An evaluation of the economic impact of the local business service centres on small, medium and microenterprises during the period 2001 – 2005.

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Abstract

The small business sector is considered a panacea to the woes of the South African economy. In order to boost the small business sector specific types of institutions such as the local business service centres (LBSCs) were required to provide assistance to the small, medium and microenterprises (SMMEs). The LBSCs provide a variety of real and appropriate services to SMMEs and constitute the most important vehicle for small business support. The services provided by the LBSCs include business information, general business management advice and counseling, aftercare and networking to other service providers. Despite the efforts by the government to establish a support structure for the small business sector in South Africa, this effort had not been met with success. The failure of the SMMEs despite the LBSCs support provision had led to a widespread belief that the LBSCs had been ineffective during the period under review. To this end it has become important to assess the economic impact of LBSCs on the SMMEs. Using a cost benefit analysis and econometric modeling on a cross sectional data in a sample frame of 452 small businesses in the Eastern Cape, the findings in this research suggest that the LBSCs had improved the social welfare through job creation and relative increases in income during the period under review. However, the benefits derived from the public investment in SMMEs through the LBSCs were sub-optimal in that there were a number of factors which inhibited the small businesses during the period under review despite the LBSCs interventions. This paper recommends an integrated strategy in order to boost the small business sector in South Africa.

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Introduction

The promotion of entrepreneurship and small business is an important priority of the government of South Africa. In an effort to support the development of SMMEs in South Africa the government established a support structure for the small business sector. After the enactment of the national White Paper on Small Business, the Department of Trade and Industry (DTI) began the process of building new institutions to service the SMME economy.[1] To this end the key institutions for the development of SMMEs were Ntsika Enterprise Promotion Agency (NEPA), Khula Enterprise Finance and Khula Credit Guarantee, the National Small Business Council, and Provincial SMME Desks.[2] An important unit of NEPA was Business Development Services (BDS) which was set up in April 1995 to coordinate the evolution and development of the network of LBSCs. The LBSCs are accredited organisations which deliver non-financial business support and services to small, medium and microenterprises. The majority of small businesses assisted by the LBSCs are start-ups rather than existing businesses.[3]

The problem and its setting

Despite the efforts by government to establish a support structure for the small business sector in South Africa, this effort has not been as effective as was anticipated. Some small businesses continued to fail in South Africa. The failure rate of SMMEs is estimated to be between 70% and 80% and millions of rands are being lost on business ventures. [4] The failure of the small businesses despite the LBSC support provision led to a widespread belief that the LBSCs had little or no impact on small business.[5] It was argued that the LBSCs had failed to deliver effectively on their programmes. [6]

Despite the failure of the SMMEs and the widespread belief that the LBSCs had failed to deliver effectively, public funds were still being invested in the LBSCs. For example, Ntsika's budget for 2000 was approximately 80 million rand of which approximately 12.5 million was allocated to LBSCs. Ntsika's 2001/2002 budget was almost half of the 2000/2001 budget at 43,6 million rand of which R8 240 289 was allocated to LBSCs and a further R1 084 440 to survivalist and microenterprises, via other conduits. Khula's budget for its two programmes that service the survivalist and micro-enterprise sectors, amounted to approximately R45 million for the year ending March 2003. This amount had almost been doubled for the year ending March 2004. The Enterprise Development Unit's budget for institutions for the financial year ending 31 March 2001 was R146 million. It was reduced to R104 million for the financial year ending 31 March 2003.[7]

The above figures represent public sector funds and exclude donor funds, interest, fee income and other forms of revenue. Donors committed R1.6 billion to SMME development for the period 1994-1999. By the end of 1999, R867 million of donor funds had been disbursed to NGOs. The remainder was committed to funding of existing projects. Fifty-five per cent (R480 million) of the R867 million was disbursed to the 'person-centred' survivalist sector, and therefore had poverty alleviation as its goal.[8] These amounts do not take into account the funds secured by individual NGOs from overseas and local donors, which in most cases constitute by far the bulk of these NGOs' funds. Given the above figures and a limited state budget, it becomes crucial to look closely into the impact of LBSCs on the development of SMMEs.

Research objectives

The primary objective of this research is to analyse the effectiveness of the LBSCs interventions in the small businesses which participated in the LBSCs programmes. The period being reviewed in this study is 2001 to 2005. The main focus of the analysis is the public funds allocated to the LBSCs for SMME development and the resultant economic and social returns on this investment in the Eastern Cape. The secondary objective is to analyse the constraints that face the SMMEs despite the LBSCs support provision.

Hypothesis

H_0: Public expenditure on the LBSCs does not yield positive social returns.

H_a: Public expenditure on the LBSCs yields positive social returns.

Research methodology

Both quantitative and qualitative research methodologies were employed in this study. In order to provide an accurate presentation of information face-to-face interviews with the owners of the small businesses were conducted.[9] Face-to-face interviews provide an opportunity to observe and verify practically the procedures in place.[10] The fieldworkers asked questions beyond those included in the questionnaires. This was particularly aimed at gaining qualitative data. The strength of qualitative data is based on the fact that data collection is focused on naturally occurring, ordinary events in natural settings. Thus the data have a strong handle on real life, have richness and holism.[11]

Data collection techniques

Data was collected through questionnaires and interviews from July 2006 to November 2008 by a senior researcher and six trained fieldworkers.

The questionnaire

A questionnaire was developed specifically to be used in the interview situation. The questionnaire was divided into four sections i.e. A to D. Section A focused on demographic data, section B focused on the business and its characteristics, section C focused on support organizations and section D focused on the finances of the business. Some of the questions were 'open-ended' in that they invited an explanation in terms of response and most required simple response.

Interviews

The first phase of the interviews was with the LBSCs. The purpose of the interviews was to obtain a database of clients which had accessed LBSCs services. The LBSCs demonstrated interest and willingness to support the research and expressed the desire to obtain the results of the study. Access to their database of clients was, however, met with reluctance as the LBSCs had committed to keep their clients' information confidential. There were concerns that the information required was too sensitive. Further, there appeared to be a competitive environment amongst the LBSCs, with each LBSC looking at ways in which it can grow its business, hence the reluctance to divulge the information. However, the LBSCs were pointed out to the declaration in the questionnaire which states that the information will be treated with strictest level of confidentiality. It was only then that the LBSCs gave the information with ease. Hence, the names of the LBSCs in this paper are referred to as LBSC A, B, C and D.

The second phase of the interviews was with the SMMEs. The interviews with the SMMEs were difficult mainly because of incorrect or changed addresses and/or phone numbers. What complicated matters further was that a number of business owners lived in informal settlements where there were no proper physical addresses. These owners used either their families' or friends' physical addresses as their residential or business addresses. Some of the SMME owners were unwilling to take time off for an interview, but after a few follow ups especially during evenings, these owners were accessible. Generally speaking, the majority of the owners were supportive and willing to participate in the study as they were in serious need of assistance and support from government.

Data analysis

Data was analysed by a cost-benefit analysis. The idea of cost-benefit analysis (CBA) is to measure the net advantages of a capital investment project in terms of society's net utility gains (welfare economics).[12] The effectiveness of the LBSCs interventions was assessed firstly by measuring subjective perceptions of the respondents on improvements attributable to the LBSC programs and the objective measurement of post-assistance business performance, namely annual turnover and employment creation. The subjective measures were based on a three point *likert* scale of 1 – 3 (*1 = no impact, 2 = minor impact, 3 = major impact*).

