

THE IMPACT OF THE NATIONAL CREDIT ACT ON THE GROWTH OF SMALL BUSINESS LENDING IN THE VHEMBE REGION OF LIMPOPO

By

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THE IMPACT OF THE NATIONAL CREDIT ACT ON THE GROWTH OF SMALL BUSINESS LENDING IN THE VHEMBE REGION OF LIMPOPO

by

VICTOR NOAH ABEL GOLD SANDAMELA

thesis

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ABSTRACT

The main purpose of this study is to assess the impact of the National Credit Act (NCA) no 34 of 2005 on the growth of the small retail business lending in the Vhembe region of Limpopo.

Over the years there has been an outcry by the small business industry that the banks were unwilling to offer lending products to this sector. The banks on the other hand maintained that this was a high risk sector, especially in the rural areas presenting difficulties to avail financial loans especially when the high costs of delivery were also taken into consideration.

Government, acknowledging the importance of small business viability and growth and the sector's role in alleviating poverty and addressing unemployment intervened by introducing the NCA. The National Credit Act provides and establishes various administrative bodies which are involved with the regulation of credit in the country and have legal powers to ensure compliance. Importantly it creates an environment in which debtors in need can be assisted and mediation between parties can happen to control over-indebtedness.

Data was collected on a group of 100 small retail businesses in the Vhembe region of Limpopo comprising of 4 municipalities of Thulamela, Makhado, Mutale and Makhado to evaluate the impact of the NCA on the access of business loans from the banks. Also to assess whether the small business sector was growing because of the financial support due to the implementation of the Act.

Chi-Square tests and correlation analysis were utilized to establish relationships amongst variables including the access to loans, the growth of small businesses, business location and the awareness, knowledge and education about the NCA.

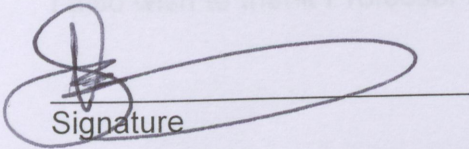
Based on the findings of this study the following recommendations were made: Government has to continue to regulate the sector and execute effectively on the following aspects: education and training in order to develop relevant skills; unlock opportunities in both rural and urban areas in the form of tenders and infrastructure developments to support small business initiatives; inform and communicate effectively about the NCA; promote stakeholder participation in cooperating and coordinating services to promote small business initiatives and growing the industry(eg. Chambers of Commerce, Small Business Agencies etc.) with special emphasis on banks.

ACADEMIC DECLARATION

I **VICTOR NOAH ABEL GOLD SANDAMELA** hereby declare that the thesis for the **MASTER of COMMERCE (ECONOMICS)** degree at the University of Venda, hereby submitted by me, has not been previously submitted for a degree or anywhere else. This is my original work and all reference material contained herein has been duly acknowledged.

To my family, colleagues and friends, thank you for the support and understanding.

I wish to thank Professor A. Katsiyamatimba for his encouragement.


Signature

28. 03 2012
Date

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GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution Programme
MANETA	Maneta Training Consultancy
MFRD	Micro Finance Regulatory Council of South Africa
NAFCCD	Nation African Federated Chamber of Commerce
NTSBKA	Enterprise Promotions Agency
NASBO	National Association Of State Budget Officers
NCA	The National Credit Act (34) of 2005
SMEs	Small Medium Micro Enterprises
NCR	National Credit Regulator
PASA	Payment Association of South Africa
SALGA	South African Local Government Association
SARB	South African Reserve Bank
RDP	Reconstruction and Development Programme
UNOPS	United Nations Office – Project Services

List of Acronyms

ASGISA	Accelerated and Shared Growth Initiative for South Africa
BUSA	Business Unity South Africa
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution Programme
MANETA	Maneta Training Consultancy
MFRC	Micro Finance Regulatory Council of South Africa
NAFCOC	Nation African Federated Chamber of Commerce
NTSIKA	Enterprise Promotions Agency
NASBO	National Association Of State Budget Officers
NCA	The National Credit Act (34) of 2005
SMME	Small Medium Micro Enterprises
NCR	National Credit Regulator
PASA	Payment Association of South Africa
SALGA	South African Local Government Association
SARB	South African Reserve Bank
RDP	Reconstruction and Development Programme
UNOPS	United Nations Office – Project Services

THE IMPACT OF THE NATIONAL CREDIT ACT ON THE GROWTH OF SMALL RETAIL BUSINESS LENDING IN THE VHEMBE REGION OF LIMPOPO

1. INTRODUCTION

1.1 Background

In South Africa the small business sector includes a wide range of enterprises stretching from small sized businesses, micro businesses and survivalists, which are very small businesses mainly, intended to provide income for subsistence. Most of them play a role in income generation and the creation of employment. They also add to the GDP of the country, and contribute towards the reduction of poverty (Falkena et al.2001). This seems to be the trend not only in developing countries but also in developed countries (Goodwin-Groen.2006).

It therefore becomes important that government policies that are aimed at developing this business sector supports and protect it so that it can grow. It is also important to nurture micro businesses to become big businesses of tomorrow and enter the local and international economic mainstream.

Governments have the responsibility to regulate or deregulate this sector in a way that removes challenges, threats and weaknesses and also to explore strengths and opportunities. This can largely be achieved by establishing policies that ensure a stable and competitive market in which consumer rights are protected and finance can be accessed (DTI.2003). Government responsibility also includes the establishment of adequate infrastructure, telecommunications, technologies, roads and transport facilities that enable smooth operations for small businesses, as well as the opening of markets locally and globally (Falkena et al.2001).

1.2 Government Regulations

Before the introduction of the NCA there were weaknesses in the consumer credit legislation, which was regulated by the Usury Act no. 73 of 1968, the Credit Agreement Act of 1980 and the Exemption Notices of 1992 and 1999. Societies were divided by the apartheid regime politically, economically and culturally and as a result small business development in the black communities was stifled.

There were increasing concerns by consumer representatives and organizations about the effectiveness of consumer protection with regard to business lending by banks and other financial intermediaries, particularly for low income consumers. These included the Straus Report on Rural Finance (1996), the National Small Business Regulatory Review by Ntsika (1999), and the Policy Board for Financial Services and Regulation Report on SMME's Access to Finance in South Africa (2001).

(iii) Excessive predatory behaviour led to high levels of debt for some consumers and These reports also highlighted the importance of issues concerning finance, training and regulation as a continuous threat to the development of the SMME economy. Finance, skills and leadership training and a more flexible regulatory framework were identified as important for the growth and success of this sector (Rogerson.2008).

(iv) Regulatory uncertainty led to credit behaviour that moved towards short-term profit The lack of regulation regarding SMME financing has over the years also hindered progress of the national economic transformation and development strategy meant to grow the small business sector. Indebtedness was increasing and there was mounting evidence of reckless lending behavior by credit providers and the exploitation of consumers by micro-lenders, intermediaries, debt administrators and debt collectors. (Goodwin-Groen.2006).

The collapse of large micro-lenders such as Unibank and Saambou highlighted the underlying problems in the market and indicated that lack of adequate regulation may lead to systemic risk (DTI.2003). This risk can be described as the risk of collapse of an entire financial system or entire market, as opposed to risk associated with any one individual entity, group or component of a system. Credit providers enjoyed the discretion of charging unlimited interest rates, commissions and fees, conditional to being registered with the MFRC provided these charges were communicated and agreed to by the consumer.

The DTI set up a technical committee to undertake a credit law review in 2004 with the mandate to examine these problems. The review was co-ordinated by the Micro Finance Regulatory Council of South Africa (MFRC).

The technical committee identified the following weaknesses in the credit market:

- (i) There were inadequate rules on disclosing the cost of credit because of the inclusion of a variety of fees and charges (as well as excessive credit life insurance). The cost of credit was regularly inflated above the disclosed interest rate. This undermined the consumer's ability to make informed choices, between cash and credit purchases or between different credit providers. It resulted in credit providers continually increasing interest rates.
- (ii) An unrealistically low Usury Act cap caused low-income and high-risk clients to be marginalized. Weak and incomplete credit bureau information resulted in bad client selection, ineffectual credit risk management and high bad debts. These tendencies hugely increased the costs of credit. Weak debt collection practices and insolvency legislation created an incentive for reckless credit provision, and prevented the protection or effective rehabilitation of over-indebted consumers.

- (iii) Excessive predatory behaviour led to high levels of debt for some consumers and high risk portfolios for some credit providers. The inconsistencies in legislation related to mortgages and property transfers increased debt spirals limiting the clients ability to offer security and locking them into high-cost, unsecured credit.
- (iv) Regulatory uncertainty led to credit behaviour that moved towards short-term profit taking and a resistance among credit providers to provide longer-term finance.

Although it was impossible to trace the cause of the high cost of finance and limited financial access to any single factor, a combination of the factors identified appeared to go a long way in explaining the problem. This conclusion was similar to other independent studies. There was evidence of market-failures in the SMME industry on the provision of financial services for low-income clients (Meagher and Wilkinson.2002).

The Credit Law Committee took stock of the existing consumer credit legislation in South Africa; the Usury Act, the Credit Agreements Act, certain provisions of the Magistrates Courts Act and the common law, and also researched consumer credit reforms in Europe and certain other countries. They consulted widely with various stakeholders and concluded that both the Usury Act and the Credit Agreement Act should be replaced by a single act, overseen by a statutory regulator (Goodwin-Groen.2006).

This review of credit legislation initiated by the DTI eventually resulted in the promulgation of the National Credit Act 34 of 2005 (published in Government Gazette 28619 of 15 March 2006) and the National Credit Regulations (published in Government Gazette 28864 of 31 May 2006, Regulation Gazette No 8477, R489 in 2006).

This Act was promulgated to address the various market failures that were entrenched in this sector because of policies of apartheid, exclusivity and separate development, resulting in a dual economy with many challenges, especially in the black business sector. There was a need for government to intervene and regulate the industry.

1.3 The Scope Of The NCA

The scope of the NCA is to:

- Provide credit markets that are accessible and inclusive of people who were previously unable to access credit.

- Promote responsibility in the credit market by the credit providers in order to protect consumers, and avoid over - indebtedness by consumers and resist reckless lending that normally culminates in debt spiraling.
- Educate consumers about credit and consumer rights and to be transparent.
- Fail disclosure of information and to enable consumers to make correct decisions.
- Avoid fraudulent behaviour by lenders and ensure the credit bureau's act and report responsibly.
- Provide dispute resolution, and debt restructuring.
- Regulate the costs of credit.
- Increase access to credit and to eradicate the exploitation of consumers by unscrupulous lenders.
- Provide consumers with the option to engage in an official language of their choice (Otto.2006).

1.4 The Role Of The National Credit Regulator

The most important functions of the National Credit Regulator can be summarized as follows:

- Promote and support a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market to serve the needs of historically disadvantaged persons, low income persons and remote, isolated or low density communities.
- Monitor matters such as credit availability, market share, access to credit and levels of consumer indebtedness in the credit market and report annually thereon to the Minister of Finance.
- Conduct research in the consumer credit industry and, amongst others, recommend legislative initiatives.
- Register credit providers, credit bureau and debt counselors and maintain a register of the registrations.
- Enforce the Act by, amongst others, promoting informal dispute resolution between role players, receiving complaints regarding contraventions of the Act, monitoring the market to prevent contraventions, ensuring that registrants comply with the Act, issuing and enforcing compliance notices, investigating contraventions of the Act, negotiating and concluding consent orders, referring concerns regarding market share and anti-competitive behaviour to the Competition Commission, and referring matters to the National Consumer Tribunal where required by the Act.
- Educate the public to promote awareness of consumer credit matters and to provide guidance to the credit industry.

The specific objectives are to:

- Provide guidance by issuing explanatory notices outlining the Regulator's procedures, and issue non-binding opinions on the interpretation of the Act.
- Apply to a court for a declaratory order on the interpretation or application of the Act.
- Refer matters of non compliance to the National Prosecuting Authority. If necessary an, or to the Tribunal, which may, amongst others, make orders prohibiting conduct in conflict with the Act.
- Keep a national register of outstanding credit agreements.
- Resolve disputes with a credit bureau, and compel delivery of statements of account by a credit provider to consumers, and to review the sale of goods which have been surrendered by a consumer (Otto.2006),(Goodwin-Groen.2006).
- Refer complaints concerning alleged contraventions of the Act to a debt counselor in case of reckless credit, over-indebtedness, or to an ombud, consumer court or alternative dispute resolution agent to assist the parties in solving the dispute. Also direct an inspector to investigate the complaint (Otto.2006).

1.5 Statement Of The Problem

The impact of the National Credit Act was extensively debated. The Regulator on the one hand argued that its impact was positive. The views of small business representatives on the other hand suggested that the Act had created many hurdles because of complicated procedures and requirements, creating difficulties in accessing financial assistance. The banks maintained that their growth portfolios in terms of lending had been negatively affected because of the cost and lengthy processes which slowed down financing. However they indicated that the quality of approved business had improved. The study seeks to investigate these views, in particular the impact of the NCA the growth of small business lending in the Vhembe District.

