in previous fairs and may be well established as SMMEs in the city. The skills constraints probably relate to those wishing to start out as a SMME in the shortest space of time, but lack the basic skills level to achieve this. The sample probably confirms Kesper's (2000) assertion that South African SMMEs are not a homogenous group and may require specific sets of interventions and not a generic one.

5.2 Profile of the SMME businesses

The majority (98.2%) stated that their businesses were in fixed locations, in different areas within the eThekweni Municipality Area (EMA). However, many of the businesses were located in the Central Business District (CBD) (27%) or in areas close to the CBD. Since the early 90s, the CBD has been undergoing a gradual transformation that now caters for a multi-racial consumer market. Moreover, it also became possible to gain access to the city from most of the previously disadvantaged districts via the burgeoning taxi industry, thus proving an ideal trading point for emerging and established SMMEs.

The number of years in business ranged from less than 1 year to more than 7 years. The size of the businesses in terms of number of person/s currently employed averaged 7.3 persons and ranged from 1 person to 60 persons. The above statistics indicate that the Fair attracts both emerging as well as established businesses. This, however, did tend to create problems with some, as indicated later, complaining that the SMME Fairs should cater for "small businesses" and not for "big, established businesses". Over 60% of firms are 4 years and/or older and this presented an ideal opportunity to create a further sample from which to conduct long-term research in the future.

The types of businesses interviewees were involved with are reflected in Table 2 below.

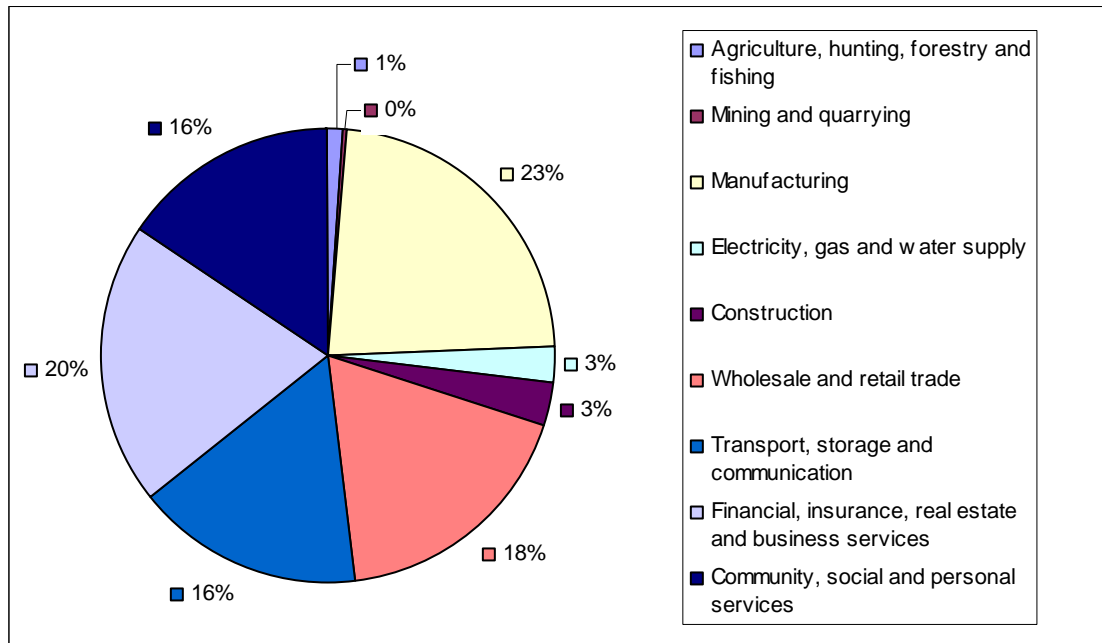
Table 2: Type of business: multiple responses (n=163)

	Frequency	Percentage
Clothing/ sewing/ fashion design	18	11
Art and craft/ beadwork/ curios	17	10.4
Computers/ software development/ IT	16	9.8
Promotional company/marketing/ graphic design	11	6.7

From this it is clear that a range of different types of businesses exhibited at the SMME Fairs, with the most prominent being clothing/ fashion/ dressmaking (11%), art and craft/ beadwork/ curios (10.4%) and computers/ software development/ IT (9.8%). The spread of businesses reveal a trend that is atypical of the formal sector (as is outlined in the Figure 1 below) with clothing and textile being the highest, and followed by the services sectors such as IT and Finances. The clothing and textile activity is included under ‘manufacturing’ in the graph below and IT and Finances are included in ‘finances, insurances, real estate and business services’.

Manufacturing accounts for 23% of GDP contribution in the formal sector with the services sector comprising trade, financial and community services contributing 70%.