The respondents were asked to state the percentage annual growth of the turnovers from 2002 to 2005 that could be attributed to the LBSCs support interventions. The annual turnovers of the small businesses were adjusted by the percentage annual growth of the turnovers attributable to the LBSCs. Using the adjusted annual turnovers as a benefit of LBSCs interventions is in line with the work of Chrisman and McMullan who evaluated small business interventions using both client satisfaction and economic performance measures in terms of annual turnovers of the businesses.[13]

The costs comprised of the annual budgets allocated by Ntsika to the LBSCs for SMME development and the fees paid by the respondents to access some of the LBSCs services. After the costs and benefits of LBSCs interventions were identified and quantified the next step was to evaluate these costs and benefits in a time dimension.[14] The project costs and benefits streams were discounted to present values.[15] A social discount rate of eight per cent was used as recommended by the Conningarth Economists. [16] A change in social welfare resulting from SMME promotion through the LBSCs support provision in the Eastern Cape was measured by deducting the summation of social costs from social benefits.

A discounted benefit cost ratio (BCR) was used as a decision making criteria. The discounted BCR is defined as the ratio of the present value of the benefits relative to the present value of the costs.[17] The criterion for acceptance of a project is that the discounted BCR must exceed 1 (one).

Data was further analysed using two regression models. The first model used the annual turnovers as dependent variable whilst the second one used job creation as a dependent variable.

Sample selection

The purpose was to interview all the small businesses that had accessed the LBSCs support provision and therefore no sample frame was drawn. LBSCs were approached to provide a list of all the small businesses which accessed the LBSCs support provision services in 2001. The surveys were conducted in Nelson Mandela Metropole, Mdantsane in East London and Umtata

This list from LBSC A contained a total number of 105 clients. The aim was to reach all 105 clients contained in the list. This database was, however, was not reliable as many contact details had changed. Consequently a total number of 81 respondents could be reached for interviewing. Of the 81 respondents, 20 intimated that they were no longer running businesses but were on full time employment. The reason for this was that they could not access the necessary finances to start their businesses.

A list containing 157 clients was obtained from LBSC B. Due to incorrect and/or changed contact numbers, only 87 clients could be reached for interviewing. Of the 87 clients, only 58 questionnaires were usable. Of the remaining 29 respondents, 15 intimated that they were no longer in business due to finances as well as infrastructural constraints and 14 questionnaires could not be used as there was crucial data missing.

Out of a list of 60 small businesses who were assisted in LBSC C, only 43 small businesses were available and willing to be interviewed. The interviews were conducted on the premises of the LBSC. The remainder (17) did not respond to the invitation.

A total number of 64 small businesses out of 100 that were assisted in LBSC D were approached and interviewed. The remainder (36) could not be traced due to change of addresses. The total number of respondents included in the sample for conducting a cost benefit analysis amounts to 226.

In order to avoid a sample bias, a control group was selected. A control-group approach was used to show the difference in target variables between those who consulted with the LBSCs versus those who did not. The control group was randomly selected from the same sectors as the target group and it was ensured that the small businesses in the control group were operating more or less the same period of time as the target group. This was to ensure that both the target group and the control group faced similar macroeconomic environments during the period under review. The total number of respondents in the control group is 226.

This brings the total number of observations in this thesis to 452.

A description of the small businesses recorded in this research

Only those businesses which received LBSC support provision in 2001 were surveyed. The aim was to assess the performance of these small businesses during the period 2001 through to 2005. These businesses were in their start-up phase in 2001. A reason for reviewing a five year period is due to the fact that less than half of newly established businesses survive beyond five years.[18] This is not only true for South Africa, but also a common phenomenon in the rest of the world.[19]

The type of businesses recorded in the sample were spaza shops, construction, catering, general dealers, sewing, fashion design, trading stores, hair salons, furniture upholsterers, welding, gardening services, repairs workshop, printers, driving school, photography, electrical services, taverns, computers, finance, communications, carpentry, and farmers trading. A large number of these small businesses were being operated mainly from homes except the general dealers which had business properties

Descriptive results

Gender

More than half (54%) of the respondents were females as compared with their male counterparts (46%) (Table 1).

Table 1: Gender

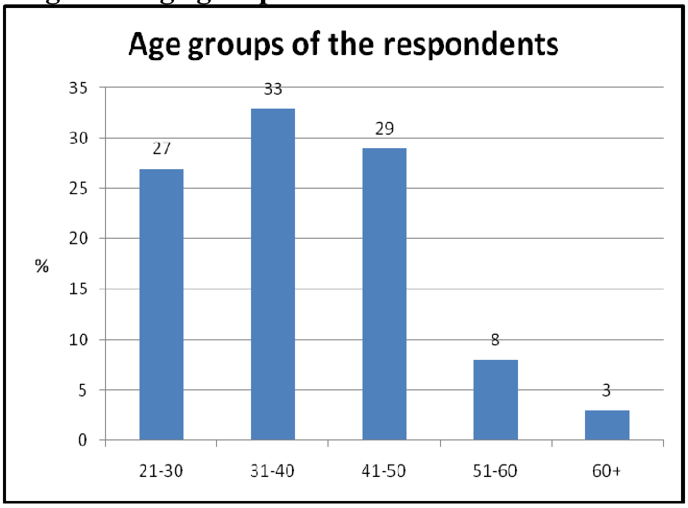
Gender	**N**	**%**
Male	206	46%
Female	246	54%
Total	452	100.00%

Source: Survey data (2008)

Age groups

Thirty three per cent (33%) of the respondents were within the age group of 21-30 years, followed by 29% of those who were within the age group of 41 – 50 years of age. Those who were within the age group of 31 – 40 years made up 27% whilst those between the ages of 51 – 60 made up a mere eight per cent followed a small percentage of three per cent of those who were 60 years and older (Figure 1).

Figure 1 Age groups

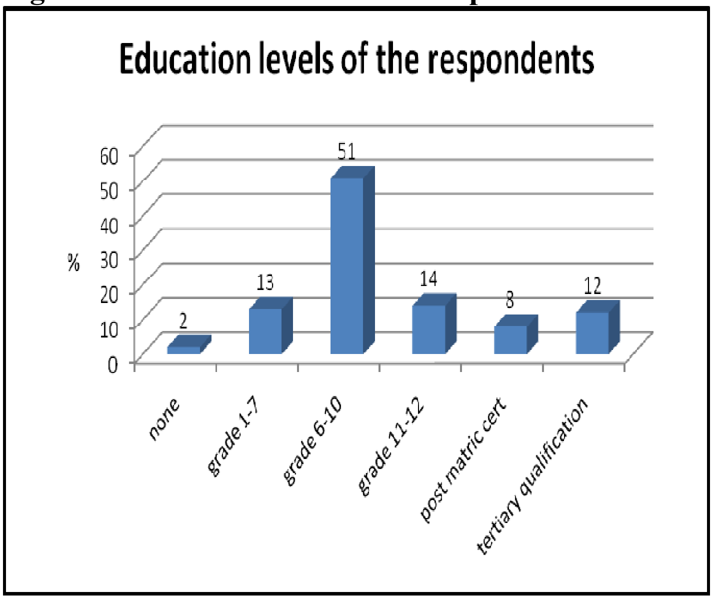


Source: Survey data (2008)

Education levels of the respondents

More than half (51%) of the respondents had grades 8 – 10, whilst almost 14% had grades 11-12. Only 12% had tertiary qualifications whilst only a mere eight per cent (8%) had post matric certificates. Post matric certificates were mainly in fashion design, interior decorations, and construction. Thirteen per cent (13%) of the respondents had grades 1 to 7 and only two per cent (2%) of the respondents indicated that they had no exposure to formal education (Figure 2).

