Promoting the Participation of Small Businesses in the Market: How Conducive is the South African Economy?

by

Moreblessing Tandeka Sithole

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DEDICATION

A dedication to my grandmother and grandfather who both passed on while I was busy with this study.

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Abstract

The importance of micro and small enterprises (MSEs) is increasingly being recognized in many countries including South Africa after many years of market domination by large enterprises. Several initiatives are now being taken in South Africa to redress past discrimination and improve MSE development. However, MSE participation in markets is still low as shown by their market share and contribution to Gross Domestic Product. This is due to barriers they experience when attempting to participate in markets. These barriers may be due to the size of the enterprises, characteristics of the owners or managers and the environment in which they operate.

The creation of a conducive environment to MSE market participation is essential to improve their participation in markets. This conducive environment will have few or no barriers to MSE market participation. Few studies have evaluated the institutional environment surrounding small businesses. Little research has been carried out to assess the conduciveness of the South African economy to MSE market participation. The general objective of this study is to assess the conduciveness of the South African economy to MSE market participation.

The study analyzes policies and programmes that have been implemented to promote small business development. Factors influencing MSE market participation are identified and used to measure the conduciveness of the South African economy to these enterprises' participation in markets. The factors are technology, finance,

infrastructure, human resource development, strategic alliances, information and the regulatory environment. For each factor, South Africa is allocated a score out of ten, using data obtained from the World Economic Forum (WEF) survey carried out between 2003 and 2004.

An analysis of policies and programmes such as the Broad-Based Black Economic Empowerment Act (2003), the Microeconomic Reform Strategy (2001) and the White Paper on Promotion of small businesses in South Africa (1995) indicates that they have helped to provide a conducive environment for MSE market participation. Policies and programmes such as the Rural Development Programme (1994), Growth and Employment Redistribution (1995) and the Green Paper on Public Sector Procurement Reform (1997) have not helped much to improve the conduciveness of the South African economy to the participation of MSEs in markets.

The overall score for the conduciveness of the South African economy to MSE market participation is 6.6. This means that the South African economy is conducive to MSE market participation. Factors like finance, strategic alliances and the regulatory environment that have an average score of 7.6, make the South African economy more conducive to MSE market participation than factors like human resource development, infrastructure and technology which have an average score of 5.6. Access to information has the lowest score which is less than five. Regarding access to information by MSEs, the South African economy is not conducive to MSE market participation. The study makes recommendations on how to improve the South African economy's conduciveness to MSE participation in markets. These suggestions include improving infrastructure and access to information, reducing credit constraints facing MSEs, appropriate technology, eliminating unnecessary bureaucracy and red tape and finding ways to increase the participation of MSE operators in training programmes.

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LIST OF ACRONYMS

APEC	Asia-Pacific Economic Co-operation
BEE	Black Economic Empowerment
CIPRO	Company and Intellectual Property Registration Office
CSBP	Centre for Small Business Promotion
DTI	Department of Trade and Industry
EU	European Union
GCI	Growth Competitiveness Index
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
ICT	Information and Communication Technology
IMS	Integrated Manufacturing Strategy
KZN	KwaZulu-Natal
LBSCs	Local Business Service Centers
MRS	Microeconomic Reform Strategy
MSEs	Micro and Small Enterprises
NGOs	Non-Governmental Organizations
NTBs	Non-Tariff Barriers
PPPs	Public-Private Partnerships
RCA	Revealed Comparative Advantage
RDP	Reconstruction and Development Programme
RTA	Revealed Trade Advantage
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
USA	United States of America
WEF	World Economic Forum
WTO	World Trade Organization

CHAPTER 1
INTRODUCTION

1.1 Background

High levels of poverty, especially in rural areas where the majority of poor[1] people live, characterise South Africa. Approximately 40% of South Africans are living in poverty, with the poorest 15% struggling to survive. This means that about 18 million out of 45 million people have not benefited economically from the freedom (Landman, 2003). About ten years after democracy, poverty and inequality are still common in South Africa. In rural areas, 65% of the people are poor with 27% below half the poverty line (Hunter *et al*., 2003).

The rural economy has not been vibrant enough to provide rural people with jobs. One can argue that if the South African economy had followed a different, non-discriminatory development in the past, the situation could be better. Entrepreneurial abilities of blacks were suppressed and this is one of the factors responsible for the inequality and dualism in agriculture and agribusiness (NDA, 2002).

Since 1990, several processes have taken place to reverse discriminatory legislation and to improve participation of micro, small and medium enterprises. Establishment of agencies like the Centre for Small Business Promotion (CSBP), Khula Enterprises Finance Limited and Ntsika Enterprise Promotion Agency by the Department of Trade and Industry (DTI) is meant to stimulate and promote small business development (DTI, 2002). The passing of the Broad-Based Black Economic Empowerment Act, 2003 is a huge step towards empowering the previously disadvantaged groups. Its main purpose is to promote the participation of black people in the economy. It also aims at empowering rural and local communities by increasing their access to economic activities, access to finance for black empowerment and skills training. This will enable them to own and manage new and existing enterprises (Government Gazette, 2004).

[1] Poor people in this context are believed to earn less than US$1 a day. A poverty line set at US$1 a day has been accepted as the working definition of extreme poverty in developing countries.

The rapid process of market liberalization has exposed many small-scale farmers and small agribusiness enterprises to a changing market environment that has intense competition (Hanekom, 1998). The government has made an effort to revise the agricultural marketing policy but both the local and foreign markets for South African products are still dominated by large commercial agribusiness firms. Liberalizing agricultural markets has resulted in dramatic changes. According to IFPRI (2003) this transformation has caused even more hardships for small agribusiness firms who struggle to meet new product standards.

With the South African economy rapidly opening up markets and becoming integrated into the world economy, there is increasing competition locally from business all over the world. This is putting pressure on all South African businesses, especially the small firms. Manoim (2002) is concerned that small firms not only fail to make it in foreign markets but even in domestic markets.

According to IFPRI (2003), globalization trends include privatization, deregulation, market liberalization and the signing of trade agreements between nations. In South Africa, these trends seem to be restructuring the business sector in such a way that the vulnerability of small firms is increased. It becomes important to realize that the global environment is changing rapidly. Hence, the need for small enterprises to make strategic decisions so as to prosper in the market place. These firms face a special set of circumstances when formulating marketing decisions as a result of them having little influence on the markets they serve.

1.2 Small business contribution to the economy

Small businesses in many developed and developing nations create jobs. In Botswana, Kenya, Malawi, Swaziland and Zimbabwe, the estimated number of people engaged in micro and small enterprise (MSE) activities is nearly twice the level of employment in large enterprises and in the public sector. Some have also argued that in the United States, 80% of overall employment in recent years has been from MSEs (Mead and Liedholm, 1998).

In Latin America and the Caribbean, small and medium enterprises make up more than 95% of the total number of business establishments and absorb more than 85% of total private sector employment in most countries. These firms also account for almost 60% of Canada's private sector employment and 43% of private sector Gross Domestic Product (GDP) (Services, 2000). Trade statistics in Asia show that small businesses' contribution to total exports is 56% in Taiwan, 50% in China and Thailand, 20% in Vietnam, 42% in South Korea and about 17% in Hong Kong and Singapore (www.publicworks.gov.za/speeches, accessed 05/02/ 2004).

According to GEM (2002), South Africa lags behind developing countries such as Argentina, Botswana and South Korea in terms of small businesses contribution to exports, employment and GDP. Given South Africa's legacy of big business domination, constrained competition and unequal distribution of income and wealth, MSEs are seen as an important force in narrowing income and wealth gaps and facilitating growth, especially in rural areas. Their relatively high labour intensity is of particular significance (Ntsika, 2002a). If enough attention is given to MSEs, they also have the potential to exploit niche markets both locally and internationally, activate competition, enhance productivity and through all this stimulate economic development (DTI, 1995).

1.3 Definition of Key Terms

1.3.1 Small Business

A small business as defined by the South African National Small Business Act 102 of 1996 is a separate and distinct business entity, including co-operative enterprises and non-governmental organizations managed by one owner or more which, including its branches or subsidiaries, if any, is carried on in any sector or sub-sector of the economy and which can be classified as a micro, a very small, a small or a medium enterprise. The quantitative criteria of classifying the small business sector as defined by SAQA (2004) are found in Table 1.

Table 1: Small business definition by industry

Sector or Subsector	Size or Class	Full-time Employees (less than)	Annual Turnover Limit (Rm)	Gross Asset Value Limit (fixed property excluded)
Agriculture	Medium	100	4.00	4.00
	Small	50	2.00	2.00
	Very small	10	0.40	0.40
	Micro	5	0.15	0.10
Mining and Quarrying	Medium	200	30.00	18.00
	Small	50	7.50	4.50
	Very small	20	3.00	1.80
	Micro	5	0.15	0.10
Manufacturing	Medium	200	40.00	15.00
	Small	50	10.00	3.75
	Very small	20	4.00	1.50
	Micro	5	0.15	0.10
Construction	Medium	200	20.00	4.00
	Small	50	5.00	1.00
	Very small	20	2.00	0.40
	Micro	5	0.15	0.10
Retail and Motor Industry	Medium	100	30.00	5.00
	Small	50	15.00	2.50
	Very small	10	3.00	0.50
	Micro	5	0.15	0.10
Wholesale trade, commercial agents and allied services	Medium	100	50.00	8.00
	Small	50	25.00	4.00
	Very small	10	5.00	0.50
	Micro	5	0.15	0.10
Catering, accommodation and other trade	Medium	100	10.00	2.00
	Small	50	5.00	1.00
	Very small	10	1.00	0.20
	Micro	5	0.15	0.10
Transport, storage and communication	Medium	100	20.00	5.00
	Small	50	10.00	2.50
	Very small	10	2.00	0.50
	Micro	5	0.15	0.10
Finance and business services	Medium	100	20.00	4.00
	Small	50	10.00	2.00
	Very small	10	2.00	0.40
	Micro	5	0.15	0.10
Community, social and business services	Medium	100	10.00	5.00
	Small	50	5.00	2.50
	Very small	10	1.00	0.50
	Micro	5	0.15	0.10

Source: SAQA, 2004

Micro-enterprises are very small businesses often involving the owner, family members and at most one or two paid employees. These enterprises usually lack formality in terms of licenses, tax registration, formal business premises, operating

permits and accounting procedures. Small enterprises are usually owner managed or directly controlled by the owner community. They are tax registered and meet other formal registration requirements (DTI, 1995). In medium enterprises there is further decentralization of decision-making, a more complex management structure and increased division of labor (Ntsika, 2002a). This study will only focus on micro and small enterprises (MSEs) as defined by SAQA (2004) and the term small businesses will sometimes be used to refer to MSEs.

1.3.2 Market participation

Various definitions of market participation have been suggested. Latt and Nieuwvoudt (1988) refer to market participation as commercialization. They consider it as any market related activity which promotes the sale of produce. Market participation can also be described as an individual's or household's economic transactions with others, be it in cash or kind (Von Braun *et al*., 1991). Staal *et al*. (1997) mention that a low proportion of products exchanged in the market reflects limited market participation. With the three possible states of buying, selling or not trading, Goetz (1992) defines market participation using household purchases and sales. Quantities bought or sold are used to determine market participation. In an agricultural market economy, market participation or commercialization is mainly when farmers stop being mostly subsistence farmers and become commercial. Market participation is then defined as earnings from market activities (Makhura *et al*., 1997; Makhura, 2001).

Some analysts compare utility obtained from selling, buying and remaining self-sufficient in a particular commodity, and use optimization to determine market participation (Key *et al*., 2000; Holloway and Ehui, 2002; Lapar *et al*., 2002). Households maximise utility by producing certain quantity of sales. The utility concept can be quite complex when there are several commodities that can be either purchased or sold by households or enterprises. The fact that levels of utility are unobservable random variables further complicates the matter. For analysis, Von Braun *et al*. (1991) make use of ratios for participation. The ratios for subsistence orientation on the income generation and consumption sides of households and the agricultural subsistence ratio are used. The ratio analysis takes into account wide concepts like the overall degree of market integration of rural households into the

exchange economy and the total consumption of households. Goetz (1992) states that, in principle, variables affecting the amount to buy or sell are the same as those affecting the decision of whether to participate in the market as a buyer or seller. Although Von Braun *et al*. (1991) use ratios to measure participation, they state that the proportion of agricultural produce that is not used for subsistence is sold. The higher the proportion of sales, the greater the market participation. The agricultural subsistence ratio they use takes sales into account.

The various market participation definitions and measurements do not rule out quantity of produce sold or sales. In this study, the proportion of produce sold or the value of sales will be used as a measure for market participation.

1.3.3 Local market

This refers to a set of actual and potential buyers within a given geographic area where the seller is also located. The target boundary may be a town, district, province, country or specific region (Kotler, 2003). In this research, the local market refers to the set of actual and potential buyers within the boundaries of South Africa.

1.3.4 International market

The international market refers to a set of actual and potential consumers beyond geographic boundaries and in most cases outside the national borders. Cross-border issues like tariffs, custom procedures, trade agreements, for example are taken into account (Kotler, 2003). Small businesses selling their products or services outside South Africa will be considered as international market participants in this research.

1.3.5 Conducive Economy

Conducive is defined by the Oxford dictionary as helping towards or making it easy. In this study, a conducive economy is an economy in which an enabling environment that makes it easy for MSEs to participate in markets has been created. A more detailed description of such an economy is presented in Chapter two.

1.4 Research Problem

The business environment in which a firm operates is important to that firm's success. The government has a critical role to play in creating a climate that is conducive for market participation (Ortmann, 2000). Efforts to encourage the growth of small enterprises have been directed at assisting particular target groups. Such efforts, according to Liedholm and Mead (1987), have been frustrated by a policy environment that is biased against small producers and enterprises.

The market share of small businesses in different sectors and their contribution to GDP is low compared to large enterprises. Tongaat-Hulett and Illovo, who own 40.8% and 30.4% of the sugar market, respectively, dominate the South African sugar industry. Small-scale participants in the industry own less than 10% of the total market (SASA, 2004).

In the South African baking and milling industry, Pioneer (Sasko and Bokomo), Tiger Baking and Milling and Genfoods (BB cereals and Premier Milling) bake and distribute most of the bread. Other leading wholesale bakers include Albany Premier, Sunbake and other commercial bakeries. There are also a number of independent bakeries which produce about 20% of daily output (Rydings, 2002).

In 1993, independent bakeries, which include mostly MSEs, registered only a 3% of market share. Since then there has been noticeable growth with respect to market share owned by independent bakeries. There has however, been tremendous growth in the number of bakery outlets as well. The increase in the market share of MSEs in the baking industry is still low compared to the increase in the number of MSE bakeries (Rydings, 2002).

Table 2 shows the percentage contribution of micro, small, medium and large enterprises to sectoral GDP in South Africa.

Table 2: Sectoral contribution of different business types to GDP in South Africa

Sector	Micro (%)	Small (%)	Medium (%)	Large (%)	Total (%)
Agriculture, forestry and fishing	3.4	9.2	43.8	43.6	100
Mining and quarrying	1.6	1.9	2.8	93.7	100
Manufacturing	4.9	7.5	21.2	66.4	100
Construction	2.8	32.5	14.7	50.0	100
Trade, catering and accommodation	4.2	24.6	12.1	59.1	100
Transport, storage and communication	8.8	19.1	20.2	51.9	100
Community, social, personal, finance and business services	15.7	13.9	2.6	67.8	100
Total	**5.9**	**14.8**	**15.4**	**63.9**	**100**

Source: Ntsika, 2002a

The above figures show that MSEs in South Africa are not contributing to sectoral GDP as much as large enterprises. MSEs in the agriculture, forestry and fishing sector contribute about 12.6% to sectoral GDP while in other sectors like mining and quarrying; trade, catering and accommodation; and transport, storage and communication; contribute 3.9%, 28.8% and 27.9%, respectively. This shows that MSEs are lagging behind in terms of contribution to GDP. MSEs in the agriculture, forestry and fishing sector, for example, account for about 64% of total employment in the sector (Ntsika, 2002a), but only contribute about 12% to sectoral GDP.