1.6 Aims And The Objectives Of The Study

The main aim of this study is to evaluate the growth of small business lending after compliance with the Act by small medium and micro enterprises and the role of the banking industry in the Vhembe District of Limpopo, as well as the role of the Regulator (NCR).

The specific objectives are to:

1. Evaluate the impact of the implementation of the Act on the growth of small businesses in the Vhembe District.
2. Evaluate the impact of the Act on financial institutions, lending to small businesses in the Vhembe District.
3. Evaluate the effectiveness of the National Credit Regulator's role in implementing the NCA.
4. Draw policy recommendations based on (1),(2) and (3) above.

1.7 Hypotheses

- The NCA has a positive impact on access to credit by small businesses from banks and financial intermediaries in the Vhembe area of Limpopo.
- The NCA has a positive impact on the growth of small businesses in the Vhembe area of Limpopo.

1.8 Justification Of The Study

The DTI introduced the NCA in 2006 as a response to the perceived market failures and the consumer protection challenges that the repealed Usury and Credit Agreement Acts could no longer address. However the DTI introduced the Act without first determining the possible impact of the legislation on the affected parties. Unlike in more developed countries of Europe and North America, government departments in South Africa are under no obligation to conduct regulatory impact assessments before implementing regulations. This poses serious challenges and implications to stakeholder welfare, and justifies a study on the impact of any such legislation.

Finmark Trust (2006) has also recommended that immediately following the implementation of the Act in order to complement the National Credit Regulator's work of monitoring developments in the market, independent surveys, from the perspectives of SMME's should be made in order to assess whether there were improvements in accessing credit, and growing the sector.

1.9 Structure Of The Study

The structure of the study is as follows:

Chapter 1

Chapter 1 gives an overview of the South African economy before the introduction of the NCA; the purpose of the NCA; and the role of the Credit Regulator. The chapter also presents the objectives, hypothesis and justification for this study.

Chapter 2

This chapter deals with literature review and presents the theoretic under pinning's of the study.

Chapter 3

The chapter provides an overview of SMME Industry and the challenges specifically in the Vhembe region.

Chapter 4

Chapter 4 provides an overview of the banking sector in South Africa and its role in the financing in the Vhembe region.

Chapter 5

This chapter presents the empirical analyses interpretation, and conclusions from the data collected on a survey of small businesses in the Vhembe region.

Chapter 6

This chapter summarizes the findings of the research and makes recommendations.

2. LITERATURE REVIEW

This chapter presents the foundation of the study with an overview of why governments intervene in markets through legislation such as the National Credit Act.

2.1 Market Failure

In economics, market failure exists when the production or use of goods and services by the market is not efficient. A more appropriate definition to this study relates to the instance where the price mechanism results in an inefficient or grossly unfair allocation of resources. Resources are not allocated in a way that optimizes and achieves the greatest possible good for societies at large (Riley.2006).(Stiglitz.2008) further elaborates and opines that markets left to themselves do not always allocate resources efficiently often resulting in market failure, and where market failures exist, there is the potential for government intervention to improve outcomes for the community, the environment, businesses and the economy.

2.2 Regulation

Regulation is the state's intervention in the markets through legislation to address market failure and to achieve efficiency in the operation of markets. In developing countries regulation is usually not only concerned with the pursuit of economic efficiency but with the broader goals of promoting sustainable development and poverty eradication. Governments may therefore intervene to change the behaviour of businesses or individuals to address market failure or achieve social and environmental benefits that would otherwise not be delivered.

Critics of regulatory intervention argue that regulations interfere with the efficiency of the market whilst those in favour hold that well designed regulations not only make markets more efficient but also ensure equitable market outcomes (Riley.2006). International opinion argues that the regulatory environment influences the growth and survival of small and new businesses significantly.

However, the introduction of regulation, although done with good intentions, may result in many challenges relating to increased risks and costs for businesses and sometimes diminishes the benefit intended for society at large. Excessive red tape and protocols can result in costs that have the potential to damage social and economic prospects (Small Business Project.2005).

2.3 Imperfect Competition And Market Power

Market power exists when one buyer or seller in a market has the ability to exert significant influence over the quantity of goods or services traded, or the price at which they are traded (Riley.2006). In perfectly competitive markets, individual market participant have no market power. The ability of an incumbent firm to raise its price above competitive levels is limited by the existence of or the threat of competition.

Few modern markets meet the stringent conditions required for a perfectly competitive market. The existence of monopoly power is often thought to create the potential for market failure and a need for intervention to correct some of the welfare consequences of monopoly power. The existence of market power can result in economic inefficiency because it may:

- Allow firms to increase prices without a commensurate reduction in demand.
- Restrict competition by creating barriers to entry by other firms.

Examples of market power include monopoly (where there is a single supplier) and oligopoly (where a small number of firms control the market). Where market power exists, governments may intervene to correct the operation of the market or set prices at a competitive level.

The big four banks of South Africa, Absa Bank, Standard Bank, FNB and Nedbank taken together can easily be categorized as an oligopoly and have often been blamed even by small businesses as being oligopolistic in their attitude and behaviour regarding their practices. The South African banking industry is controlled by these four banks who hold about 90% of the market. These banks have, over the years, been reluctant to offer financial services to the small business sector, particularly in the black sector which was considered to be high risk.

Weaknesses in the competitive environment of banks and financial intermediaries in the provision of finance to SMME's were identified as bottlenecks that needed to be dealt with (Falkena et al.2001). It was also noted that regulatory improvements are a necessary condition, for the small business sector to access finance.

There are expectations that the banks will play a more significant role in developing the small business sector. However a lack of sufficient local and international competition could result in higher margins and costs to clients especially when there is no competition.

This perceived oligopolistic behaviour by the four dominant banks is exacerbated in areas where self regulatory institutions such as PASA (Payment Association of South Africa), controlled mainly by the big four banks, play a role. The concentration of market

power in major banks is likely to be a negative factor in the provision of finance to SMME's (Falkena et al.2001).

2.4 Information Asymmetry

Information asymmetry occurs when one party to a transaction has more or better information than the other party (Hoff and Stiglitz.1990). Typically, it is the seller that knows more about the product than the buyer. However, it is possible for the reverse to be true. Information asymmetry can prevent consumers from making uninformed decisions. Regulation requiring information disclosure can be used to address this type of market failure. For example, when providing financial advice, financial service providers are required to disclose information about significant benefits and risks, and the fees and charges associated with the financial products. Such disclosures could be highly beneficial in the small business economic industry enabling both businesses and consumers to make informed choices.

Governments have the responsibility to enforce in varying degrees regulations that oversee the registration, promotion and management of the industry. Implement plans intended to educate, inform, and offer choices to communities.

Many other less developed countries have also recognized the importance of small business and have encouraged banks in their countries to participate positively in the sector. For example Kenya Commercial Bank has entered into partnership agreements with business development experts to offer business installation services and expert knowledge on conventional ways of doing business with SMME customers, and the creation of business clubs to help share best practices amongst members (Zavatta.2008). Standard Chartered Bank of Ghana also offers a number of SMME specific products and services which are available to applicants with little collateral or security (Sultan and Jenkins.2007).

3.1 Evidence Of Importance Of SMMEs And Their Contribution To GDP

In South Africa it is estimated that 56% of private sector employment and 36% of GDP is as a result of the contribution by the SMME sector (Ntshiki.2002). Unavailability of quantifiable data makes it difficult to verify the contribution that SMMEs make to GDP and statistical agencies and private researchers are encouraged to address the shortcomings with regard to the correctness of existing data banks (Berry et al. 2002). This contribution is significant in reinforcing the argument that the small business sector is very important for the success of the economy and must be nurtured and sustained. According to (Rogerson 1996) SMMEs are expected to function as a driving force for social and economic development if supported by supply-side measures targeting enterprise constraints.

CHAPTER 3

3. OVERVIEW OF THE SMME INDUSTRY IN SOUTH AFRICA

In South Africa small businesses are seen as an important component of the force driving economic growth. According to (Maas and Harrington.2006) the growth and entry of new SMMEs are seen as a significant part of the solution to the countries developmental challenges. The SMME sector contributes significantly to the Gross Domestic Product of South Africa but even more to employment opportunities (Kruger.2004).

The importance of SMMEs in South Africa is twofold. In the first instance it is important to nurture and develop a strong viable and sustainable industry that will add significant value to the economy of South Africa and contribute to the GDP of the country (Falkena et al.2001). In the second instance it is important that SMMEs play a critical role in addressing unemployment.

South Africa is not alone in having identified the role of small business as the engine of economic growth. Even the first world countries have in varying degrees identified the importance of small business in their economies. The experience of industrialized countries of Western Europe and Japan suggests that SMME sector development is at the forefront of local economic development (Timmons.1994).

Many other less developed countries have also recognized the importance of small business and have encouraged banks in their countries to participate positively in the sector. For example Kenya Commercial Bank has entered into partnership agreements with business development experts to offer business incubation services and expert knowledge on conventional ways of doing business with SMME customers, and the creation of business clubs to help share best practices amongst members (Zavalt.2008). Standard Chartered Bank of Ghana also offers a number of SMME specific products and services which are available to applicants with little collateral or security (Sultan and Jenkins.2007).

3.1 Evidence Of Importance Of SMMEs And Their Contribution To GDP

In South Africa it is estimated that 56% of private sector employment and 36% of GDP is as a result of the contribution by the SMME sector (Ntsika.2002). Unavailability of quantifiable data makes it difficult to verify the contribution that SMMEs make to GDP and statistical agencies and private researchers are encouraged to address the shortcomings with regard to the correctness of existing data banks (Berry et al, 2002). This contribution is significant in reinforcing the argument that the small business sector is very important for the success of the economy and must be nurtured and sustained. According to (Rogerson.1996) SMMEs are expected to function as a driving force for social and economic development if supported by supply-side measures targeting enterprise constraints.

Small businesses also assist in reducing big business market power that creates imperfect competition or the evolvment of monopolistic tendencies because they increase the level of competition in the industry. This assists in breaking down the tendencies by big businesses to inflate prices, provide low quality products and poor service delivery. Customers are exploited and their interests generally disregarded.

A big number of small businesses operate in rural areas or townships. This is because big businesses have no local interest in servicing the communities living in those areas. Small businesses assist communities by bringing services and products into those areas. Lately there have been some efforts by government and some of the big businesses especially after the birth of the new South Africa to take products and services to such areas. These efforts still however have a long way to go.

In the past the problem of unemployment became more challenging because apartheid created an environment in which the bulk of the population was left out of the mainstream economy. The economic importance of this sector requires proper analysis and a better understanding of the industry. This will assist government to address problems satisfactorily. In an effort to combat some of these problems, government strategies and programmes such as the Reconstruction and Development Programme (RDP) and Growth Employment and Redistribution (GEAR) were introduced. The objective was to grow the economy in an inclusive and equitable manner and enable the government to promote small business activity. Also to absorb many of the semi-skilled or unskilled people who enter the economy or become business people and create thus employment. Poverty alleviation would also be addressed, thus achieving a more fair income and wealth distribution position (Cook.2001).

Several estimates of the size of the SMME sector have been made as captured in table 3.1 below.

Table 3.1: Different indicators for the size in terms of numbers of the SMME sector

Source	Survivalist	Micro	Very Small	Small	Medium	Large	Total
Ntsika 1999	184,400	466,100	180,000	58,900	11,322	6,017	906,739
Statistics SA, 2000/Ntsika 2000	Informal: 1,138,854		330,271	94,804	52,620	12,249	1,628,797
Business Partners ³	2,3 million		600,000		35,000	n/a	2,9 million
Management Sciences Group Survey, 1999	Micro: 960,740 "informal": 862,580		Formal: 445,880 (of which 357,780 private)				2,3 million
Eskom Survey, 1999	900 000 + 'in-home businesses'; total 3 million if one includes farmers					n/a	3 million
Global Entrepreneurship Monitor, SA 2001 ⁴	betw. 0.73 and 1.15 million	1,709,142					Between 2.44 and 2.86 million

Source: Compiled by Rashid Ahmed, MFRC, and Magali von Blottnitz, UCT
The correspondence between the size categories is approximate, since sources tend to use divergent definitions.

The accuracy and completeness of statistics in the figures above is complicated by factors such as, owners with multiple businesses, short life span of some businesses including the difficulties of fitting all the businesses into the four categories, micro, small, medium and large sized businesses. It is estimated that the number of micro businesses is very difficult to estimate although they comprise of the biggest number of businesses categorized as SMMEs. Accurate data is also not easily obtainable particularly in the rural areas.