Figure 1: Contribution to total GDP by sector for 2006: eThekweni Municipal Region



Source: Global Insight Database, Economic Development Unit, 2007

The average monthly turnover of the businesses is reflected in table 3. From this it is clear that turnovers ranged from less than R1 000 to over R12 000. For the majority, turnover was over R12 000, while 9.8% stated they did not know what the average monthly turnover for the business was, and 12.9% did not disclose the information indicating that it was confidential. It must be noted that these may be unreliable figures as respondents sometimes under-report these figures for fear of being reported to the South African Revenue Services (SARS), but if taken at face value, then it indicates these are small to very small businesses.

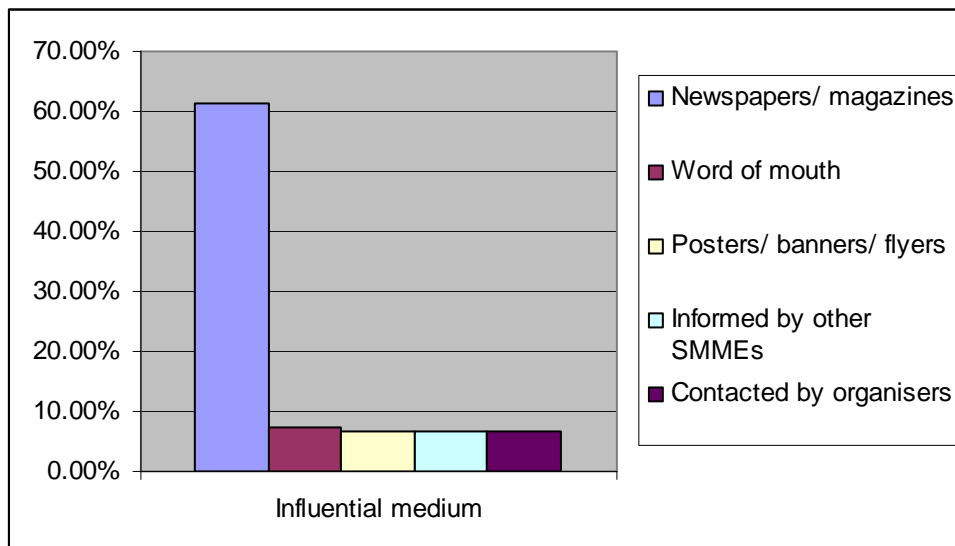
Table 3: Average monthly turnover of business (n=163)

Intervals	Frequency	Percentage
<R1 000	13	8
R1 001 – R3 000	20	12.3
R3 001 – R6 000	13	8
R6 001 – R9 000	7	4.3
R9 001 – R12 000	8	4.9
>R12 001	65	39.9
Don't Know	16	9.8
Confidential	21	12.9

5.3 Knowledge of SMME Fair/s

Exhibitors found out about the event from various sources indicated in Figure 2 below. The five most important influential mediums are indicated. Clearly, newspapers and magazines play an important role. This is an important finding with respect to communicating with this group of businesses more generally. Given that 100 respondents in the sample found out about the event through newspapers and magazines, this is a medium the state should consider more generally.

Figure 2: Influential media (n=163)



In terms of the years exhibited at the SMMEs Fairs, the majority of businesses interviewed exhibited in 2004 (77.9%), 2003 (39.9%) and 2002 (27.6%) as illustrated in the table below.

Table 4: Years exhibited at the SMME Fair: Multiple responses (n=163)

	Frequency	Percentage
2004	127	77.9
2003	65	39.9
2002	45	27.6
2001	28	17.2
2000	20	12.3
1999	19	11.6
1997	3	1.8
1998	2	1.2

Table 5 illustrates on average the number of years that businesses participated in the SMME Fairs. The majority only participated once (53.3%) followed by twice (28.2%) and thrice (6.1%). Again, this suggests that the SMME Fairs do not appear to be attracting a following of exhibitors who view the SMME Fair as an annual must attend event.

Table 5: Number of years participated (n=163)

	Frequency	Percentage
1	87	53.3
2	46	28.2
3	10	6.1
4	8	4.9
5	4	2.5
6	6	3.7
7	1	0.6
8	1	0.6

When businesses were asked why they stopped participating in the SMME Fair, a significant proportion did not provide reasons but the rest forwarded the following reasons – unavailability to attend, not adequately informed about the Fair or not informed about the Fair, the exhibition was not well organized, some felt their business was not doing well, and some felt that there was insufficient interest from the general public.

Table 6: If participated previously and stopped, reason/s, n=84

	Frequency	Percentage
No comment/ none	35	36.1
Not available to attend	26	26.8
Did not get information about Fair/ not informed about Fair	18	18.6
Exhibition is not well organized	13	13.4
Business not doing well	3	3.1
Insufficient interest by public	2	1.2

5.4 Reasons for Attending the SMME Fairs and Levels of Satisfaction

Interviewees were asked their main objectives for attending the SMME Fair and to express their levels of satisfaction. There were varied and multiple overall objectives for participating in the SMME Fair. As Table 7 indicates these were market exposure, increasing sales and business opportunities, networking/fostering partnerships and sharing of information amongst businesses.