Participation of MSEs in markets is low as evident from market share figures of different markets and their contribution to GDP in the different sectors. This could be due to barriers they experience. In most developing countries, the overall policy environment does not promote small enterprises. The needs of MSEs are often different from those of large businesses. The larger firms have a more direct influence on government policy and this usually results in policies that neglect the needs of smaller firms. Trade agreements and marketing policies in South Africa in the past have been designed to favour the white commercial sector. The black subsistence and smallholders were often excluded (Groenewald, 1991). Hanekom (1998) points out that government policies are the main hindrance to small businesses' performances because they have persistently marginalized small-scale

black entrepreneurs and their access to resources such as land, credit and technical know-how has been curtailed. According to BIDPA (1999) the creation of an appropriate enabling environment for small businesses is essential and this revolution in third world countries should start from government policies. Very few studies have evaluated the institutional environment surrounding small businesses and even fewer have done cross-country comparisons (Co, 2004).

Little research has been carried out to assess the conduciveness of the South African economy to small business market participation. Most previous research has focused on measuring competitiveness (Esterhuizen *et al*., 2001; Omoregie and Thomson, 2001; Van Rooyen *et al*., 2001; Edwards and Schoer, 2002; Golub and Ceglowski, 2002; Bhatnagar and Sohal, 2003). Developed tools have mainly focused on competitiveness of either a particular industry or economy and this includes the Global Competitiveness Report that is published annually by the World Economic Forum (WEF). Efforts to support MSEs may not achieve much if the economy in which they operate is not considered. These enterprises operate in a given environment that is shaped by the level of economic and social development, policies and regulations and also the local culture (ILO, 2003).

1.5 Objectives

The general objective of the study is to assess the conduciveness of the South African economy to small business market participation.

The specific objectives are to:

(a) analyze programmes, institutions and policy initiatives for promoting small business market participation in South Africa;

(b) identify factors that influence small business market participation;

(c) develop a tool to assess an economy's conduciveness to small business market participation; and

(d) measure the South African economy's conduciveness to small business market participation.

1.6 Outline of study

This study consists of six chapters. Chapter two describes a conducive economy to MSE market participation in detail. It also gives an overview of environmental barriers that MSEs experience when trying to participate in markets and suggestions to overcome these barriers. Chapter three describes policies and programmes that have tried to address MSE development in South Africa and how much they have achieved in terms of promoting MSE market participation. Chapter four presents research methods and procedures. It provides information on sampling procedures, sources of data and methods used to analyze data. Variables used to measure conduciveness of the South African economy are discussed and specific measures that were used to define each variable are presented. A scale for evaluating conduciveness of an economy is also defined in this chapter.

In Chapter five, results of the study are presented and discussed. Scores are allocated to the South African economy for each factor that influences MSE market participation relative to other countries that have promoted MSE market participation in particular areas. The overall score for the conduciveness of the South African economy to MSE market participation is also given. Explanations on why the scores are high or low depending on the score for each variable and the overall score are based on what is happening in South Africa at the moment and what has happened in the past. Chapter six summarizes the study. It also presents the conclusion where the conduciveness of the South African economy to MSE market participation is evaluated. Suggestions on how to improve areas with low conduciveness scores are outlined.

CHAPTER 2
LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on the characteristics of a conducive economy. Factors that influence the market participation of MSEs are identified and how they act as barriers to MSE market participation. An overview of how other countries have tried to overcome barriers to MSE market participation is also given.

2.2 What is a conducive environment?

A number of policy areas impact upon market participation of small businesses and combine to create an overall policy environment for these enterprises. Identified priority areas that help to define a conducive economy are technology, finance, physical infrastructure, human resource development, information, strategic alliances, the regulatory environment and the macro-economy in general. According to BIDPA (1999) the government is probably the largest sector with the most influence on these priority areas. Hence the importance of government policies and programmes.

An economy that is conducive to market participation has few or no barriers to market participation of small businesses. In general this environment has a favourable policy framework, well-designed instruments and mechanisms that promote the participation of small businesses in markets. A conducive economy will be characterized by the following:

(a) Appropriate technology for MSEs is available. Information about technology is readily available so that these enterprises can make informed decisions and adopt appropriate technology. Funds for research and development are also available from the government, non-governmental organisations (NGOs) and the private sector to support innovation and creativity among MSEs. Technological infrastructure like internet facilities is available and at affordable costs (APEC, 2002). MSEs make use of e-commerce to access information on markets, hence can follow market trends closely.

(b) MSEs have access to relevant information concerning a variety of issues. One-stop information centres are available and widespread. These centres provide information on business procedures, legal frameworks, access to finance, available technology, training opportunities, business opportunities etc. Seminars are organised in different provinces, both in rural and urban areas and brochures are available at affordable costs or for free containing information on various issues relating to markets. On-line facilities are also available to allow MSEs access to more information on markets at home and abroad.

(c) Financial resources are available and accessible to small businesses. These businesses are aware of financial programmes from both private and public companies. Credit-guarantee institutions are in place and function well enough to encourage banks and financial institutions to lend to MSEs (ILO, 2003). Some financial institutions are available specifically to lend to MSEs at low interests. Loan application procedures are also simple to allow MSEs to apply without facing much difficulty.

(d) Infrastructure like storage, transport and communication resources are adequate. This infrastructure is also available at an affordable cost that makes marketing a lot easier for MSEs. Generally the government invests in physical infrastructure by maintaining and upgrading it as often as they can. Schools are available in both rural and urban areas to allow everyone access to education.

(e) An entrepreneurial culture is promoted. Business subjects are part of school curricula. This promotes an entrepreneurial culture among students (BIDPA, 1999). Training centres are also available and MSE operators can have specialised training to improve on the different aspects of marketing. Vocational training is subsidised to encourage entrepreneurs to attend. The government, NGOs and the private sector devote funds to increasing the number of training institutions and extend outreach efforts in marketing and management to rural areas.

(f) Strategic alliances between small and large businesses are fostered in a conducive economy. Both small and large businesses benefit mutually from the relationship

between them. The benefits for MSEs include information, technology sharing and secure markets for their products (Vietnam, 2004).

(g) The regulatory environment is generally favourable to MSE development. The government implements programmes that simplify and rationalise procedures and regulations so as to reduce compliance costs for MSEs. Legal and tariff barriers are low and MSEs produce goods and services using the same procedures for different markets. The government shows commitment to promoting MSE development. There is reduction and better targeting of tariffs to increase participation of firms in international markets. There is also harmonisation of standards and customs procedures and no unnecessary bureaucracy and red tape.

(h) The macro-economy is stable. The government exercises fiscal discipline, is committed to low inflation and low interest rates. Policies are not biased against MSEs but are actually designed with them in mind.

2.3 Barriers to MSE Market Participation

MSE participation in markets is generally low compared to that of large enterprises. This may be attributed mainly to barriers MSEs experience. Some of these barriers are due to entrepreneurial characteristics while others may be due to the size of the firms and others the environment in which they operate. This study will only consider environmental barriers to MSE market participation. This section discusses barriers that MSEs experience when they participate in markets.

2.3.1 Transaction Costs

Transaction costs are costs associated with exchange and contribute to barriers to market participation faced by smallholders (Delgado, 1999). They include the costs of searching for a potential partner with whom to exchange, screening costs associated with gathering information about the reliability of the trading partner, bargaining with potential trade partners to reach an agreement, monitoring the agreement to see that its conditions are fulfilled, enforcing the exchange agreement and finally transfer costs that mainly involve transport, storage, retailing and losses (Doyer, 2003). According

to Makhura (2001) a number of studies have addressed transaction costs especially in the area of finance but more needs to be done to understand how these costs affect input and output markets. Smallholders in developing countries often face high transaction costs in marketing their output due to the nature of their products and the environment in which they operate. Hobbs (1997) and Makhura (2001) applied the New Institutional Economics paradigm to analyze transaction costs. Transaction Costs Economics in particular concludes that all transactions are costly due to the fact that market exchange takes place in an environment full of friction.

In East Africa, the scattered nature of milk markets and the risk attached to marketing perishables increased transaction costs (Holloway *et al*., 2000). Research by Matungul *et al*. (2001) showed that market participation by small-scale sugarcane growers is significantly influenced by transaction cost proxies such as co-operation with large commercial farmers and ownership of means of transport. A survey in the Eastern Cape showed that rural retailers were at a disadvantage compared to those based in town (Ruhiiga, 2000). Major reasons were lack of physical infrastructure and the spatially inefficient settlements.

Peripheral location can act as a constraint to market development because such locations are characterized by less demand for products and limited purchasing power. Evidence from Israel however suggests that distance from towns may protect small firms by sealing demand into that local area (Felsenstein and Schwartz, 1993). In Tanzania, poor infrastructure such as working premises, roads, cold rooms, warehouses, power, water and communication negatively affects MSE development. High transport costs remain an important factor discouraging the export of goods from African small producers (Ngasongwa, 2002).

The poor state of infrastructure makes it difficult for these firms to market their products efficiently. It makes product storage and distribution expensive and complicated. A major element of transaction costs relates to market information and distance to markets. Information about the market is needed for firms to make informed decisions especially in the competitive environments of today. Without enough information on markets it becomes difficult to locate buyers. Entrepreneurs will not know consumer needs, market prices and quality requirements. Smaller firms

usually lack resources and access to information leading to an increase in their transaction costs.

2.3.2 Diseconomies of scale

Firm characteristics also seem to have an important influence on the probability of an enterprise experiencing a marketing barrier but these characteristics may differ from one type of industry to another. In an industry where scale economies play an important role, an entrant with a limited scale of production faces higher costs. In Japan, scale economies were found to be an effective market entry barrier for small firms (Kawai and Urata, 2001). Due to the fact that investment in physical capital, technology and advertisements has a characteristic of fixed costs, smaller firms are likely to be at a cost disadvantage due to their size.

Groenewald (1991) gives an example of South African large beef feedlots that received preferential treatment regarding marketing permits on controlled meat markets. Larger firms may also obtain volume discounts on purchases or price premiums for their products. In some cases, small firms use smaller, less efficient versions of the equipment employed by larger firms so as to improve economies of scale. In business, some inputs are indivisible, so small firms may experience diseconomies of scale for longer periods. High transport costs, information requirements and investment in machinery and equipment cause high start-up and operating costs for small businesses. Larger firms enjoy economies of scale caused by the substitution of capital for labour and their ability to use machinery and buildings more efficiently.

2.3.3 Social capital

There are also cases where firms try to maintain networks built on social capital so as to exclude other firms. When firms behave in this manner, social capital then acts as a barrier to market entry to the excluded firms. Powerful firms may restrict information and knowledge within themselves. This increases transaction costs to the smaller firms who will not be part of the network and hence reduce their market participation (Omamo & Farrington, 2004).

If newcomers find it difficult to enter, the business community will be a more or less closed group. A newcomer who successfully joins the group may not necessarily gain full access to information sharing. The number of a firm's connections can be taken as one measure of social capital. Those firms with fewer connections will have limited access to social capital. MSEs usually have fewer networks and, therefore, are unlikely to benefit from social capital. Instead, social capital mostly acts as a barrier to market participation for MSEs excluded from networks.

2.3.4 Regulatory Barriers

MSEs are at a significant disadvantage relative to larger firms when faced with existing regulatory barriers. The regulations are not designed with them in mind but affect them disproportionately. This leads to high transaction and conformance costs. Non-tariff barriers (NTBs) represent fixed costs in international trade which are a burden to enterprises. South Africa and other countries that are members of the World Trade Organisation (WTO) are bound by WTO Agreements on the Application of Sanitary and Phytosanitary (SPS) measures and the revised Agreement on Technical Barriers to Trade (TBT) (Bruno, 1997). The main purpose of these agreements is to promote food safety and protect human health, plant life, animal life and health (WTO, 2000). The WTO recognizes the Codex Alimentarius Commission and refers to it for food safety. It also refers to the standards, guidelines and recommendations of the International Plant Protection Convention and the International Office of Epizootics for plant and animal life and health respectively. International standards are justified measures countries should follow (NDA, 2003).

Most firms in developing countries, be it large or small, do not have the capacity to meet these standards. It is clear that their interests are not taken into account. The Agreement on TBT provides technical regulations and standards and these include packaging standards, process standards, product standards and labeling requirements. Nutritional claims also fall under TBT (NDA, 2003). There are more chances that firms in developing countries, especially small firms lack the necessary resources to serve foreign markets under the WTO conditions.

Research carried out in Zimbabwe by Cato (2000) showed that small-scale farmers and firms had minimal participation in the beef-export trade to the European Union (EU). The EU required full traceability of the cattle, branding and ear tagging. Such costs proved to be too much for small firms and farmers. In some cases the quality of MSE output is not suitable for international markets. Meeting standards and conformance required by regulation is costly and most small businesses cannot afford that. For example, the total cost for upgrading facilities, implementing a quality control system and training staff in the export-oriented shrimp sector of Bangladesh to achieve acceptable sanitary and technical standards was estimated to about US$18 million excluding annual costs of maintenance (Grote, 2002).

Many countries require businesses to establish a commercial presence before they can allow them to export to their markets. Registration and legal incorporation requirements are often complex and too expensive for MSEs considering their size and resource constraints. Obtaining reliable information on market opportunities and relevant regulations is also difficult for these firms.

2.3.5 Lack of finance

MSEs generally lack access to finance for a number of reasons. Commercial banks are reluctant to lend to MSEs because they usually lack collateral and guarantee making them risky to lend to. According to Ngasongwa (2002), screening and administering loans to these enterprises involves high transaction costs. In some cases entrepreneurs lack information on available sources of financial capital. Entrepreneurs also find it difficult to prepare and present applications that meet bank requirements.

Lack of finance acts as a barrier to market participation when MSEs do not have adequate financial resources to advertise and transport their products. It also affects market participation indirectly, for example, due to lack of finance these enterprises may not be able to adopt some of the technology that help to improve the quality of their products. Consumers will therefore not be too keen on buying MSE products. Without adequate financial resources investing in equipment and machinery, quality control measures and adequately trained staff is almost impossible. According to Grote (2002) many developing countries that would like to export their products

cannot meet the requirements because of poor machinery and equipment and outdated technology. They do not have enough money to acquire new machinery and equipment. Generally, limited access to finance limits their capacity to survive, upgrade technologies, improve management, raise productivity and eventually expand their markets.

2.3.6 Technological barriers

Rapid technological change is transforming the world, enhancing productivity and enabling customized production and marketing processes. Increased global competition is also closely linked to technological change. This includes biotechnology advances, information and technologies that affect processing, storage, shipping and inspection activities. Controlled atmosphere storage, dehydration techniques for vegetables, vacuum packing for milk, etc. have led to small firms going out of business not bearing the competitive pressure (Reardon and Barret, 2000). MSEs in the Baltic Sea region are facing intense competition in their domestic markets due to opening up of markets through globalization and easy access to information by enterprises around the world (Nahar *et al*., 1998). Globalization has further exposed MSEs to competition from foreign firms which have better technology and hence better quality of products. If small firms are reluctant to adopt technology, they will be further marginalized. Based on a survey in Ethiopia, the most significant obstacles on e-commerce were:

- lack of awareness of what e-commerce is;
- high cost of equipment, integration and connectivity;
- lack of skilled personnel; and
- uncertainty of regulation (ADF, 1999).