3.2 Typology Of Small, Micro And Medium Enterprises (SMMEs)

Table 3.2: Classification of SMMEs

Category of SMME	Description
Survivalist enterprises	<ul style="list-style-type: none"> Operates in the informal sector of the economy. Mainly undertaken by unemployed persons. Income generated below the poverty line, providing minimum means to keep the unemployed and their families alive. Little capital invested, not much assets. Opportunities for growing the business very small.
Micro enterprises	<ul style="list-style-type: none"> Between one to five employees, usually the owner and family. Informal – no license, formal business premises, labour legislation. Turnover below the VAT registration level of R 300 000 per year. Basic business skills and training. Potential to make the transition to a viable formal small business.
Very small enterprise	<ul style="list-style-type: none"> Part of the formal economy, use technology. Less than 10 paid employees. Include self-employed artisans (electricians, plumbers) and professionals.
Small enterprise	<ul style="list-style-type: none"> Less than 100 employees More established than very small enterprises, formal and registered, fixed business premises. Owner managed, but more complex management structure.
Medium enterprise	<ul style="list-style-type: none"> Up to 200 employees Still mainly owner managed, but decentralized management structure with division of labour Operates from fixed premises with all formal requirements.

Note: Women represent approximately 56 percent of the survivalist company category, 38 percent of micro-enterprises with no employees, and 15 percent of micro-enterprises with 1-4 employees.

Source: National Small Business Act, 1996.

It is also important to note a further division of SMMEs between established formal SMMEs (mainly white and some Indian ownership) in predominantly urban settings and emerging SMME economy (mainly African and Coloured) situated in townships, informal settlements and rural areas. According to the White paper, on The National Strategy on the Promotion of Small Business in South Africa 1995, by far the largest sector is the survivalist enterprise sector. This means that most people are active in the informal sector where they have little institutional support.

3.2.1 Support For The Development And Growth Of SMMEs

The National Business Act of 1996 provided the foundation for the establishment of the institutions listed in the table 3.3 below, and the transformation of others, to support small businesses.

In addition to the listed institutions, there are also NGOs, donors and private sector organizations (e.g. the program by the Banking Council of SA) who support SMMEs. The Black Economic Empowerment Commission, an initiative of black business, also highlighted the importance of SMMEs development for broad based black empowerment.

Table 3.3: Institutional Support For SMMEs

Institution	Services	Target
Centre for Small Business Promotion	This is a Chief directorate in the DTI, Responsible for policy and coordination of support programs for SMMEs. It also mobilizes funds and supervises the establishment of new institutions.	
Ntsika Enterprise Promotion Agency	Provides non-financial support such as mentoring programs, business advice, help with government tenders and technology support to small enterprises, through: <ul style="list-style-type: none"> Local business service centre's (LBSC) Tender Advice Centre's (TAC's) 	Targets survivalist, micro and very small enterprises. Majority of the LBSC's focus on start-up business, targeting unemployed, women and youth.
Khula	Provides access to finance through: <ul style="list-style-type: none"> Khula Credit Guarantee Scheme – provide guarantee products to banks. Other institutions and NGO's, referred to as Retail Finance Intermediaries (RFI's) which borrow from Khula to make loans to SMMEs. Khula-Start: access to micro credit in rural areas. 	Mainly targets very small, small and medium enterprises, with two small programs for the survivalist and micro sector.
NAMAC	Two key programs <ul style="list-style-type: none"> Manufacturing advisory centre's (MAC's), providing support for small scale manufacturing businesses. Business Referral and Information and a help line. 	The MAC's are mainly for small and medium, more formal businesses. BRIAN for the entire spectrum of SMMEs.
Provincial SMME desks	To provide a one-stop information centre to SMMEs and developing enabling government policy to support SMMEs in each province. Activities of the SMME desks include (though not in all provinces): <ul style="list-style-type: none"> Keeping data bases of SMMEs in the province Developing SMME orientated procurement and sub-contracting policies for provincial government 	

3.2.3 Support For The	<ul style="list-style-type: none"> Targeted support programs for HDI's, women, contractors, tourism entrepreneurs, small/micro manufacturers, etc. 	
Land Bank	Finance agricultural businesses	From small to large scale farmers.
Industrial Development Corporation	Supports and funds various industrial development programs.	Predominantly large scale projects, but some small to medium enterprises. Has a specific BEE mandate.
National Empowerment Corporation	Funded by government, it provides funding for black economic empowerment ventures	Large, but also small and medium enterprises.

Source: National Small Business Act, 1996.

3.2.2 Support For The SMMEs Established By Women

The National Small Business Strategy, since its inception sought to target women. In spite of this, women continue to make up the bulk of the survivalist sector of SMMEs as well as of the poor. During the last decade, a number of organizations and institutions have been established by and for women entrepreneurs. These include:

Table 3.4: SMMEs Established By Women

Institution	Target
South African Women Entrepreneurs Network (SAWEN) – launched July 2001	<p>SAWEN identifies the origin of women entrepreneurs' problems as:</p> <ul style="list-style-type: none"> Gender – despite the fact that women-owned enterprises are contributing an increasing share to national revenue, they are generally perceived to lack the capacity of their male equivalents. Size–Nearly all women-owned enterprises belong to the lower end of the SMME category, being either very small or micro sized companies. Men are predominant in the more lucrative sectors. Approximately 70 percent of informal businesses in South Africa are owned/controlled by women. <p>SAWEN seeks to affiliate all women enterprise groups, co-operatives, organizations and initiatives into a national umbrella body that will represent and articulate the aspirations of all women entrepreneurs (potential existing) that operate within the South African SMME sector, as well as lobby for their support needs. It also seeks to target rural women. Since its launch in 2001, it has established a number of provincial chapters.</p>
Women in Oil and Energy in South Africa (WOESA) – launched March 2002	Facilitates the participation of women in business ventures in the oil, gas and other energy sectors.
Technology for Women in Business (TWIP)	Aimed at enhancing the accessibility of science and technology to women in business, in particular SMMEs. It is a national programme under the auspices of the Department of Trade and Industry (DTI). The CSIR, as contracted by DTI, acts as an agent for DTI to implement the TWIP programme.
South African Women in Construction – launched August 1999	Promotion and advancement of women in construction; of education and contribution to the betterment of the construction industry and the enhancement of the entrepreneurial development of women-owned enterprises in construction.

Source: National Small Business Act, 1996.

3.2.3 Support For The Youth Entrepreneurship Programme

In 2000 government announced the establishment of the Umsobomvu Youth Fund, out of the proceeds of the demutualization of Old Mutual and Sanlam. The fund started operating in 2001, with the mandate to facilitate the involvement of young people in economic activities. Umsobomvu implements a youth enterprise programme, providing both financial and non-financial support to youth enterprises.

The youth entrepreneurship programme has three major projects:

- Enterprise funding.
- Micro-finance.
- Business development services.

Table 3.5 lists the institutions and programmes that have been established to support for the youth to take up business projects.

Table 3.5: Youth Enterprise Funding

Institution	Target
Enterprise funding	Recently launched FNB-Momentum-UYF Progress Fund, which complements the Franchise Fund, launched in partnership with business partners.
Micro-finance	Focus on entry-level investments, and its pilot projects with the Nations Trust and Micro Enterprise Finance are funding micro-enterprises and cooperatives.
Business development services voucher	Helps young entrepreneurs to access quality business support from approved service providers through vouchers, ranging in value from R 1 500 to R 23 000.
Take it to the People project	Launched recently to create locally based economic opportunities for young people. The project focuses on income-generation and self-employment for young people living in 21 urban and rural areas identified as significant "poverty pockets". The project aims to develop local solutions to unemployment by investigating options for youth development in the form of micro and small businesses and co-operatives. It will work in conjunction with local municipalities and donors.
Contact, information & counseling	Aim to reach more than 730 000 young people over the next three years, offering information and counseling support regarding career development, employment and entrepreneurship through a youth line, advisory centre's and an Internet portal. The first 12 of 33 planned advisory centre's have already opened in the provinces of Gauteng, KwaZulu-Natal, Limpopo, Northern Cape, North West, and Western Cape.
School to Work	Is designed to transfer high-level technical skills and to facilitate work experience for unemployed matric and tertiary graduates. It also aims to introduce black youth into previously inaccessible careers, such as IT and accounting.
Youth Service	Focuses on unemployed youth who have no tertiary education, enabling them to acquire the skills, competencies and experience they require to achieve economic independence. This is done through a structured learning programme and accredited through a SETA.

Source: National Small Business Act, 1996.

3.3 Challenges Of Small Business In South Africa

SMMEs are expected to contribute significantly to the growth of the economy. Despite some good efforts by the government to promote small businesses over the years they have achieved limited success. The Accelerated and Shared Growth Initiative South Africa (2009) indicates that on average a growth of 5% between 2009 and 2014 is needed to achieve the social objectives of government and expectations are that the SMME industry will contribute significantly in that regard (ASGISA,2009).

The promotion of a good small business sector is predicated on a conducive environment in which both the external and internal factors challenging the growth of this sector are adequately addressed.

The Internal Factors

3.3.1 Ability To Raise Funds

Many studies rate access to finance as the main deterrent and barrier to entry that small businesses experience in their efforts to grow and remain sustainable. Financial resources are integral to business initiatives, trading and growth and are mostly sourced from banks, personal savings or from other financial intermediaries.

Governments have a vested interest in the growth and success of small businesses and are aware that the lack of finance can become a major constraint with rippling economic effects on unemployment and poverty. (Finmark Trust.2006) indicated that only about 2% of SMMEs in South Africa are in a position to get financial assistance and (Stiglitz.1989) speak of the financial gap that is detrimental to the success of the SMME industry. It is argued that in South Africa the rejection rate at all banks is very high, even when there are clear indications that financial assistance is very important for success. Without financial assistance many businesses cannot survive or grow (Finmark Trust.2006).

3.3.2 Own Contribution

Many good business plans and ideas have failed to take off successfully because the entrepreneurs have not been able to come up with the seed capital or start up funds required. The banks have sometimes required collateral that made it impossible for people to venture into business.

3.3.3 Competencies And Skills

Management competencies and skills are important attributes that are required for business success and have a direct bearing on the survival, and growth sustainability of businesses. (Martin and Staines.2008) hold that the lack of managerial experience and skills are amongst

the main reasons that often lead to business failure in South Africa. The lack of education and training has reduced management capacity in new firms in South Africa. This was one of the reasons for the low level of entrepreneurial flair, innovation and resulted in the high failure rate of new businesses.

Table 3.8: Institutions Providing Finances To SMMEs

Education plays an important role in the make-up of entrepreneurs. Government has embarked on initiatives such as the Apex Fund, Khula, and Ntsika that are meant to propel entrepreneurship by increasing the level of competencies and skills especially amongst those who were negatively affected by apartheid.

3.3.4 Proximity To Market and Exports

Generally there is a lack of appreciation or knowledge about the opportunities that are available internationally because of the way small businesses package their products or offer services. Research and development initiatives that explore opportunities are difficult to find primarily because of financial constraints. This creates business barriers limiting SMMEs to export their products and services. Location plays a significant role in the success of a company because closeness to customers enables businesses to be more efficient and effective as it opens up opportunities in the market, reduces costs and allows speed of acquisition and delivery of products.

3.3.5 Access To Information And Networks

Business in general is dependent on the information networks and the funding of market opportunities. (Shane and Cable.2002) confirmed that network formations helped business people and entrepreneurs to access resources much more effectively and efficiently. Networking can be used to reduce information asymmetry in business relationships. Networks play an important role in supplying information about the existence, reputation and caliber of businesses. Gathered information by businesses enables them to access valuable facts about expectations, attitudes, needs and wants of clients.

3.4 Role Of The State

Small businesses thrive in situations where the state creates an enabling, conducive environment to facilitate their growth. This includes attention to social factors such as crime, corruption, health, transportation, roads, housing and employment. Governments have an obligation to provide resources and ensure that small businesses thrive and grow.

- African Corporation
- Anglo Platinum Corporation
- Argus Livestock Services
- Basal Business Development Scheme
- FNB Muzikwaan UPT Program/Unit
- Kwana Business Finance
- Land Bank Marketing Department

3.5 Institutional Support For SMMEs

Table 3.6 lists the national, provincial and local institutions supporting the SMME sector.