Table 7: Main objective/s for exhibiting at the SMME Fair (n=163)

Objectives	Frequency	Percentage
Market exposure	132	81
Increasing sales/ business opportunities	103	63.2
Networking/ fostering partnerships	27	16.6
Sharing information	20	12.3

As is clear from Table 7, one in every four interviewees reported that their objectives were somewhat achieved. Three in every ten said that their objectives for exhibiting at the SMME Fairs were achieved. These relate to market exposure, increase of sales and networking opportunities. A similar number of interviewees said that their objectives were not achieved (29.4%). Table 34 (see Appendix 1) shows that respondents would also like to ensure that these are the main reasons for wanting to exhibit at future fairs. An average of 30% mentioned market exposure, networking and increasing sales as the reasons.

Table 8: Rating of respondent’s satisfaction with location of event (n=163)

	Frequency	Percentage
Good	114	69.9
Satisfactory	36	22.1
Excellent	13	8

The majority of businesses were satisfied with the location of the event which was held at the Durban Exhibition Centre. As most SMMEs have their businesses at the city center and the periphery, it was ideal to locate the Fair within this environment.

Table 27 (see Appendix 1) reveals that 50.3% of the respondents were satisfied with the venue facilities and 52.3% with the organization of the event. This is a major success for the Municipality and would certainly indicate that small businesses may to some extent feel that they are being acknowledged as a major contributor to the City’s economy and employment growth. Table 19 also reports that 58.3% were satisfied with the programme of events at the Fair.

Table 9: Whether satisfied that objectives for exhibiting at the event was achieved (n=163)

	Frequency	Percentage
Somewhat achieved	65	39.9
Achieved	50	30.7
Not achieved	48	29.4

The businesses perceived the main benefits for participating in the SMME Fair/s as market exposure, increasing sales/ business opportunities, sharing information, and networking/ fostering partnerships.

5.5 Impact of the Fair

Those who stated that they benefited from participating in the SMME fair identified the advantages that are reflected in Table 10. The most important were attraction of customers (31.3%), more business exposure (25.8%), useful business contacts (7.4%), increased sales (5.5%), and furthering skills development (3.1%). This further emphasizes the importance of establishing extensive networks amongst local SMMEs thereby facilitating effective inter-firm linkages.

Table 10: How business benefited from participating in the SMME Fair Workshops: multiple responses (n=163)

	Frequency	Percentage
Attracted customers (but generally few)	51	31.3
More business exposure	42	25.8
None/ not much exposure	36	22.1
Useful business contacts	12	7.4
Orders at Fair/ increased sales	9	5.5
Furthering skills development	5	3.1
Networking	4	2.5
Information	3	1.8

Over one in every five interviewee noted that they did not benefit from exhibiting at the SMME Fair.

Only 22.1% of interviewees attended workshops held at the SMME Fair. The main workshops attended were sales and marketing (41.7%), financial management/ bookkeeping (41.7%), taxation legislation (30.6%), business management (25%), drawing up a business plan (16.7%), and time management (13.9%).

5.6 Problems Experienced and Suggested Changes

Interviewees were asked what problems they experienced. The findings are reflected in Table 11 below. Nearly one in every two interviewees said they did not have any problems. This reinforces the finding that there is a core group who were satisfied with their experience of the fair. Those who did identify problems reported these to be that discussions and workshops were conducted in isiZulu (16%), they were unable to attend workshops (11%), there was poor attendance (11%) and lack of customers (9.8%).

Table 11: Problem/s experienced during the SMME Fair: multiple responses (n=163)

	Frequency	Percentage
None	73	44.8
Discussions and workshops conducted in isiZulu	26	16
Poor attendance	18	11
Unable to attend workshops	18	11
Lack of customers	16	9.8
Type of people attending	8	4.9
Attendees not interested in products	3	1.8
Setting up	1	0.6

With the exception of a few (1.8%), the rest forwarded a range of suggestions for improving the SMME Fair in the future. The most important were that some felt there should be an improvement in the advertising of the Fair (35.6%), while others felt that the organizers should provide training in English as well (17.2%). There were also suggestions that a more diverse mix of people should attend in order to increase customers (11.7%). Eight percent in the sample also felt that the organizers should target a diverse array of exhibitors (8%).

Table 12: Suggestions for improving the SMME Fair in the future: multiple responses (n=163)

	Frequency	Percentage
Improve advertising	58	35.6
Have training in English as well	28	17.2
More diverse people to attend (especially potential customers)	19	11.7
Diverse exhibitors/ variety of SMMEs	13	8
Improve organisation of event	11	6.7
Have over weekend	7	4.3
Open day for big companies/ invite corporations	7	4.3
Charge stand fees according to turnover	6	3.7
Increase public interest	6	3.7
Improve security	5	3.1
Put similar companies together/ place exhibitors appropriately	4	2.5
Charge a small entrance fee	4	2.5
None	3	1.8

Only 30.7% stated that they would definitely participate in the 2005 SMME Fair. Close to half (50.3%) indicated they might participate while one in every five interviewees reported that they would not attend.

