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The Impact of Municipal Dysfunction on Small Businesses (SME's and Informal Sector Businesses) in South Africa



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dynamics (Pty)Ltd



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EXECUTIVE SUMMARY

- The Small Business Institute (SBI), with the generous support of Hollard Insurance commissioned this research study into the “Real Costs of Municipal Dysfunctionality on SMEs and the Informal Sector” against a backdrop of widespread municipal service delivery failure
- It became compelling to gauge what the lived experience is of SMMEs as they engage on a daily basis with municipalities.
- Similar studies have either been geographically or thematically limited. For these reasons a more comprehensive approach was followed. The secondary research conducted portrays a concerning picture of systemic municipal collapse
- Key governance instruments such as the Auditor General’s Reports on municipal finances and performance reviewed confirmed this. More methodical research papers and anecdotal media reports almost on a daily basis, paint a concerning picture. These have been analysed and unpacked in **Part I** of the report
- The primary research conducted is reported as findings in **Part II** of the report. It was arrived at through the design of an action survey with probing questions in key areas of municipal services. Over 900 surveys were distributed, from which 331 respondents participated in the survey

EXECUTIVE SUMMARY (CONTINUED)

- Only 126 of the respondents fully completed the surveys and the findings of the primary research are based on that component. However, for the qualitative aspect, the other surveys were not discarded since valuable data could still be extracted from them. This enhanced the report from being mostly quantitative to also entailing a strong qualitative element
- The 126 research participants were aged 18 years and over for the surveyed SMMEs. The most notable business concerns are unreliable municipal service delivery, not receiving adequate business development support from municipalities and the inability to find affordable and suitable business or retail space
- The results show that there is awareness of the requirements business permitting and licensing and that costs are too high to obtain certain permits
- Of concern is that one in ten of the respondents reported that they had in the past had to pay someone with links to the municipality to obtain a business permit or trading permit
- Access to service delivery such as regular electricity, a stable water supply and suitable sanitation were all moderately high to high

EXECUTIVE SUMMARY (CONTINUED)

- There was marginal satisfaction with municipal refuse removal services. The results indicate that few businesses had submitted tenders for any tender opportunities at the municipality
- There is a wide-ranging belief among the surveyed businesses that the municipalities favour certain companies, and that there was corruption in the awarding of tenders
- This is also coupled with low levels of knowledge regarding business support from the municipalities, which is a function of improved communication between the municipalities and their business communities
- It appears as if despondency has set in regarding the functionality of business support systems in the municipalities. There were very low satisfaction levels with regards to service delivery by municipalities to the businesses
- Finally, the results indicate low levels of satisfaction associated with experiences in dealing with municipal officials regarding their availability to deal with queries and requests, approachability, politeness and courtesy, honesty, information sharing, and remedies to mistakes

- While there were areas of high satisfaction levels in some categories of the interface between municipalities and local SMMEs and informal businesses, the overall picture coalesces with the findings in the review of literature that South Africa is in a deep municipal service delivery crisis
- The rigorous research allowed for the generation of a set of recommendations to improve and address municipal dysfunctionality as it pertains to services to the SMME and informal sectors

INTRODUCTION

Background

“Full engagement of Municipality in SMEs in terms of all that is required for our businesses to be sustained.” Survey Respondent, Moqhaka Local Municipality, Free State”

- With municipal dysfunctionality on the increase, the screaming headlines about water interruptions in Gauteng that started in September 2022, is neither sporadic nor isolated. On a daily basis, SMMEs and informal businesses across the length and breadth of South Africa have to contend with increasing municipal dysfunctionality
- That it happened in the economic heartland of the country is possibly the only reason why it grabbed such large-scale media and public attention: “Johannesburg water crisis: Small businesses, old age homes use drums, bottles of water to get by.” (News 24 article by Zandile Khumalo, October 6, 2022)

INTRODUCTION

Background (Continued)

- Most recently, in 2023, this protracted water and electricity outages in parts of Johannesburg confirmed the entrenched nature of municipal dysfunction and its impact on communities and small businesses:

“From restaurants, and small business owners to people working from home, residents have been left furious and confused, with no clear indication of when water will return to their taps again.” (EWN by Veronica Mokhoali | 28 March 2023)

- More often, the headlines feature the effects of municipal dysfunction on larger businesses. Astral Foods, a major poultry producer, has been affected by water and power interruptions in Lekwa Municipality to the extent that it reportedly cost the company R62 million in the 2021 financial year
- In the release of its latest annual financial results, the company notes that *“Collapsing municipal infrastructure and national load shedding continue to impact Astral’s operational efficiencies negatively, which adds a significant cost burden.”* (Astral Foods, Audited Summarised Consolidated Results for the year ended 30 September 2022. P2)

INTRODUCTION

Background (Continued)

- Clover, in Ditsobotla Local Municipality, experienced similar problems and put plans in place to move its cheese processing facility in Lichtenburg to KwaZulu-Natal
- With over 2,3 million SMMEs in South Africa, not much has been said about the impact of municipal dysfunctionality on the SMME community, despite the fact that there is a consensus that SMEs are critical to the economy as even conceded to in the National Development Plan. (National Development Plan: 2012)
- A study by the International Monetary Fund (IMF) confirms the critical importance of what can be regarded as an underserved sector: “In South Africa, small enterprises employ between 50 and 60 percent of the country’s work force and contribute around 34 percent of GDP
- A survey, last conducted between 2012 and 2014 that specifically addresses the causal link between SME sustainability and municipal functionality in the City of Tshwane confirmed this: *(Continued on next Slide)*

INTRODUCTION

Background (Continued)

“The study showed that there was a significant association between positive perception of business operators on the quality of municipal services provided to them and viability of businesses. The percentage of viable business enterprises that were satisfied with the quality of services provided to them was 87%. The percentage of non-viable business enterprises that were satisfied with the quality of services provided to them was only 13%. Profitability in business enterprises was significantly affected by lack of capacity for fulfilling the business and entrepreneurial needs of newly established businesses” (Worku Z (2016). The impact of poor quality municipal services on small enterprises. Investment Management and Financial Innovations, 13(3-1), 274- 279. doi:10.21511/imfi.13 (3-1).2016.14. P. 274)

- To this end the study furthermore pointed out that:

“Sustained growth and viability in start-up SMEs conducting business in and around Tshwane is undermined by the lack of efficient municipal services, bureaucracy and overregulation.” (Worku Z (2016). The impact of poor quality municipal services on small enterprises.

Investment Management and Financial Innovations, 13(3-1), 274- 279. doi:10.21511/imfi.13 (3-1).2016.14. P. 274)

INTRODUCTION

Background (Continued)

- A similar recent survey conducted, which focuses on the ease of doing business for the business community in general and not specifically the SME community, underscores how important it has become to consider the functionality of municipalities vis-à-vis a thriving small business sector:

“In this regard, the performance of municipalities in South Africa is a key indicator of the country’s economic heartbeat. South Africa’s 257 local, district, and metropolitan municipalities are the closest governance institutions to the business sector and should establish a conducive environment for economic prosperity and growth.” (Ease of Doing Business in Local Government: Push and Pull actors for

Business Investment in Selected South African Municipalities Gerrit van der Waldt 1 and David Fourie 2, July 2022. P 470)

- This includes political stability, policy certainty, a business-friendly environment, social cohesion, efficient and effective service delivery through the provision of water, sanitation, refuse removal, electricity, roads and stormwater, licensing and permits as well as affordable services and municipal rates

INTRODUCTION

Background (Continued)

- Relying on a “capable state” as expressed in municipal competency at local level, plays a critical role in the functionality of municipalities and is an enabler of the functionality of municipalities
- The spectre of corruption looms large at local level and malfeasance at the local government space has been touted as perhaps much larger than what was uncovered during the Zondo Commission of Enquiry into State Capture
- This does not bode well for SMEs at a localized level, as they may find themselves precipitously and unfairly excluded from local opportunities in municipal supply chains where they are domiciled
- The Auditor-General describes the state of municipalities in the 2020/2021 report as *“Local government is characterized by accountability and service delivery failures, poor governance, weak institutional capacity, and instability.”* (Consolidated general report on local government audit outcomes: MFMA 2020-21)

INTRODUCTION

Background (Continued)