Figure 2 Education levels of the respondents

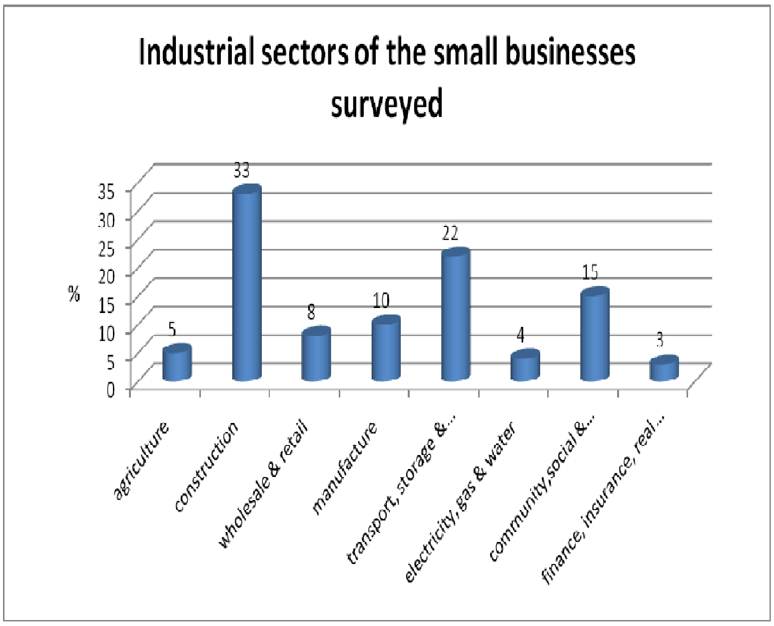


Source: Survey data (2008)

Industrial sectors

More than one-third (33%) of small businesses were in construction industry, followed by transport, storage and communication which made up 22%. Fifteen per cent (15%) of the respondents were in community, social and personal services. The manufacturing sector made up about 10%. The remaining sectors were agriculture (6%), wholesale and retail (8%), electricity, gas and water (3%); and finance, insurance, real estate and business services (3%) (Figure 3).

Figure 3: Industrial sectors



Source: Survey data (2008)

Subjective perceptions of the respondents on the impact of the LBSCs support services accessed.

A *likert* scale of 1 to 3 (*1=no impact, 2=minor impact, 3=major impact*) was used to test the impact of the LBSC services on the respondents' businesses. The responses of the respondents are tabled in table 5.

Table 2: Mean scores on subjective perceptions of the respondents about the impact of the LBSCs

LBSC support services	n[‡]	Mean	StdDev	Skewness
Accounting services	25	2.44	0.77	-0.98
Administrative support	35	2.71	0.46	-0.99
Business matchmaking	50	2.64	0.66	-1.64
Business plan	79	2.57	0.75	-1.39
Business profile	59	2.8	0.48	-2.4
Business proposal	64	2.75	0.62	-2.3
Business registration	77	2.74	0.57	-2.12
Business training	87	2.37	0.65	-0.54
Export promotion	14	2.14	0.86	-0.31
Financial management	86	2.62	0.69	-1.54
Finding markets	52	2.79	0.57	-2.61
Human Resource Development	46	2.41	0.78	-0.89
Information support	69	2.72	0.59	-2.05
Legal advice	55	2.36	0.59	-0.29
Management advice	74	2.39	0.62	-0.48
Management skills	84	2.27	0.68	-0.41
Market research	56	2.77	0.57	-2.4
Market support	64	2.69	0.61	-1.83
Marketing plan	57	2.65	0.61	-1.57
Outsourcing	24	2.38	0.82	-0.83
Product quality	43	2.16	0.49	0.44
Project management	22	2.5	0.74	-1.16
Supplier information	52	2.63	0.66	-1.6
Technical support	39	2.15	0.49	0.4
Technical training	30	2.27	0.74	-0.48
Tender advice	53	2.38	0.79	-0.79

Source: Survey data (2008)

Notably, the mean scores in table 2 are above 2 meaning that the LBSCs had a positive impact on the businesses of the respondents. The standard deviation is an indication of how closely values are clustered around the mean. Approximately 68% of cases lie between one standard deviation below and one standard deviation above the mean. The skewness is an indication as to whether the distribution of values is symmetrical or not. If skewness is larger than 0, the distribution is positively skewed, i.e. there are fewer cases above the mean than below the mean. If skewness is smaller than zero, the distribution is negatively skewed, i.e. there are more cases above the mean than below the mean. The

[‡] *Numbers do not add up to 226 because some of the businesses accessed more than one LBSCs services*

skewness in table 2 is negative in all cases except product quality and technical support where skewness is above zero. This finding implies that product quality and technical support services had minor impact on the small businesses which accessed these services. Product quality services were aimed at improving the quality of the products whilst the technical support was focused on providing support in accessing emails and internet services as well as computers to the respondents. Since the respondents lacked the infrastructure such as machinery and equipment in their own business premises, the impact of technical support and product quality services were compromised because these respondents could not perform these functions within their own business premises. A lack of appropriate infrastructure is one of the reasons why some of the LBSCs services were less effective during the period under review.

Cost-Benefit Analysis (CBA)

CBA provides a protocol to measure allocative efficiency in the economy. CBA is concerned exclusively with comparisons of direct benefits and costs to society created by an investment project. CBA is ideally suited for the evaluation of capital projects i.e. projects which require immediate capital expenditure but which realise net benefits over time.

Respondents estimated annual turnovers: 2001-2005

The respondents were asked to estimate their annual turnovers from 2001 through to 2005. They were then asked to estimate the percentage of the annual turnover that could be attributed to the LBSCs interventions. These annual turnovers were then adjusted by the estimated percentage contribution of the LBSCs. The summation of the annual turnovers and the adjusted turnovers are illustrated in table 3:

Table 3: Summation of the estimated annual turnovers and adjusted turnovers: 2001-2005

Years	Sum of Annual Turnovers (in Rands)	% contribution attributed to the LBSC	Sum of Adjusted annual turnovers (in Rands)
2001	470,880	0	470,880
2002	823,400	97.2	359,020
2003	1,345,215	97.2	579,669
2004	1,997,981	97.2	863,533
2005	2,621,610	97.2	1,117,002

Source: Survey data (2008)

The costs were derived from public expenditure on the LBSCs during the period under review. Each LBSC was asked to state the amount received from the government which was targeted towards SMME training. These costs are illustrated in table 4:

Table 4: Government subsidies to the LBSCs for SMME promotion and fees paid by SMMEs for accessing some of the LBSCs services (in Rands).