Table 3.6: Institutions Providing Finances To SMMEs

Institutions providing finances to SMMEs	
National	<ul style="list-style-type: none"> • Contractors Finance Corporation • Business Partners (formally the SBDC) • Commercial Banks • Community Projects Funds – CPF –SP • Development Bank of South Africa • Industrial Development Corporation – (IDC) • International Tourism Marketing Assistance Scheme – (ITMAS) • Khula Credit Guarantee Scheme • Khula Micro Credit Outlets • Khula Retail Financial Intermediaries (RFI's) • Khula Thuso Mentorship Scheme • Land Bank • Sizanani Scheme • Zimele
E Cape	<ul style="list-style-type: none"> • Business Finance Promotion Agency (Khula RFI) • Community Entrepreneurial and Business Initiative • Eastern Cape Development Corporation • FNB Momentum Umsobomvu Progress Fund • Marang Financial Services
Free State	<ul style="list-style-type: none"> • Free State Development Corporation • Remmogo Business Finance
Gauteng	<ul style="list-style-type: none"> • African Contractors • Anglo Platinum Corporation • Artpac Lending Services • Basani Business Development Services • FNB Momentum UYF Progress Fund • Khethani Business Finance • Land Bank Marketing Department • Marang Financial Services • Sankofa Financial Services • The Nations Trust • Tusk Construction Support
KZN	<ul style="list-style-type: none"> • FINCA • FNB Momentum UYF Progress Fund • Ithala Development Finance Corporation • Khethani Business Finance (Khula RFI) • KwaZulu-Natal Development Foundation • Marang Financial Services
Limpopo	<ul style="list-style-type: none"> • African Contractors • Anglo Platinum Corporation • Artpac Lending Services • Basani Business Development Services • FNB Momentum UYF Progress Fund • Khethani Business Finance • Land Bank Marketing Department

	<ul style="list-style-type: none"> • Marang Financial Services • Sankofa Financial Services • The Nations Trust • Tusk Construction Support
Mpumalanga	<ul style="list-style-type: none"> • Beehive Entrepreneurial Development Centre • Ekukhanyeni Finance Facility (Khula Micro Credit Outlet) • Emerging Entrepreneurs Finance Service Centre • Marang Financial Services • Middleburg Micro Credit Outlet • Mpumalanga Economic Empowerment Corporation – (M.E.E.C.) • Siyakhula Micro Business Finance (Khula Micro Credit Outlet)
Northern Cape	<ul style="list-style-type: none"> • Remmogo Business Finance (Khula RFI)
Western Cape	<ul style="list-style-type: none"> • FNB Momentum UYF Progress Fund • Khethani Business Finance (Khula RFI) • Landelike Ontwikkelings Maatskapy • Nations Trust (Khula RFI) • New Business Finance

Source: www.brain.org.za

3.5.1 Effectiveness Of Institutional Support For Small Businesses

Very little research has been done to assess the effectiveness of the institutional support to SMMEs. However indications are that the support has been limited because of lack of capacity and lack of implementation. Poor communication resulting in poor information and awareness. In South Africa there appears to be no coordinated strategy to market and advertise the available support programmes (Berry et al.2002). Further, indications that there is a bias favouring urban based SMMEs is noticeable particularly in the big towns. Rural areas were poorly serviced. In 1999 an SMME survey conducted by the DTI posed some questions with regard to the functioning of programme support at different levels.

Table 3.7 and 3.8 provides the information on the level of awareness and the use of the DTI and Khula/Ntsika programmes amongst the SMMEs in greater Johannesburg.

Ques	29	45	7	21%	8	26%	4	20%
Training Programs	27	35	6	20%	7	23%	4	17%
Loan Programs	30	40	6	20%	6	20%	4	17%
Total	52%	70	10%	19	61%	7	22%	

Source: Chandra et al. (2001)

Table 3.7: The use of DTI programmes (n=792)

DTI Program	Awareness		Approached for assistance		Received help		Quality		Cost	
	Freq	%	Freq	% of those aware	Freq	% of those approached	Useful	% of those helped	Fair	% of those helped
Competitiveness Fund	16	2%	0	0%	0	N/A	-	-	-	-
Sector Partnership Fund	19	2%	4	21%	3	75%	3	100%	3	100%
Economic Empowerment Scheme	121	15%	3	2%	2	67%	2	100%	1	50%
Venture Capital Scheme	78	10%	1	1%	1	100%	-	-	-	-
SMME Development Program	100	13%	5	5%	2	40%	2	100%	2	100%
Emerging Entrepreneur Scheme	49	6%	1	2%	1	100%	1	100%	-	-
Other	29	4%	7	24%	6	86%	5	100%	4	80%
Training Programs	27	3%	9	33%	8	89%	7	88%	4	57%
Loan Programs	97	12%	48	49%	46	96%	42	95%	13	31%
Total	536	-	78	15%	69	88%	62	95%	26	46%

Source: Chandra et al. (2001)

Although all 792 SMMEs that participated in the 1999 survey were formal, only about two-thirds were aware of DTI programmes. Awareness of programmes administered by Naska and Khula were even lower. Indeed, only one-third of the sample of SMMEs had, on average, heard about these programmes. These findings support the general perception that SMME support programmes need to be marketed more effectively in order to support small businesses effectively.

Table 3.8: The use of Ntsika/Khula programmes (n=792)

Ntsika/Khula Program	Awareness		Approached for assistance		Received help		Quality		Cost	
	Freq	%	Freq	% of those aware	Freq	% of those approached	Useful	% of those helped	Fair	% of those helped
Local business service centre (LBSC)	46	6%	6	13%	5	83%	3	60%	4	80%
Tender advice centre (TAC)	69	9%	15	22%	11	73%	7	70%	10	100%
Retail financial intermediary (RFI)	23	3%	2	9%	2	100%	2	100%	2	100%
Technopreneur programme	16	2%	0	0%	0	N/A	-	-	-	-
Training and capacity building	45	6%	8	18%	5	63%	5	100%	4	80%
Training assistance	56	7%	7	13%	4	57%	4	100%	3	75%
Other	20	3%	11	55%	6	55%	4	80%	3	60%
Total	259	-	49	19%	33	67%	20	77%	22	85%
South African Bureau Standards	518	65%	71	14%	67	94%	60	91%	52	81%

Source: Chandra et al. (2001)

The data in Tables 3.7 and 3.8 clearly indicates that only a very small percentage of SMMEs in Greater Johannesburg use support programmes. Only about 7% of the 792 SMMEs received assistance from the respective institutions. Hence the criticism that these programmes are not effectively reaching their target groups is justified. Nevertheless, the data in the tables allows for an in-depth analysis of where the source of the problem lies, i.e. whether it is in the design, the marketing or implementation at the micro-level is the source.

Although all 792 SMMEs that participated in the 1999 survey were formal, only about two-thirds were aware of DTI programmes. Awareness of programmes administered by Ntsika and Khula were even lower. Indeed, only one-third of the sample of SMMEs had, on average, heard about these programmes. These findings support the general perception that SMME support programmes need to be marketed more effectively in order to support small businesses effectively.

3.8 Government Procurement Initiatives

Of those SMMEs that know about the DTI programmes, only 15% approached the DTI and its related institutions for assistance. In the extreme case of the Venture Capital Scheme, for example, only one SMME (out of the 78 that were aware of it) finally approached the IDC for assistance. The local intermediaries that implement Ntsika and Khula programmes were approached by 19% of those SMMEs that were aware of them. Overall, however, more than 80% of the SMMEs in the sample did not approach either institution for assistance despite being aware of their programmes. These findings suggest that the respective institutions need to work on establishing trust relationships with SMMEs and communicate their services better.

On average, two-thirds of the SMMEs that applied to Ntsika or Khula, and 88% of those approaching the DTI and its related institutions, received assistance. The remaining SMMEs apparently did not meet the requirements to qualify. This may indicate that the selection criteria are not made sufficiently clear to potential applicants (Ntsika.2002)

3.8.1 Taxation

Contrary to general perceptions, the vast majority of SMMEs that use support programmes appear to be satisfied with the assistance they obtain in terms of reception, quality and cost. Nevertheless, Ntsika's 'flagship' LBSC programme fared badly (40% of SMMEs did not find it useful), which confirms the findings from other surveys referred to above. Likewise, the cost of loans provided by the DTI related institutions were perceived as too high by 69% of the sample SMMEs.

SMMEs in the Greater Johannesburg Metropolitan Area rate government promotion programmes as one of the leading factors to assist in their growth. Analysis of survey data in this section clearly indicates, however, that current SMME support programmes have a room for improvement (Berry et al.2002).

3.6 Technology

Technology has become crucial in supporting SMMEs because it opens competitive awareness that enables access to markets, marketing and advertising initiatives. Technology has been used to create business propositions that are appealing to clients increasing market penetration, growth and profits. Technologies can also assist to minimize operational costs. However technologies are normally expensive to adopt and may handicap business opportunities.

Developments in technology have to some extent negatively affected employment patterns, with decrease demand for low skilled and unskilled labour because of the need to be competitive. More capital intensive methods of production have been introduced.

3.8 Government Procurement Initiatives

In many countries government spending and procurement initiatives provide business and employment opportunities to the small business sector. In South Africa procurement is estimated; according to statistics South Africa; to be approximately 14% of gross domestic product. On the ground experiences have however revealed many problems regarding procurement from small businesses. Government has on the one hand complained about the quality, delivery times that are often not met, and the high prices by SMMEs. On the other hand small businesses have complained that the government procurement practices were unfair, payments were delayed to the detriment of SMMEs as this affected their cash flows and there was favouritism for particular individuals or companies. Greed and fraud are often not ruled out of some of these transactions. Furthermore some SMMEs are completely dependent on government procurement contracts for their existence and such practices can be detrimental to their long term sustainability, especially when these contracts are discontinued (Rogerson.2008).

3.8.1 Taxation

Compliance with tax requirements for small businesses is, according to the National Association of State Officers (NASBO), problematic for small businesses as the majority of them do not understand the requirements including the completion of forms. This is a stumbling block for small businesses, some of which have developed a negative attitude for the Receiver of Revenue and will exploit every avenue of tax avoidance sometime out rightly evading their tax obligations.

Generally it is agreed that the tax compliance costs include the time spent to read and understand the tax rules and how they are applied. Record keeping costs, receipts of payments as well as all other documents required to prepare tax returns. Major costs related to professional and consultant fees. This created a huge burden on the finances of these small businesses.

3.8.2 Dualistic Nature Of The Business Industry

Apartheid was the main cause of the situation where the white small business sector was more favoured by the government of the day and it thrived being close to the markets, in the transport and communication systems compared to the black sector business that were in the townships or rural areas including Bantustans far from markets. Lack of transportation, lack of communication and electricity made it difficult to operate properly. Communication limits the flow of information, service delivery, tender or contract access. This has caused many SMMEs to be excluded from business opportunities.

Property ownership is important for business success because it can be utilized, especially in financial contracts with bank's, as collateral and security. Black people in particular were

deprived by law to own land and this created enormous problems for small business owners when they approached bank's for loans.

This dualistic economy is characterized by a modern, formal, high productivity sector, on the one side and a new growing low productivity informal sector. It is however important to note that after democracy S.A. is now trying hard to revitalize the small business industry. It is also important to note that the removal of apartheid was critical but not sufficient to unleash the full potential of the small business industry (Kesper.2000).

3.9 Small Business Activity In The Vhembe Region

The small business industry in the Vhembe region of Limpopo is a microcosm of the industry in South Africa because the activities and challenges within this industry are very similar. There have been, in Vhembe like in South Africa, government interventions that were meant to ease access to finance. However, despite these good intentions access to adequate credit still eluded many in the small business sector. The reasons amongst others included the lack of interest by the formal financial sector due to a combination of factors such as high risk, high costs and low returns associated with the sector particularly in the black areas (Gyekye.2004).

A myriad of constraints faced by the small business entrepreneurs combined with the failure of the formal financial sector and the micro finance industry to adequately address the financial needs of small businesses and enterprises, has led to calls for the government to review its approach to addressing the problems facing small business generally. This implies that policies and programmes formulation should start from the needs of the small business and enterprises within their own structural and territorial context (UNOPS.2001).

There is lack of ample communication between all the stakeholders including all the related structures of government, local, provincial and national. This lack of communication has been cited as one of the major stumbling blocks especially when new government interventions are implemented.

3.9.1 Overview of In Vhembe Region

Vhembe region is bordered by Zimbabwe on the North and Botswana on the West and in the East it borders the Kruger National Park and Mozambique. In the South it borders the Mopani district and the Capricorn district in the south west. It is generally rural in character and this presents its own business challenges.

Table 3.9: Distribution Of The Population And Growth Rate Per Local Municipality

		Musina	Mutale	Thulamela	Makhado	Vhembe	Limpopo
Population	1997	32 958	73 505	542 459	466,444	1 129 356	4 876 898
	2000	38 118	80 356	569 634	486,582	1 174 690	5 195 154
	2007	48 095	91 087	612 969	521,560	1 273 711	7 591 138
Growth Rate	97-07	3.5%	2.0%	1.1%	1.0%	1.2%	1.3%

Source: Global Insight, 2007 and Maneta calculations

Table 3.10 shows that 89% of the population in Vhembe region is located in Thulamela (48%) and Makhado (41%). The remaining 11% of the population resides in Musina (4%) and Mutale (7%) municipalities. Vhembe District Municipality represents 24% of the population of Limpopo Province.