Most of this technology is beyond the average small business in developing countries. MSEs generally lack information on available technology. In cases where they are able to access the relevant information, they lack the financial resources and skills to adopt and make use of the new technology. Those that have implemented new technologies like information and communication technology (ICT) and biotechnology have generally faced high transaction costs. Owing to the low level of

technology among these enterprises, products they manufacture are of poor and inconsistent quality, not attractively packaged nor properly described.

2.3.7 Lack of training and education

Most studies have found that MSEs that are led by educated managers perform better than other firms in all business aspects including exporting and niche marketing (Goetz, 1992; Key *et al*., 2000; Matungul *et al*., 2001). In a study by Makhura (2001), education was however, not significant in explaining market participation. The education indicator in the study was based on average education of the household. Probably, the educational level of the household head could have been significant in explaining market participation.

Besides formal education, vocational training also has influence in the running of MSEs. Availability of human resources and managerial expertise is critical for MSEs to participate in markets. In most cases, lack of education or training acts as a barrier to market participation for small businesses. Education is important when it comes to interpreting information about the market.

2.3.8 Discrimination

Due to colonialism in many African countries, the black majority have not been educated or groomed to become entrepreneurs but to become wage employees. As a result, black entrepreneurs seem to face more problems when it comes to competing with well-educated and multi-skilled white entrepreneurs who have well-established small businesses. The South African clothing industry, for example, has been historically dominated by large, white-owned enterprises. Now that restructuring is in progress, emerging black-owned businesses are experiencing a lot of difficulties, particularly with regard to market expansion (Rogerson, 2000). Van der Berg *et al*. (2002) found that educational attainment and performance clearly differed by age, race and gender in 1993. In the former Transkei region, one of the major causes of the high failure rate of small businesses was found to be the lack of knowledge and skills among black people (Kotze` and Staude, 1996).

In most developing countries, women own the majority of MSEs (ILO, 2003). Policies and programmes are however based on the assumption that entrepreneurs are mostly men. Programmes that aim at poverty alleviation or women empowerment are the ones that usually consider women as entrepreneurs. Mead and Liedholm (1998) found that MSEs owned by females were less likely to survive compared to their male counterparts. According to a survey by Honig (1998), micro-enterprises owned by women proved to be less successful than those owned by men. Female-owned enterprises also earned less money. Research carried out by Rogerson (2000) also provides evidence that male entrepreneurs on average tend to be more successful and are more likely to be in more profitable segments.

Research has shown that women as compared to men generally lack education and skills (Mead and Liedholm, 1998; Honig, 1998; Rogerson, 2000, Van der Berg *et al*., 2002). There is also a social practice of under-rating women's work. Attitudinal bias against women is common and women also lack awareness or are reluctant to approach banks for facilities. This results in their lack of access to credit, raw materials and markets. While male entrepreneurs also face some of the constraints, women have additional gender-specific constraints like little confidence, time constraint, bias and conflicting roles.

2.4 Overcoming Barriers to MSE Market Participation

In this section, literature on how to overcome environmental barriers to MSE market participation is reviewed. The literature review covers efforts being made by different countries to overcome barriers to MSE market participation and suggested measures by various researchers on how to overcome these barriers.

2.4.1 Technology

According to Asia-Pacific Economic Co-operation (APEC) ministers (APEC, 2002), technology is key to productivity increases in MSEs. It allows small businesses to develop new and modified products and therefore target new markets. APEC (2002) suggests the following measures to encourage utilization of technology by MSEs:

- create and increase awareness of technological developments;

- encourage adoption of appropriate technology;
- encourage and support innovation and creativity in MSEs;
- eliminate impediments such as gender-biased impediments to technology acquisition;
- establish mechanisms for networking between MSEs and technology providers; and
- facilitate joint ventures to enhance technology upgrading and transfer.

Electronic commerce has become important in this rapidly changing global environment. Research by the University of Natal has shown that e-commerce capabilities could enable South Africa's Small Wooden Furniture Producers to pursue profitable and diverse commercial activities and enhance their access to global markets (ID21, 2003). Through adoption of e-commerce MSEs can take advantage of the opportunities to expand their markets. Governments can encourage the use of e-commerce by small businesses through the provision of the required information and infrastructure. Eco-business opportunities could be promoted by maintaining databases on business matching and facilitation services. The use of the internet can eliminate barriers of distance and time and facilitate communication, hence allowing small businesses to participate in markets that are located far away. The majority of MSEs can make use of e-commerce and its competitive advantage of speed, convenience and reduced costs to expand into new markets.

Small firms that adopt e-commerce could among other benefits, use the internet for accessing information, services, markets and also for monitoring trends (USDA, 2002). In some cases e-commerce can be used to reach new markets and to strengthen customer relations. Effective use of today's technology will allow MSEs to better meet customer needs and build customer confidence and satisfaction. In the APEC region, the benefits of e-commerce to small businesses are already evident in a number of countries. It has become important that MSEs access information concerning regulatory and administrative requirements on trade and investment through the internet. A website called *BizApec.com* has been created and this provides all the required information for MSEs to conduct business in the region. Great emphasis has also been placed on the development of infrastructure for ICT at

affordable costs. This includes reducing the costs of accessing the internet and developing one-stop information centres through-out the region (APEC, 2001). More funds should also be allocated for research and development concerning MSEs and their markets. Research collaboration should be promoted between public and private research institutions, academic institutions and business enterprises. If possible, tax incentives could be made available to encourage a research and development culture among MSEs.

Mexico is to create a sector fund to support the technological development of MSEs. This will involve implementing consultancy schemes and establishing technology link centres that will offer these enterprises technological support and supply them with technology. The New Zealand government has policies that are directed at enabling MSEs access to innovation and new technologies created home and abroad (APEC, 2002). The challenge to policy makers is to create an enabling and nurturing environment, to promote the spread of technology and eliminate all barriers that emanate from lack of access to technology.

2.4.2 Finance

The availability and accessibility of financial resources is crucial for MSE development. Lack of finance remains a major constraint for these enterprises to fully utilise opportunities to participate in markets. Governments should take the lead to set up specialised financial institutions for MSEs given that commercial banks are usually reluctant to lend to them. In some cases, banks and other financial institutions can be given incentives to encourage them to lend to small businesses. Governments can also set up credit-guarantee corporations to insure these banks against default arising from lending to enterprises without collateral. Export credit refinancing schemes may be instituted to reduce risks arising from exporting. Liberalization of the financial system can help some banks and non-bank financial agencies to mobilise more deposits in the form of savings. This increases financial resources available for lending (ILO, 2003). According to the World Bank (2004), NGOs and community-based organisations are likely to succeed in providing micro-enterprise lending with loan sizes below two thousand rands in South Africa, due to their lower

cost structures and easier access to information arising from their being close to the community.

Textile entrepreneurs in Zimbabwe call for an improvement in communication between banks and MSEs, more flexibility in collateral based lending and reduction in interest rates (Jackson, 2004). In an effort to improve MSEs' access to finance in Botswana, a micro credit scheme and a credit guarantee scheme were established. The former was meant for providing small loans while the latter was meant to improve firms' access to bank credit. The MSE policy in Botswana also provided for subsidies to help small firms obtain professional help in the preparation of funding applications (BIDPA, 1999). Finance to MSEs has also been provided through informal lenders, savings and credit associations. APEC (2002) recommends the following initiatives so as to overcome financial barriers to market participation:

- develop financial institutions specifically to support MSEs;
- develop performance based lending practices;
- encourage banks to allow loan restructuring;
- provide credit on an open and equal basis;
- provide micro-lending;
- simplify procedures for loan application;
- provide short-term tax relief options for MSEs; and
- provide low interest loans to MSEs.

The savings operation of the Grameen Bank has been an important source of capital for the bank's lending operations despite funds from other organisations. All borrowers deposit their weekly savings to manage their credit and accumulate their own capital reserves. The success of the bank, with a repayment level of about 98%, shows that the poor can repay their loans if a suitable lending institution is established. This has also been made possible through the use of the group process with group members encouraging each other to accept the disciplines of borrowing and repaying on time. There are also several other financing programmes operated by NGOs, programmes of the Bangladesh Rural Advance Committee and the Micro-Industries Development Assistance Society (ILO, 2003).

Over the years Indonesia has experimented with a wide range of financial schemes for small businesses. These range from programmes on a national and regional scale, with and without a savings component, with subsidised and commercial interests, with broad and narrowly defined target groups and loan purposes. Since 2001 each bank has been asked to announce its business plan to finance small businesses. The Central Bank of Indonesia then announces the total business plan for financing small businesses yearly. However the Bank Perkreditan Rakyat has been doing very well in serving these enterprises in both rural and urban areas (Indonesia, 2004).

Non-bank financial institutions should also be considered when it comes to financing MSEs and these include saving and loan co-operatives, village credit agencies and many others. There are also venture capitals, credit insurance institutions and credit guarantee institutions that can help to finance MSEs. Developing countries should seek advice to find successful models of financing MSEs. Examples include the successful Grameen Bank model of Bangladesh and the Bank Rakyat Indonesia's micro-financing system.

2.4.3 Physical Infrastructure

Developed infrastructure should be available and at an affordable price for small businesses. The Tanzanian government promised to improve infrastructure and provide utilities in collaboration with the private sector and development partners. Some developing countries tried to address infrastructural requirements by developing industrial clusters and trade centres and allocating land and underutilised public buildings to MSEs (Ngasongwa, 2002). WEF (2004) suggests that African countries raise the quality of their infrastructure if exports are to be considered as an engine for economic growth. In Zambia, state investment in rural infrastructure was found to be crucial for an efficient rural marketing system. The government was also supposed to offer services in the form of a market information system, quality standard guidelines and training to enable small-scale producers and private traders to be aware of price changes and quality expectations on which to base their marketing decisions (Kalinda *et al*., 1998). McPherson (1996) also found that enterprises that operate in commercial areas are more likely to overcome constraints relating to market access, infrastructure and information.

MSE market participation is dependent on access to physical infrastructure such as roads, rail, electricity and telecommunications. Availability of such resources at an affordable cost for MSEs results in lower transaction costs. To reduce transaction costs, the government should invest in physical infrastructure like transport and communication resources so as to allow for easy access to national and international markets. This usually fosters MSE development through increased market participation.

According to Grote (2002), cheap transport such as huge cargo ships ensure that products from Argentina, Thailand and the United States of America reach customers in Philippines more cheaply than the products of other producers in the country. Adequate provision of infrastructure at reasonably low prices is therefore essential to provide a conducive environment for market participation.

2.4.4 Human Resource Development

The education system of a country plays a critical role in producing entrepreneurs and in shaping their attitude. There is a need to promote entrepreneurial culture and business skills especially among the young population. This can be achieved through introducing more courses that deal with entrepreneurship in school curricula and colleges. Equal access to education also plays a role to make sure that everyone interested is exposed to available courses (Ngasongwa, 2002). The small business policy in Botswana acknowledges that the role of business subjects in schools must be enhanced. The government promised to offer subsidised training courses for small businesses and to set up a mechanism for accrediting trainers (BIDPA, 1999).

Extension and outreach efforts in marketing skills and management should be made available especially in rural areas. The government together with private institutions should devote funds to skills development and increase institutions for vocational training. On the job training should also be practised more often among MSEs so as to promote soft skills like teamwork and communication (APEC, 2002).

It is important that appropriate training programmes become available to develop managers of MSEs who generally lack skills and are unable or unwilling to train workers. Without the necessary skills, they find it difficult to expand to new markets or adjust to the demands of globalization. Through continuous learning, managers become exposed to new knowledge resulting in better business practices like the adoption of new technology and the exploring of niche markets. Training programmes should be implemented and steps taken to train more experts in the field of marketing and international trade. Entrepreneurs should also take courses in marketing and trade and become familiar with the most advanced skills available so as to have more ability to penetrate markets.

2.4.5 Information

MSEs need access to timely and accurate information on a variety of issues. These include business procedures, market trends, legal frameworks, available financial, technological, training and business opportunities. Many of these firms remain uninformed. However, these days ICT plays a crucial role in providing information that can help MSEs to market their products and services globally. The on-line facilities supply firms with information on market opportunities, regulation, cultural and business practices in other countries (Ngasongwa, 2002). Due to lack of information, many Zimbabwean firms in the textile industry are unwilling to expand beyond their borders despite some entrepreneurs having rough ideas about having opportunities in Mozambique (Jackson, 2004). Availability of information to small enterprises is likely to encourage management to expand and search for new markets.

Small business support services like Local Business Service Centres (LBSCs) have become popular in some countries. Their main purpose is to provide small firms with relevant information. This information can also help small businesses to identify and meet demands for goods and services required in and out of their countries.

According to APEC (2002), organising seminars, printing and distributing brochures has proven to be very costly in the region. The development of an effective system to disseminate information remains a challenge in an effort to provide a conducive environment for market participation, especially in developing countries. Small

business centres need to be set up in countries that do not have them to ensure that MSE operators have access to information at affordable costs. Training on ICT should be encouraged as well as the establishment of a data bank for MSEs. A national website and a directory of service providers could also be established.

2.4.6 Strategic Alliances

Strategic alliances between small and large businesses are meant to benefit the former and the latter in most cases. In support of this view, Machethe *et al.* (1997) mention how such a relationship benefits smaller businesses. The smaller partner may be able to obtain more information from the larger partner and also be in a better position to obtain financial assistance. Small businesses should be encouraged to take up franchises, joint ventures and subcontracting so as to have increased market access and secure markets. They need help in identifying external partners and communication should be improved so that the smaller firms will not feel exploited (Jackson, 2004). According to the Vietnamese government, subcontracting arrangements lead to an improvement in small business product quality. The creation of linkages between MSEs and other enterprises promotes technology transfer, expands markets and generally improves competitiveness of smaller firms (Vietnam, 2004).

On their own, MSEs are often unable to capture market opportunities that require a large scale of input combinations. Collaboration can improve their competitive position and reduce problems related to their size. In the APEC region progress has been made on efforts such as the implementation of business matching programmes to foster strategic alliances. Vendor programmes have also been introduced where small and large companies benefit from a commercial relationship in regional and international markets. Networking, clustering of firms and integration of small enterprises is being facilitated all over the region (APEC, 2002). Co-operation among MSEs also results in collective economies of scale, benefits of information sharing and inter-firm division of labour. In addition, regional co-operation results in strong formal and informal linkages between firms and other institutions such as the local government and universities.

According to Liedholm and Mead (1987) subcontracting arrangements in Africa are not as common as in Asia. Lessons need to be learned from Korea where policy measures prevent large firms from producing certain components internally so that they source them from MSEs. This has worked to secure markets for small businesses. In 1992 about two-thirds of small business activity in Korea was in subcontracting. Smaller firms in Korea have also gained from larger firms who through subcontracting shared technologies and research and development resources (Manning, 1993; Rogerson, 1998). Mexico also introduced alliance programmes whereby large companies benefit through guaranteed input supply at stable prices while small companies gain access to a permanent commercial relationship, hence a guaranteed market for products. It also developed an entrepreneurial register to encourage links between businesses. The New Zealand government has specific programmes to encourage networking, cluster development and collaboration. Funds are also provided to support these clusters and incubator projects (APEC, 2002).

According to a survey by a small business agency in Japan, approximately 56% of small firms in the country are engaged in subcontracting. Most large firms depend on small firms for the supply of parts and components and these small firms obtain technical and financial assistance from the large firms (Kawai & Urata, 2001). Intervention by the government or private sector is needed for small businesses to take advantage of linkages formed and participate in the growing market economy.