LBSCs	**2001**	**2002**	**2003**	**2004**	**2005**
LBSC A	75000	75000	134000	113000	263000
LBSC B	175000	175000	250000	250000	250000
LBSC C	40000	45000	50000	65000	70000
LBSC D	100000	110000	120000	140000	150000
Sum of the fees paid by respondents	68570	0	0	0	0
Total	458,570	405,000	554,000	568,000	733,000

Source: Survey data (2008)

Since the LBSCs interventions were effected in 2001, the stream of benefits were assumed to have been realised from 2002. The adjusted annual turnovers were summed as follows:

$\sum$ R 359,020$^{(2002)}$ + R 579,669$^{(2003)}$ + R 863,533$^{(2004)}$ + R 1, 117, 002$^{(2005)}$ = R 2,919,224

Sum of the costs: (2001 – 2005):

$\sum$ R 458,570$^{(2001)}$ + R 405,000$^{(2002)}$ + R 554,000$^{(2003)}$ + 568,000$^{(2004)}$ + 733,000$^{(2005)}$ = R 2, 718,570

Change in social welfare using the equation[20]: $\Delta SW = \sum_{j=1}^{k} \mathrm{Bj} - \sum_{j=1}^{m} \mathrm{Cj}$

= R 2,929,224 – R 2, 718,570 = R 210,654

This implies that the promotion of SMMEs through the LBSCs over the period 2001 – 2005 amongst the selected sample led to a social welfare gain of R 210,654.

After the costs and benefits were identified the next step was to evaluate these costs and benefits in a time dimension.

The following formulas were used for discounting costs and benefits:

Present Value of Costs

$$PVC = \Sigma \frac{C_t}{(1+r)^t}$$

Where: PVC= Present value Cost
$\sum C_t$ =Sum of the costs
r = discount rate of 8%
t = period

PVC = R 458,570 + R 405 000 $(\frac{1}{1+0.08})$ + R 554 000 $(\frac{1}{1+0.08})^2$ + R 568 000 $(\frac{1}{1+0.08})^3$ + R 733 000 $(\frac{1}{1+0.08})^4$ = R 2,298,209

Present Value of benefits

$$PVB = \Sigma \frac{B_t}{(1+r)^t}$$

Where: PVB = Present value benefits

$\sum B_t$ =Sum of benefits
r = discount rate of 8%
t = period

PVB = R 359,020 $(\frac{1}{1+0.08})$ + 579,669 $(\frac{1}{1+0.08})^2$ + R 863,533 $(\frac{1}{1+0.08})^3$ + R 1,117,002 $(\frac{1}{1+0.08})^4$ = R 2,335,929

NPV = PVB - PVC

$\therefore$ NPV = R 2,335,929 - R 2,298,209 = R 37,720

The NPV is defined as the discounted sum of all net benefits (i.e. the difference between the benefits and the costs) over the economic life of the project. The net present value (NPV) and the discounted benefit cost ratio (BCR) were used as a decision making criteria.

The benefit cost ratio was determined as follows[21]:

$$BCR = \sum_{t=0}^{n} \frac{B^t}{(1+i)^t} \div \sum_{t=0}^{n} \frac{C^t}{(1+i)^t}$$

= R 2,335,929 ÷ R 2,298,209 = 1,02

The decision criteria are the Net Present Value (NPV) and Benefit cost ratio (BCR). The NPV is greater than 0 and that the BCR is above 1, implying that the public expenditure in SMME promotion through LBSCs during the period under review was both economically and financially viable.

Sensitivity Analysis

Sensitivity analysis is carried out to determine how a change in any one or more variables will affect the value of the criteria used, namely the BCR. In this case the average real interest rate of 7.3% (2001 – 2005) was used. The following formulas were used for discounting costs and benefits:

Present Value of costs:

$$PVC = \Sigma \frac{C_t}{(1+r)^t}$$

$$PVC = R\ 458{,}570 + R\ 405\ 000\ \left(\frac{1}{1+0.073}\right) + R\ 554\ 000\ \left(\frac{1}{1+0.073}\right)^2 + R\ 568\ 000\ \left(\frac{1}{1+0.073}\right)^3 + 733\ 000\ \left(\frac{1}{1+0.073}\right)^4 = R\ 2{,}329{,}952.98$$

Present Value of benefits

$$PVB = \Sigma \frac{B_t}{(1+r)^t}$$

$$PVB = R\ 359{,}020\ \left(\frac{1}{1+0.073}\right) + R\ 579{,}669\ \left(\frac{1}{1+0.073}\right)^2 + R\ 863{,}533\ \left(\frac{1}{1+0.073}\right)^3 + R\ 1{,}117{,}002\ \left(\frac{1}{1+0.073}\right)^4 = R\ 2{,}379{,}742.14$$

NPV = R 49,789.16

BCR = PVB / PVC

= R 2,379,742.14 ÷ R 2,261,382.98

= 1,05

Even at the lower discount rate of 7.3%, the NPV remains above zero and the BCR greater than 1. It can be concluded therefore that the project was worthwhile. The results of the CBA are also in line with the subjective perceptions of the respondents on the impact of the LBSCs on the small businesses during the period under review. Based on the results of the CBA, we therefore reject the null hypothesis in favour of the alternative one and conclude that the public expenditure on the SMMEs through the LBSC support provision yielded positive social returns during the period under review.

Impact on employment creation

The SMME sector is widely regarded as the driving force in economic growth and job creation. If SMMEs are to create a driving force for economic growth and development, job creation is vital in this regard. In the light of these comments it makes sense therefore to probe into the extent to which the SMMEs which had been assisted by the LBSCs could create job opportunities during the period under review. The numbers of job opportunities created by the respondents are illustrated in table 5.

Table 5: Number of job opportunities created in the small businesses which accessed LBSC services.

Job opportunities created	Number of SMMEs		Total number of job opportunities created	
	2001	2005	Total 2001	Total 2005
0	113	5	0	0
1	18	17	18	17
2	30	31	60	62
3	22	23	66	69
4	18	23	72	92
5	15	36	75	180
6	4	28	24	168
7	4	12	28	84
8	2	22	16	176
9	0	13	0	117
10	0	4	0	40
11	0	1	0	11
12	0	5	0	60
13	0	3	0	39
15	0	2	0	30
17	0	1	0	17
Total	**226**	**226**	**359**	**1162**

Source: Survey data (2008)

A large number (n=113) of the small businesses had not created any job opportunities in 2001, but in 2005 only 5 small businesses indicated that they had not created any job opportunities. This means that there has been a dramatic decrease in the number of small businesses that did not create job opportunities by almost 108. The total number of job opportunities created in 2001 (before LBSCs interventions) was 359 but this number increased after LBSCs interventions by almost 803 to 1162. The number of job opportunities created by these firms in 2005 was almost three times more than in 2001. Notwithstanding, there are a number of factors that could have contributed towards job creation amongst the respondents small businesses during the period under review. However, probing into these other factors falls beyond the scope of this research.

Table 6:Number of Job opportunities created in control group respondents' small businesses.

	Number of SMMEs		Total number of job opportunities	
Job opportunities created	**2001**	**2005**	**Total 01**	**Total 05**
0	136	118	0	0
1	19	27	19	27
2	23	24	46	48
3	23	23	69	69
4	10	12	40	48
5	5	6	25	30
6	3	4	18	24
7	2	3	14	21
8	5	9	40	72
Total	**226**	**226**	**271**	**339**

Source: Survey data (2008)

The number of job opportunities that were created amongst the SMMEs in the control group in 2001 was 271 but this number increased to 339 by 2005 (Table 6). Although there has been a significant increase in the job opportunities created by the SMMEs in the control group, this number is below by 823 the number of job opportunities amongst the SMMEs that accessed the LBSCs. The number of job opportunities created by the SMMEs which had accessed LBSCs services in 2005 was almost three times more than in 2001. Notwithstanding, there are a number of factors that could have contributed towards job creation amongst the respondents small businesses during the period under review.