- This is broadly a reflection of the overall functionality of municipalities. It must be borne in mind that even though clean audits reflect positively on the functionality of municipalities and there is therefore a clear causal link, there is still the possibility that SMEs are not well served even in municipalities with clean audits. It makes the need for empirical research more compelling

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY

- It should be recognized, that municipalities exist to predominantly serve households and communities. It is the contention of the study that SMMEs form part of a broader community and its rights to be serviced by municipalities are enshrined in the Constitution, policy and legislation
- The exercise is not one of only blaming municipalities for their own paralysis. They are dependent on a national system of local governance, which involves support from national and provincial governments, which is accompanied by limited resources. There have been widespread calls across the spectrum for the local government system to be reformed, overhauled or restructured
- It is exceedingly difficult to do so. The system is characterized by design faults and vested interests, preventing repurposing local government to make it efficient and effective. It translates into a continuation of dysfunctionality which is not only faced by communities, but also the SMME sector broadly
- An appreciation for the invidious position of some municipalities to service growing communities, with high levels of indigence, should therefore accompany any analysis of the ability of municipalities to create a conducive business environment

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY (CONTINUED)

- A considerable body of knowledge has developed about municipal dysfunctionality. Only a paltry 16% of South Africa's municipalities received clean audits according to the Auditor-General's 2020-2021 audit report for municipalities. (MFMA 2020-21 consolidated general report on local government audit outcomes. P.9)
- This may be an accurate measure for gauging financial performance, but it may not be for dysfunctionality from the point of view of servicing the SMME community
- Other variables such as ease of doing business may come into play, but even this may not be the only or most adequate yardstick to measure the performance of municipalities with regards to their functionality in servicing the local needs of the SMME sector and entrepreneurs broadly
- For this reason, a more comprehensive approach has been adopted, to consider the extent qualitatively of the impact of municipal dysfunctionality ranging from governance, which includes leadership and administrative efficiency, to service delivery which includes access to services such as water, electricity and safety and security

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY (CONTINUED)

- The holistic and integrated raison d'etre for this study is best encapsulated by remarks contained in a study done by Kirsten and Fourie on the role of municipalities in economic development:

“Local economic development and better municipal service delivery are vital if South Africa wants to broaden economic participation and reverse its unemployment trend. To achieve these objectives, it is necessary to strengthen municipal finances and investment. Good municipal governance is a prerequisite. Intermediate city municipalities have an important role to play, because urban development is critical for growth and investment. It may also reduce the pressure caused by urbanisation to metros”

- Municipalities should:
 - I. Provide democratic and accountable governance for local communities
 - II. Ensure the provision of services in a sustainable way
 - III. Promote social and economic development as well as a safe and healthy environment encourage the involvement of communities in matters of local government.

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY (CONTINUED)

Municipal failure not only affects large businesses. It also has an impact on households, small, medium and micro-enterprises and other investors in local economies. Economic growth, job creation and local economic development initiatives depend on municipal finances. They become constrained when local governments don't function well. Households directly suffer the consequences when basic service delivery is poor. But the problems extend beyond the household level. Municipalities need to provide the infrastructure and basic services that support a favourable investment climate. Without this investment, deepening unemployment and poverty may follow. This has the further effect of eroding the local tax base, increasing municipal dependence on fiscal transfers and worsening South Africa's already constrained fiscal environment." (Johann Kirsten and Helanya Fourie: Bureau for Economic Research, Stellenbosch University- Municipalities can play a key role in South Africa's Economic Development. Here's how Published: October 15, 2021 9.00am SAST)

- To this end, the state of municipalities across South Africa is not encouraging. The Auditor-General in its latest 2020/2021 report lamented the dire straits in which municipalities find themselves: (Continues on the next slide)

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY (CONTINUED)

“Our assessment of the financial health of 230 municipalities and 18 municipal entities based on their financial statements showed increasing indicators of a collapse in local government finances and continued deterioration over the term of the previous administration.”

(MFMA 2020-21 consolidated general report on local government audit outcomes. P. 20)”

- As pointed out by the Auditor-General, the Department of Cooperative Governance itself conceded to the declining state of local government in South Africa:

“In 2021, the Department of Cooperative Governance reported that 64 municipalities were dysfunctional. This dysfunction is rooted in poor governance, weak institutional capacity, poor financial management, corruption and political instability. In June 2017, eight municipalities were under administration or provincial intervention. By June 2021, 23 municipalities were under administration or provincial intervention, which further increased to 33 municipalities by February 2022. This means that these municipalities had become so dysfunctional that national and/or provincial government had to step in to try and restore governance, financial management and service delivery. Administrators are then appointed by the national and/or provincial government to manage and oversee the day-to-day running

of these municipalities.” (MFMA 2020-21 consolidated general report on local government audit outcomes. P. 4)

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY (CONTINUED)

- According to the South African Local Government Association (SALGA)

“...local government is on a downward trajectory, is dogged by a trust deficit and needs to be capacitated to deliver its mandate of basic services to communities. Salga is the employer body representing the country’s 257 municipalities, which are at the coalface of service delivery. Most of these municipalities have been run into the ground due to maladministration, looting and corruption, while others are struggling to pay staff salaries and employment benefits, and deliver basic services...”

In a recent briefing to the parliamentary portfolio committee on Cooperative Governance and Traditional Affairs, the Department of Cooperative governance reported that “... 64 municipalities (24.9%) are considered high-risk and dysfunctional, while 111 municipalities are considered medium-risk (111). By comparison, only 16 municipalities (5.45%) are considered stable – with the vast majority of these municipalities located in the Western Cape, led by the Democratic Alliance.”

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY (CONTINUED)

- The following matrix was used to report on the state of local government in South Africa:

State of Local Government : Indicators					
	Political	Governance	Administrative	Financial Management	Service Delivery
HIGH RISK DYSFUNCTIONAL	<ul style="list-style-type: none"> In-fighting in councils Intra-political party divisions in council Divisions in caucuses External political interference in councils Persistent & frequent section 139 interventions (esp. on dissolution of councils) 	<ul style="list-style-type: none"> Council not meeting as regulated Committees of council not meeting Council taking wrongful decisions No oversight by council on administration Poor and weak decision-making by council Councillors unduly interfering in administration No consequence management on corruption, maladministration, nepotism & poor performance Frequent Labour disputes and disruptions Poor public participation processes 	<ul style="list-style-type: none"> Vacancies in key positions Bloated structures Poor performance management and lack of consequence management Non-compliance: legislation, regulations and policies 	<ul style="list-style-type: none"> Unfunded budget Incapacitated and incompetent Budget & Treasury Offices (BTO) Excessive salary bills Non submission or late submission of annual financial statements Disclaimer & adverse audit outcomes High debt to utilities and statutory obligations Flouted SCM processes Poor collection of revenue 	<ul style="list-style-type: none"> High basic services backlogs High number of informal settlements No maintenance of infrastructure resulting in water and electricity supply interruptions and poor water quality No technical capacity Glaring service delivery issues Perennial poor infrastructure grant expenditure Persistent service delivery protests Poor response: service delivery complaints Court actions by interest groups on poor service delivery
MED RISK	<ul style="list-style-type: none"> Minimal in-fighting in council Elements of factionalism Regular Section 139 interventions 	<ul style="list-style-type: none"> Council meeting as scheduled with some external interruptions Reports on maladministration identified but not acted on by council Oversight conducted not fully effective Public participation not fully effective 	<ul style="list-style-type: none"> Vacancies in some key positions Structure not fully respondent to municipal needs Compliance to applicable legislation, regulations and policies not fully met 	<ul style="list-style-type: none"> BTO not fully capacitated – vacancies in some positions Financial management policies in place, not fully implemented Weak revenue collection Debt owed to utilities & statutory obligations not fully services Annual financial statements late Qualified audit outcomes 	<ul style="list-style-type: none"> Basic services backlogs not fully met Repairs and maintenance not fully executed due to capacity and budget Infrastructure grants not fully spent Frequent service delivery protests Inadequate response to service delivery complaints
LOW RISK	<ul style="list-style-type: none"> Robust and functional Council No intra-party political divisions 	<ul style="list-style-type: none"> Council meeting as scheduled with no undue external influence Reports on maladministration identified 	<ul style="list-style-type: none"> Vacancies in key positions Structure not respondent to municipal needs Compliance to applicable legislation, regulations and policies not fully met 	<ul style="list-style-type: none"> Weak revenue collection Debt owed to utilities & statutory obligations not fully services Reliance on consultants for Annual financial statements 	<ul style="list-style-type: none"> Repairs and maintenance not fully executed due to capacity and budget Incapacity to response to service delivery complaints
STABLE	<ul style="list-style-type: none"> Cohesion in council Functional caucus No intra-party political divisions No section 139 interventions over 5 year period 	<ul style="list-style-type: none"> Council meeting regularly, as regulated Council adopts IDP, budget, policies, annual financial statements on an informed and efficient basis Council provides effective oversight over administration 	<ul style="list-style-type: none"> Structure fully respondent to municipal needs No vacancies in key and senior positions (positions occupied by competent individuals) Full compliance with legislation, regulations and policies 	<ul style="list-style-type: none"> Fully funded budget Functional BTO Effective application of credit control and debt collection policies No or minimal outstanding debt to utilities & statutory obligations 	<ul style="list-style-type: none"> Community consultation on service delivery priorities Well capacitated and efficient infrastructure services department Uninterrupted delivery of services due to well maintained infrastructure Quick response and turnaround time to service delivery complaints Infrequent service delivery protests