Supply-chains are being encouraged as a form of networking for both small and large businesses. This offers new possibilities for creating organizational structures and linkages that will ensure enterprises a strong position in the market. Research has been done on supply chain networks in both developing and developed countries (Hanekom, 1998; Esterhuizen *et al.*, 2001; NDA, 2002; Competition Commission, 2003). These studies seem to agree on the fact that these networks result in mutual benefits for all parties involved, including final consumers. Public procurement programmes by certain governments have helped MSEs especially in developing countries. In Brazil, procurement contracts were offered to groups of small producers who had to co-operate to fulfill orders and get paid only when an order got completed. A certain town had four sawmills with 12 employees before the public procurement programme. Five years later a competitive industrial cluster with inter-firm co-

operation, backward and forward linkages had been created (Rogerson, 1998). However, most government procurement programmes are usually lenient with small businesses. MSEs fail to grow and become more competitive because the government lets them get away with producing low quality products.

2.4.7 Regulatory Environment

There is need to ease the regulatory burden and design procedures and protocols bearing the needs of MSEs in mind. Globalization brought about a regulatory challenge to remove legal and tariff barriers. Most countries have significantly reduced tariffs through their scheduled tariff reduction programmes but NTBs like sanitary and phytosanitary measures and technical barriers to trade have taken over (Bruno, 1997). In Mexico, the North American Free Trade Association has increased international market access substantially. Unfortunately, most MSEs have not been able to meet international standards of quality and reliability of delivery (ILO, 1996).

Ministers in the APEC region are making efforts to accelerate trade facilitation, especially harmonisation of standards and customs procedures in order to bring administrative and compliance costs incurred by small businesses down. More policies that support regionalism have been implemented after recognising that strengthening the regional market is key to achieving sustainable development (APEC, 2002). The Tanzanian government promised to implement programmes that simplify and rationalise procedures and regulations so as to encourage compliance of MSEs (Ngasongwa, 2002). To create an enabling environment in Zimbabwe, entrepreneurs asked for commitment from the government. They expressed the need to clarify legislation, get rid of corruption and, if possible, use the ‘watch dog’ approach across the Southern African Development Community (SADC) region. Reduction and better targeting of tariffs would also help increase their participation in international markets (Jackson, 2004).

Governments should develop programmes to remove obstacles related to regulatory reform and legal framework. Unnecessary bureaucracy and red tape should be eliminated. This will ease the transition of small firms from local to international markets and also promote the establishment of born-global start-ups. New Zealand

has tried to improve the regulatory and business environment by reviewing international trade policy and introducing regulatory and compliance cost statements to accompany government proposals (APEC, 2002).

MSEs should be able to meet international standards or demands of the markets they serve in order to improve their competitive position. Barriers like quality measures, regulatory constraints and compliance costs which seem not to be affordable by most MSEs could actually be affordable if these enterprises and the economies where they operate could work together. They would find the right information and find means to improve their production quality. SCSC Chair (2004) suggests the following measures in relation to standards and conformance.

- Transparency to make sure that MSEs have access to the relevant information.
- Public information and assistance programmes to ease small businesses' comprehension of certification and standards.
- Governments should provide ways to facilitate certification requirements.
- Regular contact between MSEs and certification bodies to allow for clarification of requirements and new standards and regulation if any.
- Promote MSEs' access to and knowledge of certification infrastructure.
- Homogenised market requirements to allow firms to produce goods and services for different economies using the same design and procedures.

In South Africa, the *Broad-Based Black Economic Empowerment Act* of 2003 tries to redress past injustices by empowering blacks (Government Gazette, 2004). In recent years, many programmes have been implemented to further entrepreneurship, particularly female entrepreneurship. Organizations have become interested in promoting women's access to credit and markets. These women specific programmes operate differently from gender-neutral programmes. Governments and NGOs have taken on the task of empowering women through small enterprises (ILO, 2003). Considering the support being given to women, chances are that female-owned businesses could now be at an advantage compared to those of their male counterparts. However, some of the programmes have an income-generating

approach where the organizations end up performing themselves without giving women the chance to participate.

To reduce constraints facing MSEs in the SADC region, Otto and Konstant (2000) recommend the following:

- harmonizing macroeconomic policies;
- initiating and improving regional markets;
- improving information systems;
- challenging the use of NTBs;
- activating participation by the private sector;
- creating a suitable environment for small scale trading; and
- creating efficient local markets and distribution networks.

The government should play a major role in creating a stable macroeconomy that will promote small businesses to participate in both local and international markets. Generally, the macroeconomic framework should be stable providing the foundation for development and shaping the environment for small business establishment, market participation and growth. This can be possible where there is financial discipline by governments, fiscal discipline, a commitment to low inflation, tax reform and exchange rates which reflect the true strength of the economy. Government policies should not discriminate against the disadvantaged in the community. There is need to empower the historically disadvantaged like blacks in some countries and women in most countries.

2.5 Summary

Among the common barriers to MSE market participation are transaction costs, diseconomies of scale, lack of access to information and social capital, lack of access to finance, poor infrastructure, technological barriers and lack of skills. If these barriers are overcome, an environment conducive to MSE market participation will prevail. After having realized the importance of small businesses in the economy, countries are implementing several initiatives to overcome constraints faced by

MSEs. Suggested measures to overcome barriers to MSE market participation include the ones below:

- Create and increase awareness of technological developments.
- Encourage MSEs to adopt appropriate technology.
- Governments should establish credit guarantee schemes.
- Loan application procedures should be simplified.
- Governments should invest in physical infrastructure.
- Private and public institutions should devote funds to human resource development.
- Small business centers should be set up to provide MSEs with information.
- Strategic alliances between small and large enterprises should be promoted.
- Governments should facilitate MSE certification requirements.

An economy that is conducive to MSE market participation has few or no barriers to small business market participation. MSEs will have access to all the information they need to make marketing decisions. They will have appropriate technology at their disposal and access to financial resources. Strategic alliances will be common and beneficial to all parties involved and infrastructure will be developed and accessible enough to allow MSEs to transport their products and communicate easily. Training centres will be available and enough funds will be devoted to human resource development. The regulatory environment will generally be favorable to MSE development.

CHAPTER 3
POLICIES AFFECTING MSE MARKET PARTICIPATION

3.1 Introduction

Initiatives to support MSEs existed even during apartheid but they were not properly co-ordinated and were also politically biased. After the 1994 elections, the new government that took over had to re-formulate policies to address a wide range of social and economic issues. The South African government realized that to reach their goals of poverty elimination, unemployment reduction and redistribution of wealth, MSEs had a key role to play. The government had to work towards creating an appropriate enabling environment (DTI, 1995). This chapter reviews South African policies relevant to MSEs.

3.2 General description of South African policies

Policies and programmes to be analyzed are listed and discussed below.

- The Reconstruction and Development Programme (RDP), 1994.
- The DTI White Paper on Promotion of Small Business in South Africa, 1995.
- The National Small Business Act, 1996.
- Growth, Employment and Redistribution (GEAR), 1996.
- The Green Paper on Public Sector Procurement Reform, 1997.
- The Microeconomic Reform Strategy (MRS), 2001.
- Broad-Based Black Economic Empowerment Act, 2003.

3.2.1 Reconstruction and Development Programme (RDP)

South Africa has always had a vision of an economy that provides for its entire population. The Freedom Charter of 1955 was refined and developed to become the RDP of 1994. The RDP was a socio-economic policy framework that sought to transform South Africa and eradicate the results of apartheid. Summarising the basic principles, the RDP was an integrated programme, based on the people, that provides peace and security for all and builds the nation, links reconstruction and development and deepens democracy. The RDP had its main objectives as job creation, poverty

elimination, reduction of inequality and growth (Government of South Africa, 1994). The RDP addressed a wide range of social and economic development issues, with the promotion of the small enterprise sector as one of the critical areas (DTI, 1995).

The programme integrated growth, development, reconstruction, redistribution and reconciliation. Key programmes included meeting basic needs, human resource development and building the economy. This would be achieved through an investment in infrastructure so as to provide access to services like electricity, water, telecommunication, transport, education and training to the majority of South Africans (Engdahl, 2001). Investment in infrastructure and development of human resources would have a positive effect especially on previously neglected sectors including MSEs. It aimed at promoting the participation of women and the black majority in the economy. The government had a vision of greater equity through redistribution, so gave specific attention to small businesses (Government of South Africa, 1994).

Government of South Africa (1994) identified the following key support areas to small businesses:

- favourable amendments to legislative and regulatory conditions;
- access to marketing and procurement;
- access to finance;
- access to infrastructure and premises;
- access to training;
- access to appropriate technology;
- encouragement of inter-firm linkages; and
- access to advice.

The above support areas helped to improve on the major constraints facing MSEs which are lack of access to markets, credit and skills and the absence of supportive institutional arrangements. Small businesses had to be considered as part of the national economy. Regulation discriminating against MSEs, particularly black-owned and women-owned had to end. The government promised to create opportunities for these enterprises through RDP investments, e.g. construction, wiring, installation of

appliances etc. Market sites had to be established and access to existing ones facilitated. The Small Business Development Corporation was restructured and the lending criteria of development banks were reviewed. This programme successfully increased infrastructure for MSEs and also amended regulations to accommodate the previously disadvantaged.

Improved infrastructure helps MSEs to have more access to markets and when the regulatory environment is favourable, participation increases due to fewer regulatory barriers. Access to infrastructure also reduces transaction costs and therefore increases market participation, *ceteris paribus.* The RDP, however, has failed to address certain MSE issues like access to finance, training, appropriate technology and the creation of linkages. Although the RDP seems to have achieved certain objectives in promoting MSEs, it has been heavily criticized as having achieved nothing to solve the economic crisis in South Africa and has been considered dead (Aliber, 2001).

3.2.2 Growth, Employment and Redistribution (GEAR)

The GEAR programme was launched in 1996 as a macroeconomic strategy for rebuilding and restructuring the South African economy. After the closure of the RDP office, the framework for GEAR was developed building on some of the aspects of the RDP. Its aim was to increase economic growth and provide resources to expand social service delivery so as to achieve an equal distribution of wealth. It focused on stabilizing macroeconomic variables like inflation and interest rates. The government also had a strategy for employment creation through the promotion of MSEs (Engdahl, 2001). Ever since then various programmes and institutions have been established to support small businesses.

Macroeconomic reforms implemented under GEAR have resulted in the following achievements:

- reduced fiscal deficit;
- reduced inflation rate;
- real interest rates decline;

- transparency in monetary policy;
- predictability in monetary policy;
- increased levels of savings and investments; and
- stronger currency (SAVCA, 2004).

According to SARB (2000), GEAR has performed much less than expected. It failed to reduce unemployment and poverty in South Africa. An actual job loss of over 800 000 occurred instead of the projected cumulative increase of 1.3 million over five years. The actual real GDP growth of 2.3% was below the expected annual average of 4.2%. The easing of exchange restrictions also encouraged outward direct investment instead of foreign direct investment into South Africa. This policy may not have reached its goals, but it created macroeconomic stability in the country, which is critical for other developments including MSE development. A predictable macroeconomy makes even risk averse firms like most MSEs more willing to venture into new markets and participate more in existing ones.

3.2.3 Microeconomic Reform Strategy (MRS)

A shift in policy occurred in the late 1990s, when the need to address microeconomic constraints to development led to the formulation of the MRS. The South African government outlined broad economic strategies to transform the economy by 2014 in the programme. This document also includes specific strategies like the Integrated Manufacturing Strategy (IMS) and the National Research and Development Strategy (Dobson, 2002). The IMS shows DTI's contribution to MRS by placing the manufacturing sector at the centre of the South African economy. There also has been increased market access for developing countries' manufactured goods to developed countries through trade agreements like the African Growth and Opportunity Act (SAVCA, 2004).

The MRS builds upon programmes like the RDP and GEAR but focuses on the microeconomy. This was after the government discovered that most factors that limit growth lie within the microeconomy. In 2001 the government came up with the Integrated Action Plan to address constraints to growth within the microeconomy.

This plan also provided a model to implement the MRS. Areas needing special attention were identified and these included technology, human resource development, access to finance, infrastructure and input sectors. The MRS and the existing Integrated Action Plan revolve around small business development (Business Report, 2003).

Identified key performance areas are growth, competitiveness, employment, small business development, black economic empowerment (BEE) and geographic spread. The key components of the renewed small business development strategy of the MRS are:

- specific sectoral initiatives to promote small business development;
- the introduction of new products to support small businesses;
- greater co-ordination across government;
- amendments to the National Small Business Act;
- the consolidation of all mentorship support projects;
- improved access to finance;
- improved access to markets through competition policy and export promotion;
- the promotion of entrepreneurship;
- the expansion of business support infrastructure; and
- the provision of localized support infrastructure (Dobson, 2002).

The fact that the government is targeting the export sector is a good opportunity to improve market participation for all firms including MSEs. Targeted export sectors include the clothing and textile industry, agro-processing and crafts which are mainly dominated by small enterprises. MSEs could take advantage of export growth and expand their markets. Through the MRS, the South African government seeks to address issues of NTBs to trade which are at the moment one of the major barriers to international markets.

The MRS is still being implemented and gives particular attention to small businesses. Individual sectors, such as the MSE sector, have been given priority and financial resources have been allocated to help with regard to skills and training. Access to

finance has always been a problem in South Africa especially with respect to small businesses. The government continues to focus on MSEs and micro-lending with the help of institutions like Khula. The DTI currently offers incentives and Khula offers guarantees. The MRS also focuses on specialist funds for women and youth. The government intends to promote community-based saving schemes which will be of help to small businesses and the rural community at large (Dobson, 2002).

The MRS has provided soft and hard infrastructure which has helped to create a conducive environment to MSE market participation. Capital spending on roads, hospitals and schools has increased by 30% annually since 1999 (Ntsika, 2002a). National departments, parastatals, provincial and local governments have worked together to integrate social and economic infrastructure projects. The government has mostly focused on upgrading rural roads and lowering telecommunication costs in rural areas, prioritising the taxi recapitalisation projects and integrating SADC transport systems among other things (Dobson, 2002). Infrastructural development in rural areas has been an advantage to MSEs when it comes to transporting their products to markets and also communicating with consumers.

3.2.4 Black Economic Empowerment (BEE)

The MSE sector is useful for advancing entrepreneurship in South Africa and also as a means of creating wealth and job opportunities. According to the DTI, advancement of black people in the small business sector is a good means of narrowing income and wealth gaps. It also facilitates growth in rural areas. The South African government has been trying to rebalance the society by actively promoting a more equitable distribution of wealth. During apartheid, black South Africans were discriminated against in several issues including ownership and control of business (Ntsika, 2002b).

Following the *Land Act* of 1913, blacks were not allowed to buy land outside the ‘native areas’. This excluded them from the financial market since they did not have the means to provide security for loans. The *Native (Urban Areas) Consolidation Act* of 1945 allowed only small businesses selling basic commodities to operate in the urban black townships. Allocation of business sites was controlled by authorities and those blacks that wished to participate in industries like the automobile or chemical

industries were not allowed (Engdahl, 2001). The Bantu education system denied blacks the opportunity of higher education and certain professions. Black education was generally under-funded. This underdevelopment in the capacity of blacks is still evident up to today (Ntsika, 2002b). In 1963 the 'one-man business' policy limited black people to running one business. It also prevented them from forming partnerships, controlling financial institutions and operating wholesale business. The 'job-reservation' policy restricting blacks until 1979 from holding high positions in certain skilled jobs led to them having relatively low technical and managerial skills and experience compared to their white counterparts (Engdahl, 2001).

The above policies and many more show that apartheid policies were not good for black businesses. Even up to today, South Africa has one of the most unequal distribution of income in the world (Dobson, 2002). The provision of an enhanced environment for BEE is now on the government's agenda. BEE aims at increasing black participation at all levels of the economy to redress past imbalances. This is being done through job creation, poverty alleviation, measures to empower women, education, skills transfer, meaningful ownership, etc. The emphasis is on promoting MSEs (Engdahl, 2001). It was recognized in the late 1990s that the market had not responded adequately to the implementation of BEE. The Broad-Based BEE strategy then sets out the context for the promotion of BEE in South Africa. It provides a very clear and flexible framework for BEE (SAVCA, 2004).