Regression analysis

Two regression models were applied to cross-sectional data relating to small businesses turnover over the years 2002 - 2005. Model 1 (*dependent variable = annual turnover*) is expressed as follows:

$$\pi_{It} = \beta_0 + \beta_1\Phi_i + \beta_2\dot{E}_i + \beta_3\pi_i + \beta_4\Omega_{it} + \mu_i \qquad \textbf{(1)}$$

Where : π = *average* annual turnovers (2002-2005)
β_0 = Intercept term
Φ = LBSC (dummy variable, 1 if used LBSC, 0 otherwise)
$\dot{E}$= EDUCATION (dummy variable, 1 if tertiary,0 otherwise)
π =GENDER (dummy variable, 1 if male,0 otherwise)
Ω= Eastern Cape GDP growth rates per industrial sector (2002-2005)
μ = error term
i = *ith* observation
t = period

A *priori* expectations of the coefficients β_1, β_2, β_3 and β_4 are as follows:

- LBSC (Φ+) [A positive coefficient is expected in that LBSCs interventions should lead to improved turnover of the small business].
- EDUCATION ($\dot{E}$+) [A positive coefficient is expected in that higher level of education lead to improved turnover of small business].
- GENDER (π+) [A positive coefficient is expected in that male dominated businesses are likely to be more profitable than their female counterparts].
- GDP growth rates (Ω+) [it is expected that the growth rate of the provincial economy have a positive impact on the performance of the small businesses].

Model 2 equation (*dependent variable = job creation*) is expressed as follows **:**

$$Ņ_{it} = \beta_0 + \beta_1\Phi_i + \beta_2\dot{E}_i + \beta_3\pi_i + \beta_4\Omega_{it} + \mu_i \quad \textbf{(2)}$$

Where : Ņ = number of job opportunities created (2002-2005)
β_0 = Intercept term
Φ = LBSC (dummy variable, 1 if used LBSC, 0 otherwise)
$\dot{E}$= EDUCATION (dummy variable, 1 if tertiary,0 otherwise)
π =GENDER (dummy variable, 1 if male,0 otherwise)
Ω= Eastern Cape GDP growth rates per industrial sector (2002-2005)
μ = error term
i = *ith* observation
t = period

Without undermining the importance of the other factors, the hypotheses of interest concerns β_1.

The a priori expected sign of the coefficient β_1

- LBSC (Φ+) [A positive coefficient is expected in that LBSCs interventions (*in line with the White Paper (1995)*) should lead to the creation of more job opportunities].

Regression results

Table 7: Regression results

	Model 1 (annual turnover)	**Model 2 (job creation)**
Variable	**Coefficient**	**Coefficient**
LBSC	0.505168*	15.92200*
EDUCATION	0.129665**	3.475872**
GENDER	-0.082504***	-0.542202
GDP	0.991202***	6.859694

**Significant at 1% level*
*** Significant at 5% level*
**** Significant at 10% level*

Discussion of the regression results (Model 1)

- A hypothesis test for the significance of **LBSCs:**

Since the p value of $\beta_1 < \alpha$ = (p=0.0000) and t (11.1) > $t_{critical}$ (1.96) at 1% level of significance, the null hypothesis is rejected. It is concluded that the relationship between LBSC and the annual turnover is statistically significant at 1% level.

- A hypothesis test for the significance of **education** :

Since the p value of $\beta_2 < \alpha$ (p= 0.0028) and the t-statistics (3.00) > $t_{critical}$ (1.96) at 5% level of significance, the null hypothesis is rejected and conclude that the relationship between education and the annual turnover is statistically significant at 5% level.

- A hypothesis test for the significance of **gender** :

Since the p value of $\beta_3 > \alpha$ (p= 0.06) and the t-statistics (1.83) > $t_{critical}$ (1.64) (*ignoring the minus sign*) at 10% level of significance, the null hypothesis is rejected. This shows that the relationship between gender and the annual turnover is statistically significant at 10% level.

- A hypothesis test for the significance of **industrial sector GDP growth rates:**

Since the p value of $\beta_4 > \alpha$ (p= 0.09) and the t-statistic (1.65) > $t_{critical}$ (1.64) at 10% level of significance, the null hypothesis is rejected. This shows that the relationship between the industrial sector GDP growth rates and the annual turnover is statistically significant at 10% level.

Therefore, the regression results suggest that LBSCs, education, gender and the industrial sector GDP growth rates are statistically significantly related to small businesses performance in terms of the annual turnover.

The coefficients of all the variables had the expected signs except gender. The coefficient for gender is negative which is against what was expected. This implies that there was more impact on the turnovers of women owned small businesses compared to their male counterparts. Male dominated small businesses are usually considered to perform better than those led by women. However, the results of this research suggest that the LBSCs have been effective in ensuring that the performance of women owned small businesses was improved more than that of men.

Discussion of regression results (Model 2)

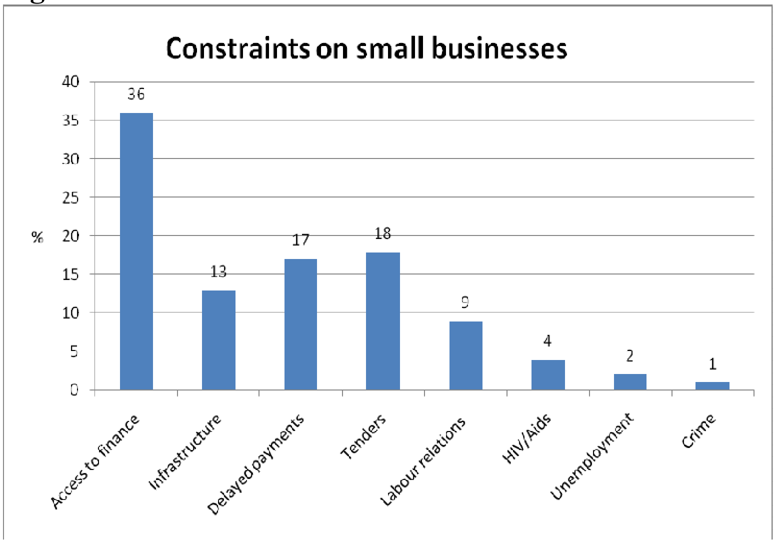
Since the p value of $\beta_1 < \alpha$ = (p=0.0000) and t (11.4) > $t_{critical}$ (1.96) at 1% level of significance, the null hypothesis is rejected. The relationship between LBSC and job creation is statistically significant at 1% level. The LBSC coefficient is positive which is in line with the a priori expectation. This implies that the LBSCs interventions had a positive impact on job creation through the SMMEs during the period under review.