LITERATURE REVIEW AND ANALYSIS

INTEGRATED MUNICIPAL FUNCTIONALITY (CONTINUED)

State of Local Government Barometer

PROVINCE	Number of municipalities	Dysfunctional (Red)	Medium Risk (Orange)	Low Risk (Yellow)	Stable (Green)
Eastern Cape	39	11	14	14	0
Free State	23	11	11	1	0
Gauteng	11	2	7	1	1
KwaZulu Natal	54	11	20	22	1
Limpopo	27	3	21	3	0
Mpumalanga	20	6	9	4	1
North West	22	10	7	5	0
Northern Cape	31	9	16	5	1
Western Cape	30	1	7	10	12
Total	257	64	111	66	16

MUNICIPAL GOVERNANCE

POLICY AND LEGISLATIVE CONSIDERATIONS

- Constitutional and Legislative Bedrock for Municipal Support to SMMEs
- District Development Model (DDM)

GOVERNANCE AND ADMINISTRATION

- Leadership
- Capable state

MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS

- Creating a conducive and stable economic environment at a local level has evaded local governance for a period of time. All indications are that this is deteriorating. It was found in the van der Waldt and Fourie study that:

“The survey results confirm the need for a sound regulatory framework that supports small business development through assistance to local entrepreneurs.” (Gerrit van der Waldt 1 and David Fourie Ease of Doing Business in Local Government: Push and Pull actors for Business Investment in Selected South African Municipalities July 2022. P. 483)”

MUNICIPAL GOVERNANCE

MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS (CONTINUED)

- However, if used appropriately and in line with constitutional, legislative and economic prescripts, effective and efficient governance can serve as an important enabler for local economic development
- It is an instrument at the immediate disposal of local government to improve their economic fortunes. In the case of informal trade, it was found by the Socio-economic Rights Institute of South Africa (SERI) and the South African Local Government Association (SALGA), for example, that:

“Nearly all of the municipal by-laws and policies governing informal trade that were reviewed for the purposes of this discussion document identify the need to develop an enabling environment as a fundamental objective or underlying principle. However, in spite of these affirmations, municipal by-laws and policies are generally more focused on ensuring the control of the activities of informal traders or the strict compliance with by-laws than with facilitating more favourable conditions for informal traders.” (SERI et SALGA, Towards Recommendations on the regulation of informal trade at Local Government Level P.6)

MUNICIPAL GOVERNANCE

MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS (CONTINUED)

- Many businesses merely require policy stability, a conducive regulatory environment and fair, equitable and transparent governance processes and practices to make positive investment decisions or improve output and create more employment opportunities. They may not even require other forms of state support as affirmed by van der Walt and Fourie in a study as recently published in July 2022 on the ease of doing business at a municipal level:

“Ease of doing business with municipalities and within municipal areas refers to the simplicity, effortlessness, and extent to which private enterprises can establish and conduct their business. It is influenced by multiple factors such as the conduciveness of the statutory and regulatory framework and the effectiveness of municipal structures and processes, in order to reduce bureaucratic red tape for the simplification of administrative processes such as the registration of business property, the issuing of permits, and access to electricity. Municipalities thus play a significant role in attracting and retaining business investment by establishing a conducive climate for business growth and local economic development.” (Gerrit van der Waldt 1 and David Fourie Ease of Doing Business in Local Government: Push and Pull Factors for Business Investment in Selected South African Municipalities July 2022. P470)

MUNICIPAL GOVERNANCE

MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS (CONTINUED)

- The importance of efficient regulatory processes at municipal level is also underscored in improving the productivity of cities according to the South African Cities Network:

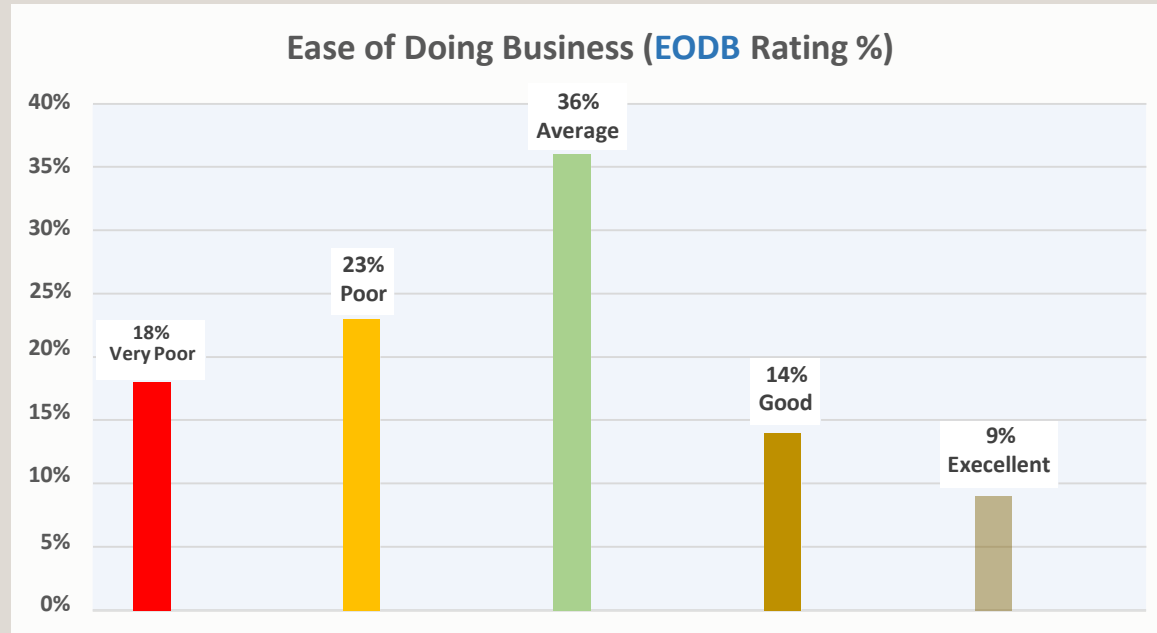
“For example, engaging with the city or navigating the many city processes is easier for organised or professionalised community and business groups than for individuals or small businesses. These processes, relating to incentives, development and permit applications, or licensing regimes, can be complex and time-consuming. The result is unsustainable levels of inequality, redistributive burdens, and inefficient spatial forms.” (STATE OF SOUTH AFRICAN CITIES: South African Cities Network. P. 101)

- The instruments at the direct and immediate disposal of local government include the following:
 - By-laws
 - Business Regulations
 - Licensing and permitting
 - Incentives/Levies, Surcharges, Rates and Taxes

MUNICIPAL GOVERNANCE

📄 MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS (CONTINUED)

- Rating of Ease of Doing Business



The chart illustrates that more than a third (36%) of the respondents rated their ease of doing business experience as average. It is, however, concerning to note that 41% of the respondents had a less than positive experience, with 23% rating the experience as poor and 18% rating the experience as very poor. Only 23% had a good (14%) or very good (9%) experience.”

