

THE SUCCESS RATE OF GOVERNMENT PROGRAMMES TO SUPPORT SMMEs

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DECLARATION

I declare that this research report is my own submitted in partial completion of the requirements for the Master of Business Administration Degree at the Potchefstroom campus of the North-West University. It has never been submitted before for any degree or examination in this or any university.

TJ Mbekeni

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ABSTRACT

Government is responsible for formulating policies and legislation to address the needs of the small business sector in order to promote small business sector development. In execution of the above mentioned mandate, the DTI has among other things developed a policy known as the National Industrial Participation Program (NIPP) to utilise the government procurement leaver to develop small businesses. The primary objective of this study is to determine the success rate of NIPP to support SMME. The NIPP was closely analyzed as a case study. The study attempts to determine whether processes and systems at an implementation phase of the NIPP are effective and efficient it ensuring that the program the maximum benefit to SMMEs.

Various program developed and implemented by government to develop SMMEs are briefly presented in this study with emphasis placed heavily on the NIPP. The NIPP is explicitly directed at achieving small business development through facilitation of export of value-added goods, skills and technology transfer, research and development collaboration, and direct foreign investment. Statistical figures demonstrating the performance of the NIPP are presented and an empirical study conducted to in line with the objective.

The results of the study indicate that the business plans submitted to the DTI are approved as NIPP projects but remain in the DTI data base of approved projects with out getting any form of assistance from the NIPP obligors.

A conclusion is reached from the study that small business owners submit their business plans to NIPP to be assisted with finance in the following categories: Business expansion; and Bridging finance. The respondents to the study also listed the following reasons put forward by obligors for not assisting them although their business plans are approved as NIPP projects:

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CHAPTER 1

INTRODUCTION AND SCOPE OF STUDY

1.1 INTRODUCTION

Both large and small businesses do contribute to economic growth and therefore to job creation. There has been a misconception that only large businesses do contribute to the creation of jobs in various countries and this misconception has been proven not accurate. Timmons and Spinelli (2009: 5) state that according to the U.S. Small Business Administration's Office of Advocacy, "small businesses (those with fewer than 500 employees) represent more than 99% of all employers and provide about 75% of all new net jobs".

According to the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (SA, 1995), the small business sector plays a very important role in the economic and social development of a country. This important role can be summarized as follows: Firstly, the labour absorption capacity of the small business sector has proven to be significantly high. It is significant in employment generation and equitable income distribution, activating competition, and enhancing productivity and technical change. Through all of this, it stimulates economic development.

Secondly and lastly, the significant role small business sector plays becomes evident in supporting people's efforts to meet basic needs. It also sustains marginalised groups during the fundamental phase of structural changes where the formal economy is unable to absorb the increasing labour supply, and social support systems are inadequate. For the purpose of this study the phrases SMME and small business will be used interchangeably.

According to the Industrial Policy Framework (SA, 2005), SMME support will focus on a combination of improving 'supply side' factors such as finance and technical support, together with finding ways to strengthen market opportunities for SMMEs.

Large scale plans are being implemented to both upgrade and install new infrastructure as well as for broader expenditure plans on areas such as housing. Government also acknowledges that a

major opportunity exists to leverage public expenditure by ensuring that domestic firms are sufficiently competitive to capture significant portions of it. The National Industrial Participation Programme (NIPP) is therefore a government programme designed to ensure that the local content in government spend is high. The NIPP in its attempt to achieve this, it also ensures that those sellers of goods or services with high imported content undertake economic activities to the value of 30% of the imported content to develop the local industry capabilities.

It is important therefore that countries do ensure that small business is promoted and supported by any means.

1.2 PROBLEM STATEMENT

Prior to 1994, South Africa was economically isolated from the global market forcing larger multinationals to relocate from the country. This implied that South Africa lost its manufacturing capabilities and became the largest importer of goods and services. Government as the largest procurer of goods and services in the country was also not spared from this crisis and this had a severe impact on the country's balance of payment.