Despite the important role played by the LBSCs in small businesses promotion, the respondents intimated that they encountered some constraints in their small businesses. These constraints fall beyond the scope of the LBSCs interventions. These constraints are outlined in the next section

Factors which constrain small businesses despite LBSCs support provision

The question that remains is why do SMMEs fail despite the LBSCs support provision? In order to answer this question the respondents were asked to elaborate on the factors which constrain their businesses despite the LBSCs support provision. These factors are portrayed in figure 4 below:

Figure 4: Contraints on SMMEs



Source: Survey data (2008)

Access to finances

Thirty six per cent of the respondents mentioned that they had encountered problems with access to finance (Figure 4). Entrepreneurs particularly amongst the previously disadvantaged individuals (PDIs) were the ones who were mainly affected by lack of access to finances. A number of PDIs do not have collateral and networks like their wealthy counterparts. The financial institutions are not familiar with the community and economic background of black businesses; as a result find it difficult to evaluate risk for black-owned companies. The lack of financial support by banks especially for start-up small businesses due to high transaction costs is an impediment to the development of the SMMEs.

Infrastructure

With regard to infrastructure, 13% of the respondents referred to issues such as lack of electricity, faulty and lack of appropriate equipment, lack of transport and appropriate tools, lack of space for inventory thus always running out of stock and making losses, lack of communication network and roads, lack of computers and a lack of access to internet.

Although the respondents had obtained training and assistance in the LBSCs it would seem that some of the SMMEs had extreme difficulty in enjoying full benefits of this assistance due to lack of appropriate infrastructure. The respondents particularly amongst the construction businesses intimated that lack of appropriate tools also contributed to the failure to access government tenders. The lack infrastructure is to a large extent inextricably linked access to finance. Without adequate financing it will continue to be difficult for these small businesses to acquire the necessary tools they require for the furtherance of their businesses.

Delayed payments

Seventeen per cent of the respondents indicated that they had experienced problems with the delayed payments by some of the government departments. The government departments failed to pay the SMMEs within thirty days after the completion of the project. Meanwhile these businesses were faced with the running costs, including amongst others, wages to the employees. Some of the SMMEs had to shut down whilst waiting for payments from government departments as they were running out of cash flow.

Government tenders

Eighteen per cent of the respondents intimated that they experienced problems with the manner in which tenders were administered in the Eastern Cape. The respondents mentioned that the government departments failed to communicate to the respondents the outcome of the adjudication process. These respondents suspected that the adjudication of tenders was based on favoritism and that the process was non-transparent. Although these respondents benefited by gaining skills from tender advices offered at the LBSCs, these gains were not translated into monetary gains. These respondents intimated that from their observation the tenders were being obtained by the same small businesses all the time. Corruption, amongst others, was cited as the reason why most small businesses do not benefit from the tenders.

Some of the respondents intimated that they had no access to information sources on the adverts of the tenders, whilst others referred to the complexity of the tender forms which sometimes were hard to understand particularly if one does not have a fair degree of education. It was further mentioned by the respondents that sometimes the tender specifications were not clear with respect to what exactly was required and the level of skills required for the tender. Furthermore, the fact that most of the small businesses lacked access to investment finance they were at a disadvantage with regard to access to tenders in that they did not have the necessary equipment to execute the tasks contained in the tender adverts. This implies that the lack of access to finance has far reaching effects on the small businesses to the extent that LBSCs training could be rendered less effective, not because of the LBSCs per sè, but due to a lack of other support services.

Labour relations matters

Nine per cent of the respondents raised some concerns about their employees. Employees affect profitability of the small businesses in a number of ways. In most firms, the attitudes of salespeople and their ability to serve customer needs, directly affect sales revenue. Payrolls are, in most cases, the largest expense category for most businesses. The respondents complained about lazy staff members who kept on stealing from the businesses thus placing the business in jeopardy of losing profits. The construction firms in particular complained about the high level of absenteeism. These attributes are a reflection of unsatisfied and de-motivated labour force and at the same time most of the small businesses ignored the labour legislation. Coupled with the neglect of the legislation is the fact that small businesses were not a unionized sector and that the employees were voiceless and had no platform to vent out their frustrations. In the sphere of survivalist SMMEs it is common to find that the quality of jobs in terms of wage and work conditions is most severe. Employees work long hours for low wages. Consequently there is growing evidence which places a question mark on the quality of jobs created by the SMMEs.

HIV/Aids

Four per cent of the respondents intimated that they had experienced a challenge of HIV/Aids in their small businesses. The HIV/Aids led to high levels of absenteeism from work in that the employees had to take care of their family members who were HIV/Aids victims. HIV/Aids led to low productivity levels because the people could not perform at the optimum levels. One of the respondents intimated that one of the employees in the small business died as a result of HIV/Aids.

Unemployment

Two per cent of the respondents intimated that unemployment was a challenge to their small businesses. Small businesses depend on the incomes of their customers. If the prospective customers lose their jobs and become unemployed, there is has a spillover effect in that small businesses lose income also. Unemployment leads to lost profits and small businesses face the danger of having to shutdown. It follows therefore that the macroeconomic environment within which the small businesses operate has an influence on the performance of the small businesses. Any support intervention must be accompanied by a favourable macroeconomic environment.

Crime

The negative impact of crime on business is a major issue in South Africa. One per cent of the respondents had been the victims of crime. These businesses were particularly in the construction sector. These respondents stated that the tools, building equipment and building materials were open to thieves who continuously stole the goods. The respondents also indicated that there were times in which the houses under construction were vandalized.

Policy implications and recommendations

The promotion of enterprise development has been a priority of the democratic government since it assumed power in 1994. In March 1995 the White Paper on the promotion of small businesses in South Africa was promulgated in parliament. The White Paper formed the basis for government led SMME development programme. The primary objective of the White Paper was to create an enabling environment for small businesses within the context of a modernising economy and increasing international competition, and to facilitate greater equalisation of income, wealth and economic opportunities; create long-term jobs; stimulate economic growth; strengthen the cohesion between small enterprises; and level the playing fields between bigger and small business.

Despite the positive welfare effects of the LBSCs on the SMMEs in terms of relative increases in income, job creation and poverty reduction in the Eastern Cape, it was found out that a number of SMMEs still faced some challenges which to a certain extent dampened the effectiveness of the LBSCs interventions. The results of this research suggest that LBSCs in isolation cannot produce a vibrant entrepreneurship culture.

Further, crime, labour relations, HIV/Aids, delayed payments, access to government tenders and unemployment were cited by the respondents as constraints on the small businesses. Meanwhile the new approach on SMME development which led to the establishment of SEDA in 2005 is silent on these issues. If these constraints are not addressed by capturing them into the SMME strategy framework, the benefits derived from public investment on SMME development will remain sub-optimal. This could point to inefficiencies which are inherent in the SMME development strategy in South Africa. It is on these grounds that there is a need for a holistic approach towards SMME development in South Africa. The foundation of an integrated SMME development strategy is the policy environment within which SMMEs operate. The policy environment should be conducive to the enhancement of the SMME sector. For example Treasury Regulations provides that "Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice, or in the case of civil claims, from the date of settlement or court judgement".[22] This regulation ought to be applied rigorously in order to ensure that the interests of the small businesses are not undermined. Delayed payments pose a danger for small businesses failure in South Africa irrespective of any LBSCs or SEDA support provision. If government departments make their payments on time there will be no need of bridging finances and job losses will be prevented. Payments of service providers should form part of the performance agreements of the public officials who are responsible for issuing payments wherein these officials commit to meet the thirty days turnaround time required for payments of state creditors. The performance agreements will keep the officials designated for payouts on their toes and accountable.