MUNICIPAL GOVERNANCE

MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS (CONTINUED)

- Rating of Ease of Doing Business
 - Using the City of Tshwane as a microcosm, the 2012-2014 study by Worku found that:
“... businesses that were owned or operated by people with the perception that the City of Tshwane was implementing inappropriate policy on the growth and development of newly established SMEs were 3.19 times as likely to fail in comparison with businesses that were owned or operated by people with the perception that the City of Tshwane was implementing an appropriate policy on the growth and development of newly established SMEs
- It therefore stands to reason that economic impact assessments should be done of municipal by-laws, business regulations, licensing and permitting frameworks, incentives, levies, surcharges, rates and taxes before they are passed and implemented
- Existing administrative regulations and processes should be subjected to red tape reduction exercises, considering that according to Kwamena Kyarku a “1% increase in bureaucracy leads to 28.76% decrease in the growth of SMEs.” (Kwamena Kyarku: “Examining the Effect of Corruption and Bureaucracy on SME Growth”)- (Importance of Local Champions in Reviving Local Economies page 16-SBI

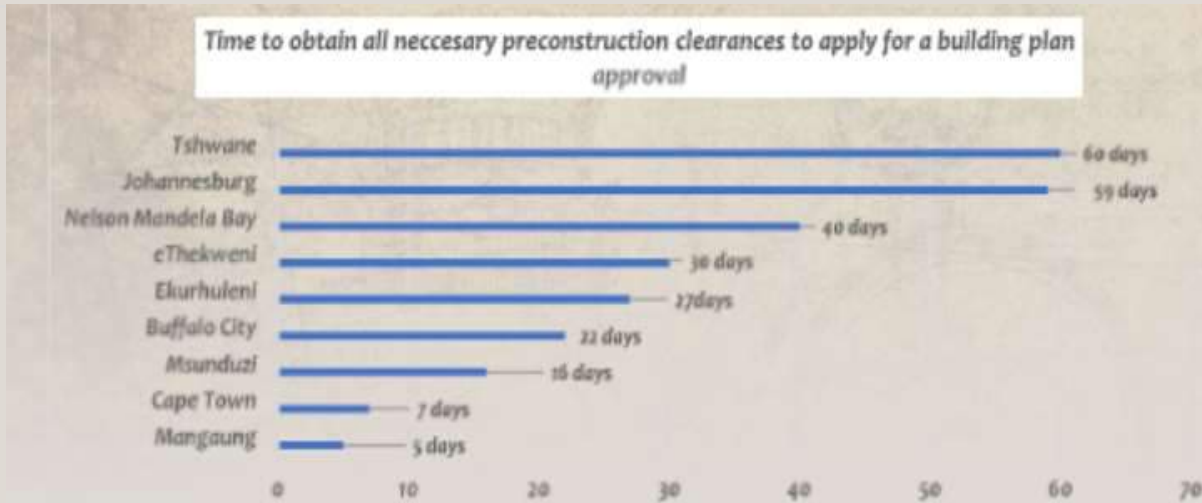
Research Paper: March 2021)

MUNICIPAL GOVERNANCE

MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS (CONTINUED)

- It is not only inappropriate regulations that constitute a challenge in the SME ecosystem nationally; it is also the vast disparities in regulations between municipalities which exposes an uneven system of governance.
- The following was found by the World Bank in its Doing Business in South Africa study in 2015 as it pertains to complying with building regulations alone, an indicator for the general state of affairs when it comes to permitting across the board:

Time to obtain all necessary preconstruction clearances



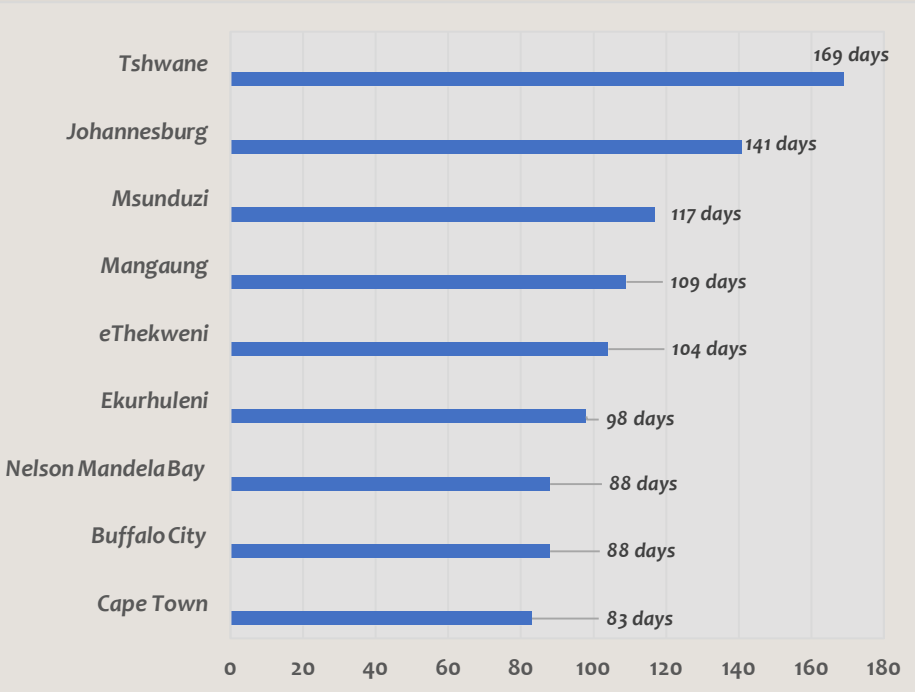
Time to obtain a building plan approval



MUNICIPAL GOVERNANCE

MUNICIPAL BY-LAWS, RED TAPE, PERMITTING AND LICENSING: EASE OF DOING BUSINESS (CONTINUED)

Total time to deal with construction permits



Van der Waldt and Fourie describe the importance of addressing disparities in municipal regulations and by-laws across municipalities in the following manner:

“Clear municipal by-laws and regulations afford entrepreneurs the confidence and opportunities to invest. It seems, however, that there are great disparities and inconsistencies between the sampled municipalities regarding the nature, scope, and content of by-laws and regulations. A more uniform approach in the local sphere of government is required to level the proverbial playing field for business investment. Low-capacity municipalities should be supported in this regard to ensure that their by-laws and regulations conform to national business development and economic growth policies and strategies.”

MUNICIPAL SERVICE DELIVERY

- The tangible expression of municipal services is the provision of infrastructure for the delivery of these services. Indications are that municipal infrastructure is rapidly deteriorating into a state of disrepair. Capital expenditure by municipalities has declined and maintenance of municipal infrastructure has also seen a decline in spending
- In the process, municipalities have to consider trade-offs between prioritizing spending on basic services versus the development and maintenance of economic infrastructure which would by and large serve their local business communities, including SMMEs.
- Whilst there is a clear constitutional imperative for municipalities to develop and promote local economies, access to basic services for households trump economic infrastructure by virtue of the fact that basic services form part of socio-economic rights as enshrined in the Constitution of the Republic of South Africa

MUNICIPAL SERVICE DELIVERY

- However, it does not have to be a zero-sum game as argued by van der Waldt and Fourie:

“Local government administrators should note that growth and investment improve household incomes, which means that households are better able to pay for the services that are provided by the municipality. Growth and investment also increase the value of property World 2022, 3 473 in the municipal area, which allows the municipality to increase revenue from property rates. The demand for services by businesses and higher-income residential consumers increases, and as these consumers are able to pay at levels above the cost of the service, the revenue that is raised through tariffs for these services increases and gives the municipality a greater opportunity to cross-subsidize low-income residential consumers.”

- There is a strong link between the financial standing of municipalities and its ability to deliver services. Businesses, including the small business community, are large contributors towards municipal revenue and the viability of municipalities: “The lack of finances obstructs the capacity of municipalities to maintain infrastructure and to provide adequate services.” (Gerrit van der Waldt 1 and David Fourie Ease of Doing Business in Local Government: Push and Pull Factors for Business Investment in Selected South African Municipalities July 2022. P483)

MUNICIPAL SERVICE DELIVERY

- Astute infrastructure planning, budgeting and spending can ensure a seamless integration between the need for basic services and for economic infrastructure. The two do not have to be mutually exclusive and both should form part of integrated municipal plans
- Integrated Development Planning has become a routine compliance exercise and not one that really integrates, let alone qualitatively express the needs of the community at large, and for purposes of this study, the small business community in particular.
- Municipal service delivery dysfunctionality leads to service delivery protests as highlighted in a report on municipal capacity by the HSRC in 2022:

“The South African local government sector is widely regarded as dysfunctional, with news headlines regularly detailing governance failures across rural and urban municipalities (Pieterse, 2020), increasingly resulting in service delivery protests. For almost two decades, citizens in numerous towns and cities across the country have become familiar with mass protests, marches, demonstrations, petitions, and violent confrontations related to poor service delivery by municipalities.”