The *Broad-Based Black Economic Empowerment Act* of 2003 makes provision for the establishment of a legislative framework for the promotion of BEE. BEE as defined by the South African government is '…an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about a significant increase in the number of black people that manage, own and control productive enterprises and collectively owned enterprises, leading to a significant decrease in income inequalities' (Government Gazette, 2004).

The Broad-based BEE Act is empowering rural communities including MSE owners by increasing their access to economic activities, infrastructure, finance, skills and training. This has put them in a better position to own and manage new and existing enterprises. Improved access to infrastructure has made transport and communication

a lot easier, thereby promoting market participation. Acquisition of skills has also helped in entrepreneurial development.

3.2.5 Small Business Development

A discussion paper called 'Strategies for the Development of an Integrated Policy and Support Programme for small, medium and micro-enterprises in South Africa' was developed in 1994 and then refined to become a White paper in 1995 (Gumede, 2004). The White Paper on National Strategy for the Development and Promotion of small business in South Africa was published by the DTI in 1995. The government had to concentrate on improving this sector considering that it had been neglected in the past (DTI, 1995). The primary objective of the White paper was to create an enabling environment for small businesses. Other objectives included job creation, economic growth, redistribution of wealth and income and preparing small businesses to comply with the challenges of an internationally competitive economy. This White Paper was followed by the National Small Business Act of 1996 which was meant to ensure an enabling environment for small business development and promotion. The National Small Business Act led to the establishment of institutions like Ntsika and Khula (DTI, 1996).

The Green Paper on Public Sector Procurement Reform was also published in South Africa in 1997 after years of having a procurement policy that favoured larger established enterprises. Manning (1993) emphasized the urgent need of a change of the South African government procurement policy in favour of MSEs like the Korean government. This Green paper offers a plan towards improving access for small businesses to public sector procurement. It simplifies tendering procedures and tenders are packaged into segments suitable for MSEs (South Africa, 1997). Several agencies have been established to provide information about tenders to small businesses and these include the Centre for Small Business Promotion (CSBP), Ntsika and the National Small Business Council.

Ntsika provides non-financial support to MSEs. It has two main programmes for small business support. The first one is the Trade and Investment Development Programme which is designed to help small businesses participate and compete in

international markets. The other one is the International Trade and Economic Development programme which aims at developing small businesses in the areas of international marketing and linkages through the facilitation of partnerships. Ntsika also makes use of an international network of trade points that are electronically linked. The trade points look at manufacturing and assist with training on how to export, assist with business plans and finding markets outside home countries. Of the available 87 international trade points, two are in South Africa (Ntsika, 2002a).

Khula has a mandate to facilitate access to finance for MSEs. It grants credit guarantees for small business loans. Compared to the funding needs of MSEs, the available guarantee capacity is still minimal and supply conditions are not attractive. Its overall impact on the granting of credit to small enterprises has been significant but utilisation of Khula's credit guarantee has been low (Ntsika, 2002b). So far neither of the two agencies has achieved the results the government had hoped for. The former Trade and Industry Minister, Alec Erwin, noted that the South African small business sector remains a long way from where it should be in terms of representation in the economy. He concluded that ideally the sector should be contributing between 60 and 80% of the country's GDP, something that will only be achieved in the next ten to 15 years (Ntsika, 2002a).

Although the South African government had good intentions when it developed the Green Paper on Public Sector Procurement Reform it has not helped many MSEs. In a survey on Public Sector Procurement carried out by Rwigema and Karungu (1999), only 27% of the respondents claimed to know the tendering procedures and only 6% had ever tendered for a government contract. Most MSEs are not even aware of the reform programme. They also do not even meet tendering requirements despite the fact that procedures have been simplified and packages have been reduced. Some executing arms are trying to resist the change in the procurement policy and preventing the flow of contracts to emerging MSEs.

3.3 Synthesis

Policies that have been implemented by the South African government have tried to cater for the needs of the previously neglected groups including MSE operators. A

review of the different policies indicates that the legal framework in South Africa has been made conducive to MSE development. The RDP and GEAR policies were not implemented specifically for MSEs but have addressed the needs of small businesses in their effort to reduce poverty and inequality. However, the contribution of the RDP and GEAR policies to increasing MSE market participation has been insignificant. The RDP helped to increase MSE market participation to some extent by increasing infrastructure while GEAR resulted in a more or less stable macroeconomy. Programmes like BEE and the MRS have done well to promote MSE market participation mainly by improving the quality of infrastructure in rural areas or previously disadvantaged communities. This has helped to reduce transaction costs faced by MSEs as they market their products. Small business export promotion is also among the key performance areas identified by the MRS. The policy focuses on sectors dominated by MSEs like the textile industry and agro-processing and helps them to penetrate international markets while addressing NTBs they could face.

The DTI has established small business desks that give support to MSEs at a local level. This support includes information on markets, management advice and networking which has helped MSEs to participate in markets. The National Small Businesss Act of 1996 led to the establishment of Ntsika and Khula. These organizations have helped MSEs in South Africa by providing them with non-financial and financial support, respectively. Although the two institutions have never reached their yearly target goals, their contribution to helping MSEs has been significant. If MSEs need any information on markets, they can get it from Ntsika or can be referred to the right place while those that need financial help can get it from Khula. Both financial and non-financial support is needed for firms to effectively participate in markets. This is readily available for small businesses in South Africa even though some MSEs may not be aware of the services. Policies meant for MSE development have generally been effective in promoting their participation in markets.

3.4 Summary

The South African government has implemented a number of policies and programmes in an effort to alleviate poverty in the country. Some of these policies

have been directed towards helping MSEs while some have addressed MSE needs indirectly. The RDP aimed at reducing poverty and inequality in South Africa while GEAR focused on increasing economic growth and achieving equal distribution of wealth. Although the RDP and GEAR were not specifically meant to promote MSEs, an investment in infrastructure development and the creation of a stable macroeconomy by these policies, respectively, has had a positive effect on the participation of MSEs in markets.

The MRS was implemented to focus on the microeconomy. This policy has a small business development strategy covering areas like human resource development, infrastructure, technology, input sectors and access to finance by MSEs. The MRS has done well in promoting MSE market participation but more is still expected. It has helped to reduce transaction costs faced by these enterprises mainly by providing and improving infrastructure. Apartheid policies like the Native (Urban Areas) Consolidation Act of 1945, which favoured whites have since been reversed. Efforts are being made to improve the social and economic welfare of blacks that have been mostly neglected during apartheid. A lot of programmes are being carried out to empower blacks including the Broad-Based BEE Act of 2003 which aims at reducing income inequalities in South Africa. Programmes like BEE have done well to promote small businesses while some like GEAR are criticised for not having met most of their objectives. The Public Sector Procurement Reform programme which was passed to improve access of small businesses to public sector procurement has helped a few MSEs in South Africa. The majority of these enterprises are not aware of the programme. Organizations like Ntsika and Khula have been established mainly to serve MSEs in South Africa as specified by the National Small Business Act of 1996. They are well known for providing non-financial and financial support respectively and have helped to develop MSEs in South Africa.

CHAPTER 4
METHODS AND PROCEDURES

4.1 Introduction

This chapter describes methods and procedures used in the study. Because of the close relationship between competitiveness and conduciveness of an economy, the chapter begins with a review of measures of competitiveness used by previous researchers. This is followed by a section describing sources of data and then variables used in the study. The last section describes the method used to analyze data.

4.2 Competitiveness Measures

Competitiveness can be broadly defined as an indicator of the ability to supply goods and services at the location, and in the form, and at the time sought after by buyers, at prices that are as good as or better than those of potential suppliers while earning at least the opportunity cost of returns on resources employed (Fischer and Hartman, 2002). Several methods have been used to measure competitiveness. These include real exchange rate, foreign direct investment, domestic resource costs, mathematical models and accounting methods. Esterhuizen and Van Rooyen (2001) citing ISMEA (1999) state that two methods, namely Porter's Framework (1990) and the Relative Revealed Trade Advantage (RTA) index based on Balassa's original Revealed Comparative advantage (RCA) method (1986) have proved to be popular. These methods were prioritized to determine the competitiveness of the EU food chains in a global environment.

Porter's method is based on the following question: 'Why does an economy achieve international success in a particular industry?' According to Porter (1990) the answer lies in six attributes that shape the environment in which firms compete and promote the creation of competitive advantage. The six attributes are discussed below.

- Factor conditions: the nation's position in terms of factors of production, natural resources, level of production costs, knowledge and infrastructure necessary to compete in a given industry.

- Demand conditions: the nature of home demand for the industry's product or service and the ability to record this demand.
- Related and supporting industries: the presence or absence in the nation of supplier industries and related industries that are internationally competitive.
- Firm strategy, structure and rivalry: the conditions in the nation governing how companies are created, organized and managed and the nature of domestic rivalry.
- Government attitude and policy: government plays a vital role through policy and operational capacity.
- The role of chance: chance events are occurrences largely beyond the power of firms and often national government. Events such as wars, political decisions by foreign governments, shifts in world financial markets and exchange rates can be described as chance events.

Porter's method is broader in its approach to evaluate competitiveness than the requirements of this study. Only three attributes were found to be relevant in evaluating the environment surrounding MSEs in this study. These are factor conditions, related and supporting industries and government attitude and policy. However, the adopted attributes were not used in their general terms as developed by Porter. The overall term, factor conditions, is ignored and only factors relevant to MSE market participation as found in literature review are selected. Some factor conditions like natural resources and production costs are ignored while some like infrastructure and technology are adopted in this study.

Related and supporting industries as an attribute from Porter (1990) is adopted as strategic alliances in this study while government attitude and policy falls under the regulatory environment. In addition, other variables were identified when reviewing literature while others were adopted from other measures of competitiveness.

Esterhuizen and Van Rooyen (2001) used Balassa's RCA method to measure competitiveness of the South African agricultural input sector. This method compares a country's share of the world market in one commodity relative to its share of all

traded goods. The RTA index which is based on the original Balassa's RCA can also be used to measure competitiveness. These methods do not seem appropriate to measure conduciveness of an economy to MSE market participation in the sense that they focus on an economy's market share which includes all sizes of enterprises. They also seem to concentrate on trade ignoring underlying factors of competitiveness and conduciveness like infrastructure and human resource development. These competitiveness indicators would probably be more appropriate when measuring a country's conduciveness to international trade.

WEF (2004) combines both hard data and survey data to assess competitiveness of economies. The Growth Competitiveness Index (GCI) methodology is used to measure competitiveness. This GCI consists of three sub-indexes called the technology index, the public institutions index and the macroeconomic environment index. This methodology assigns a heavier weight to the technology index for core innovators than it does to the public institutions index and the macroeconomic environment index. However equal weights are assigned to these three indexes for non-innovating economies.

The GCI could not be adopted as it is and used to measure conduciveness of an economy to MSE market participation in this study. Some of the variables that make up the GCI sub-indexes do not influence the conduciveness of an economy to MSE market participation. At the same time, there are also variables that influence conduciveness but are not included in the GCI. The other reason why the GCI could not be used in this research is the fact that it focuses mainly on the strengths and weaknesses to growth within an economy while this research needs a measurement framework that focuses on strengths and weaknesses of an economy's conduciveness to small business market participation. However, the approach of calculating indexes using both hard data and survey data is adopted in this study. These two types of data complement each other because there are certain issues that can only be addressed quantitatively while others can only be addressed qualitatively. In cases where both hard data and survey data address the same issue, the results become even more reliable and confirmed than when one type of data is used.

WEF (2004) also uses the Current Competitiveness Index to measure competitiveness. This is an aggregate measure of microeconomic competitiveness that relies on GDP per capita. The fact that it is measured by the level of GDP per capita makes it an irrelevant method for this study since it only focuses on national growth. After analyzing a number of competitiveness measures, some attributes were chosen from Porter's method and others from the GCI. Otherwise the researcher has developed the method used to analyze data in this study.

4.3 The Data Set

According to Omoregie and Thomson (2001), a positive relationship exists between a country's competitiveness and its conduciveness to market participation. The Harvard Business School defines national competitiveness as 'a measure of the ability of a nation to create, produce and distribute products and services in international trade while earning rising returns on its resources.' This means that competitiveness results in profitable trade, increased market share and increased returns to investment (Omoregie and Thomson, 2001). WEF (2004) defines a country's competitiveness in terms of its products' share of world markets. Therefore, a relationship exists between competitiveness and conduciveness to market participation. It has been taken into consideration when selecting data for this study that some factors may affect both competitiveness and conduciveness while some may affect either conduciveness or competitiveness and not both. As a result, variables affecting market participation have been carefully identified and separated from those affecting other aspects of competitiveness which are not related in any way to market participation of MSEs. Some of the identified variables affect conduciveness to MSE market participation only and not competitiveness.

Both qualitative and quantitative data was used. Some of the data was obtained from a survey carried out by the WEF in 2003. The survey is called the Executive Opinion Survey and it collected information from 102 countries. Information was collected by WEF (2004) in 2003 and questionnaires were used to solicit the opinions of respondents. These respondents were mainly business executives from different sectors and firms of different sizes including MSEs. This was done to provide

unbiased information on factors that make up the environment in which the different firms operate.

Information was collected on factors that were economic, social, legal, institutional and environmental. The Executive Opinion Survey questionnaire was divided into 13 sections covering a wide range of issues related to the state of the economy in which firms operate. The sections included perceptions of the macroeconomic environment, technology levels, the government, public institutions, infrastructure, human resources, finance and openness, domestic competition structures, company operations and strategies, environmental policies, health, education and international institutions. The fact that the survey covered a wide range of issues from almost all countries in the world and got about 7 741 responses from business executives including entrepreneurs makes this survey a reliable source of data for this study. An example of the questions that were used in the survey by WEF (2004) is shown in Example 1 together with the expected responses.

Example 1

Question: How easy is it to obtain a loan in your country with only a good business plan and no collateral?

impossible 1 2 3 4 5 6 7 easy

1 - means you agree whole-heartedly with the answer on the left-hand side
2 - means you largely agree with the answer on the left-hand side
3 - means you agree somehow with the answer on the left-hand side
4 - means your opinion is indifferent between the two answers
5 - means you agree somehow with the answer on the right-hand side
6 - means you largely agree with the answer on the right-hand side
7 - means you agree whole-heartedly with the answer on the right-hand side

Source: WEF (2004)

Respondents were asked to rate their business environment on several issues using the above one to seven scale, with one representing the least favorable response and seven

representing the most favorable one. The average score for each survey question in a country was then calculated. Since the questionnaire covered a wide range of issues, not all information that was collected by the WEF was used to measure competitiveness.

Information for this study was obtained from the Global Competitiveness Report compiled by WEF (2004). Survey questions regarding variables that affect market participation of MSEs were selected from the WEF survey, bearing in mind that some factors may affect competitiveness and not conduciveness and vice-versa, while some may affect both competitiveness and conduciveness. Survey questions selected from WEF (2004) specifically for this study and the quantitative data used are included in Appendices.

4.4 Description of variables

Conduciveness is a relative concept, therefore relevant factors were identified and used as a measurement framework. Literature review was first done to identify factors that make up a conducive environment for MSE market participation. These factors were identified as technology, finance, physical infrastructure, information, human resource development, strategic alliances and the regulatory environment. These same factors are the major variables to be measured in this study. Just like Porter (1990) and WEF (2004) there is need to identify more specific measures that can then be used to define the broad variables. WEF (2004), for example, had proxy variables for technology because technology as it is cannot be measured. Some of the proxy variables used in this study as specific measures for variables were adopted from WEF (2004) while others were identified from literature review and development indicators. The researcher's discretion was however used to compile specific measures for all the variables as shown in Table 3.