Respondents also alluded to the fact that tenders were being obtained by the same small businesses all the time. Corruption and nepotism amongst others were cited as the reasons why some of the small businesses could not access the tenders. These suspicions arise as a result of the failure of the government departments to communicate the outcome of tenders to all those who had submitted tender documents including unsuccessful cases. It is important for the small businesses to know why they had failed to get the tender as this will help them improve the next time around. Communicating the outcome of the tender submission is developmental in itself.

There is also a need to monitor the frequency of awarding tenders to the suppliers. This will help in ensuring that tenders are not provided to the same supplier all the time. Vetting the small businesses will help a great deal to prevent small businesses which operate under different names but owned by the same person(s) to keep on being awarded the tenders.

Too much dependence on government tenders is not without disadvantages. A disadvantage of the awarding of the tenders in South Africa is that it creates a dependency on state tenders and leads to the so-called tenderpreneurship.[23] Small business owners do not look for new business opportunities elsewhere but merely lookout for tenders.[24] Too much dependence on tenders by small businesses erodes the moral fibre of the society through corruption and the potential of producing competent entrepreneurs. It must therefore be ensured that the awarding of tenders to small businesses does not create a dependency burden whereby small businesses lose the ability to keep alert of other opportunities within the province, in other provinces and even in other countries. This can be achieved by inculcating a sense of independence amongst small business owners through entrepreneurship education and training.

With respect to labour relations matters, in general small businesses tend to neglect labour relations regulations. The quality of jobs created is often poor and salaries being paid to the employees tend to be way below the minimum wage. The employees of the small businesses are not covered by the trade unions. It therefore follows that policies should ensure that the workers are covered in terms of labour legislation. The working conditions must be of acceptable standards and the remuneration of the workers in small businesses must comply with minimum wage requirements.

Labour market regulation has long been the scapegoat for the ills of the small business sector.[25] Nevertheless, most enterprises would only have to make minor adjustments to comply with the Basic Conditions of Employment Act (BCEA).[26] Where adjustments are necessary, such adjustments would add to the labour costs, but the costs would not be of a magnitude to threaten the viability of small firms. Moreover, despite the possible increased costs in certain areas, for example annual leave, family responsibility leave and overtime, the impact of the BCEA is unlikely to be significant.[27] This argument is based on the following premises:

- There are a variety of ways in which employers can re-arrange their businesses to reduce the added costs of new conditions. In the case of the increased cost of overtime work, employers can reduce or eliminate overtime work;
- Some provisions, for example the night work provision that could add significant costs to some firms are not necessarily applicable to the small business sector;
- Only employers with female workers of childbearing age will face the costs associated with maternity leave, and then only when such workers fall pregnant; and
- The Act provides for flexibility in a number of ways, for example, provision is made for the averaging of hours and the compressed working week.[28]

There is no empirical evidence to support the perception that labour legislation impacts negatively on the growth of SMMEs and, hence, on the creation of employment.[29] Furthermore, despite the perceptions that South Africa’s labour market rigidity curtails employment, South Africa ranked in the top quartile where it was the easiest for business to operate.[30] This position had improved to such an extent that by 2005 South Africa ranked among the top 30 countries where it was the easiest for business to operate.[31] Nevertheless, VAT and other tax related issues such as Pay-As-You-Earn and the South African Revenue Services tax returns are the most troublesome and time-consuming set of regulations, not labour laws.[32] It would therefore appear that, neither empirical evidence, nor informed opinion provides support for the perception that labour legislation poses a threat to the development of SMMEs and job creation.[33]

Further, SMME growth and prosperity are not isolated objectives to be pursued in ignorance of the broader economic policy. In fact, SMME growth is affected by the macroeconomic context. Globally, the relationship between SMME (or entrepreneurship) and economic growth is complex, with opportunity entrepreneurship being stimulated by a growing economy, while necessity entrepreneurship is rather counter-cyclical but creates precarious employment.[34] Successful economic development generally requires macroeconomic stability, and this is even truer in the case of SMMEs. By definition, SMMEs are far more vulnerable to the impact of volatility that an unstable macroeconomic environment might have on the viability of business enterprises. At times of price instability, interest-rate volatility and foreign-exchange uncertainty, the number of bankruptcies generally rises, and smaller firms bear the brunt of such adverse conditions.

A well-managed economy is characterised by a high level of predictability, particularly with regard to price movements (inflation), interest rates and the availability of credit. This, in turn, leads to better business planning, high levels of risk taking and superior risk management. Start-up businesses and SMMEs in the expansion phase both require a high degree of predictability of the cost and the revenue side of their operations. In fact, the single most critical factor determining the risk premium attached to a small firm is the predictability of its revenue and expenses. Lack of predictability, in turn, translates into a higher-than-otherwise cost of access to credit. At an extreme, unpredictability deters investors from either equity or loan investment in a small firm. It therefore follows that a business-friendly environment is critical to the success of the small enterprise sector. This environment includes affordable credit, well-developed infrastructure, a simple, clear and flexible regulatory and legal framework and a wide range of other labour, trade and fiscal policy issues.[35]

With regard to HIV/Aids, the government resources are insufficient to meet the enormous demands of dealing with the epidemic. The workplace should emerge as an important frontier in the war against the disease, and many companies have implemented workplace intervention and community programmes, with varying degrees of success. Considering the fact that a number of small businesses do not have adequate facilities and infrastructure to implement workplace HIV/Aids counselling centres. A number of small business owners themselves may lack the sufficient information about the disease. The owners may be limited by their own beliefs and attitudes. Small businesses must be encouraged to draft HIV/Aids policy statements and promote such statements as firms' policies. Infrastructural health facilities must be visible and within the reach of the communities. There must be easy access to condoms including female condoms. In rural areas especially the traditional healers must be integrated into the treatment training. Education should contain a behaviour change component through offering life skills programs.

Crime was reported in this paper as one of the constraints on SMMEs and crime needs some policy attention. Dealing with crime at a community level should be based on a multi-agency partnership-based approach. In this regard there must be more effective policing including police visibility and area coverage, faster response times, as well as concentrated efforts to build public trust in the police service. The victims of crime should experience a positive reception at the police stations. Community Policing Forums (CPFs) should be established as extensively as possible and these CPFs should grow into integrated community safety forums. It is also equally important that small businesses themselves take responsibility for improving the vicinity in which they operate. Small businesses should take initiative to clear up congestions close to their areas of operations. Perhaps an incentive such as municipal rebates should be considered for businesses that take up responsibility for the cleaning up of the surrounding areas. DTI should consider developing mechanisms to assist emerging businesses to access security (e.g. subsidisation of once-off security costs such as burglar proofing, and/or a requirement that business plans include mandatory crime risk analysis and relevant security measures). Government should work with insurance companies to develop an appropriate insurance product for small businesses, possibly with a requirement for a minimum level of mandatory insurance for small businesses above a certain threshold. The banking sector and small business representatives should explore ways to enable even very small businesses to reduce the levels of cash they hold on the premises. It is of crucial importance to develop affordable insurance solutions for small businesses in areas where crime is rife. Small businesses should be persuaded to take up insurance as a non-negotiable investment in the long term viability of small businesses.