MUNICIPAL SERVICE DELIVERY

- In 2009 there have been 107 recorded service delivery protests which increased in the decade to follow by more than 100% to 218 in 2019:

SERVICE DELIVERY PROTEST (SDP) ACTIVITY PER YEAR:
2004 -2020



These not only bring into focus safety and security issues, but also lead to the destruction of businesses and business infrastructure and disruptions to supply chains. Small businesses that do not have the luxury of always being fully insured find it difficult to recover from the impact of these protests and in many instances have to close down completely. These are exogenous factors, for which SMMEs are ill-equipped

MUNICIPAL SERVICE DELIVERY

Water and Sanitation

- The provision of water to the business community is of critical importance. Not only do SMMEs require water as a basic service, but in certain instances it is a critical input in the production process
- SMMEs in the agricultural sector, for example, require it for irrigation and also the preparation of produce for distribution.
- A study into agro-food value chains by the South African Cities Network has, for example, noted the following:

“Irrigation systems for smallholder producers will enable producers to have regular water supplies throughout the year thus enhancing production.

- Of greater concern is the overall picture which was already stressed by a series on water by the Centre for Development and Enterprise as far back as 2010:

“More than 90 per cent of municipalities are unable to meet the water quality standards for discharges from their waste water treatment plants (WWTPs), causing pollution hot spots and widespread health risks. Given our sound legislation and good policies, how have we got into this state? The ultimate cause is the erosion of water quality management

MUNICIPAL SERVICE DELIVERY

Water and Sanitation (Continued)

- The dire situation the country is faced with is further outlined in the series: *“The municipal waste water industry is in trouble. Many of the approximately 850 municipal treatment plants are discharging substandard effluent into the water we use for drinking, agriculture, and recreation. Their replacement value is about R23 billion, so this really is a problem of scale and quantum. Many plants are exceeding their maximum capacity, thus compromising effluent quality. With substandard disinfection, bacteriological quality is a particular cause for concern. The problem is compounded by the fact that we are losing 20 to 30 percent of our clean drinking water into the waste water system*
- The current picture is not encouraging either and the situation has worsened to the extent that SAICE, in commenting on the findings of the 2021 Blue Drop Assessment notes the following: *“During 2021, all 144 WSAs, responsible for 1 186 water supply systems, were assessed. The resulting National Blue Drop Risk Rating found that: QQ Less than half (48%) of water supply systems are in the low risk category QQ 18% are in the medium risk category QQ 11% are in the high risk category QQ 23% are in the critical risk category. The fact that 34% of systems are in the high and critical risk categories is of great concern.*

MUNICIPAL SERVICE DELIVERY

Water and Sanitation (Continued)

- As if the burden of the loadshedding of electricity is not enough, failing water infrastructure has also given rise to water outages. As reported, the recent water failures in Gauteng have had a direct bearing on SMMEs
- Sanitation is closely tied to the basic constitutional right to human dignity. The informal sector, in particular, in most instances do not have ready and convenient access to functional onsite or reticulated sanitation services and systems from where they operate
- Data on access to sanitation by the informal sector is hard to come by, but it underscores the critical need for the provision of services to the SMME sector at large
- The lack of sanitation services may also compromise the very health and safety standards municipalities expect businesses to adhere to. It is therefore in the interest of the municipality as well and that of public health, that investment into sanitation infrastructure and facilities for informal traders be prioritized

MUNICIPAL SERVICE DELIVERY

Water and Sanitation (Continued)

- What is also of critical importance is the link between faltering water infrastructure and revenue losses which would place any municipality in an invidious position to deliver water to its residents, including the SMME community. This is demonstrated in the case of water provision challenges in Ethekwini, for example:

“Durban is losing an astonishing 56% of all the tap water it buys mostly from leaks and water theft — and this is costing the eThekwini municipality close to R5m a day (or more than R1.8-billion a year) in minimum direct costs at a time when the city says it does not have enough money to fix the sewage pollution crisis

MUNICIPAL SERVICE DELIVERY

Electricity

- Ageing municipal electricity distribution infrastructure pre-dates Eskom loadshedding. In 2011/12 already, the average age of electricity distribution infrastructure was estimated at 45 years old with a backlog of R35 billion and climbing by R2, 5 billion per annum at the time
- The backlog has increased massively to an estimated R70 billion by 2015. There is not sufficient funds available to address this backlog and even plans at rationalizing the system of distribution will only partially address this. Previous efforts have failed and have been abandoned due to vested interests and slow decision-making
- Current plans at reviving the rationalization process through the Department of Infrastructure and Public Works are only at an early stage. All this adds to the massive burden carried by the small business sector to absorb the costs of loadshedding and rapidly decaying municipal electricity distribution infrastructure

MUNICIPAL SERVICE DELIVERY

Electricity (Continued)

- The situation is further compounded by an array of other factors:

“For years NERSA has reported the failure by municipal electricity distributors to comply with licensing conditions, largely because of insufficient refurbishment and maintenance. Networks in many municipalities are in a poor state of maintenance, with substantial investment required to maintain and rehabilitate assets. Chronic underinvestment in the upgrading and maintenance of the local distribution networks, increasing vandalism and theft of distribution plant and equipment, as well as the impact of illegal connections (these latter two factors also affecting the Eskom local distribution network) have been significant additional causes of outages

- This undoubtedly adds to the disproportionate burden SMMEs have to carry when it comes to the impact of loadshedding on their business operations and bottom-lines. A 2022 study by Yazı, an informal sector research firm, on the impact of loadshedding on informal businesses noted the following according to their Chief Executive Officer in an opinion piece: (Continued on the next slide)

MUNICIPAL SERVICE DELIVERY

Electricity (Continued)

“The average amount lost by traders in September in the Western Cape was R2, 081.77, in KwaZulu-Natal R2, 029.28, and in Gauteng R2, 402.44. Respondents shared that load-shedding resulted in a loss of customers, the slowing down of business activities and output, and a decrease in working hours. In a shocking account regarding personal safety, more than 83% of respondents in the Western Cape, Gauteng and KwaZulu-Natal indicated that they had experienced an increase in crime during load-shedding, including an increase in gunfire, robberies and repeated cases of cable theft every time the power went out

- Electricity supply has directly and indirectly impacted on the bottom line off SMMEs in a significant way:

“Electricity supply: Electricity supply affects both storage and processing activities so challenges with electricity supply have resulted in a need for generator use. This is unsustainable especially in the face of fuel price increases and given the capacity of some of the processors.”

(Series of Papers on Rural-Urban Linkages: Agro-food value chain SACN Programme: Urban Policy Document Type: Report Document Status:

Final Date: July 2015 P. 24)

MUNICIPAL SERVICE DELIVERY

Electricity (Continued)

“Electricity supply: Electricity supply affects both storage and processing activities so challenges with electricity supply have resulted in a need for generator use. This is unsustainable especially in the face of fuel price increases and given the capacity of some of the processors.”