Table 3: Variables and their specific measures

Variable	Specific Measures
Technology	Technological sophistication Quality of scientific research institutions Mobile phone availability for business Mobile telephone subscribers per 100 inhabitants Internet users per 10 000 inhabitants Personal computers per 100 inhabitants Local availability of specialized research and training services
Finance	Financial market sophistication Ease of access to loans Venture capital availability Access to credit
Physical Infrastructure	Telephone lines per 100 inhabitants Overall infrastructure quality Paved roads percentage Railroad infrastructure development Quality of electricity supply Telephone infrastructure quality
Human Resource Development	Tertiary enrolment Quality of the educational system Quality of public schools Quality of management schools Local availability of specialized research and training services
Strategic Alliances	Prevalence of mergers and acquisitions State of cluster development Extent of collaboration among clusters Local availability of components and parts Local supplier quantity Decentralization of corporate activity Foreign ownership restrictions
Information	Daily newspapers per 1000 inhabitants Radios per 1000 inhabitants Television sets per 1000 inhabitants Personal computers per 1000 inhabitants Internet users per 10 000 inhabitants
Regulatory environment	Hidden trade barriers Efficiency of legal framework Burden of regulation Transparency of government policymaking Favoritism in decisions of government officials Extent of bureaucratic red tape Centralization of economic policymaking Government effectiveness in reducing poverty Government effectiveness in reducing income inequality Informal sector percentage Extent of market dominance Regional disparities in quality of business environment Presence of demanding regulatory standards

4.5 Data Analysis and Interpretation

Most psychologists agree that people generally view their own contentment with life through observation and comparison to those whose lives they are familiar with. In other words, 'I am not simply a fast runner or good at Maths unless I have measured these against my peers' (The Herald, 2004). This philosophy was taken into account while measuring the conduciveness of the South African economy to MSE market participation.

The conduciveness of the South African economy was measured relative to other countries which have done well to promote MSEs in terms of access to finance, physical infrastructure, technology, human resource development, strategic alliances, information and a favorable regulatory environment. WEF (2004) ranks countries according to their performance. Four countries in the top 20 of each specific measure or proxy variable were selected randomly using a random number table. The sampling units were numbered from one to 20 and the random number table was used to draw a sample of four countries. There is no statistical significance to the sample size because South Africa was only compared to the best performer for that specific measure. Having any sample size would not have made a difference to the analysis. The other countries were included to show that they have also done well and to show a trend. Some of the countries have done well according to literature review while some have done well according to the scores obtained in the WEF survey. There are also other countries like Korea and Botswana that feature in both the WEF survey and literature review as having done a good job to promote MSEs when it comes to the creation of linkages and access to credit respectively.

Four countries with high scores, and South Africa being the fifth country, are presented in Example 2 for one specific measure of finance, with their respective scores according to the WEF survey.

Example 2

Ease of access to loans

Country	Score
Finland	5.2
New Zealand	4.6
Taiwan	4.5
Singapore	4.3
South Africa	3.7

The above table was compiled for every specific measure of each variable as shown in the results section. The country with the highest score for a certain specific measure was allocated ten points. In Example 2, Finland was given ten. Simple proportion was then used to calculate a score for South Africa out of ten for the given measure as shown in Example 3.

Example 3

Simple proportion

Finland (5.2) = 10
South Africa (3.7) = ?
? = $\frac{3.7 \times 10}{5.2}$
= 7.1

South Africa's score for ease of access to loans would be 7.1 out of ten. Since finance has got three other specific measures the same procedure was followed for venture capital availability, access to credit and financial market sophistication to get their respective scores. For the finance variable, the average score for all its specific measures was calculated and used as the overall finance score for South Africa as shown in the formula below.

Finance = (Financial market sophistication + Ease of access to loans + Venture capital availability + Access to credit)/4

The same procedure was followed to calculate scores for technology, physical infrastructure, human resource development, strategic alliance, information and the regulatory environment as shown in the results section in Chapter 5. The higher the score, the more conducive the South African economy is to MSE market participation.

Conduciveness was then evaluated qualitatively using a ten-point scale as shown below. This scale was originally used to evaluate competitiveness of individual cities in the Philippine Cities Competitiveness Ranking Project by AIM (2004). However, it has been adjusted to suit the needs of this study.

Score	Qualitative Meaning
1-2	Low conduciveness
3-4	Below average conduciveness
5	Average conduciveness
6-7	Above average conduciveness
8-9	High conduciveness
10	Excellent conduciveness

4.6 Summary

This chapter reviewed methods that have been used to measure competitiveness in an effort to adopt a method for measuring conduciveness. These methods include Porter's framework, Balassa's RCA and RTA and the GCI. After analyzing a number of competitiveness measures, some attributes were adopted from Porter's method and others from the GCI. Otherwise a new tool was developed to analyze data.

The chapter also provided information on how countries to be compared with South Africa were chosen (sampling procedures), sources of data and methods used to analyze the data. The relationship between competitiveness and conduciveness made it possible to use the same sources of data, bearing in mind that some data would only apply to either competitiveness or conduciveness and in some cases to both. Only

countries that have done well in a particular area, for example finance were used to compare South Africa with and for each factor, five countries including South Africa were used. Variables used to measure conduciveness of an economy were described and specific measures defining each variable were presented. A description of the method used to allocate scores for conduciveness was also given, which in this case was simple proportion and a scale for evaluating conduciveness of an economy to MSE market participation was adopted from AIM (2004).

CHAPTER 5

RESULTS OF THE STUDY AND DISCUSSION

5.1 Introduction

In this chapter, scores for variables affecting the conduciveness of the South African economy to MSE market participation are calculated. The overall score for the conduciveness of the South African economy to MSE market participation is also calculated. The results are discussed as they are presented.

5.2 Technology

Scores for four countries that have done well in the specific areas of technology and a score for South Africa according to WEF surveys are presented in Table 4.

Table 4: Measures for technology and country scores

Technological sophistication	
Country	Score (out of 7)
Finland	6.6
Singapore	5.8
Korea	5.2
Belgium	4.9
South Africa	4.0
Internet users per 10 000 inhabitants	
Country	No. of Internet Users
Hong Kong	4 309
Australia	4 272
United Kingdom	4 062
Slovenia	4 008
South Africa	682
Mobile phone availability for business	
Country	Score (out of 7)
Sweden	6.9
Chile	6.8
Portugal	6.8
Estonia	6.7
South Africa	6.6
Local availability of research services	
Country	Score (out of 7)
Japan	6.0
Israel	5.7
Canada	5.6
Korea	4.9
South Africa	4.7

Personal computers per 100 inhabitants	
Country	No. of Computers
Taiwan	40
New Zealand	39
Ireland	40
Japan	38
South Africa	7
Mobile telephone subscribers per 100 inhabitants	
Country	No. of Subscribers
Czech Republic	85
Greece	85
Spain	82
Switzerland	79
South Africa	27
Quality of scientific research institutions	
Country	Score (out of 7)
United States	6.2
United Kingdom	5.7
Singapore	5.4
Norway	4.9
South Africa	4.7

Source: WEF (2004)

The scores for South Africa for each technology measure are presented in Table 5.

Table 5: South Africa's scores for technology measures

Variable measure	Score (out of ten)
Technological sophistication	6.1
Personal computers per 100 inhabitants	1.8
Internet users per 10 000 inhabitants	2.0
Mobile phone subscribers per 100 inhabitants	3.1
Mobile phone availability for business	9.6
Quality of scientific research institutions	7.6
Local availability of research services	7.8

The average score for technology in South Africa is 5.4. This shows that the technology level in South Africa makes the environment slightly conducive to MSE market participation. Technology in South Africa is above average compared to countries like Finland, Taiwan and the United States of America (USA). Internet users per 10 000 inhabitants are few, giving South Africa a score of two. It is highly likely that most people in urban townships and rural areas do not have access to the internet. Personal computers are not readily available with an average of seven computers per 100 people. According to Rwigema and Karungu (1999), only five percent of MSEs surveyed in certain townships in Johannesburg claimed to have a computer. This seems to support the score of personal computers found in this study. They also found out that only four of the 841 respondents claimed to use the internet. These percentages could be lower in some rural areas of the Eastern Cape or Limpopo Provinces which are the least developed provinces of the country. This should mean that most of the MSE accounts are manually kept if ever they are.

Due to lack of access of the majority to the internet, e-commerce has not been very popular among MSEs in South Africa and is still not considered to be very relevant to this group of firms. The South African Small Wooden Furniture Producers which consist of small and medium firms have however utilized e-commerce and expanded their markets. These enterprises have benefited from low-cost access to the global marketplace and have had the opportunity to build their brand name. MSEs should be careful not to invest in large powerful equipment or they may never be able to recover their costs. This should be taken into consideration when small businesses adopt new or modified technologies. South Africa's strength when it comes to technology,

according to this study, lies in the quality and availability of scientific research institutions and also availability of mobile phones for business although many people in the country still have not subscribed. For every 100 people, only about 26 have subscribed to mobile telephones. According to GEM (2002), mobile phones are available, cell phone networks are advanced and function competitively even for small businesses but are costly to use. Most people however have access to telephones at home, business sites or publicly.

5.3 Finance

Scores for four countries that have done well in the specific areas of access to finance for MSEs and a score for South Africa according to the WEF are presented in Table 6.

Table 6: Measures for finance and country scores

Ease of access to loans	
Country	Score (out of 7)
Finland	5.2
New Zealand	4.6
Taiwan	4.5
Singapore	4.3
South Africa	3.7

Venture capital availability	
Country	Score (out of 7)
United States	5.3
Netherlands	4.9
Hong Kong	4.4
Korea	4.4
South Africa	3.6

Access to credit	
Country	Score (out of 7)
Pakistan	5.8
Thailand	5.4
Slovenia	5.1
Botswana	4.8
South Africa	4.5

Financial market sophistication	
Country	Score (out of 7)
United Kingdom	6.7
Singapore	5.9
Germany	5.7
Brazil	5.4
South Africa	5.6

Source: WEF (2004)

Countries that have the best performance for ease of access to loans, venture capital availability, access to credit and financial market sophistication are Finland, United States, Pakistan and the United Kingdom respectively. The calculated scores for South Africa for each specific finance measure are presented in Table 7.

Table 7: South Africa's scores for finance measures

Variable measure	Score (out of 10)
Ease of access to loans	7.1
Venture capital availability	6.8
Access to credit	7.8
Financial market sophistication	8.4

The average score for finance in South Africa is 7.5. This score shows that availability and accessibility of financial resources in South Africa makes the environment more conducive to MSE market participation. It has become relatively easy to obtain a loan for MSEs even if they do not have collateral. This has been made possible by the establishment of Khula Enterprise Finance Limited which was formally constituted in 1996 to address the financial needs of small businesses.

In the past, banks used to play a limited role in providing loans to small businesses all over the world. It would only become easier to obtain a loan as the firm became more established (Ntsika, 2002a). This has changed over the years as many countries have set up financial institutions specifically to promote MSEs and credit guarantee funds, to guarantee loans to small businesses which lack collateral. The state-funded Khula Credit Guarantee Facility assists banks in lending to MSEs by overcoming collateral problems. The risk is shared between the bank and the guarantee institution in an agreed ratio. Contrary to the results of this study, Rogerson (1998) reports that many banks are not committed to providing MSEs with loans and their head offices do not always relate information pertaining to MSE financing and the credit guarantee programme to branches found in rural areas or small towns where most of these enterprises are based. However in support of Khula Enterprise Finance Limited, Nigrini and Schoombee (2002) state that about 5 300 guarantee applications were received by March 2002 from about fourteen banks participating in this venture and almost all of them were successful. Active banks even go to the extent of providing incentives to their staff to make use of the scheme and some use targets. One bank, for example, increased its applications from 20 to 480 during its first year of participation. According to Ntsika (2002a), utilization of Khula's credit guarantee facility has been significant although very low for some banks like the First National Bank. Guarantee schemes operating in Central and South America, Asia and other

parts of Europe have been carefully studied and international best practices have been identified and adopted in South Africa (Nigrini and Schoombee, 2002).

The results show that South African financial markets are developed and internationally competitive. Better understanding of the contribution of the MSE sector in the country has spread and financial tools to help these enterprises have become well known and more sophisticated. Although the South African venture capital market is not as developed as that of the USA or Netherlands as shown by the above scores, much progress has been made over the years through MSE financing schemes which often include some scope of venture capital. With a score of approximately seven on venture capital availability, entrepreneurs can generally find venture capital in South Africa.

The government is also encouraging banks to serve MSEs by giving them incentives. Due to the pressure from the government and the community itself, South African banks like the Standard Bank and ABSA have undertaken various initiatives to enter this market. A joint venture pilot project has been launched by the Banking Council and five other banks to lend money to micro and very small enterprises that require loans ranging from R10 000 to R50 000 (Schoombee, 2000). NGOs are also encouraged to assist in providing loans to MSEs and could use the group-based lending scheme that operates almost like the Grameen bank of Bangladesh. The Small Enterprise Foundation is an example of an NGO that operates in South Africa using the group-based method. Group members develop business plans and receive loans on the basis of good plans even without collateral. This foundation has not had a bad debt since 1992 when it started and it has helped a lot of people in the former homelands of the Limpopo Province of South Africa (Simanowitz, 1999). Non-financial support like information and advice on loan application is available in South Africa to improve MSE chances of obtaining financial support.

5.4 Human Resource Development

Scores for four countries that have done well in the specific areas of human resource development for MSEs and a score for South Africa according to the WEF survey are presented in Table 8.

Table 8: Measures for human resource development and country scores

Tertiary enrolment	
Country	Enrolment Rate (%)
New Zealand	69.24
Russian Federation	64.09
Estonia	57.55
Poland	55.54
South Africa	15.24

Quality of public schools	
Country	Score (out of 7)
Iceland	6.4
Netherlands	5.9
Italy	5.7
Czech Republic	5.4
South Africa	3.3

Quality of the educational system	
Country	Score (out of 7)
Singapore	6.0
Switzerland	5.6
Taiwan	5.3
Tunisia	5.1
South Africa	2.9

Quality of management schools	
Country	Score (out of 7)
France	6.3
Israel	5.7
Australia	5.6
New Zealand	5.3
South Africa	5.4

Local availability of specialized training services	
Country	Score (out of 7)
United States	6.4
Japan	6.0
Canada	5.6
Ireland	4.8
South Africa	4.7

Source: WEF (2004)

The calculated scores for South Africa for each specific human resource development measure are presented in Table 9.

Table 9: South Africa's scores for human resource development

Variable Measure	**Score (out of 10)**
Tertiary enrolment	2.2
Quality of public schools	5.2
Quality of the educational system	4.8
Quality of management schools	8.6
Local availability of training services	7.3

The average score for human resource development in South Africa is 5.6. The level of human resource development in South Africa makes the environment slightly conducive to MSE market participation. Scores for the different specific measures show that the quality of the South African educational system relative to other countries is slightly below average. The quality of public schools is average while the tertiary enrolment rate is low. This could still be due to the legacy of apartheid where

the white minority used to get more and better quality education compared to blacks. During apartheid, education in South Africa was divided geographically between areas occupied by whites and the homelands and racially separate education departments also existed. The new government inherited a fragmented education system which according to the results of this study, has not fully recovered.

Rwigema and Karungu (1999) found that 40% of small business operators in certain Johannesburg townships had completed secondary education only and had not obtained any tertiary qualification. This has proved sufficient to run a small business despite the fact that South African secondary education does not promote entrepreneurial culture that much. Only 16% of respondents had business training due to various reasons. Mayrhofer and Hendriks (2003) discovered that few of the informal traders they surveyed in the KwaZulu-Natal (KZN) province of South Africa were interested in training. About 70% of the KZN informal traders did not find training useful. Training institutions are however available in South Africa with a score of 7.3 and the quality of management schools is good. Entrepreneurs usually do not understand the importance of training. Some are not even aware of available training institutions.