5.7 Role of eThekwini Municipality

The majority of interviewees were satisfied with the role/s played by eThekwini/ the city in the SMME Fair.

Table 13: If respondent is satisfied with the role/s played by eThekwini/ the city in the SMME Fair (n=163)

	Frequency	Percentage
Yes	112	68.7
No	51	31.3

The reasons for being satisfied were attributed to the marketing of the Fair, the organization, provision of advice and assistance with advertising. The reasons for being satisfied are reflected in Table 14 below.

Table 14: Reason/s for being satisfied with the role/s played by eThekweni/ the city in the SMME Fair: multiple responses (n=163)

	Frequency	Percentage
Not applicable	51	31.3
Marketing/ exposing SMMEs	36	22.1
Fair/ exhibition is good	13	8
Well organized	13	8
Provides advice for small business	12	7.4
Improving businesses	11	6.7
Assisted with advertising	9	5.5
Assist with getting customers and contracts	5	3.1

Table 15: Reason/s for being dissatisfied with the role/s played by eThekweni/ the city in the SMME Fair: multiple responses (n=163)

	Frequency	Percentage
Not applicable	112	68.7
Not well organized	18	11
Poor advertising	16	9.8
Not directly involved in Fair	7	4.3
No comment	5	3.1

The main reasons for dissatisfaction among the respondents were that the event was not well organized and 9.8% in the sample felt that the Fair was poorly advertised.

Table 16: Suggestions for improving the role of the city in the future: multiple responses (n=163)

	Frequency	Percentage
None/ not applicable/ no comment	79	48.5
Help SMMEs after the Fair	18	11
Have a more hands on approach with the Fair	17	10.4
Get involved with businesses during the Fair	13	8
Improve communication with businesses	11	6.7
Be fair	11	6.7
Earlier advertising/ more advertising/ publicity	8	4.9
Have more Fairs	7	4.3

Various suggestions for improving the role of the City were forwarded by over 50% of the respondents in the sample. The main suggestions were that the City should maintain contact with small businesses after the Fair, become more involved with businesses during the Fair and improve communications with businesses.

5.8 Perceived impacts of SMME Fair

To test the level of networking opportunities, the businesses were asked about the number of business contacts in the SMME Fair/s to date. It is interesting to note that the majority of the respondents (62.6%) either could not recall or did not know the number of business contacts made and 6.1% did not make any business contacts. The average number of business contacts was calculated to be 17.8 and ranged from none to 100.

Table 17: Number of business contacts made as a result of participating in the SMME Fair to date (n=163)

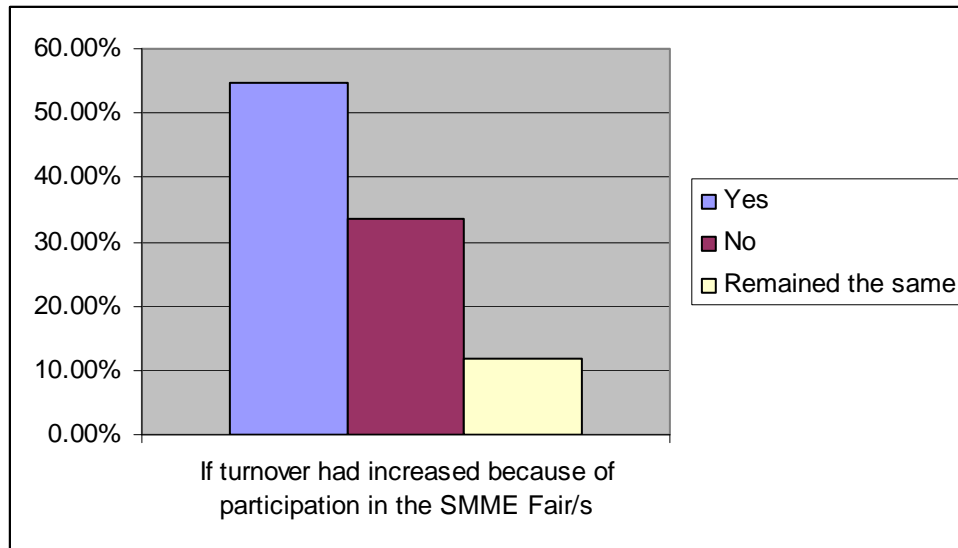
	Frequency	Percentage
Don't know/ can't recall	102	62.6
10	27	16.6
5	11	6.7
None	10	6.1
20	9	5.5
3	8	4.9
6	8	4.9
2	6	3.7
1	4	2.5

The graph, Figure 3 below illustrates that 54.6% of the respondents stated that their average turnover (in terms of income) increased as a result of participating in the SMME Fair while 33.7% felt that their turnover had decreased. Some of the respondents (11.7%) stated that their turnover had remained the same.