Post 1994 the world markets opened their doors to South Africa, however, the South African industry which was not yet ready to compete in the global arena was also faced by a serious challenge of Global Trade Liberalisation which meant that SA industry was required to develop rapidly in order to compete with large and well developed multinational companies both locally and internationally. To remedy the situation, government took a conscious decision to utilize public spending as a lever to develop the local industry; hence the NIPP was developed and adopted.

A problem has been identified that the NIPP does not benefit SMME widely and has also been identified that investment from the NIPP is channelled through to selected industries.

1.3 RESEARCH OBJECTIVES

The goal of this dissertation can be summarised in a primary objective and secondary objective as set out below:

1.3.1 Primary objective

The primary objective is to determine the success rate of NIPP to support SMME. The NIPP was closely analyzed as a case study. The study attempts to determine whether processes and systems at an implementation phase of the NIPP are effective and efficient it ensuring that the program the maximum benefit to SMMEs.

1.3.2 Secondary objectives

Secondary objectives closely linked to the primary objective were identified as follows:

- To determine an overall understanding of the National Industrial Participation Programme.
- This refers to determining the kind and magnitude of assistance that SMMEs require from NIPP.
- This refers to determining the main reasons why most SMMEs are not being assisted by the NIPP after they have been approved as qualifying NIPP projects.

1.4 SCOPE OF THE STUDY

This study is both qualitative and quantitative in nature and it attempts to find out whether the NIPP is successful or unsuccessful in supporting SMMEs. The research design was exploratory and an attempt was made to understand people's perceptions, perspectives and understanding of a particular situation. The characteristics of such a study include questionnaire construction, in-depth interviews as well as data analysis identifying common themes in people's description of their experiences (Leedy & Ormrod, 2001:153).

The method of data collection was a descriptive survey using a questionnaire and structured interviews. Sixty (60) questionnaires were issued and forty four (44) complete questionnaires were received back and all were analysed. All the stakeholders such as government and state owned entities were represented by four representatives.

1.5 LIMITATIONS

The study was limited to small business in the DTI data base of projects approved as NIPP projects. All other small businesses not captured or approved as NIPP projects were not considered for the purpose of this study.

The study was limited to small business as defined by the National Small Business Act of 1996 (SA, 1996). The small businesses are those who employ between one and two hundred people and report an annual turnover of less than R5 million. The small businesses selected were registered or engaged in the formal sector. The National Business Act of 1996 defines four categories of small business prevalent in South Africa. These categories are: survivalist, micro, small and medium. Survivalist and micro businesses are excluded from this study.

The study attempts to determine whether processes and systems at an implementation phase of the NIPP are effective and efficient in ensuring that the program provides the maximum support to SMMEs. Therefore only the point of view of stakeholders such as small business owners, people entrusted with the implementation of the NIPP at government and state owned entities was considered in this study.

Officials at the DTI were reluctant to take part, citing confidentiality agreements concluded with the NIPP obligated companies even when the researcher gave an assurance that information given will be treated confidentially.

Despite all the limitations, the researcher obtained a response rate of 73%. This is based on the 44 respondents from a target population of small business owners of 60. With regards to stakeholders such as government and state owned entities four representatives were considered for interview.

1.6 SIGNIFICANCE OF THE STUDY

The study is of significant importance to both **the dti** as an institution entrusted with the implementation of the program and also governments department and state owned entities required to comply with the program. The study will afford **the dti** an opportunity to revisit its processes in relation to the implementation of the program and adapt them to ensure that maximum benefit is achieved.

1.7 ASSUMPTIONS

The assumption made in this study was that all government departments and state owned entities were at some stage informed of the requirement to comply with the requirements of the NIPP program when conducting procurement.

1.8 LAYOUT OF THE STUDY

Chapter 1 gives a brief background on the SMME sector, introduces the problem statement and describes the primary and secondary objectives.

Chapter 2 discusses SMME development and its impact to economic growth and also discussion of the National Industrial Participation Programme, its role players and the model of its implementation.

Chapter 3 describes the research methodology, research results and findings are also presented, analysed and interpreted in this chapter.

Chapter 4 presents the conclusions and recommendations of this research study. Further areas of research related to this study are suggested in this chapter.