The main reasons why entrepreneurs had not trained in KZN were that they thought training was too advanced for their needs, they had enough experience so did not need any training and their enterprises were too small to require trained owners or managers (Mayhofer and Hendricks, 2003). Sometimes MSE operators are not even aware of training courses or seminars being held in their areas. This is usually due to poor communication. Better-educated entrepreneurs can assimilate and interpret information at lower costs than less educated ones. They also have higher levels of cumulative information, display better allocative abilities and adopt technology earlier. The DTI already offers beginners' programmes for MSEs. Ntsika also has an entrepreneur training programme that targets the unemployed, the retrenched, school and college drop-outs, school-leavers and those who are employed but not well-trained (Ntsika, 2002b).

5.5 Infrastructure

Four countries that have done well when it comes to the availability and accessibility of infrastructure are presented in Table 10 together with their respective scores. Information about South Africa is also included.

Table 10: Measures for infrastructure and country scores

Overall infrastructure quality	
Country	Score (out of 7)
Switzerland	6.7
Sweden	6.4
Canada	6.0
Namibia	5.2
South Africa	5.2

Paved roads percentage	
Country	%
United Arab Emirates	100.0
Austria	100.0
Bulgaria	94.0
Greece	91.8
South Africa	20.3

Quality of electricity supply	
Country	Score (out of 7)
Denmark	6.9
Finland	6.8
Belgium	6.6
Japan	6.8
South Africa	6.0

Telephone infrastructure quality	
Country	Score (out of 7)
Singapore	6.9
Israel	6.9
Hong Kong	6.8
New Zealand	6.6
South Africa	5.1

Telephone lines per 100 inhabitants	
Country	No. of lines
United States	65.89
United Kingdom	59.48
Taiwan	58.33
Ireland	50.24
South Africa	10.77

Railroad infrastructure development	
Country	Score (out of 7)
Japan	6.7
Germany	6.2
Korea	5.4
India	4.7
South Africa	4.5

Source: WEF (2004)

South Africa's scores calculated for each specific infrastructure measure are presented in Table 11.

Table 11: South Africa's scores for infrastructure

Variable measure	**Score (out of ten)**
Overall infrastructure quality	7.8
Paved roads percentage	2.0
Quality of electricity supply	8.7
Telephone infrastructure quality	7.4
Telephone lines per 100 inhabitants	1.6
Railroad infrastructure development	6.7

The average infrastructure score for South Africa is 5.7. Although this score is above average, there is need to improve infrastructural facilities in the country so as to provide a more conducive environment for small business market participation. However when the proper infrastructure exists, it is mostly of high quality as shown by the overall infrastructure quality, the quality of electricity supply and the telephone infrastructure quality which have scores of 7.8, 8.7 and 7.4, respectively. These results show that the strength of the South African infrastructure lies in its quality. A score of approximately two for both paved roads percentage and telephone lines brings the average infrastructure score down. This shows that there is a vast difference between urban and rural areas in South Africa when it comes to transport and communication facilities yet they form the backbone of marketing.

In countries like United Arab Emirates and Austria, all roads are paved which shows that South Africa still has a long way to go. During apartheid whites controlled the allocation of business sites (Engdahl, 2001), and up to this day most black-owned MSEs still operate from home or from underdeveloped areas which are far from city centres and developed infrastructural facilities. In many rural areas, roads, transport and storage facilities are not adequate to support efficient marketing of products. MSEs producing perishables are bound to suffer major losses when it comes to serving distant markets. The transport problem faced by communities in rural South Africa is real and substantial. This has reduced participation of MSEs in far away markets. Generally, socio-economic conditions in the country are characterized by dualism when it comes to heterogeneous conditions like urban and rural, male and female, black and white etc (Mahapa and Mashiri, 2001).

Although access to basic services like water and electricity has generally improved, there is still bias towards urban areas in delivery (Vink, 2004). This bias is serious and one wonders if the deprived sectors will ever catch up. Developed infrastructure is necessary to access inputs, information and markets for produce. Interventions, according to Mahapa and Mashiri (2001), should focus on the improvement of infrastructure, means of transport, land use planning and quality of services. Results of this study however show that the quality of services like electricity is good. The effect of the costs that arise from distance can be overcome or at least reduced by well-developed transport and communication facilities. In Israel, regional

development has tried to reduce physical distances through infrastructure improvements (Felsenstein and Schwartz, 1993).

5.6 Information

The average score for information depends on the availability and distribution of information resources in a country. Details of four countries for each specific measure, known to have done well in providing information according to World Bank (2004) surveys and details for South Africa are presented in Table 12.

Table 12: Measures for information and country scores

Daily newspapers per 1 000 inhabitants		**Radios per 1 000 inhabitants**	
Country	Number of newspapers	Country	Number of Radios
Hungary	465	Denmark	1 400
Saudi Arabia	326	Estonia	1 136
Czech Republic	254	Canada	1 047
Ireland	150	Switzerland	1 002
South Africa	32	South Africa	338
Television sets per 1 000 inhabitants		**Personal computers per 1 000 inhabitants**	
Country	Number of television sets	Country	Number of Computers
Uruguay	530	Hong Kong	387
Greece	519	Japan	349
Hong Kong	504	France	337
Kuwait	482	Austria	335
South Africa	152	South Africa	69
Internet users per 10 000 inhabitants			
Country	Number of Internet Users		
Hong Kong	4 309		
Australia	4 272		
United Kingdom	4 062		
Slovenia	4 008		
South Africa	682		

Source: World Bank (2004)

Scores that were calculated for access to information in South Africa are presented in Table 13.

Table 13: South Africa's scores for information

Variable measure	Score (out of 10)
Daily newspapers per 1 000 inhabitants	0.7
Radios per 1 000 inhabitants	2.4
Television sets per 1 000 inhabitants	2.9
Personal computers per 1 000 inhabitants	1.8
Internet users per 10 000 inhabitants	2.0

A score of approximately two is computed for information in South Africa. When it comes to information availability, South Africa is not conducive to small business market participation. Daily newspapers are few, about 32 for every one thousand people, radios per one thousand people are about 338, television sets about 152 and personal computers are about 69 for every one thousand people (WEF, 2004). Other sources of information, which are not accounted for in this study are being used to supply information to MSEs in the country. Entrepreneurs require information on marketing factors such as product requirements, consumer preferences, competitors etc. Such kind of information updates them and helps them to adjust their operations to the current market situation. Some small business owners could be gathering their information through direct contact with customers.

In Philippines, 25% of MSE owners did not gather information on marketing factors. Some argued that there was no need for that since they knew everything about their businesses while others claimed that their enterprises were too small for that. Others however expressed concern to obtain information. Their main problems were lack of access to sources of information, unavailability of the required information, not knowing what kind of information would be useful and lack of money to search for the information (FAO, 2004). Although results of this study show that there is lack of information for MSEs in South Africa, the government has ensured that appropriate institutional arrangements are in place for collecting, analyzing and disseminating information to specific sectors. Such information includes product requirements, market size, input and producer prices and trends, supply and demand trends and marketing and transport costs. According to Ntsika (2002a), a small business desk has been established in each province as a one-stop information unit. MSEs do not have much access to market information due to lack of communication infrastructure. There is need to come up with an effective dissemination system because entrepreneurs require information to be able to participate in markets competitively. MSEs can also take advantage of ICT and obtain up-to-date and accurate market information.

5.7 Strategic Alliances

Scores for four countries that have done well in the specific areas of strategic alliances and a score for South Africa according to WEF surveys are presented in Table 14.

Table14: Measures for strategic alliances and country scores

State of cluster development	
Country	Score (out of 7)
Italy	5.8
Korea	4.8
Thailand	4.4
Pakistan	4.2
South Africa	3.8
Foreign ownership restrictions	
Country	Score (out of 7)
Luxembourg	6.2
United States	5.9
Chile	5.8
Malawi	5.6
South Africa	5.5
Decentralisation of corporate activity	
Country	Score (out of 7)
Taiwan	5.6
Australia	5.2
Vietnam	4.8
Tunisia	4.8
South Africa	3.9
Extent of collaboration among clusters	
Country	Score (out of 7)
Italy	5.4
Croatia	4.7
China	4.5
Hong Kong	4.5
South Africa	4.4

Prevalence of mergers and acquisitions	
Country	Score (out of 7)
United Kingdom	6.5
New Zealand	5.7
Hong Kong	5.1
Zimbabwe	4.8
South Africa	4.8
Local availability of components	
Country	Score (out of 7)
Japan	5.9
Germany	5.1
Korea	4.5
Brazil	4.1
South Africa	3.8
Local supplier quantity	
Country	Score (out of 7)
United States	6.0
France	6.0
India	5.7
Israel	5.6
South Africa	5.4

Source: WEF (2004)

South Africa's scores that were computed for strategic alliance measures are presented in Table 15.

Table 15: South Africa's scores for strategic alliances

Variable Measure	Score (out of ten)
State of cluster development	6.6
Prevalence of mergers and acquisitions	7.4
Foreign ownership restrictions	8.9
Local availability of components and parts	6.4
Decentralization of corporate activity	7.0
Local supplier quantity	9.0
Extent of collaboration among clusters	8.1

The average score for South Africa when it comes to the formation of strategic alliances is 7.6. This score shows that strategic alliances in South Africa make the environment conducive to MSE market participation. Clusters, mergers and acquisitions are legal and common. Some of the components and parts are supplied by local firms through linkages of small and large enterprises. Industries are composed of both large and small firms and not only a few large firms. Supply chains have become popular in the country and these involve collaboration of suppliers, customers and research institutions. In the past, MSEs in Europe were not prepared to co-operate with their customers. Many of the managers found it difficult to expose their operations to customers. Towards the end of the twentieth century, small businesses realized that they would have to enter into major supply networks in order to survive the new system. These enterprises have also decided to explore international markets and are looking for external partners to make it easier for them to realize their dreams and achieve their goals (Tesar *et al*., 2003).

After learning lessons from countries like Korea, most firms are not reluctant to enter into subcontracting arrangements with each other. Some of the South African firms even take initiatives without much intervention from the government (Manning, 1993). Firms have realized that being linked to each other is likely to increase their chances of surviving the challenges of globalization. Ntsika has also launched a marketing and business linkages division to facilitate expansion of markets for small businesses. The issue of public procurement has also helped to promote inter-firm linkages for MSEs in South Africa. Small businesses co-operate to provide goods in the proper quantities, otherwise it would not be possible for one small firm to provide the required amount of goods or services (Ntsika, 2002a).

Some business linkage programmes in South Africa have been said not to be genuine but just the act of large firms trying to look politically correct. Although this could be true, some of those large firms that created linkages for reasons of social responsibility have later realized that they were also reaping benefits from the programme, for example, in-house production in terms of cost, quality and delivery times. One example of a successful linkage programme in South Africa is of emerging garment manufacturers who were supplying Eskom with protective uniforms (Rogerson, 1998).

5.8 Regulatory Environment

The regulatory environment is defined by several measures and computed scores for South Africa are presented in Table 16.

Table 16: South Africa's scores for the regulatory environment

Variable measure	Score (out of ten)
Hidden trade barriers not a problem	8.1
Efficiency of legal framework	8.4
Regulation not burdensome	5.7
Transparency of government policymaking	7.7
Favouritism in decisions of government officials	6.0
Bureaucratic tape a problem	8.0
Centralization of economic policymaking	5.2
Government effectiveness in reducing poverty	7.3
Government effectiveness in reducing income inequality	7.7
Informal sector percentage	6.5
Extent of market dominance	7.4
Regional disparities in quality of business environment	5.0
Presence of demanding regulatory standards	7.9

The average score for the South African economy when it comes to the regulatory environment is 7.7. Such a high score shows that the regulatory environment in South Africa makes the economy conducive to small business market participation. Hidden trade barriers do not cause much of a problem to enterprises because tariffs and quotas are published on time. The legal framework for private businesses is efficient and follows a clearly defined process. A score of 5.7 for burden of regulation shows that administrative regulations are somehow a burden to some firms. Chances are high that these regulations are more of a burden to MSEs than to larger firms. A score of eight for bureaucratic red tape shows that it is a problem in South Africa. More time is spent dealing or negotiating with government officials. According to Gem (2002), lots of incentives are available to South African MSEs but red tape complicates the application process and hence discourages firms.

Although policies have been biased a lot in the past, recently decisions made by the government try to cater for everyone in the community. Small business policies now have good intentions and firms are clearly informed when the government is about to make changes that will affect a particular sector. Government policies and decision making has become very transparent and a score of approximately eight leads to such a conclusion. The South African government has also shown commitment to reducing poverty and income inequality. The new government has implemented programmes like the RDP and GEAR and published the White Paper on Small Business (1995), the Green Paper on Procurement Reform (1997) and introduced BEE programmes and many more. Engdahl (2001) however still insists that South Africa remains one of the countries with the most unequal distribution of wealth.

Company and Intellectual Property Registration Office (CIPRO) has been established to register businesses so as to reduce the number of informal businesses in South Africa. Registration points have been established throughout the country and on-line business registration facilities are also available. A score of five shows that differences in the quality of business environment among regions exist. Some regions have, for example, better infrastructure than others. This is mainly due to previous segregation caused by Acts like the Native Consolidation Act of 1945 which allowed only particular small businesses to operate in urban black townships and also the Bantu Education system which deliberately suppressed the capacity of blacks. Certain areas have been ignored for too long such that it will take more than the efforts being made for them to recover (Mahapa and Mashiri, 2001). Kwaku (2003) however acknowledges efforts being made by African countries like Egypt, Malawi, South Africa and Namibia in creating an enabling environment for MSE development. In South Africa, Public-Private Partnerships (PPPs) have been generated to encourage working together to rebuild the country. The government realized that it needed to complement its capacity with the private sector and deliver services together, which is a good way forward. The South African legal and regulatory framework is generally enabling to MSEs and macroeconomic conditions are on average stable and predictable. While much progress has been made, there is still room for improvement.

5.9 Overall score for conduciveness

Individual scores for all variables affecting MSE market participation are summarized in Table 17.

Table 17: Conduciveness scores for all variables

Conduciveness Factor	Score (out of 10)
Technology	5.4
Finance	7.5
Human resource development	5.6
Infrastructure	5.7
Information	2.0
Strategic alliances	7.7
Regulatory environment	7.7

The average of the conduciveness scores for all variables is calculated as 6.6. This is the overall conduciveness score for the South African economy. The South African economy is therefore conducive to MSE market participation.

5.10 Summary

The average score for the conduciveness of the South African economy to small business market participation is 6.6, which is above average conduciveness. This shows that the environment is conducive to some extent relative to other countries that have done well to promote MSEs in the whole world. This overall score was determined by a number of variables that have different scores. The scores for the different variables show that South Africa is doing well to promote market participation for small businesses in areas like access to finance, the regulatory environment and strategic alliances while lagging behind in other factors like access to information. However, South Africa's conduciveness when it comes to physical infrastructure, human resource development and access to technology by MSEs is average.

CHAPTER 6
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary

Over the years the role played by MSEs has increasingly been recognized and appreciated. These enterprises are well known in both developed and developing countries for employment creation. In some countries like Botswana, MSEs employ twice the number of people employed in large enterprises. In Asia, they contribute significantly to trade. For example, about 56% of total exports in Taiwan and about 50% in China and Thailand come from MSEs.

During apartheid, South African policies were biased against small enterprises in favor of white-owned large enterprises. After the new government took over, it tried to redress injustices of the past by focusing on improving previously neglected sectors. Inequality and dualism is still common in South Africa due to past discrimination. MSE development is one of the tools being used to reduce inequality and wealth gaps in the country. Various programmes and institutions have been established to support MSEs in South Africa. Some policies have been designed especially to promote these enterprises, for example, the DTI White Paper on small businesses (1995) and the Green Paper on Public Sector procurement reform (1997). Policies like the RDP (1994), GEAR (1996) and the Broad-Based BEE Act (2003) have also addressed MSE development issues like infrastructure, financing the poor, information and appropriate technology for MSEs.