Table 18: If businesses believed that turnover has increased because of participation in the SMME Fair (n=163)

	Frequency	Percentage
Yes	89	54.6
No	55	33.7
Remained the same	19	11.7

Figure 3: Average turnover of exhibitors



In terms of turnover, the average percentage increase was 11.3% and ranged from 2% to 60%, showing that some businesses in the sample benefited greatly from participating in the SMME Fair.

Table 19: If yes, percentage increase (n=89)

	Frequency	Percentage
Don't know/ can't recall	35	39.3
10	20	22.5
5	13	14.6
20	6	6.7
2	5	5.6
15	3	3.4

Only 11% indicated that they employed additional people to assist them with their business after participating in the SMME Fair. On average, 3.9 persons were employed and the number of persons employed ranged from 1 to 10. The additional persons were employed for a variety of jobs, mainly as assistants.

Table 20: If employed additional people to assist him/ her with his/ her business after participating in the SMME Fair (n=163)

	Frequency	Percentage
No	145	89
Yes	18	11

Table 21: If employed additional people, how many were employed (n=18)

	Frequency	Percentage
1	4	22.2
2	4	22.2
3	3	16.7
5	3	16.7
10	3	16.7
Don't know/ can't recall	1	5.6

The majority of businesses felt that the SMME Fair/s in which they participated could be beneficial to SMMEs generally in the eThekweni region. The main reasons forwarded were that the SMME Fair/s create opportunities such as market exposure, networking, information and assistance amongst others.

However, it is worth noting one respondent's comments:

“If the SMME Fair plans to assist small businesses the Fair should not be just a marketing tool for the EMA to show that they are doing something. There should be tangible benefits to the small businesses who participate.”

Most of the businesses indicated that the Fair should be continued in the municipality. Only 2.5% stated that it should not be continued and 3.1% did not comment. Aspects that should be continued in the SMME Fair were market exposure of SMMEs, training workshops and advertising.

Table 22: If businesses felt that SMME Fair/s he/ she participated in can be beneficial to the SMMEs generally in the EMA (n=163)

	Frequency	Percentage
Yes	134	82.2
No	24	14.7
Don't know/ no comment	5	3.1

Respondents were then asked how the SMME Fair could be beneficial to SMMEs in the EMA. The findings from this question are reflected in Table 23. From this it is clear that the dominant concern is market exposure. This needs to be factored into the design of future fairs.

Table 23: If businesses felt that SMME Fair/s he/ she participated in can be beneficial to the SMMEs generally in the EMA, reasons: multiple responses (n=163)

	Frequency	Percentage
Market exposure	123	75.5
Networking	21	12.9
Information	18	11
Assistance	11	6.7
Training/ learning	9	5.5
Increase in sales	9	5.5
Increase client base	7	4.3
Increase awareness	5	3.1
Develop partnership opportunities	4	2.5
Database of clients	3	1.8
Sharing ideas	1	0.6

5.9 Awareness of the Business Support Unit

Less than one in every five interviewees was aware of the services/ support provided for the SMMEs by the municipality's Business Support Unit and only six interviewees

reported using any of their services. This may indicate poor efforts in terms of attempts to reach out to this sector by this Unit within the Municipality.

5.10 Business Growth and Current Problems

The majority (88.3%) indicated that they would like to increase/ expand their business in the near future (next five years). Additionally, more than half of them (61.3%) would like to diversify their businesses. Eight percent would like to change the type of their businesses.

Table 24: Percentage who would increase their size/ type of your business in the near future (next five years): multiple responses (n=163)

	Frequency	Percentage
Increase size/ expansion	144	88.3
Diversification	100	61.3
Change type of business	13	8

Interviewees reported the following problems that they were facing in their businesses: finance/cash flow (35.5%); too few customers/ lack of clients (25.2%); lack of equipment (5.5%); insufficient space (4.3%); and imports (especially from China) destroying the market (3.7%). The lack of capital and skills would obviously restrict most small businesses from expanding

Table 25: Problems business is currently experiencing: multiple responses (n=163)

	Frequency	Percentage
Finance/ cash flow	51	35.5
Too few customers/ lack of clients	41	25.2
None	11	6.7
Lack of equipment	9	5.5
Marketing/ advertising	7	4.3
Insufficient space	7	4.3
Imports (especially from China) destroying market	6	3.7
No premises	5	3.1
Competition	5	3.1
Small market	4	2.5
Lack of training	3	1.8
No long term business	2	1.2

The main types of assistance/ support/ training that it was felt were needed to address the problems identified were financial support (30.1%); market exposure/ assist with advertising (17.8%); more specialized business training (17.2%) and provide loans with small repayments (7.4%).