(Series of Papers on Rural-Urban Linkages: Agro-food value chain SACN Programme: Urban Policy Document Type: Report Document Status:

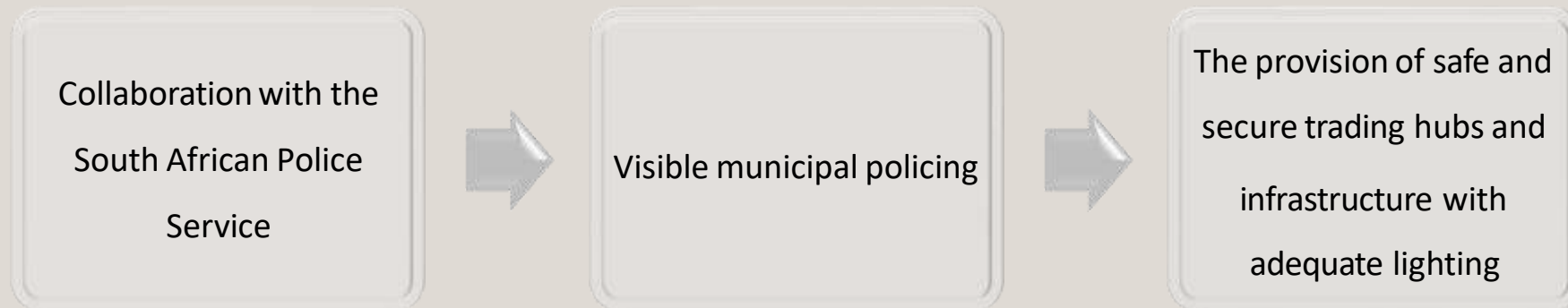
Final Date: July 2015 P. 24)

- In the 2020 FinScope MSME survey, it was found that 19% of struggling businesses rated electricity supply as the second biggest reason why their businesses were struggling. (FinScope MSME Survey South Africa 2020. P. 89)
- The SACN report in its PESTLE analysis flags the “Increasing cost of electricity and inconsistent supply to remote rural areas” as a risk for agro-food value chains and confirms the need for supply and price stability. The role of municipalities in this is crucial

MUNICIPAL SERVICE DELIVERY

Safety and Security

- The recent brutal slaying of seven informal traders confirms the daily exposure to crime by the SMME community. Although the national function for policing vests with the South African Police Services (SAPS), there are three ways in which municipalities can contribute to creating a safe business environment for SMEs:



MUNICIPAL SERVICE DELIVERY

Health and Safety

- There appears to be different health and product safety requirements to which the business community must adhere across different municipal jurisdictions. Using the example of opening a grocery store, the World Bank found in its “Doing Business in South Africa” study of 2015 that:

“The role of municipalities in opening a grocery store Depending on the business activity, an entrepreneur may need to obtain a business license issued by the municipality. This is the case for commercial businesses selling perishable foodstuffs, for example, the licensing process is regulated nationally by Business Act 71 of 1991 but implemented at the local level. A number of municipal departments are involved in the process to ensure that the applicant complies with requirements related to town planning, and the safety and health of the public. In Msunduzi or Tshwane the applicant must first obtain an approval from Town Planning before submitting the application to the licensing authority. In all other benchmarked municipalities, the business license applicant interacts exclusively with the designated licensing authority. In Cape Town or Mangaung, for example, entrepreneurs interact only with the Environmental Health Department (EHD).”

MUNICIPAL SERVICE DELIVERY

Roads and Transport

- South Africa's municipal road network, relied upon by thousands of SMMEs to transport employees, obtain inputs and distribute their goods and services, is rapidly deteriorating into a state of disrepair, possibly the same, if not worse than other infrastructure categories
- SAICE found the following in its assessments and has created categories for rating infrastructure functionality:

Categories	Ratings
Paved roads in the Major urban areas	D
Other Municipalities Paved roads	D-
Provincial and municipal unpaved roads	E

LOCAL ECONOMIC DEVELOPMENT (LED)

Local Economic Development (LED)

- The official and accepted definition of local economic development, as advanced in the National Framework for Local Economic Development: 2018-2028, is:
“LED is an adaptive and responsive process by which government, public sector entities, citizens, business and non-governmental sector partners work collectively to create better conditions for innovation-driven inclusive economic development that is characterised by knowledge transfer and competence building; employment generation; capacity development; investment attraction and retention; image enhancement and revenue generation in a local area in order to improve its economic future and the quality of life for all.”
- This definition is too broad and may confuse municipalities as to their task to concentrate their focus and resources on supporting the business community. M. Masuku and B. Selepe (2016: p. 1) in citing Meyer (2014) note “that although municipalities were mandated to carry out LED activities, it is still a challenge because some of them lack the understanding of the meaning of LED; as a result, they fail to plan and implement LED initiatives.”

LOCAL ECONOMIC DEVELOPMENT (LED)

Local Economic Development (LED) [Continued]

- It makes no mention of local economic fundamentals and following business principles. The definition as it stands, is too inclusive, in that it places the business community, let alone the SMME community, alongside sectors that by themselves do not generate output
- Greater recognition of the importance of the SMME community in the definition of LED would address the allocation of resources for LED, attracting and retaining appropriate skills for LED and forging and fostering the appropriate LED partnerships locally.
- In other words, the status quo will not change if LED is regarded as being a broad socio-economic exercise, instead of focusing on its core, being an exercise in business development in which local SMMEs play a critical role. Traditionally the debate according to M. Masuku and B. Selepe (2016: p. 2) “was about whether LED initiatives should take a competitive or social welfare approach
- Aligning LED to the DDM is welcomed as it may lead to the optimal utilization of resources and improved LED outcomes that allow for economies of scale. However, if the basic principles of LED are not followed, the outcomes will be compromised or will not materialize at all

LOCAL ECONOMIC DEVELOPMENT (LED)

Enterprise and Supplier Development

Enterprise Development

✓ Challenges with SME and Cooperatives Development

- The existing body of literature on local economic development confirms that the municipal landscape challenges faced by SMMEs are legion and include some of the following:

Limited capacity in enterprise development at institutional level within municipalities	Initiatives are disjointed
Inappropriate skills to drive enterprise development	Duplication
The conflation of enterprise development with socio-economic development	Not based on partnerships with key economic stakeholder
Ignoring economic fundamentals such as competitive and comparative advantages in enterprise development initiatives	Lack of access to linkage platforms, Lack of organizational platform Of a very low quality in terms of services received
Deviating from tried and tested business principles in enterprise development	Separation of financial support from non-financial support

LOCAL ECONOMIC DEVELOPMENT (LED)

Informal Sector Support

- The informal sector has become more important as a source of basic income for many, as South Africa's economic woes keep on deepening. It is a critical barometer of economic activity and sustains millions of people that have fallen on hard times
- Within the context of local economic development, the informal sector has grown as a result of both market and state failure. Efforts by government, including municipalities, at regulating the sector has proven difficult, if not impossible. Despite this, it holds untold economic potential by virtue of its massive value chains and sheer scale. As an example, the study on the agro-food value chain found that:

“Local government plays a role in the regulation of informal trade through demarcation of zones for trade. In 2013, 53% of potato buyers at the Fresh Produce Market were informal traders, it follows that the informal traders represent a significant channel for consumers. Local government policy towards informal trade of agro-food products should be reflective of the integral role of informal traders play within the value chain.” (Series of Papers on Rural-Urban Linkages: Agro-food value chain SACN Programme: Urban Policy Document Type: Report

Document Status: Final Date: July 2015 P. 47)

LOCAL ECONOMIC DEVELOPMENT (LED)

Informal Sector Support

- As pointed out by the United Cities and Local Governments in an LED Policy Paper (p. 16), the typical response of the authorities in general, but local government in particular, to the informal sector

“Might be to drive out informal enterprises or force them into the formal sector. However, experience has shown that it is often better to tolerate the existence of the informal economy and find ways to support its enterprises, protect its workers, and engage with its entrepreneurs to enhance their productivity and incomes.”

- Coerced attempts at formalizing the informal sector may not be the appropriate answer to support its participants and derive optimum economic value from it locally. Municipalities need to grasp this in order to respond appropriately to the needs of the sector

LOCAL ECONOMIC DEVELOPMENT (LED)

Informal Sector Support

- By-laws, health and safety regulations and the like, do not need to be compromised in the process. Available data suggests that more nuanced and differentiated approaches are required. To this end, it is noted by SALGA that *“Commentators have argued that a more nuanced understanding of the nature, structure and composition of the informal trading sector at municipal level is “critical to robust and successful policy-making”.⁵ For example, Michael Rogan (associate professor at the Neil Aggett Labour Studies Unit at Rhodes University) and Caroline Skinner (senior researcher at the African Centre for Cities at the University of Cape Town) argue in their detailed analysis of the informal sector in South Africa between 2008 and 2014 using Quarterly Labour Force Survey (QLFS) data that a greater understanding of the earnings, nature of employment, gender, industry and spatial differentiation in informal trade will assist policy makers in developing more empowering and successful regulatory and policy environments.⁶ Others have argued that the inherent complexity of the informal trading sector requires policy makers to “take a differentiated view of the informal economy and develop strategies tailored to different local needs*