Table 3.10 Percent distribution of Vhembe's population

		Musina	Mutale	Thulamela	Makhado	Vhembe
% of Vhembe	1997	3%	7%	48%	41%	100%
	2007	4%	7%	48%	41%	100%

Source: Global Insight, 2007 and Maneta Calculations

3.9.2 Educational Level in the Region

About 20% of the Vhembe population has no formal education (Table 3.11). This suggest that the competitiveness of business activity in the municipality may be adversely affected including the ability to attract businesses that require high skill levels to locate in this area. Table 3.11 below indicates the education level of the population of people over 20 years of age resident in the Vhembe District Municipalities.

Table 3.11 Education level of the population over 20 yrs per municipality

	No schooling	Some primary	Complete primary	Some secondary	Std 10/ Grade 12	Post secondary	Population over 20
Musina	25%	16%	11%	31%	12%	5%	100%
Mutale	34%	17%	6%	26%	11%	6%	100%
Thulamela	30%	14%	6%	27%	15%	8%	100%
Makhado	35%	12%	6%	26%	14%	7%	100%
Vhembe	32%	13%	6%	27%	14%	7%	100%
Limpopo	33%	14%	6%	26%	14%	7%	100%
South Africa	18%	16%	6%	31%	20%	8%	100%

Source: Vhembe LED Strategy, 2007

3.9.3 Business Activity In Vhembe

There are various types of businesses in the Vhembe District. It is estimated that there are over 4100 small businesses in the Vhembe region. The retail sector is the largest at about 45%, agriculture is about 28%, 16% in tourism, 5% in manufacturing, 4% in construction and 1% in mining (Maneta Training Consultancy.2009).

3.9.4 Challenges Of Small Businesses In Vhembe

The challenges of small business in Vhembe, as already indicated were found to be similar to the small business industry in most of the country. However these challenges were confirmed to be more severe in districts such as Mutale where there was severe lack of business services. For example only one bank being represented. No internet facilities and no chain stores in retailing are found. The biggest challenge in Vhembe is the high transportation costs.

3.9.5 Informal Micro Businesses In Vhembe

Hawking and micro informal businesses are many in the region and are very active and growing. These businesses are often disorganized and sometimes operate in very difficult environmental and health conditions. These businesses trade in fruits, vegetables and other consumable commodities.

3.9.6 Government Interventions, Regulation and Business Promotion

The National Strategy for the promotion of small business in SA of 1995 covered the Vhembe area. The Strategy encouraged the creation of an enabling environment in which SMMEs are stimulated as part of an integrated strategy to take the South African economy forward in a diversified, productivity-enhanced, investment oriented route, and where business growth and entrepreneurship flourished.

Government has implemented many intervention programmes through the Department of Trade and Industry (DTI) with stated objectives of increasing the number of new businesses, growing those who are already in existence and minimizing those that are bound to fail.

Various strategies have been adopted by the DTI in this regard focusing on the creation of public-private sector partnerships (PPSP), teaching entrepreneurship at schools, focusing on the needs of the small business sector. It was also important to ensure that new progressive and complementary legislation is enacted and implemented that provides an enabling environment for a thriving SMME sector.

Government must accelerate interventions that are intended to broaden small business participation and focus on both the rural and urban areas.

The bank was established in 1921. The mission of the SARB as the central bank is to achieve and maintain price stability. SARB believes in the market system, private and social initiative and competition. SARB activities are: Monetary Policy, Financial Stability, Bank Supervision, Statistical and economic information, Financial Markets, payment and settlement systems, Bank Notes and coins, exchange controls and co-operative Bank Supervision. Bank Supervision as stipulated in the Banks Act, 1990 is responsible for the risk management practices and prudential requirements of banks (SARB Annual Report, Bank Supervision, 2007).

4.1.3 - The Role Of Banks In The Economy

Banks are critical to any economic activity and growth because banks are entrusted with depositors funds which are utilized in the trading activities of their business and they perform an intermediation function (SARB,2006). They provide access to the payment systems. They make credit readily available readily. The nature of their business requires stringent risk management because bank failures can have adverse repercussions on the banking system and the economy.

Analysts believe that the future of the banking sector lies mainly in personal banking and the small and medium sized business sectors in the domestic economy. This is enhanced by the use of cell phone and internet banking because of the boom that has been experienced in mobile phones and internet accessibility (SARB Annual Report, Bank Supervision 2009)

4. AN OVERVIEW OF THE ROLE OF BANKS IN SMALL BUSINESS LENDING IN SOUTH AFRICA

4.1.1 The Banking System In South Africa

The Banking System in South Africa is well developed and compares favorably with banking systems in developed countries. In 2004 there were 38 registered banks in the country comprising of 15 South African controlled banks, 6 non-resident controlled banks (Subsidiaries), 15 local branch of international bank and 2 mutual banks. There are also 4 non-deposit taking banks and authorized representative offices of international banks (SARB Annual Report, Bank Supervision. 2008).

Registered Banks

The foreign banks do not participate in the lower levels of the market dominated by small businesses. The banking system and the offices tend to be located in urban and peri-urban areas making it difficult for small businesses located in rural areas to access financial services. Travel and distance costs in order to access these services makes banking services expensive for these rural residents.

4.1.2 The South African Reserve Bank (SARB)

The bank was established in 1921. The mission of the SARB as the central bank is to achieve and maintain price stability. SARB believes in the market system, private and social initiative and competition. SARB activities are; Monetary Policy, Financial Stability, Bank Supervision, Statistical and economic information, Financial Markets, payment and settlement systems, Bank Notes and coins, exchange controls and co-operative Bank Supervision. Bank Supervision as stipulated in the Banks Act, 1990 is responsible for the risk management practices and prudential requirements of banks (SARB Annual Report, Bank Supervision. 2007).

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4.1.4 The Structure of Banking Industry South Africa



The Banking industry in South Africa is dominated by five big banks which over the years have reported robust results in terms of their profits and growth. These are Absa Bank Limited group, Standard Bank Limited group, First Rand Bank Limited group, Nedbank Limited and lately Investec Limited. These groups represent approximately 90% of the banking sector. Some of the smaller banks have also grown significantly over the years especially those that focused on the micro lending business, such as African Bank Limited and Capitec Limited.

Registered Banks, Mutual Banks and Local Branches of Foreign Banks As At 31 December 2009.

Registered Banks

Institution	Total Assets at 31 December 2009 (R million)
1. Absa Bank Limited	649 142
2. African Bank Limited	24 191
3. Albaraka Bank Limited	2 365
4. Bidvest Bank Limited	1 726
5. Capitec Bank Limited	8 620
6. FirstRand Bank Limited	548 333
7. Grindrod Bank Limited	2 119
8. Habib Overseas Bank Limited	751
9. HBZ Bank Limited	1 957
10. Imperial Bank Limited	54 510
11. Investec Bank Limited	181 663
12. Mercantile Bank Limited	5 829
13. Nedbank Limited	509 739
14. Sasfin Bank Limited	1 536
15. Teba Bank Limited	3 365

16.	The South African Bank of Athens Limited	1 268
17.	The Standard Bank of South Africa Limited	803 028

Institution	Total Assets at 31 December 2009 (R million)
--------------------	---

1.	GBS Mutual Bank	758
2.	VBS Mutual Bank	242

Registered Local Branches of Foreign Banks

1.	ABN AMRO Bank NV	5 328
2.	Bank of Baroda	415
3.	Bank of China Limited Johannesburg Branch (Trading as Bank of China Johannesburg Branch)	4 599
4.	Bank of Taiwan South African Branch	645
5.	Calyon (Trading as Calyon Corporate and Investment Bank – South Africa Branch)	15 804
6.	China Construction Bank Corporation- Johannesburg Branch	5 174
7.	Citibank NA	43 610
8.	Deutsche Bank AG	30 110
9.	JPMorgan Chase Bank, NA (Johannesburg Branch)	23 201
10.	Société Générale	9 205
11.	Standard Chartered Bank (Johannesburg Branch)	14 418
12.	State Bank of India	1 801
13.	The Hongkong and Shanghai Banking Corporation Limited (HSBC)	11 007

(SARB Annual Report, Bank Supervision.2009)

There are also 42 foreign banks with approved representative offices in South Africa.

4.2 SMME Access To Bank Finance



The stigma of lending predominantly to the white sector companies remains an issue in South Africa as well as the accusation of prejudices towards black businesses by the banks (Levy, 1996). The confirmation of these accusations is difficult because the major banks do not usually disclose many statistics about their SMME's books. Further there is very little confirmation or evidence on how these loan books are distributed among some SMME's or among white and black businesses.

As already indicated the financial sector in South Africa is highly concentrated with above 80 percent of all banking services provided by the four major banks. Investec Bank Ltd lately being added as the fifth largest bank.

4.3 South African Banking Business Model

The South African banking sector focuses mainly on big businesses which can be classified as commercial and corporate businesses because these are safer investments which yield high financial returns for stakeholders. Generally this approach excludes benefits to the low end of the market especially in the townships and rural areas. Many emerging small entrepreneurs have a very tight cash flow. Travel and other costs of utilizing facilities far removed from their businesses are often prohibitive (Falkena et al. 2001).

4.4 Reasons Why The Banks Are Reluctant To Finance Small Businesses

In interviews the author had with the banks, they mentioned that sometimes applications were declined because of inconsistencies in the application forms when verifications are performed. Applications were sometimes completed by consultants and bookkeepers with very little understanding coming from the applicants when queried by the banks. Lack of proper planning and adequate business plans worsened the chances of financial assistance. In some cases the competencies and business skills of applicants were doubtful which increased the risks with regard to financial assistance.

SMMEs are also regarded as having a high failure rate which is estimated to be in the region of 70% in the first three years of the existence of the business (Venter et al. 2003). This increases the possibility of default for small businesses, impacting negatively on banks. Commercial banks also incur high administrative cost when screening and monitoring many small loans and the recent requirements regarding the language policies over and above English as a business language have added a serious cost and administrative burden to the banking sector.

The Global Entrepreneurship Monitor (GEM.2008) also reports that only 2,3 percent of South Africans owned small businesses that have been established for over 3,5 years, indicating a high failure rate amongst start ups (GEM.2008).

The requirements of the National Credit Act which places a lot of responsibilities on the bankers in terms of screening applications thoroughly and the avoidance of reckless lending have also made the administrative processes and procedures very cumbersome and costly.

The DTI noted that small business owners do not make concerted efforts to improve their skills and when their businesses show a potential for growth lag behind.

The DTI through the National Small Business strategy sought to address the low skills levels. Institutions such as center for small business promotion, Ntsika Enterprise Promotion Agency, Khula, Namac were established to support small businesses in addition to listed institutions, various non-governmental organizations such as Banking Council of SA programmes. The black economic empowerment commission also highlighted the importance of supporting and developing this sector.

In interviews the author had with the banks they also cited the following reasons that created hurdles to assist small business applicants with financial assistance.

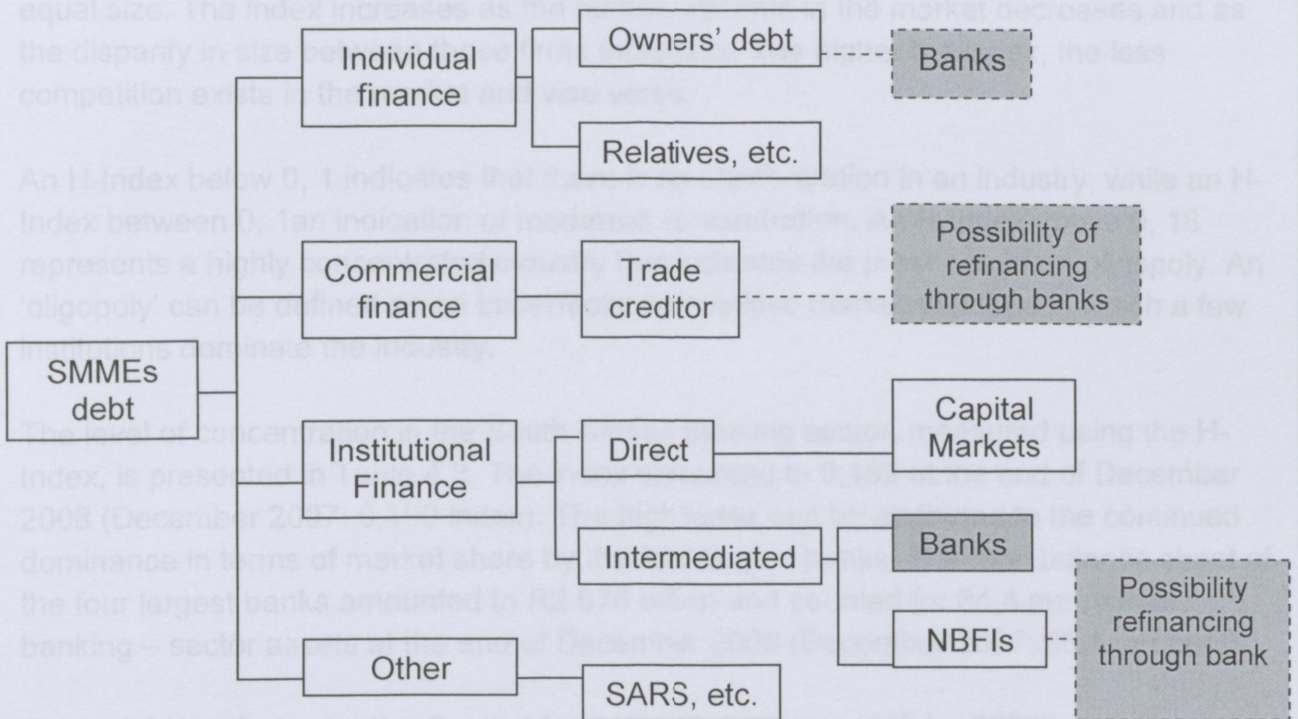
- Weaknesses by small businesses owners and managers in skills such as accounting, finance, management and marketing.
- The wrongful utilization of borrowed funds, for example, the purchasing of personal assets (e.g. luxury cars) instead of capital injection to manage cash flow.
- Lack of security or collateral.
- The need for insurance and assurance.