Lack of access to finances is another area which constrains the small businesses from being successful despite the LBSCs interventions. Private lending by the banking sector is very important but the level of collateral and documentation required by banks places small businesses at a disadvantage. The formal credit institutions are reluctant to give small businesses loans because small businesses are regarded as high risk. It is therefore necessary for the government to influence the banks with regard to their SMMEs lending policies. Some of the measures to improve small enterprise access to finance are: efficient information-gathering, analysis and dissemination; standard financial disclosures; small enterprise rating; matching needs with financial instruments; a presence of active and local capital markets; and, the development of a critical mass of entrepreneurs who provide sufficient returns to venture capital fund.[36] The main role of the public sector in supporting venture capital is to reduce the risk and cost of private equity finance, complementing and encouraging the development of the private capital industry.[37] Further, taxation should not impose a disproportionately heavy burden on small enterprises.

In order to improve small enterprise access to financing, a market-oriented approach involves reducing the risks and transactions costs associated with this sector, strengthening the capacity of financial institutions to serve smaller clients, and increasing competitive pressure in financial markets. The aim is to increase the number of financial institutions that find lending to small enterprises to be profitable, and thus sustainable. The following actions to enhance access to finance are recommended:

- Reducing barriers to entry, for example, by reconsidering capital adequacy requirements and prudential regulations that may be inappropriate for financial institutions serving smaller clients;
- Reducing the risks associated with lending to small businesses, focusing on laws governing the enforcement of contract, forfeiture and collection of collateral, and the use of movable assets as collateral;
- Developing the policy, legal and regulatory frameworks that are essential to the development of innovative financial institutions and instruments, including venture capital, small equity investments, and leasing;
- Promoting innovation in specialised lending technologies that reduce the administrative costs associated with credit application, monitoring, and payment;
- Strengthening the capacity of financial institutions to evaluate small enterprise creditworthiness in a cost-effective manner, for example, through the use of credit scoring techniques; and
- Improving information on creditworthiness of potential borrowers, by promoting the establishment of credit bureaus and ways to help small enterprises prepare business plans and financial projections.[38]

However, it may also be necessary for South Africa's policy makers to consider other unconventional money lending schemes, which have succeeded in curtailing the costs of formal lending to small businesses. Two privately owned banks merit special attention here; namely, the Grameen Bank of Bangledesh and the Syndicate Bank of India.[39] To get around the lack of conventional collateral, the Grameen Bank lends collectively to small groups of borrowers with joint liability for repayment. In the Grameen Bank's group lending schemes, borrowers form groups of five. Before applying for a loan, each member of the group must establish a regular pattern of weekly savings. After the first two members have received their loans, regular weekly repayments must be made before the next two can receive theirs. The same applies in order for the last member to obtain his/her loan. Each member receives only 95% of the loan; the remainder is deposited in the group's saving fund. In this way the Grameen Bank has been able to link lending with both the deposit history and the repayment history of the group.[40] At the same time, the borrowers acknowledge the fact that strict repayment is expected before obtaining another loan.[41] The Grameen principles have been successfully adopted in 30 countries.[42]

Linking lending with clients' deposit records has also been used successfully by the Syndicate Bank.[43] Instead of group lending, the Syndicate Bank requires deposit as security for loans. A reputation of creditworthiness, acquired by making regular deposits, is a lending prerequisite.[44] The success of the unconventional lending schemes of the Grameen and the Syndicate banks presents a challenge to South Africa's policy makers to consider the design and the implementation of such a scheme. Such schemes will assist small businesses in their unsuccessful attempts to access loans for the purposes of starting or expanding their businesses. The formation of groups to obtain credit and to guarantee repayment has more chance of succeeding than the single operator seeking credit.[45]

Supportive infrastructure for business promotion may be divided into two categories. Firstly, there is the 'hard infrastructure', consisting of, *inter alia,* transportation, communication and urban/business amenities. Secondly, there is the existence of appropriate 'soft infrastructure', in the form of suitable business associations, the availability of relevant and reliable statistics and supportive collective efficiency. Empirical research highlights the imperative need for both types of infrastructure in creating a robust and business-friendly environment. In effect, the existence of suitable infrastructure reduces transaction costs, improves trade reliability and creates opportunities for business networking, which generates economies of agglomeration in information and transaction management. All these are critical aspects of business operations, particularly for start-up and small businesses.

Lack of appropriate infrastructure also places a constraint on the success of the small businesses. Without appropriate and adequate infrastructure any SMME support intervention may be undermined. The small business support institutions provide, amongst others, counselling, technical training, marketing, accounting services etc. However, these services cannot be effective without appropriate infrastructure. Accessible roads, electricity and water as well as communications network are essential to the success of any small business development strategy. Technology plays an important role in the success of small businesses. Access to email, internet, fax machines and telephones is important to keep the small businesses connected. One of the lessons from the international experiences in SMME support intervention is access to information. However, due to inadequate infrastructure especially in the rural areas, access to information is limited.

SMME support institutions should become the sources of information for the small business sector. Some of the international lessons learnt with regard to access to information are that most small enterprises use informal sources of information or information obtained through commercial transactions. Entrepreneurs prefer to access information through people they trust and from those who are knowledgeable about their businesses. However, there is inadequate promotion of formal information sources and scant effort is made to increase the awareness of enterprise owners about the importance of information in South Africa.

In the developed countries the information market is very active and is growing. Trade fairs and exhibitions are valued by many entrepreneurs in developed countries as media sources. There are thousands of specialised magazines in circulation and trade fairs, workshops and exhibitions are often organised. The Internet is an increasingly utilised source of information. International lessons indicate that small enterprise owners are willing to pay for information that is of particular value to them. Technology development and transfer is important in that it improves enterprise productivity and the quality of goods produced by enterprises to help them to become competitive. There should be increasing awareness about the potentially profitable technology market. The technological development of small enterprises should be viewed in the overall context of the technological development of the country, and a market for innovations should be encouraged and promoted. An integrated approach to technology development should be promoted, with close collaboration between a wide range of partners. Many countries have encouraged the development of a number of structures which facilitate interaction between these different actors, including technology parks, incubators, industrial districts, or regional development models which facilitate interaction between enterprises, universities and local authorities.

Conclusion

A focus on poverty eradication and economic empowerment of historically disadvantaged communities was a feature of most accredited LBSCs in South Africa. The findings in this research suggest that the LBSCs had improved the social welfare through job creation and increases in income. However, the benefits derived from the public investment in SMMEs through the LBSCs were somewhat sub-optimal in that there were a number of factors which inhibited the progress of the small businesses during the period under review despite the LBSCs interventions. These challenges call for attention as regards SMME support provision in the Eastern Cape. Although there had been some policy changes with regard to SMME support provision in South Africa, there has been no fundamental shift in terms of the approach towards SMME promotion. SMME support intervention is still based on a linear approach wherein it is assumed that once a small business has been through an LBSC programme that small business will become viable and successful. The results of this research reject such a notion. LBSCs alone are not sufficient to boost the SMME sector in South Africa. It is clear therefore that small business support intervention should be based on an integrated approach wherein all relevant stakeholders play their part. There is a pressing need for an integrated SMME development strategy in order to address challenges facing the SMMEs. The existing National Small Business Strategy is a useful first step but does not go far enough in meeting the specific needs and constraints that face the SMMEs in South Africa, particularly in disadvantaged communities. It is recommended that a holistic approach towards SMME support intervention should be adopted; otherwise the social returns to be derived will remain sub-optimal.

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