Table 26: Type of assistance/ support/ training needed to address problem/ identified (n=163)

	Frequency	Percentage
Financial support	49	30.1
Market exposure/ assist with advertising	29	17.8
More specialized business training	28	17.2
Not sure/ don't know	15	9.2
Provide loans with small repayments	12	7.4
Not applicable	11	6.7
Need contracts/ customers	7	4.3
Provide equipment	5	3.1
Assist to find premises	4	2.5

5.11 Levels of satisfaction with various aspects of the Fair

The majority of the exhibitors were satisfied with the location of their stands rating their satisfaction as excellent (31%), good (45.7%) and satisfactory (19.8%). Some of the exhibitors (3.4%) gave a rating of poor. The main reasons for the poor rating were that the stands were located far from the entrance (1.7%) and that eThekweni had stands in prime locations (1.7%). With the exception of two exhibitors, the rest of the respondents were satisfied with the location of the event. They rated their satisfaction with the location of the event as excellent (50%), good (46.6%) and satisfactory (1.7%). The two exhibitors who rated the location of the event as poor stated that the attendance was low (Tables 27-29, Appendix 1).

The majority of the exhibitors were satisfied with the registration process with 9.5% indicating that they were not involved in a formal registration process. The exhibitors rated their satisfaction with the registration process as excellent (20.7%), good (52.7%) and satisfactory (12.9) (Table 30, Appendix 1). Some of the respondents (4.3%) rated the registration process as poor. The reasons for the poor rating were that there was a lack of proper information, and the registration procedures were disorganised.

The attendees rated their overall satisfaction with the event as follows: excellent (34.3%), good (41.3%), okay (23.7%) and bad (0.7%). At 75 percent of the respondents were satisfied with the event overall.

5.12 Conclusion

The survey found that the SMME Fair is currently securing participation from the smaller end of the SMME spectrum. There was a core group of small businesses that found the SMME Fair to be beneficial to their own business, with one in every two reporting that their turnover did increase due to participation in the Fair. Those who were satisfied outlined that the Fair had helped them attract customers and given the business exposure. There were other businesses, however, who were negative about the Fair and many of the interviewees did not return the following year. Eight out of every ten interviewee felt that the Fair could be beneficial to SMMEs in general within the Municipality, indicating that the Fairs have potential to assist small businesses. The results suggest that SMME Fairs have the potential to be an effective way for small businesses to view products and network with the industry, gain access to wider markets, be exposed to potential business linkages and that it is a useful platform from which to voice various problems encountered in the sector. It also serves as a vital link with local government from where the sector is able to interact with relevant support structures. The feedback obtained from such Fairs also assists in gauging the impact of previous local SMME strategies and policies on the sector.

It was clear from some of the responses that a targeted approach with respect to providing support to different sectors within the industry is required, in order to encourage meaningful linkages between large and small businesses. Much of the frustrations of the respondents were linked to not receiving direct benefits from the SMME Fair in relation to business contacts and increased sales. A significant challenge therefore is how the SMME Fair can balance the differing interests and aspirations of the different types and sized of SMMEs that attend the Fair. Some respondents certainly felt disadvantaged and marginalized.

An interview with a Project Manager in the Small Business Unit noted that there were no mechanisms in place to target specific sectors in which businesses could network meaningfully or establish bigger markets for supply and demand (Chetty, 2007). This was identified as one of the main constraints arising out of previous socio-economic impact assessments undertaken by various entities, the importance of which was outlined by Rogerson (2004) on the significance of local government's role in researching the potential of particular growth sectors.

The Business Support Unit in the Municipality has, at the time of writing, addressed some of these constraints by devising ways in which to secure linkages with big businesses and has embarked on a 'Business Linking Programme'. During 2006/07 The Unit attempted to secure scheduled interviews between formal SMMEs and big businesses such as Toyota to determine how much business could be generated between them that could then be used as a yardstick to measure the success of the programme. This certainly supports the findings relating to the lack of segmentation to focus on established large firms and formal SMMEs to examine the propensity of such businesses to survive and grow from the USAID study.

The interview with the Business Support Manager also revealed that some of the sectors identified by the Business Support Unit were Arts & Crafts, Clothing and Information Communication Technology (ICT). The Unit believes that it is the private sector and not the government that should be providing assistance. Government entities must strive to create conducive and enabling environments in which SMMEs could properly function. Historically, the Business Unit was known to link budgets to programmes that were designed for providing assistance and it is now felt that this was not be the case. Instead programmes should be geared towards identifying areas of linkages between small and big businesses. There was also a feeling that the Unit's commitment with respect to exactly where it starts and ends with SMMEs was a bit hazy. It was revealed that SMME recruits often felt it was the local government's responsibility to not only provide assistance with requisite training, but that they should also assist in finding suitable jobs.

Chapter 6: Conclusion and Policy Recommendations

This chapter concludes the dissertation by reiterating the main findings from the SMME Fair survey. Some of the recent SMME policy developments in the eThekweni Municipality since the fieldwork was conducted, are briefly reviewed and commented on.