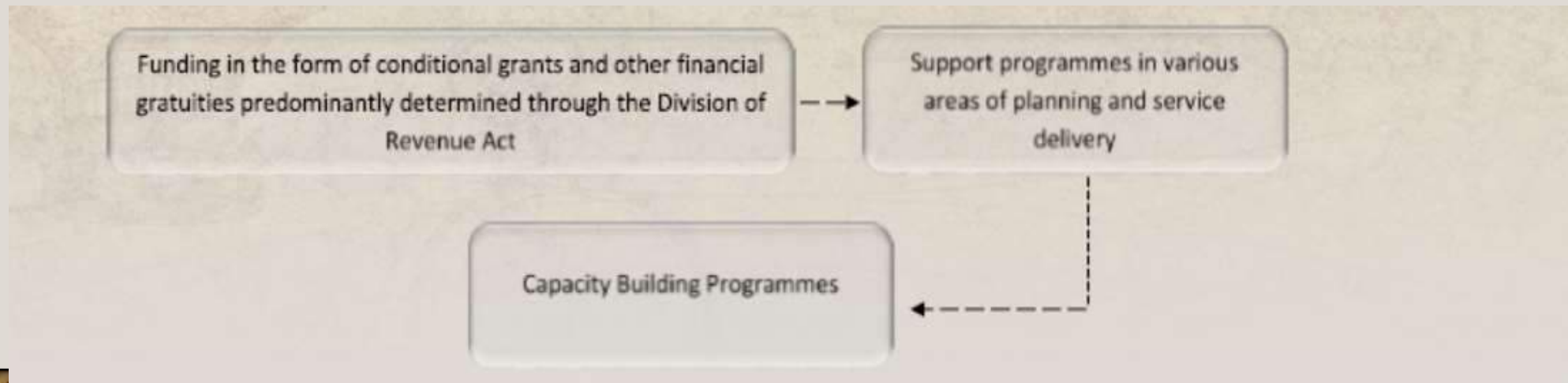
LOCAL ECONOMIC DEVELOPMENT (LED)

Informal Sector Support

- Recognising that most informal businesses operate in the retail space, it has to be acknowledged that these informal businesses, in particular, stand the least likely chance of formalization, but nonetheless require support
- If supported appropriately, by tapping into their buying power more effectively, local multipliers can be stretched and money can circulate more efficiently within particular communities. This should be a key objective of local economic and enterprise development
- The trading infrastructure availed for informal trade by municipalities also needs to enhance the very ability of informal traders to comply with health and food safety requirements. The infrastructure does not only need to be maintained, but also regularly serviced
- They should become focal points for visible policing to reduce the perception that informal trade is characterized by crime and grime.

- The Constitution enjoins both national and provincial government to support local government. It is clear that this support as it stands is not effective. This study has not specifically set out to interrogate or review the performance of national and provincial governments in supporting municipalities to function better and how this would improve the prospects of the SMME sector
- Not pronouncing on the broad and specific support measures of these spheres of government vis-à-vis local government would not do justice to the exercise at hand and therefore a headline analysis will assist in bridging this gap

The support is generally in the following three areas:



- However, for most part the provision of conditional grants and other forms of funding from national and provincial governments have not aligned with planning at local level. The situation is compounded by the fact that infrastructure planning at municipal level leaves much to be desired and has resulted in inappropriate, fruitless and wasteful infrastructure spending by municipalities
- Infrastructure projects are often compromised in the process which has not only led to service delivery shortcomings to communities, but also the provision of economic infrastructure to SMMEs
- Because national departments themselves have capacity and resource challenges, as well as some provincial governments, funding for general municipal infrastructure for service delivery and economic infrastructure is often not accompanied by technical support nor effective monitoring and evaluation to ensure municipal accountability and improved infrastructure and service delivery outcomes.

PRIMARY RESEARCH FINDINGS

DATA COLLECTION INSTRUMENT AND METHODS

- The data for the main part of the survey was collected using a triangulated research approach that involved the use of some self-administered questionnaires, with some completed with the help of researchers and complementary interviews, some of which were secured through a web-based survey. The study covered all the nine provinces in the country including rural, urban, and rural-urban mix demarcations

RESEARCH ETHICS

- In conducting the study, potential respondents were requested to provide informed consent prior to participating in the survey. The research team ensured that all information supplied were treated confidentially and that the rights of participants were respected by allowing them an opportunity to ask questions regarding the survey and to withdraw at any stage of the interview process. These research ethics principles comply with the standards set by the Human Sciences Research Council of South Africa, a notable international research entity based in South Africa

PRIMARY RESEARCH FINDINGS

ANALYSIS OF SURVEY RESULTS

- The analysis is presented thematically as follows
 - Demographic characteristics
 - Governance, Administration and Compliance
 - ✓ Business Permitting and Licensing and Red Tape
 - Municipal Service Delivery (MSD)
 - ✓ Electricity, Water, Sanitation, Refuse Removal and Health and Safety
 - Enterprise and Supplier Development (E&SD)
 - ✓ Municipal Supply Chain and Red Tape and Business Support
 - General

PRIMARY RESEARCH FINDINGS

Demographic Analysis

- Distribution of SME Survey Respondents by Province (n = 126)**

Province	n	%
Eastern Cape	2	1.6
Free Sate	29	23.0
Gauteng	17	13.5
Limpopo	5	4.0
Mpumalanga	2	1.6
North West	46	36.5
Northern Cape	17	13.5
Western Cape	4	3.2
NS	4	3.2
Total	126	100.00

The survey covered a total of 126 respondents aged 18 years and above and which were distributed across all the 8 surveyed provinces of South Africa. Based on the provincial response rates, all initial sample targets set at the start of the planning stages of the study were achieved

PRIMARY RESEARCH FINDINGS

Business Concerns

- **Distribution of respondents by business concerns (n = 126)**

Population group	n	%	% of cases
Unreliable municipal service delivery	88	31.7	75.2
Finding affordable and suitable workspace or retail space	49	17.6	41.9
Obtaining finance for my business	48	17.3	41.0
Integrating or adapting to new technologies	7	2.5	6.0
Not Receiving adequate business development support from the Municipality	58	20.9	49.6
Recruiting or retaining appropriate workforce	28	10.1	23.9
Total	278	100.00	237.6

The respondents were asked to indicate their primary concerns regarding their business. The responses in table 5 show that the most prominent business concern was unreliable municipal service delivery (31.7%). This was followed by ‘not receiving adequate business development support from the municipality (20.9%), and ‘finding affordable and suitable workspace or retail space’ (17.6%).

PRIMARY RESEARCH FINDINGS

📄 Governance, Administration and Compliance

- **Business Permitting and Licensing**

- ✓ **Mean ratings of awareness regarding business permitting and licensing (n = 126)**

	Business Permitting and Licensing	n	Mean	Std. Deviation
Q. Are you aware that you require a business trading permit from your municipality?		124	75.8	38.5
Q. Are you aware of the process of obtaining a business permit from your municipality?		125	68.8	41.2
Q. Are you aware of the costs involved in obtaining a business permit from your municipality?		125	63.6	46.5
Q. Are you aware of the time it takes to get a business permit from the municipality?		121	60.7	47.7

PRIMARY RESEARCH FINDINGS

📄 Governance, Administration and Compliance

▪ Business Permitting and Licensing

✓ Mean ratings of awareness regarding business permitting and licensing (n = 126)

The data in the table depicts the mean scores of the awareness levels among respondents regarding business permitting and licensing. The mean rating representing the awareness of respondents that the business requires a trading permit was at the highest level at a mean score of 75.8 out of 100. The awareness levels of the remaining measured aspects were also comparatively high. For instance, the mean score showing the awareness of the process of obtaining a business permit, among the respondents, from their municipality was also comparatively high at 68.8 out of 100. The awareness of the costs involved in obtaining a business permit from your municipality was relatively high at 63.6 out of 100. The awareness of the time it takes to get a business permit from the municipality was also high at 60.7 out of 100

Barometer measuring awareness with requirement for business/trading permit?