The NCA has also introduced criteria to avoid over indebtedness. The banks contend that they are in the business of lending money and will always endeavour to assist small businesses provided that the risks are mitigated.

4.5 Banks Are Not The Only Players In Financing SMMEs

Banks are not the only source of debt finance for SMMEs. The largest of SMME finance is from the micro lending industry.

Table 4.2: Sources of debt finance for the SMME and the role of banks



SARS: South African Revenue Service
NBFIs: Non-Bank Financial Intermediaries

This tree-chart structure in the diagram shows the multiplicity of options and players in the provision of debt finance to SMME's. This chart is not exhaustive.

Non-bank financial intermediaries are those institutions that are not banks but supply credit or debt finance. Table 4.2 indicates how this lending process operates within the banking cycle. The largest proportion of small business or debt finance is by the business owners drawing from their personal finances. Most small and sometimes medium sized businesses access finance from personal sources.

Small businesses looking for debt financing can also approach investors in the capital markets who may also take equity in the company. Small businesses can also club together with other SMMEs and operate as a cooperative in the capital markets, especially if they have reached a level of sophistication that would enable participation in such financial structures. Bank products for SMME financing can be classified as follows; bank overdrafts, bank loans, factoring and invoice discounting. Asset finance including commercial mortgages and equity finance.

4.6 Concentration Of South African Banking System

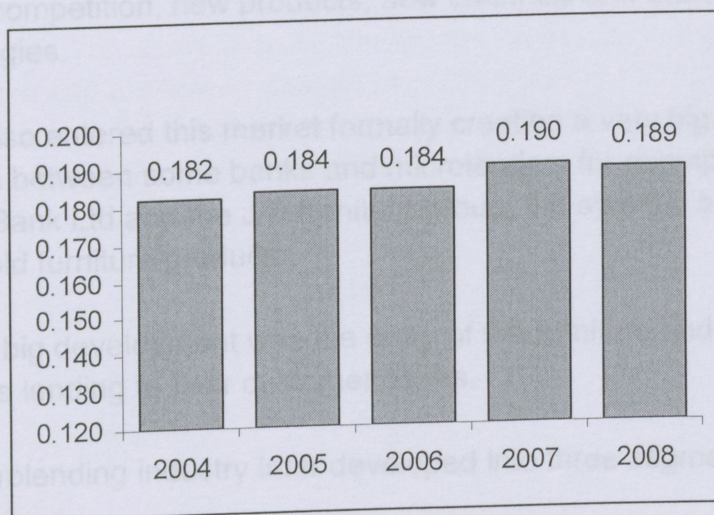
The Hefindahl – Hirschman Index (H- Index) is a commonly accepted measure of market concentration in a banking system. The index is calculated by squaring the market share, in terms of total assets, of each bank in the system and subsequently summing the squares. It takes into account the relative size and distribution of the firms in a market, and approaches zero when a market consists of a large number of firms of relatively equal size. The index increases as the number of firms in the market decreases and as the disparity in size between those firms increases. The higher the index, the less competition exists in the market and vice versa.

An H-Index below 0, 1 indicates that there is no concentration in an industry, while an H-Index between 0, 1 an indication of moderate concentration. An H-Index above 0, 18 represents a highly concentrated industry that indicates the presence of an oligopoly. An 'oligopoly' can be defined as an imperfectly competitive market structure in which a few institutions dominate the industry.

The level of concentration in the South African banking sector, measured using the H-Index, is presented in Table 4.3. The index amounted to 0,189 at the end of December 2008 (December 2007: 0,190 index). The high index can be attributed to the continued dominance in terms of market share by the four largest banks. The total balance sheet of the four largest banks amounted to R2 676 billion and counted for 84,4 per cent of banking – sector assets at the end of December 2008 (December 2007: 85,1 per cent).

Table 4.3: H – Index for the South African banking system (2004 – 2008)

Index



SARB Annual report, Bank Supervision (2009)

4.7 Microlending And Other Forms Of Lending

(South African Reserve Bank)

In the 1980's many black households had limited access to credit from banks because the banks were unwilling to participate in this market. Borrowers resorted to pawn brokers, mashonisas (loan sharks), stokvels and rotating savings schemes for these loans. These lenders including non-governmental organizations primary aim was to make credit accessible to the poor whilst making profits. Some of these microlenders grew their business to the extent that today they have converted to fully fledged banks, for example, The African Bank limited and Capitec Bank Limited. By 1999 the micro lending industry had evolved into the following broad categories:

It is tasked with educating, researching, developing policy, registering industry

(I) There were a handful of small banks such as Capitec, The African Bank and microlenders such as Blue, Orange and others that are focused on providing small loans (R 3000 - R 6000) at an average interest of 60% p.a. over periods of 12-36 months. These loans were mostly repaid by payroll deductions especially where government employees were involved.

South African Reserve Bank (SARB, 2007). The NCA improved overall market conduct in

(II) The mashonisas mushroomed and focused on very small loans repayable at exorbitant interest rates. The loans were utilized mostly for emergencies often resulting to a debt spiral because the borrower took the loan on a month to month basis.

unions, government departments and business organizations in the public and private

The industry grew in size and complexity to the extent that in 1999 the government made it conditional that the financiers must register with the Micro Finance Regulatory Council (MFRC). This opened the gates for new entrants into microlending resulting in greater competition, new products, new channels and branch networks as well as new technologies.

Banks also entered this market formally creating a very big industry with national joint ventures between some banks and microlenders for example the joint venture between African Bank Ltd and the J D furniture group, the synergy being the financing of household furniture products.

Another big development was the entry of the furniture and clothing retailers as credit providers lending to their customer bases.

The microlending industry later developed into three segments comprising of:

1. Banks, formal registered companies, developmental organizations and some section 21 (non-profit companies).
2. Pawn brokers and semiformal lending companies.
3. Informal lenders, mashonisa's, stokvels and burial societies etc.

4.8 The National Credit Act No. 34 Of 2005, And Bank Regulation By SARB (South African Reserve Bank).

The National Credit Act is administered by the National Credit Regulator (NCR) and was assented to by the South African President on the 10th of March 2006 and came into operation on 1 June 2007. The NCR was established to promote a fair and non-discriminatory marketplace for access to consumer credit and to regulate the conduct of lenders in general. The NCR is responsible for the regulation of the South African credit industry.

It is tasked with educating, researching, developing policy, registering industry participants, investigating complaints and ensuring enforcement of the NCA. The NCA requires the NCR to promote the development of an accessible credit market, particularly to address the needs of historically disadvantaged population, low-income earners and remote, rural communities. The NCA generally applies to every credit agreement between parties dealing at arm's length and made in South Africa. According to the South African Reserve Bank (SARB.2007), the NCA improved overall market conduct in terms of credit extension by credit providers.

The NCA implementation strategy required that the NCR adopts a strategy based on capacity building by organizing workshops with various stakeholders such as trade unions, government departments and business organizations in the public and private sectors.

One of the studies that evaluated the effectiveness of the NCA was a survey done by Rudo Retail Research Training in 2008. The results of the study are summarized in Table 4.4. and 4.5. The study was commissioned by the NCR and comprised a sample of consumers and borrowers divided into low, middle and high income groups in South Africa. This included both urban and rural areas. Department of Trade and Industry, Department of Justice, Parliamentarians, SALGA, BUSA, Banking association, Banking Ombudsman, Trade Unions and lawyers also participated.

Table 4.4: The Impact Of The NCA On Small Businesses in South Africa

Positives	Negatives
<ul style="list-style-type: none"> • Banks forced to revise their pricing structure and implement an integrated pricing approach for their customers, moving away from silo product approach. • Pricing caps provided under NCA now afford institutions with opportunity to gain access to markets that were previously regarded as high risk. • Improved pricing disclosure and cooling off periods enables customers to make more informed decisions regarding their choice of institution. • Early indications are that loans and re-payments within the micro lending industry are still bigger in value, but currently fewer new loans are granted, good quality and the risk is lower. 	<ul style="list-style-type: none"> • Disclosure requirements in terms of documentation lengthen the sales process. • The Act resulted in 'awkward processes' at the banks and therefore slow processing of credit applications. • Some parts of the Act are open to different interpretations by different institutions which still lead to circumvention of the legislation. • Various studies indicate that pre-approved loans are still offered to consumers. • The Act can only apply to formal and registered providers, whilst much borrowing falls out of this sphere therefore consumers still not protected. • That the credit bureaus amnesty of 2007 lead to an erosion of useful information needed to make appropriate risk decisions when consumers apply for credit. • Planning and system changes to comply with the requirements of the Act were enormous; time consuming and business was slow when those changes were implemented. • General sentiment is that it is still early to determine the actual impact of the NCA.

Table 4.5: The Impact Of The NCA On Households

Positives of NCA	Negatives
<ul style="list-style-type: none"> • Consumers not required to put down deposit when taking vehicle finance. • The repayment period extended from 54 months to 72 months. • Income and debt screening process considers overall household income levels rather than simply that of an individual. • Because of the assessments to determine affordability, loans are only granted to consumers who can afford to service the debt. • NCA is correctly addressing the predatory lending practices of institutions that largely 'prey on uneducated consumers'. • The usage of multiple languages to service the consumers assist in improved understanding of transactions. 	<ul style="list-style-type: none"> • Financially hard pressed consumers don't get credit for emergencies. • Interest rates have also partly resulted in high levels of household indebtedness and the deterioration in consumer's ability to service their debt. • Synovate study indicates that 25% of the respondents perceive the process of credit application as difficult.

The current study adds to the body of studies that have attempted to evaluate the impact of the NCA on small businesses in particular those located in rural areas by concentrating on the rural Limpopo Vhembe Municipalities. Finscope 2007 results which were released in 2008 indicated that 22% of adults were aware of the NCA (31 000 South Africans). Synovate results released in 2007 indicated a 73% awareness of the Act. This was conducted amongst 676 people in the metropolitan areas . Further about 44% of their respondents stated their banks gave them information about the NCA. All these studies indicated that the knowledge and understanding of the legislation as prescribed by the Act was limited. It is however important to note that these studies were done less than a year after the implementation of the Act. The University of Johannesburg study reported 12.4% awareness of legislation amongst a sample of 49 households in Johannesburg's poorest areas.

Government must encourage the banks, by offering them incentives, to make efforts to assist and finance small businesses both in the rural and urban areas.

CHAPTER 5

5. EMPIRICAL ANALYSIS OF THE SURVEY DATA AND INTERPRETATION

5.1 Sources of Data

The main purpose of the thesis was to assess the impact of the National Credit Act (NCA) act no. 34 of 2005 on the growth of small retail business lending in the Vhembe region of Limpopo. As already indicated it is important to evaluate the impact of this Act because it affects most small, medium and micro businesses in South Africa and in the Vhembe region of Limpopo.

A survey was conducted on a group of 100 small retail businesses in the Vhembe region of Limpopo, the 4 big commercial banks in the area and the National Credit Regulator (NCR) in Gauteng. The small businesses included; Grocery Stores, Stationery Shops, Welding Stores, Wholesalers, Wood and Coal, Fruit Shops, Upholstery, Tyre and Spares, Spazas, Undertakers and Restaurants.

The survey was conducted in the four municipalities in the Vhembe region namely:

- Thulamela
- Makhado
- Mutale
- Musina

5.2 Data Collection Instrument

Data was collected by the use of structured questionnaires, copies of which are attached as Appendixes. Data collected during the survey included information regarding knowledge about the NCA and the NCR, the initiatives taken by the NCR to spread the information meant to assist small businesses, banks and stakeholders to facilitate lending initiatives.

Challenges experienced by banks in dealing with small business applications and those experienced by small business when applying for the loans, as well as experiences as they implemented the Act and what effect the Act had on their business portfolios were also documented during the survey.