6.1 The eThekweni SMME Fair

From the results of the SMME Fair survey, the majority of businesses in the sample supported the Fair viewing it as beneficial to small businesses and providing suitable business linkages. However, from the results it seems as if the key reason for most SMMEs exhibiting is to increase market exposure and form business linkages with relevant businesses. This implies that they expect potential customers and other related service providers to attend the Fair. Much of their frustrations appear to be linked to not receiving direct benefits from the Fair in relation to business contacts and increased sales. Linked to the expectations is also the concern that communication with the Municipality is halted when the SMME Fair ends. This would suggest that there is no ease of continuous access amongst small businesses and the eThekweni Municipality.

The concerns raised in relation to the SMME Fairs focused mainly on the role of the eThekweni Municipality, marketing and workshops linked to requisite training. The organization of the Fair, especially the importance of the eThekweni Municipality adopting a central and visible role was highlighted. It was felt that the Council has a major role to play in continuing to ensure that SMMEs in the region receive adequate support to create enabling environments for the sector's sustainability through business linkages with the formal sector and in identifying and addressing specific constraints.

Advertising and marketing of the Fair (especially to attract in the first instance appropriate SMMEs and then potential customers) was also singled out as being significant. This is important as effective marketing and promotion of the Fair could be the building block in terms of identifying appropriate business linkages between targeted entities comprising small and big businesses.

The workshops linked to the SMME Fair and undertaken by the Council, in particular the type of training offered and the language in which the training is being offered is regarded as important. Training in English as well as in Isizulu was requested. This may lend itself to a greater focus as the appropriate businesses are targeted from which the requisite training needs would be determined. Meaningful business linkages may not be established if there is a lack of communication skills amongst small businesses.

The role of the Municipality should be re-assessed as it is clear the Business Support Unit should have a protracted strategy in place to ensure that SMMEs are able to forge meaningful business linkages with the formal sector. The latest SMME strategy outlining linkages with big businesses is very weak. There appears to be no indication or plan for a segmented approach that will present a series of strategies for business linkages with the different sectors as identified by national and local governments as potential growth sectors. This may not produce the success stories as was outlined in this paper from similar experiences in Italy, Japan and elsewhere. The issue of marketing and advertising mentioned as a constraint may assist in exposing SMME products to a wider private sector audience, especially big businesses, and this may contribute to enhancing the value chain between them.

Another significant challenge is how the Fair could balance the diverse interests and aspirations of the different types and sizes of SMMEs attending the Fair. There were indications that some businesses in the sample felt disadvantaged and marginalized. Again this ties in with the assumption that the sector is homogeneous and appears to be treated as such.

The Fairs were also not strategically aligned to benefit from national and local policies, regional industrial dynamics and international trends affecting SMMEs in developed and developing countries. The local SMME Strategy appears to favour sectoral and inter-firm linkage initiatives while the constraints are not adequately addressed, and creative ideas are lacking. There are many major private businesses involved in social

responsibility programmes in the eThekweni Municipality and perhaps these companies should be encouraged to share ideas and resources to enhance the Municipality's strategies relating to the establishment of business linkages with SMMEs.

6.2 Conclusion

While the case studies do not prove that business linkages are the single best means for enhancing SMMEs within the eThekweni Municipal Region, it is useful to note that the majority of businesses exhibiting at the Fairs were hoping to establish linkages with related entrepreneurs and big businesses. For the most part, the Fairs appeared to have a shotgun approach in that it accepted a motley grouping of SMMEs in the hope that some business links may occur over the period.

A systematic targeting of sectors and related support for same was largely non-existent for a number of years and notwithstanding the important role that the local government has played in initiating the Fairs, it has not been as successful as imagined and it is hoped that the recommendations mentioned herein may improve the Fair's ability to establish sustainable business relationships in the future.

Most of the studies on business linkages have focused on global and national trends and research respecting inter-firm linkages in the local region needs to be further explored. The role of local government in stimulating SMME Fairs to establish linkages with the big businesses may assist in identifying and addressing some of the other constraints experienced by the sector.

The SMME Fair has potential to provide a platform for SMMEs in the eThekweni Municipal region. The concerns and problems raised in this survey should be addressed to improve the SMME Fairs in the future.

