

The Role of Government in Developing Small, Medium and Micro Enterprises in South Africa

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ABSTRACT The study examined the role of the South African government in developing small, medium and micro enterprises (SMMEs). The study investigated if the owners of SMMEs (especially micro enterprises) are aware of the government support programmes developed to assist them. The Survey method was used for data collection. Self-administered questionnaire was used to obtain data from the study participants. The participants in the study were owners of micro enterprises. Descriptive statistics was used for data analysis. The result indicated that the majority of the owners of micro enterprises are not aware of government programmes. Recommendations were made to improve awareness by the owners of micro enterprises.

INTRODUCTION

The study examined the role of government in supporting small, medium and micro enterprises (SMMEs) in South Africa. SMMEs contribute about 41.7 percent of private sector employment in South Africa (Turner et al. 2009). SMMEs also help to create the jobs necessary to reduce poverty in South Africa (Vandenberg 2006). There is a high failure rate of SMMEs in South Africa. The average lifetime of a small enterprise rarely exceeds three years after creation. One of the primary causes of SMME failure in South Africa is the access to finance (Mbedzi 2011).

Government has a role to play in reducing high failure rate of SMMEs in South Africa. Many SMMEs cannot access debt and equity finance. This suggests that the financial markets cannot effectively assist SMMEs (Craig et al. 2014). National government has to come up with policies and strategies to increase the level of entrepreneurship, basically through proactive support for small businesses (Department of Trade Industry 2008). The issue of awareness of government support programmes directed to assist SMMEs remains a major concern (Mazana and Fatoki 2012).

Statement of the Problem

The failure rate of SMMEs is very high in South Africa. The average life of an enterprise

after formation rarely exceeds three years. Lack of finance is one of the principal causes of SMME failure in South Africa (Abor and Quartey 2010). According to Rogerson (2008), access to finance for SMMEs in South Africa is particularly acute. Many SMMEs cannot access funding from commercial banks. This suggests that there is a market failure in the provision of finance to SMMEs. Because of market failure, government at national and provincial levels have established programmes that are focused on assisting SMMEs. The problem is, despite all the government programmes, the failure rate of SMMEs is still very high in South Africa. There is the assumption that many SMMEs are not aware and do not use the government support programmes developed to assist them.

Research Questions

- ♦ What are the government programmes directed to support SMMEs?
- ♦ Are the SMMEs aware of the government agencies created to support them?
- ♦ What are the key constraints perceived by SMME owners for non-awareness of government agencies created to support them?

Literature Review

Definition and Contribution of Small, Medium and Micro Enterprises

The definition of SMMEs is a major concern in the literature on entrepreneurship. There is

no generally accepted definition for the term small business. Most definitions include qualitative and quantitative factors. Qualitative factors include share of the market and that the small business is not a subsidiary of a large firm. Quantitative factors include number of employees, total assets and turnover (Beck et al. 2005).

The National Small Business Act of South Africa of 1996, as amended in 2003, describes an SME as “*a separate and distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including its branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards, and can be classified as an SME by satisfying the criteria mentioned in the schedule of size standards*” (Government Gazette of the Republic of South Africa 2003).

A micro enterprise is a business with less than five employees and with annual sales of less than R150, 000 and gross asset total of less than R100, 000 (Government Gazette of the Republic of South Africa 2003). Micro enterprises are the smallest and constitute the majority of enterprises within the small business sector in both developing and developed countries (Munoz 2010). Approximately 91 percent of the business entities in South Africa can be regarded as SMMEs. These enterprises contribute between 52 to 57 percent of South Africa’s gross domestic product (Abor and Quartey 2010). In addition, the SMME sector contributes to poverty reduction through the creation of employment (Vandenberg 2006).

The Role of Government in Developing SMMEs

The theoretical foundation for the participation of government in providing support for SMEs can be traced to the market failure theory (Abdulsaleh and Worthington 2013). This is a situation where allocations by markets are inefficient (Grochulski and Morrison 2014). Many agencies have been formed to assist SMEs in South Africa. These include the Small Enterprise Development Agency (SEDA), the National Empowerment Fund (NEF), the Industrial Development Corporation (IDC), the South Africa Micro Finance Apex Fund (SAMAF), the National Youth Development Agency (NYDA), the

Small Enterprise Financial Agency (SEFA) and the Department of Small Business Development.

RESEARCH METHODOLOGY

The study used the quantitative research method. The study followed the descriptive research design. Data was collected from the owners of micro enterprises. The study focused on micro enterprises owned by individuals in the retail or service sector in Mankweng, Limpopo province of South Africa. The survey method was used for data collection. Data was collected through the use of self-administered questionnaire from the owners of SMEs. Convenience and snowball sampling methods were used to select the participants in the study. To measure awareness of government programmes directed at SMEs, five-point Likert scale ranging from “1 not aware” to “5 extremely aware” was used. The Cronbach’s alpha was used to measure reliability. This study used descriptive statistics for data analysis.