5.2.1 The Distribution Of Small Businesses Per Category Of Sector

Table 5.1

	Frequency	Percent	Valid Percent	Cumulative Percent
Transport	13	13.0	13.0	13.0
Communication	3	3.0	3.0	16.0
Insurance	3	3.0	3.0	19.0
IT	3	3.0	3.0	22.0
Electronics	1	1.0	1.0	23.0
Funeral undertaker	1	1.0	1.0	24.0
Grocery	17	17.0	17.0	41.0
Barbershop	1	1.0	1.0	42.0
Restaurant	9	9.0	9.0	51.0
Cosmetics	3	3.0	3.0	54.0
Spaza	4	4.0	4.0	58.0
Car wash	2	2.0	2.0	60.0
Retail (clothing)	25	25.0	25.0	85.0
Mechanic	1	1.0	1.0	86.0
Upholstery	1	1.0	1.0	87.0
Pawn shop	1	1.0	1.0	88.0
Graphic Design	1	1.0	1.0	89.0
Postnet	1	1.0	1.0	90.0
Construction	5	5.0	5.0	95.0
Real Estate	2	2.0	2.0	97.0
Farming	3	3.0	3.0	100.0
Total	100	100.0	100.0	

Source : Study Survey

5.3 Statistical Analysis Results

Statistical techniques were applied to the survey data to establish possible relationships between the growth of business lending in the region, the growth in the size of business lending by the banks and impact of the Act as executed by the National Credit Regulator (NCR).

5.3.1 Knowledge Of The NCA And Access To Loans

Chi-Square tests were utilized to assess the relationships as per the hypotheses that the Act has had a positive impact on the access to credit by small businesses from banks and intermediaries in Vhembe and therefore has had a positive impact on the growth of small business in the region.

Count

Table 5.2

		What was the loan outcome		Total
		Rejected	Approved	
Did you know about the NCA	No	6	5	11
	Yes	12	20	32
Total		18	25	43

We begin with stating the null and alternate hypotheses as follows:

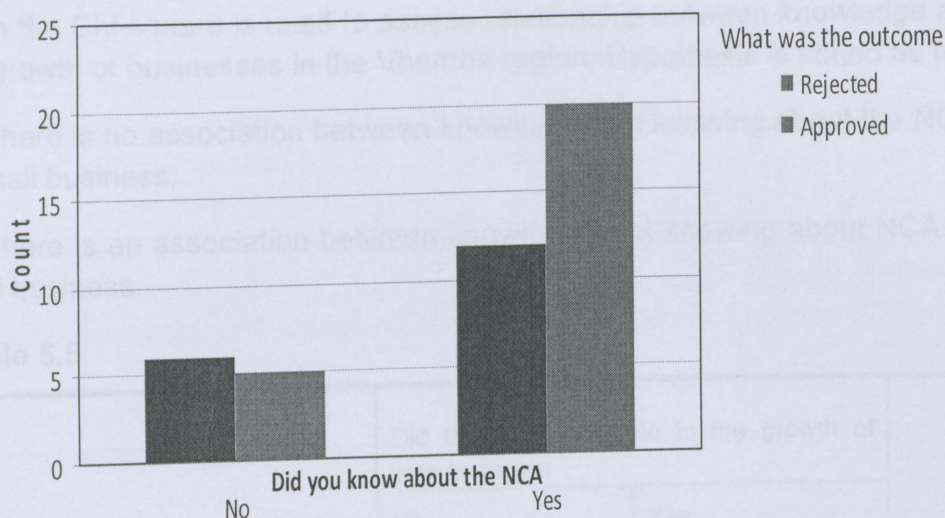
H₀: There is no association between knowing or not knowing about the NCA and outcome of loan application i.e. they are independent.

H₁: There is an association between knowing or not knowing about the NCA and outcome of loan application i.e. they are not independent.

To set up the chi-square test the information in Table 5.2 is used to calculate the expected values i.e. if not knowing about NCA did not make a difference in getting a loan approved or rejected 18/43 of the respondents would be rejected. Thus the expected outcome for being rejected and not having had knowledge of NCA would be $11 \times 18/43 = 4.6$ and being approved without having had prior knowledge of NCA would give and expected outcome of $11 \times 25/43 = 6.4$. Following this line of reasoning the expected outcome for being rejected and having prior knowledge of NCA would be $32 \times 18/43 = 13.4$ and being approved with having prior knowledge of NCA will give and expected outcome of $32 \times 25/43 = 18.6$. The formula for calculating expected value

is thus as follows: $E = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

Table 5.3



The calculated figures are used to construct a 2×2 matrix of expected outcomes as follows:

Table 5.4

Expected Outcome	Loan Outcome	
	Rejected	Approved
No	4.6	6.4
Yes	13.4	18.6

From the above information the Chi-square statistic is calculated using the formula

$$\chi^2 = \frac{\sum(O-E)^2}{E}$$

where O = observed frequencies in Table 5.3

E = expected frequencies in Table 5.4

The calculated χ^2 value = 1.75

Comparing the calculated χ^2 with the table value given df = 1 and level of significance of 0.05 of 3.84 thus calculated χ^2 (1.75) < table χ^2 (3.84) and therefore we do not reject the null hypotheses since the null hypotheses cannot be rejected at the 5% level of significance, knowing or not knowing about the NCA does not make a difference in the outcome of loan application.

The findings suggest that there is no difference in access to loans between businesses that are aware of the NCA and those that are not aware of the NCA.

5.3.2 Knowledge Of NCA And Growth Of Business

Again the Chi-square is used to assess relationship between knowledge about the NCA and growth of businesses in the Vhembe region: Hypothesis is stated as follows:

H₀: There is no association between knowing or not knowing about the NCA and growth of small business.

H₁: There is an association between knowing or not knowing about NCA and growth of small business.

Table 5.5

		Did the Act contribute to the growth of your business		Total
		No	Yes	
Did you know about the NCA	No	2	0	2
	Yes	34	9	43
Total		36	9	45

Table 5.6

Expected Outcome	Business Growth	
	No	Yes
No	1.6	0.4
Yes	34.4	8.6

Using the formula $\chi^2 = \frac{\sum(O-E)^2}{E}$

$$\chi^2 = 0.4$$

$$\chi_c = 3.84$$

$$\chi_c = 0.4 < \chi_t = 3.84$$

We do not reject H₀ at 5%

Since the null hypothesis cannot be rejected at the 5% level of significance, knowing or not knowing about the NCA plays no role in contributing to the growth of small businesses in the four municipalities of the Limpopo province.

5.3.3 Municipality Location And Access To Loans

To assess whether business location (in a municipality) has any reference of access to loans, we again employed the Chi-square test.

The hypothesis to be tested is as follows:

H₀: There is no association between business location and access to loans.

H₁: There is an association between business location and access to loans.

Table 5.7

		What was the outcome		Total
		Rejected	Approved	
Local Municipality	Musina	5	5	10
	Mutale	8	6	14
	Makhado-Sintumule	3	6	9
	Thulamela	2	8	10
Total		18	25	43

Table 5.8

Expected outcome	Loan outcome	
	Reject	Approved
Musina	4.18	5.8
Mutale	5.8	8.1
Makhado-Sintumule	3.8	5.2
Thulamela	0.84	1.16

Using the information from Tables 5.7 and 5.8, we employ the formula for calculating

$$\chi^2 = \frac{\sum(O-E)^2}{E}$$

The calculated $\chi^2 = 23.51$ and $\chi = 7.815$

Since $\chi > \chi$ at the 5% level of significance we reject the null hypothesis and conclude that there is an association between business location and access to loans.

The results suggests that loans access depends on the location of small business, probably businesses located in more urban and peri-urban municipalities having much more access to loans than their counterparts located in more rural municipalities. Businesses located in more urban or peri-urban municipalities are more likely to have access to a variety of loan sources than businesses located in rural municipalities.

5.3.4 Education Level Of Business Owner And Knowledge Of NCA

The study also sought to assess the effect of the level of education of the small business owner and their knowledge of the NCA.

The hypothesis stated is as follows:

H₀: There is no association between the level of education of business owner and knowing of not knowing about NCA.

H₁: There is an association between the level of education of business owner and knowing or not knowing about NCA.

Table 5.9

		Did you know about the NCA		Total
		No	Yes	
Qualifications	No schooling	3	11	14
	Primary	3	1	4
	Incomplete Secondary	15	6	21
	Matric	20	19	39
	Tertiary	6	8	14
	Certificate and Diplomas from non-universities	0	4	4
Total		47	49	96

Table 5.10

Expected outcome	Knowledge about NCA	
	No	Yes
No schooling	6.85	7.15
Primary	1.96	2.04
Incomplete Secondary	10.28	10.72
Matric	19.09	19.91

Tertiary	6.85	7.15
Non-University, Certificate and Diplomas	1.96	2.04

$$\frac{\sum(O-E)^2}{E}$$

Applying the formula $\chi^2 = \frac{\sum(O-E)^2}{E}$

$$\chi^2_{5df} = 13.9$$

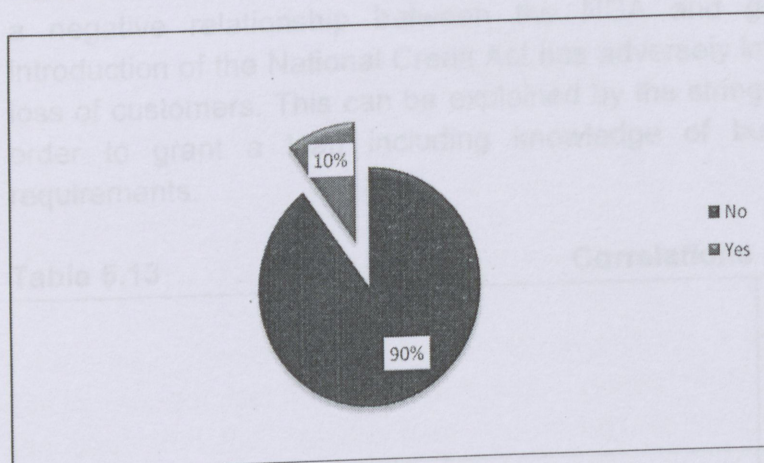
Since $\chi^2_c (=13.9) > \chi^2_t (=11.07)$, the null hypothesis is rejected at the 5% level of significance.

Since the null hypothesis is rejected the level of education of the small business owner makes a difference in their knowledge about NCA. Thus small business owners in possession of higher education (e.g. tertiary) were more likely to know about the NCA than those with lower level of education.

5.4 Familiarity With Relevant Sections Of The Act

From the pie chart below, only 10% of small business owners knew about the relevant sections of the National Credit Act that affect their business. Thus 9 in every 10 business owners were unlikely to know about the Act. People are ignorant of the Act hence they are unable to benefit from the something they have no knowledge about. This might be one of the factors which explain why people think the National Credit Act has had no considerable effect on their business.

Table 5.11

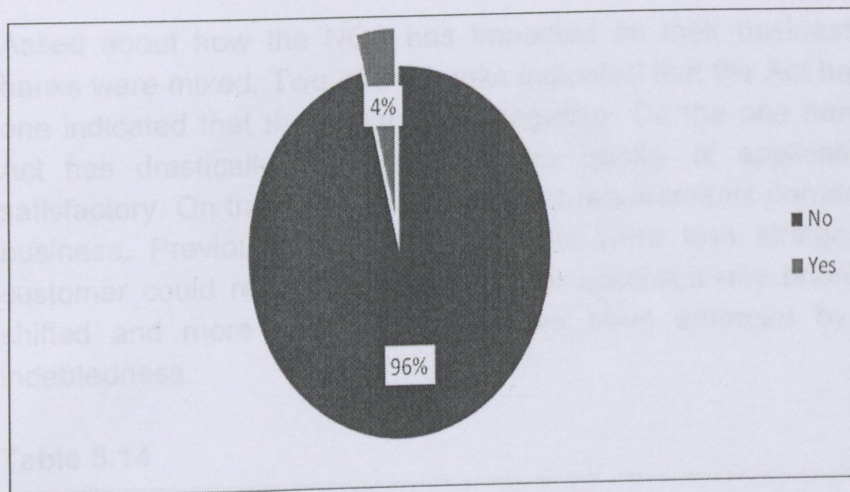


5.5 Information Dissemination By The Regulator

The pie chart below displays the rate of dissemination of critical information about the National Credit Act by the Credit Regulator. The findings were that only 4% of business owners received vital information about the Act from the Credit Regulator. An overwhelming 96% of business owners were denied of information by the credit

regulator. This explains the inability of the Credit Regulator to spread the information other than just formulating policies.

Table 5.12



5.6 The Relationship Between The NCA And Bank Customer Growth

Table 5.13 presents the correlation between small business lending growth and the implication of the NCA. The Pearson coefficient shows that the relationship between the National Credit Act and loss of customers is significant beyond 0.01. Moreover, there is a negative relationship between the NCA and growth of customers. Thus the introduction of the National Credit Act has adversely impacted on the banks through the loss of customers. This can be explained by the stringent requirements by the banks in order to grant a loan including knowledge of business concepts and collateral requirements.