Appendix 1: Additional information

Table 27: Rating of respondent's satisfaction with venue facilities (n=163)

	Frequency	Percentage
Satisfactory	82	50.3
Good	76	46.6
Excellent	3	1.8
Poor	2	1.2

Table 28: Rating of respondent's satisfaction with organisation of event (n=163)

	Frequency	Percentage
Satisfactory	86	52.8
Good	70	42.9
Poor	4	2.5
Excellent	3	1.8

Table 29: Rating of respondent's satisfaction with information provided at event (n=163)

	Frequency	Percentage
Satisfactory	88	54
Good	73	44.8
Poor	2	1.2

Table 30: Rating of respondent's satisfaction with SMME Fair programme of events (n=163)

	Frequency	Percentage
Satisfactory	95	58.3
Good	64	39.3
Poor	2	1.2
Excellent	1	0.6
Not applicable/ no comment	1	0.6

Table 31: If poor, reason/ s for dissatisfaction with the fees/ cost for acquiring a stand (n=9)

	Frequency	Percentage
Too high – could hardly afford to pay	7	77.8
Should have different fees for different sized businesses	2	22.2

PERCEIVED IMPACT/S OF SMME FAIR

Table 32: If employed additional people, type of job/s employed for (n=18)

	Frequency	Percentage
General assistant	4	22.2
Manufacturing of clothes	2	11.1
Window tinting	1	5.5
Delivery and cooking	1	5.5
Office assistant	1	5.5
Liaison officer	1	5.5
Production	1	5.5
Manufacturing frames	1	5.5
Administration	1	5.5
Take care of store	1	5.5
Marketing	1	5.5
Gardening	1	5.5
Sewing	1	5.5
Making blocks	1	5.5

Table 33: If respondent feels that the SMME Fair should be continued in the EMA (n=163)

	Frequency	Percentage
Yes	154	94.5
Don't know/ no comment	5	3.1
No	4	2.5

Table 34: If respondent feels that the SMME Fair should be continued in the EMA, which aspect/s should be continued: multiple responses: multiple responses (154)

	Frequency	Percentage
Market exposure of SMMEs	37	24
Training workshops (but exhibitors should be able to attend and participate)	33	21.4
Advertising/ publicity	32	20.8

Appendix 2: Questionnaire

NAME OF EXHIBITOR	
DATE	

1. Knowledge of SMME Fair

1.1. Which of the following influenced you to participate in the SMME Fair?

1. Word of mouth	2. Contacted by city officials	3. Newspapers/ magazines
4. Posters/ banners/ flyers	5. Contacted by organizers	Other (specify)

1.2. Were you satisfied with the information provided regarding the event?

1. Yes	2. No
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1.2.1. If no, what were you dissatisfied with?

1.3. How can the marketing of the SMME Fair to exhibitors be improved in the future?

2. What products/ services are you providing?

PRODUCTS/ SERVICES	SPECIFY TYPES

2.1. How long has your company/ business been operational?

<5 years	5-10 years	11-15 years	16-20 years	>20 years
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2.2. What is the size of your business (number of persons currently employed)?

3. Did you employ additional people to assist you during this event?

1. Yes	2. No
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3.1. If yes,

3.1.1. How many people did you employ? _____

3.1.2. For what type of jobs were they employed?

3.1.3. Were they remunerated?

1. Yes	2. No
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4. What were your main objective/s for exhibiting at the event?

1. Increasing sales/ business opportunities	
2. Market exposure	
3. Sharing information	
4. Networking/ fostering partnerships	
5. Other (specify)	

4.1. Are you satisfied that your objectives for exhibiting at the event have been achieved?

1. Achieved	2. Somewhat achieved	3. Not achieved
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4.2. How did you benefit from participating in the SMME Fair?

5. Rate your satisfaction with the following:

KEY: 1. Excellent 2. Good 3. Satisfactory 4. Poor

	KEY	If poor, give reasons
1. Location of the stand/ exhibition		
2. Location of the event		
3. Registration process		
4. Organisation of the event		
5. Information provided at the event		
6. Assistance to address queries		
7. Venue facilities		
8. Quality of the products at the event		
9. SMME Fair programme of events		
10. Attendance at the event		
11. Fees/ costs for acquiring a stand		
12. Security		
13. Media/ advertising/ publicity of the event		

6. Did you participate in this event in previous years?

1. Yes	2.
	No

6.1. If yes,

6.1.1. how many times did you participate in the event previously? _____

7. How many business contacts did you make as a result of the event to date?

8. What is the average turnover per day? _____

9. Have you participated in any of the regional SMME Fairs/ exhibitions held this year?

1. Yes (specify name and location)	2. No
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9.1. If yes, how would you rate this event in comparison to others you have participated in?

1. Better	2. The same	3. Not as good
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10. Will you participate in the SMME Fair next year?

1. Definitely plan to attend	2. May attend/ don't know	3. Will not attend
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11. What problems, if any, did you experience during the event?

12. What suggestions do you have for improving this event in the future?

13. Are you satisfied by the role played by eThekweni/ the city with regard to facilitating and managing Celebrate Durban?

Yes	No
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REASON

13.1. How can the role of the city be improved?

14. What is your age group?

1. < 20	2. 21-30	3. 31-40	4. 41-50	5. 51-60	6. 61-70	7. >70
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15. INTERVIEWER TO NOTE

15.1. Gender of respondents

1. Male	2. Female
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15.2. Historical racial category of respondents

African	Indian	Coloured	White	Not applicable
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