RESULTS AND DISCUSSION

One hundred and thirty two questionnaires were distributed to the owners of SMEs and fifty returned. The response rate was 37.8 percent. 58 percent of the respondents were males and 42 percent females.

Necessity of Government Support for SMMEs

Table 1 depicts the results of the necessity of government support for SMMEs. The results indicate that the majority of the respondents agree that government support is necessary to fully develop the potential of SMMEs. Abor and Quartey (2010) remark that SMMEs are responsible for a very large share of the gross domestic

Table 1: Necessity of government support for SMMEs

	<i>Frequency</i>	<i>Valid percent</i>
Strongly agree	31	62.0
Agree	15	30.0
Undecided	2	4.0
Disagree	2	4.0
Strongly disagree	0	0
Total	50	100

product and employment in many countries. Therefore, it is necessary for government to support them (Osano and Languitone 2015). Access to finance from the formal debt and equity markets is one of the most serious barriers to the creation and growth of SMMEs (Cressy 2006; Berger and Udell 2006). Government intervention and support in providing funding for SMMEs can help to reduce their high failure rate (Kim et al. 2008).

Awareness of Government Support for SMEs

Respondents were asked if they are aware of National government support for SMEs. The results as indicated by Table 2 show that 76 percent of the respondents are not aware of government support programs for SMMEs. Khan 2014 notes that many small business owners are not aware of government support facilities. The National Credit Regulator (2011) finds that there are a variety of funding programs for SMMEs. However awareness and the use of these schemes have been very low despite the fact that most organisations that support SMMEs provide information on their websites.

Table 2: Awareness of government support

	<i>Frequency</i>	<i>Valid percent</i>
Not aware	38	76.0
Slightly aware	8	16.0
Somewhat aware	3	6.0
Moderately aware	1	2.0
Extremely aware	0	0
Total	50	100.0

Key Constraints Perceived by SME Owners for Non-awareness of Government Programs

The results as presented by Table 3 indicate that the major reason why the owners of SMEs are not aware of government programs devel-

Table 3: Constraints perceived by SME owners for non-awareness of government programs

<i>Constraints</i>	<i>Mean</i>
Ignorance of the existence of government organisations	4.60
Lack of information	3.32
Lack of advertisement by government	3.65
SMMEs not interested to get support	1.40
Lack of access to use internet technology	4.45

oped to assist them is ignorance about the existence of these programs. This is further supported by the fact that most SMMEs do not have access to Information Technology. The majority of the participants in the study do not have information about the existence of national and provincial government's programs. Agboh (2015) points out that information technology especially the internet can help SMMEs to communicate with external stakeholders. The internet can help SMMEs to become aware of the requirements and existence of external stakeholders such as commercial banks and government agencies (Agboh 2015). ICT is one of the important tools for improving efficiency, effectiveness and competitiveness of SMMEs (Ongori and Migiro 2010). However, the adoption rate of ICT is weak in South Africa and other developing countries. This suggests that the weak level of adoption of the Internet by SMMEs can negatively impact the access to information about government financing schemes (Olise et al. 2014).

CONCLUSION

The study examined the government programs and agencies directed at SMMEs in South Africa. In addition, the study investigated if SMMEs (especially micro enterprises) are aware of government agencies created to assist them. Finally the study examined the key constraints perceived by micro enterprises that negatively affect their knowledge of government agencies. The results indicated that there are many government agencies that have been created to assist SMMEs. However, awareness of these agencies by small business owners is very weak. The findings also revealed that the major reason why the owners of SMEs are not aware of government programs developed to assist them is ignorance, lack of information and inaccessibility to the internet.

RECOMMENDATIONS

It is recommended that full information is provided to the owners of SMMEs about the programs and agencies that have been created by government. This can be done through print, electronic and social media. This can help to create awareness. Government agencies should have well-trained field agents who will visit SMME owners and create awareness about gov-

ernment programs. SMME owners must also be proactive and try to seek knowledge and information that will help them become aware of the government programs. SMME owners need to be computer literate and also have access to the internet in order to improve awareness. Furthermore, SMME owners should go for training in educational institutions in order to be aware of government programs. Many universities and non-governmental organisations in South Africa have programs on entrepreneurship that can help SMME owners. There are many agencies that have been created to assist SMMEs. There is the need for better coordination among many agencies that support SMEs. Other studies can investigate the effect of level of education and gender on the awareness of government support programs by the owners of SMMEs.

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