Table 5.13 Correlations

		How has the NCA affected your business?	Have you lost customers because of the Act?
How has the NCA affected your business?	Pearson Correlation	1	-1.000**
	Sig. (2-tailed)		.000
	N	3	3

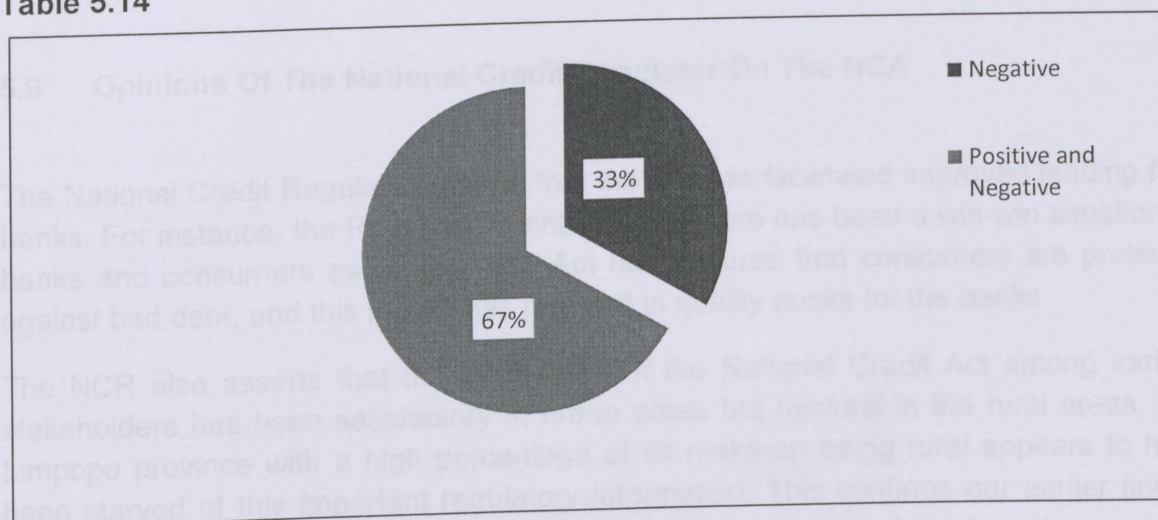
** Correlation is significant at the 0.01 level (2-tailed)
Sig. (2-tailed) represents the level of significance

N represents the number of banks

5.7 The NCA And Bank Small Business Lending Portfolio

Asked about how the NCA has impacted on their business the responses from the banks were mixed. Two of the banks indicated that the Act has had a dual impact whilst one indicated that the impact was negative. On the one hand, governance due to the Act has drastically improved and the quality of applications for loans has been satisfactory. On the other hand, stringent requirements demanded by the Act has stifled business. Previously, loan requirements were less stringent and ensuring that the customer could repay the loan was not accorded any priority. However, the tide has shifted and more stringent rules have been enforced by the Act to curtail over-indebtedness.

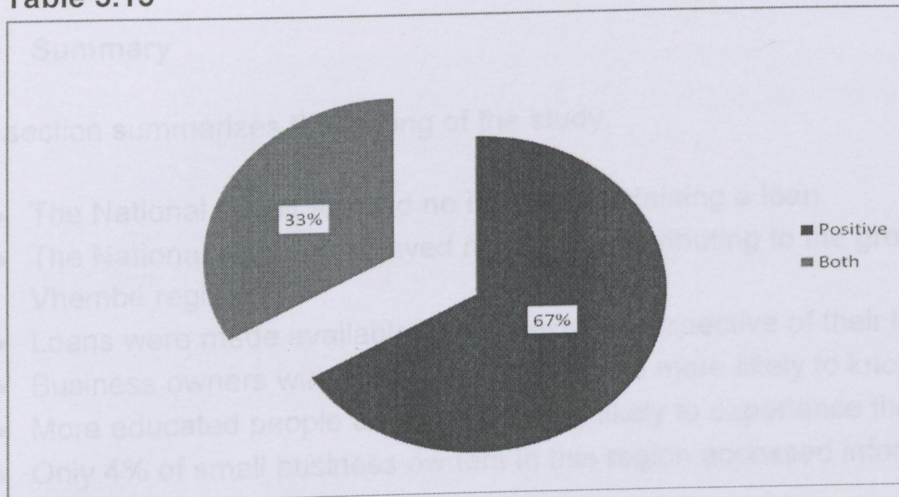
Table 5.14



5.8 Banks Opinion On The Benefits Of The NCA To Customers

Asked about their opinion on the benefits of the NCA on their customers, two of the banks thought that the customers had benefited from the National Credit Act. One bank indicated that the Act has had a dual impact on customers (i.e. Due to strict NCA requirements access to credit has been limited and exposure to risky loans has been minimized).

Table 5.15



5.9 Opinions Of The National Credit Regulator On The NCA

The National Credit Regulator asserts that the Act has facilitated improved lending from banks. For instance, the Regulator maintains that there has been a win-win situation for banks and consumers as well, as the Act has ensured that consumers are protected against bad debt, and this in-turn has resulted in quality books for the banks.

The NCR also asserts that the awareness of the National Credit Act among various stakeholders has been satisfactory in urban areas but minimal in the rural areas. The Limpopo province with a high percentage of its make-up being rural appears to have been starved of this important regulatory information. This confirms our earlier finding that indicated that most businesses in Limpopo are not aware of the Act. However, the NCR maintains it cannot bear the responsibility of disseminating information alone. Thus a combined effort by all stakeholders (i.e. banks, consumers) and also the media will play a significant role in spreading information.

CHAPTER 6

6.3 Recommendations

6. SUMMARY CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary

This section summarizes the finding of the study.

- The National Credit Act had no impact in obtaining a loan.
- The National Credit Act played no role in contributing to the growth of small business in the Vhembe region.
- Loans were made available to businesses irrespective of their location.
- Business owners with higher education were more likely to know about the NCA.
- More educated people about the Act are likely to experience the benefits of the Act.
- Only 4% of small business owners in this region accessed information from the Credit Regulator.
- Banks opinion on the Act was two-pronged. On the one side strict adherence to the Act improved the quality of applications and resulted in a good quality loan book. On the other hand because of the more stringent requirements, the size of loan books has reduced. General view from the banks is that the Act has been beneficial to the industry.

6.2 Conclusions

From the findings of the study, the following conclusions are drawn:

- The lack of information and awareness indicate that the Act had no impact in obtaining a small business loan because the consumers were not exposed to relevant information about the Act. This supports the notion that in the Vhembe area the Act did not play any contributing role to the growth of small businesses or the banks lending to small businesses.
- Business owners with a higher education were likely to know about the Act and therefore take advantage of whatever benefits that may derive from this intervention.
- Businesses located in more urban and peri-urban areas are more likely to have better access to loans.
- In regard with the methodology employed in this study to assess relationships among variables, we recognize the short coming of the Chi-square test of not accounting for unobserved variable that may have some impact on the observed variables such as poverty, state of technology that may have influenced the growth or lack of growth.
- There was consensus amongst the banks that the Act would be beneficial because it addressed over-indebtedness and improved the quality of loan portfolios of the banks. Although initially the books would reduce, they however over time would grow because of quality control.

6.3 Recommendations

- Given the challenging circumstances that face the small business sector in South Africa including Vhembe, it is recommended that the government should continue to play a pivotal role in participating and encouraging, small businesses and banks to partner in initiatives that will grow small business through lending products and services. This is because the small business sector is the bedrock of creating employment and alleviating poverty. It also adds significantly to the GDP of the country.
- The government must partner with the private sector in creating a knowledgeable small business fraternity through skills nurturing and education.
- Government should mobilize big businesses to create hubs of business activity and partner with small businesses in the rural areas.
- One of the important criticisms of government regarding the NCA implementation was the failure to inform and consult extensively in various media and the small business sector about the Act and its objectives. It is recommended that the Regulator must be fully capacitated to disseminate information in both rural and urban areas about the benefits of the Act. Information should be disseminated through the Media, Tv, Radio and Print.

The Regulator should also:

- (I) Develop extensive feedback sessions within the industry to promote the objectives of the intervention and communicate effectively.
- (II) Get the financial institutions and the Bank's buy-in on the Act and emphasize medium and long term benefits in nurturing small businesses from the start-up phase to sustainable big businesses of tomorrow.

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THE IMPACT OF THE NATIONAL CREDIT ON THE GROWTH OF THE SMALL RETAIL BUSINESS LENDING IN THE VHEMBE REGION OF THE LIMPOPO.

Consent and Confidentiality

Please answer as accurately as possible the following questions. This document is confidential and will be used specifically for the purpose of this study without reference to you in any way.

1. Type of Small Business		Approved	Rejected		
(a)					
(b)					
Eg.	Restaurant	Grocery Store	Fruit Shop	Spaza	Other

2. Number of Employees	
------------------------	--

3. Registration Of Business	
Sole Proprietorship	
Partnership	
Company or CC	
Unregistered	

4. Asset Size	R
Estimated	
Turnover	

5. Experience in Business	
Qualifications	

6. Do you run more than one business? Please list them.		Yes	No
Type		Location	
1.		1.	
2.		2.	
3.		3.	

7. Have you/or your business applied for finance?	Yes	No
---	-----	----

8. What was the outcome?	Approved	Rejected
--------------------------	----------	----------

9. If rejected what was the explanation?

10. Did you try elsewhere for a loan?	Yes	No
---------------------------------------	-----	----

11. If yes what was the outcome?

12. Did you know about the NCA(National Credit Act no.34 of 2005)?	Yes	No
How did you get this knowledge?		

13. Are you familiar with the relevant sections of the Act that affect your business?	Yes	No
---	-----	----

14. Did the Act contribute to the growth of your business? Please explain.	Yes	No
---	-----	----

15. Do you find the new forms required by the Act easy to Complete?	Yes	No
---	-----	----

16. Did you know about the NCR ? (National Credit Regulator)	Yes	No
--	-----	----

17. Did you receive critical and sufficient information about the Act from the Regulator?	Yes	No
---	-----	----

18. Did the Act assist you to manage your debt better?	Yes	No
--	-----	----

19. Do you believe the Act has assisted you when applying for a loan at a bank ? Please explain.	Yes	No
---	-----	----

20. Do you believe the Act has hindered your getting a loan from the bank ? Please explain.	Yes	No
--	-----	----

21. Was it easy to get a loan because of the Act?	Yes	No
If yes, please explain.		

22. Was it difficult to get a loan because of the Act?	Yes	No
If yes, please explain.		

2. What is your relationship with the NCR?	Positive	Negative
a) In what way?		

3. Do you think your customers have benefited from the NCA?	Positive	Negative
a) In what way?		

4. Has the Bank benefited from the NCA?	Yes	No
a) In what way?		

5. Has your loan book increased because of the Act?	Yes	No
If yes, please explain.		

6. Has your loan book decreased because of the Act?	Yes	No

THE IMPACT OF THE NATIONAL CREDIT ON THE GROWTH OF THE SMALL RETAIL BUSINESS LENDING IN THE VHEMBE REGION OF THE LIMPOPO.

BANKING ORGANIZATIONS

1. How has the NCA affected your business?	Positive	Negative
a) Please explain.		

2. What is your relationship with the NCR?	Positive	Negative
a) In what way?		

3. Do you think your customers have benefited from the NCA?	Positive	Negative
a) In what way?		

4. Has the Bank benefited from the NCA?	Yes	No
a) In what way?		

5. Has your loan book increased because of the Act?	Yes	No
If yes, please explain.		

6. Has your loan book decreased because of the Act?	Yes	No

If yes, please explain.

7. Has your processing requirements increased because of the Act? Please explain.	Yes	No

8. Have the costs increased because of the Act?	Yes	No
---	-----	----

9. Have you lost customers because of the Act? Please explain.	Yes	No

10. Has your bad debt decreased because of the Act?	Yes	No
---	-----	----

11. Has your bad debts increased because of the Act?	Yes	No
--	-----	----

12. Has the Act succeeded in protecting prospective clients? Please explain.	Yes	No

THE IMPACT OF THE NATIONAL CREDIT ON THE GROWTH OF THE SMALL RETAIL BUSINESS LENDING IN THE VHEMBE REGION OF THE LIMPOPO.

NATIONAL CREDIT REGULATOR

1. Has the Act facilitated credit and business loans from banks etc.? Please explain.	Yes	No

2. Has the Regulator succeeded in distributing relevant information to small businesses in Vhembe region?	Yes	No
---	-----	----

3. Has small businesses benefited from the implementation of the Act? Please explain.	Yes	No

4. Has indebtedness reduced because of this intervention?	Yes	No
---	-----	----

5. Has awareness levels on the NCA and NCR increased amongst the various stakeholders.	Yes	No
Please explain.		