Many MSEs have been established in South Africa but their participation in the market and contribution to GDP is still limited. This may be due to barriers MSEs experience in their attempt to participate in markets. Some of these barriers are related to:

(a) the characteristics of MSEs;
(b) the characteristics of MSE owners or managers; and
(c) the environment in which MSEs operate.

Transaction costs are also a common barrier to MSE market participation mainly caused by lack of infrastructure or information. Common regulatory barriers facing exporting MSEs lately are NTBs like SPS and TBT measures and to some extent bureaucratic red tape. Other forms of barriers to MSE market participation include diseconomies of scale, social capital, lack of access to finance, technological barriers and lack of education or training.

Efforts are being made in South Africa to reduce barriers to market participation for MSEs to realize their full potential. If barriers are reduced or overcome, an environment conducive to MSE market participation will result. This study assessed the conduciveness of the South African economy to small business market participation. This was achieved by analyzing a number of South African policies that have tried to address MSE needs since the new government took over. Major factors that influence MSE market participation were identified as technology, finance, infrastructure, human resource development, strategic alliances, information and the regulatory environment. The conduciveness of the South African economy was evaluated using a scoring system with values ranging from one to ten for the above factors. For each variable, South Africa was allocated a score relative to the best four performing countries for that particular variable.

Research results indicate that South Africa's policies and programmes have helped to provide a conducive environment to MSE market participation. Some policies like the BEE Act and the DTI White Paper have contributed more to promote MSE market participation than the RDP and GEAR. The establishment of Khula Finance Enterprise Limited and Ntsika was a clear demonstration of the South African government's commitment to MSE development. These two enterprises have provided financial and non-financial support to small enterprises, respectively.

The overall score for the conduciveness of the South African economy is 6.6, indicating that the economy is on average conducive to MSE market participation. As regards the scores for the individual factors affecting market participation, South Africa has high scores for access to finance, the regulatory environment and strategic alliances. This shows that finance for MSEs is available, regulations are generally favorable to MSEs and strategic alliances are common and promoted. Based on the

scores for human resource development, infrastructure and technology, the South African economy's conduciveness to MSE market participation can be described as being slightly above average. This means that South Africa still needs to do more in these areas. South Africa achieved the lowest score for information, indicating that information is not readily available to MSEs.

6.2 Conclusion

The South African government has done well to promote small business development. Since 1994 most policies have taken MSEs into consideration in an effort to reduce inequality in the country. Even though these policies have been in favor of MSEs, in some cases objectives set have not been achieved. Generally, the South African economy is conducive to MSE market participation. However, some areas make the environment more conducive to MSE market participation than others.

In areas like strategic alliances, finance and the regulatory environment, MSEs have been well catered for. Policies have promoted the formation of strategic alliances between MSEs and the larger enterprises. Both the larger and smaller firms are aware of the benefits arising from such linkages. Problems related to the size of MSEs are reduced when they form partnerships with larger firms.

The South African government together with NGOs and the private sector co-operate to promote access to finance by MSEs. A score of 7.5 shows that the South African environment is conducive to MSE market participation when it comes to access to finance. Khula Enterprise Finance Limited has contributed significantly to reducing MSE financial constraints although it has not succeeded in achieving all its goals. Incentives given to banks by the government have contributed to the increase in the number of loans granted to MSEs by the private sector. Models for financing MSEs used in other countries have been adopted in South Africa and some have worked well to promote MSE's access to credit.

The conduciveness of the South African economy can be described as average in terms of technology, infrastructure and human resource development. With regard to technology, the South African economy has been slightly conducive. This could be

due to the fact that available technology cannot be readily adopted by most MSEs. MSE operators are either reluctant or lack the necessary resources to adopt new technology or in some cases lack awareness. They continue to use traditional methods used in the past despite the availability of more advanced and efficient methods.

Physical infrastructure in South Africa is available and developed to some extent. However, there is a wide gap between urban and rural areas in terms of investment in infrastructure. Many poor MSEs are known to be operating in rural areas. Water and electricity supply is generally good but transport and communication facilities in less developed areas like the former homelands are inadequate. A large proportion of roads in the rural areas are not paved and, therefore, there is great need to improve the road infrastructure. The South African economy's performance in terms of human resource development may be described as average. Training institutions are available but MSE operators do not find it necessary to participate in training programmes. Some MSE operators are not even aware of available training services.

In South Africa, the use of electronic commerce is associated mainly with large enterprises. This means that access to marketing information for MSEs is limited and this reduces their participation in markets. With limited information, enterprises become reluctant to expand into new markets. Unequal access to marketing information is common in South Africa. The government has made an effort to supply MSEs with the information they need through small business desks. These desks help to provide one-stop information services for MSEs.

The DTI also supplies small businesses with information and in some cases refers them to the right people who can provide them with the information they need. Utilization of the internet by MSEs is not common in Africa unlike in the APEC region. In South Africa a few MSEs own computers and even fewer have access to the internet yet e-commerce has improved market participation of small businesses in most developed countries and the APEC region. If e-commerce is promoted and made accessible to MSEs, their participation in markets should improve.

Although there is need to improve on access to information and to some extent infrastructure, technology and human resource development among MSEs, the South

African economy is conducive to MSE market participation. Small business participation in markets is limited by the environment in which they operate to a lesser extent. Most of the barriers MSEs experience could be due to other factors like firm or entrepreneurial characteristics.

6.3 Recommendations

Based on the results of the study, there is a greater need to improve in some areas than in others to make the South African economy more conducive to MSE market participation. More attention needs to be given to improving access to information, infrastructure, technology and human resource development. Despite the high scores for access to finance, strategic alliances and the regulatory environment, it is of paramount importance to review and continually improve on these factors in an effort to maintain a conducive environment for MSE market participation.

6.3.1 Information

MSEs require information with regard to market trends and development, regulations, sources and types of financing available, technology development, training etc. Information provided should be relevant to MSEs. In some cases relevant information may be available but MSE operators may not be aware of its existence. Sometimes they may be aware, but still fail to appreciate the importance of available information. Information should be disseminated using effective campaigns or outreach programmes that target MSEs. Seminars should be organized for MSE operators and brochures should be distributed all over the country. More LBSCs should be established, especially in rural areas where lack of information is a more serious problem. Efforts to demonstrate how available information can help MSEs should also be made. This can be achieved through trade fairs and exhibitions where MSE operators share their success and also through case studies.

6.3.2 Infrastructure

More attention needs to be given to improving infrastructure in the rural areas as they are more disadvantaged than urban areas in terms of quality and quantity of

infrastructure. Required infrastructure includes roads, rail, warehouses, electricity, water and communication facilities. Transport facilities need to be upgraded so that there are more roads and existing ones are well-paved or tarred. More electricity and telecommunication facilities need to be supplied in deprived areas. This can be achieved through state investment in rural infrastructure or in some cases PPPs can invest in transport and communication and help to upgrade existing infrastructure.

6.3.3 Technology

MSE operators need to acquire technical skills, more efficient equipment and a research and development culture among them so as to develop new and modified products. Technology could be available in South Africa but may not be relevant to MSEs. Attention needs to be paid to the development of relevant technology. More funds should be allocated for research and development relating to technology for MSEs. PPPs could combine resources to develop sector-specific technology. The government should also encourage the adoption of technology such as biotechnology and e-commerce by these enterprises through the provision of required information and infrastructure. In some cases, appropriate technology may be available but MSE operators may not be aware of its existence. Effective information dissemination becomes important to create and increase awareness of technological developments. Extension centres should also be set up to help MSEs make informed decisions about technology.

6.3.4 Human resource development

Training programmes are available in South Africa and most of them cover issues relevant to MSEs like marketing, accounting, production, international trade etc. When it comes to MSEs, the main problem is not lack of training opportunities but limited participation in training programmes. The focus should therefore be on identifying reasons for the limited participation and coming up with ways and means to increase MSE operators' participation in training programmes.

6.3.5 Finance

Although the results of the study suggest that access to finance for MSEs is not a major barrier to market participation, it is known that many MSEs, particularly those in the former homelands, do experience credit constraints. It is, therefore, important to identify credit constrained MSEs and the reasons for the existence of the constraints. Appropriate strategies can then be implemented to remove the constraints. The fact that many MSEs are unable to participate in markets could be an important explanation for them to be experiencing credit constraints. Therefore, other efforts directed at improving the participation of MSEs in markets may have a positive effect on access to finance.

6.3.6 Strategic alliances

Although linkages are known to be common in South Africa, more can still be done to promote and maintain strategic alliances in the country. Business linkage centres should be established to bring MSEs and large organizations together and business matching programmes should be implemented to encourage networking. Joint venture and outsourcing opportunities should also be advertised. Policy measures should promote subcontracting as in Korea, where certain goods can only be manufactured by MSEs.

6.3.7 Regulatory environment

Although the results of the study indicate that the regulatory environment is favorable to MSE participation in markets, it is known that MSEs still experience problems related to bureaucracy and red tape. While the South African government has done much to address regulatory problems, more still needs to be done to increase the participation of MSEs in markets by eliminating bureaucracy and red tape.

6.4 Limitations of the research

- Most of the data used in this study was collected to measure competitiveness of economies and not conduciveness.

- The study did not benefit from previous research in terms of methods used for measuring conduciveness as little research has been done on this issue.

- South Africa was allocated scores for conduciveness relative to other countries, irrespective of their level of development, implying that all countries are on the same level of development.

6.5 Suggestions for further research

- Further research should attempt to collect primary data that addresses conduciveness issues rather than depend on data from secondary sources.

- It would be interesting to do a cross-country study on conduciveness of economies to MSE market participation and emphasize similarities and differences between the compared economies. In addition it would be worthwhile to compare countries that fall in the same income category.

- Further research should be undertaken to develop methods for measuring conduciveness.

- Although an attempt was made in the study to include all the relevant variables to measure conduciveness, more variables could be added and used to measure conduciveness of an economy to MSE market participation.

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APPENDICES

Appendix A: Selected survey questions from WEF survey

Least favourable	1	2	3	4	5	6	7	most favourable

1. Your country's position in technology (1 = generally lags behind, 7 = is among that of the world leaders).
2. Scientific research institutions in your country are (1 = non-existent, 7 = the best in their fields).
3. Mobile or cellular telephones for your business are (1 = not available, 7 = as accessible and affordable as in the world's most technologically advanced countries).
4. In your industry, specialised research and training services are (1 = not available in the country, 7 = available from world class local institutions).
5. The level of sophistication of financial markets in your country is (1 = lower than international norms, 7 = higher than international norms).
6. How easy is it to obtain a bank loan in your country with only a good business plan and no collateral? (1 = impossible, 7 = easy)
7. Entrepreneurs with innovative but risky projects can generally find venture capital in your country. (1 = not true, 7 = true)
8. During the past year obtaining credit for your company has become (1 = more difficult, 7 = easier).
9. General infrastructure in your country is (1 = poorly developed, 7 = among the best in the world).
10. The quality of electricity supply in your country in terms of lack of interruptions etc. is (1 = worse than in most other countries, 7 = equal to the highest in the world).
11. New telephone lines for your business are (1 = scarce and difficult to obtain, 7 = widely available and highly reliable).
12. Railroads in your country are (1 = underdeveloped, 7 = extensive and efficient).
13. The public schools in your country are (1 = of poor quality, 7 = equal to the best in the world).
14. The educational system in your country prepares for coping with needs of a competitive economy. (clearly no, 7 = clearly yes)
15. Management or business schools in your country are (1= limited or of poor quality, 7 = the best in the world).
16. How common are clusters in your country? (1 = limited and shallow, 7 = common and deep)
17. In your country, mergers and acquisitions are (1 = rare and face serious legal impediments, 7 = common and allowed by law).
18. Foreign ownership of companies in your country is (1 = rare, limited to few cases and prohibited in key sectors, 7 = prevalent and encouraged).

19. In your industry, how are components and parts obtained? (1 = almost always imported, 7 = almost always sourced locally).

20. Corporate activity in your country is (1 = dominated by a few business groups, 7 = spread among many firms).

21. Local suppliers in your country are (1 = largely nonexistent, 7 = numerous and include the most important materials, components, equipment and services).

22. Collaboration in clusters with suppliers and partners is (1 = almost nonexistent, 7 = extensive and involves suppliers, local customers and local research institutions).

23. In your country, hidden trade barriers are (1 = an important problem, 7 = not an important problem).

24. The legal framework in your country for private businesses to settle disputes and challenge the legality of government actions and/or regulations (1 = is inefficient and subject to manipulation, 7 = is efficient and follows a clear, neutral process).

25. Administrative regulations in your country are (1 = burdensome, 7 = not burdensome).

26. Firms in your country are usually informed clearly and transparently by the government on changes in policies and regulations affecting your industry. (1 = never informed, 7 = always fully and clearly informed)

27. When deciding upon policies and contracts, government officials (1 = usually favour well-connected firms and individuals, 7 = are neutral among firms and individuals).

28. How much time does your firm's senior management spend dealing or negotiating with government officials? (1 = almost everytime, 7 = no time)

29. Economic policymaking in your country is (1 = centralized at the national level, 7 = decentralized at the state and city level).

30. In your country, the government's efforts to reduce poverty are (1 = ineffective, 7 = effective).

31. In your country, the government's efforts to reduce income inequality are (1 = ineffective, 7 = effective).

32. What percentage of businesses in your country would you guess are unofficial or unregistered? (1 = less than 5% of all businesses, 7 = more than 70%).

33. Market dominance by a few enterprises is (1 = common in key industries, 7 = rare).

34. Differences among regions within your country in the quality of the business environment (human resources, infrastructure etc.) are (1 = large and persistent, 7 = modest).

35. Standards for product or service quality, energy and other regulations in your country are (1 = lax or nonexistent, 7 = among the world's most stringent).

Appendix B: Hard data for selected countries

Country	Daily Newspapers per 1000 people	Radios per 1000 people	Television Sets per 1000 people	Personal computers per 1000 people	Cellular Telephone Subscribers per 1000 people	Internet users in thousands	Paved roads (%)	Telephone lines per 1000 people
Austria	296	753	542	335.4	807	2 600	100.0	468
Brazil	43	433	349	62.9	167	8 000	5.5	218
Bulgaria	116	543	453	44.3	191	605	94.0	359
Canada	159	1 047	700	459.9	362	13 500	- -	676
Czech Republic	254	803	534	145.7	675	1 400	100.0	375
Denmark	283	1 400	857	540.3	738	2 900	100.0	719
Estonia	176	1 136	629	174.8	455	430	20.1	352
France	201	950	632	337.0	605	15 653	100.0	573
Greece	23	478	519	81.2	751	1 400	91.8	529
Hong Kong	792	686	504	386.6	859	2 601	100.0	580
Hungary	465	690	445	100.3	498	1 480	43.4	374
Ireland	150	695	399	390.7	729	895	94.1	485
Japan	578	956	731	348.8	588	55 930	46.0	597
Kuwait	374	624	482	131.9	445	200	80.6	240
Netherlands	306	980	553	428.4	767	7 900	90.0	621
Saudi Arabia	326	326	264	62.7	113	300	30.1	145
South Africa	32	338	152	68.5	252	3 068	20.3	112
Spain	100	330	598	168.2	655	7 388	99.0	431
Switzerland	373	1 002	554	540.2	731	2 223	- -	746
Thailand	64	235	300	27.8	123	3 536	97.5	99
United Arab Emirates	156	318	252	135.5	616	976	100.0	340
United Kingdom	329	1 446	950	366.2	770	24 000	100.0	588
United States	213	2 117	835	625.0	451	142 823	58.8	667
Uruguay	293	603	530	110.1	155	400	90.0	283

Source: World Bank (2004)