The barometer in figure 1 displays the awareness of participants of the requirements for obtaining business/trading permits which is a high of 75.8 out of 100

PRIMARY RESEARCH FINDINGS

📄 Governance, Administration and Compliance

▪ Business Permitting and Licensing

✓ Affordability and Possession of Business Permitting and Licensing (n = 126)

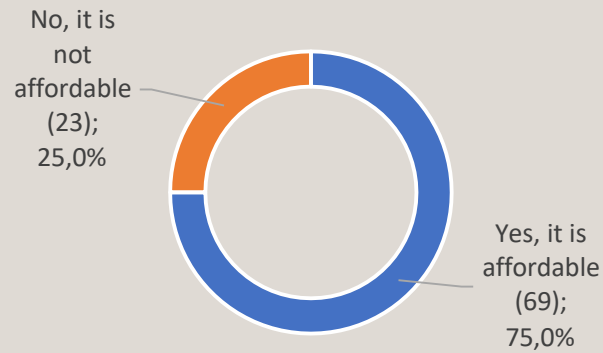


Figure (a): If aware, is the cost affordable?

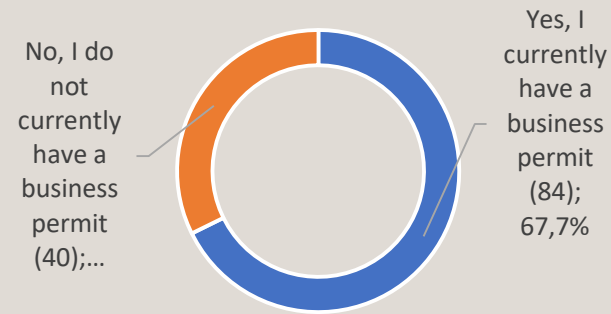


Figure (b): Do you currently have a business permit or trading license?

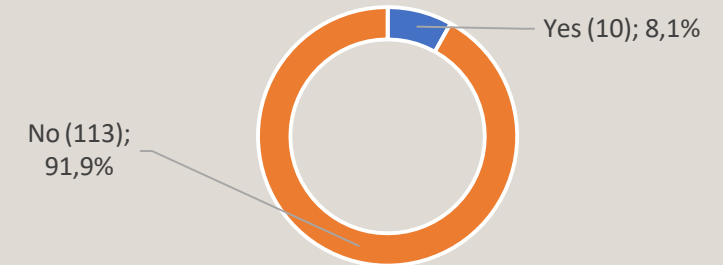


Figure (c): Have you ever had to grant a favour or pay someone with links to the municipality to obtain a business permit or trading license, other than the fee to obtain such a license or permit?

PRIMARY RESEARCH FINDINGS

📄 Governance, Administration and Compliance

- Red Tape

- ✓ Costs of obtaining building permit (n = 126)

	Q. Do you consider the costs of obtaining a building permit from the municipality to be high?	
	n	%
Low	12	14.1
Medium	37	43.5
High	36	42.4
Total	85	100.0

The respondents were asked if they considered the costs of obtaining a building permit from the municipality to be high. The data in table shows that slightly more than 10% of the respondents (14.1%) said that the costs of obtaining such a permit was low with 42.4% saying that the costs were high

PRIMARY RESEARCH FINDINGS

📄 Governance, Administration and Compliance

- Red Tape

- ✓ Barometer for satisfaction with time to obtain building permit (n = 126)



The barometer shown in the figure depicts data on satisfaction with time to obtain building permits from the municipality. It is notable that this satisfaction rating is low at 45.5 out of 100

The Word cloud shown in the figure plots the qualitative data on thematic analysis of other municipal processes that the surveyed SME businesses rely on. The most prominence is associated with concepts such as obtaining a hazardous substances certificate, water, and electricity permit, certification in the trading of perishable goods, and acquiring a certificate of acceptability

PRIMARY RESEARCH FINDINGS

📄 Municipal Service Delivery

- Mean ratings regarding aspects on Municipal Service Delivery (n = 126)

Municipal Service Delivery (MSD)	n	Mean	Std. Deviation
Electricity			
Q. Does your business have access to regular electricity (excluding scheduled load shedding)?	124	80.8	29.9
Q. Are you aware of any electricity interruptions caused by ageing municipal electricity infrastructure?	123	39.6	44.9
Water			
Q. Does your business have access to a stable water supply?	126	79.8	26.8
Sanitation			
Q. Does your business or business premises have access to suitable sanitation services from the municipality?	121	82.4	31.4

PRIMARY RESEARCH FINDINGS

📄 Municipal Service Delivery (Continued)

- Mean ratings regarding aspects on Municipal Service Delivery (n = 126)

Refuse Removal

Q. Is this service generally consistent?	122	62.7	35.0
Q. Are you as a business pleased with the service?	122	54.5	33.2

Roads and Transport

Q. Does your business rely on the municipal road network for deliveries?	125	69.0	29.5
Q. If yes, how would you describe the state of municipal roads in your municipality?	109	18.3	24.7

Health and Safety

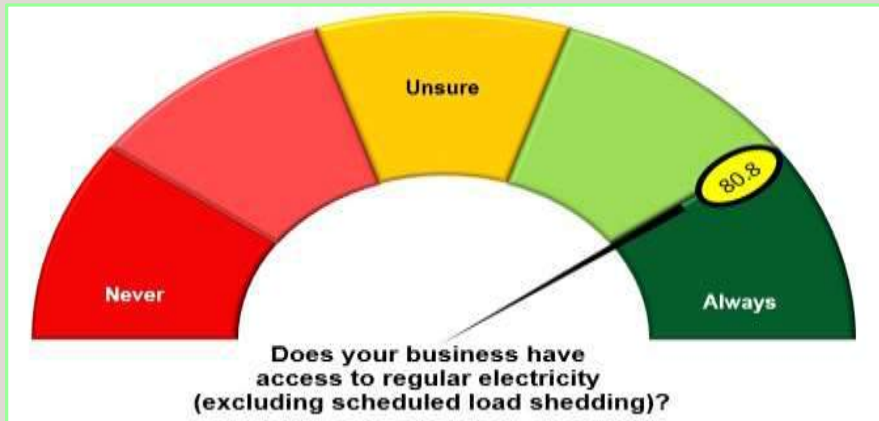
Q. Does your business require any health permits from the municipality?	125	44.4	39.0
Q. If yes, are these permits easily obtainable from the municipality?	57	52.6	31.9
Q. Have you ever been approached by a person connected to the municipality to obtain the permit through payment other than the fee attached to obtain the permit itself?	117	2.8	14.2
Q. Have you had any incidents of crime at your business in the last 18 months?	121	21.5	30.8
Q. Would you describe the municipal law enforcement service to be effective?	79	41.8	22.2
Q. Is there visible policing by municipal law enforcement daily in the area where business operates?	80	17.2	26.9

PRIMARY RESEARCH FINDINGS

📄 Municipal Service Delivery (Continued)

- **Electricity: Barometer for business access to regular electricity (n = 126)**

- **Water: Barometer for business access to stable water supply**



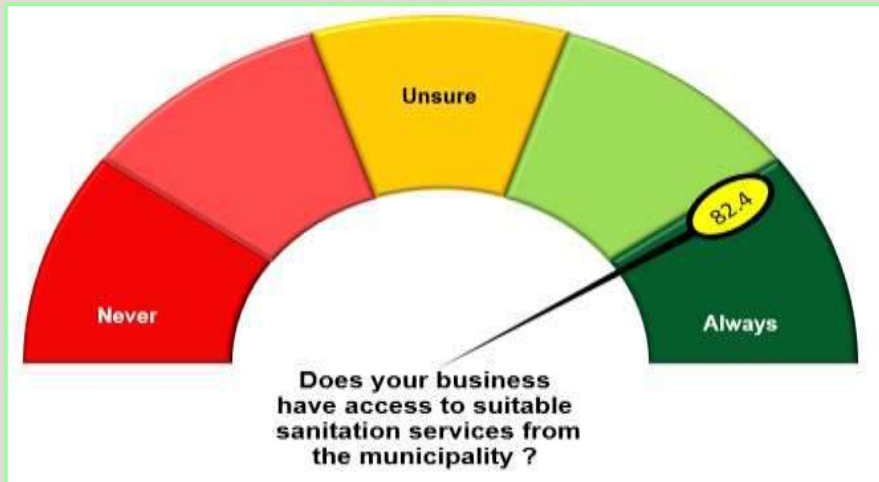
The data in the barometer in the figure depicts the results of the access of the business to regular electricity. It should be noted that such access to electricity does not include scheduled load shedding. The mean rating of consistent access of the business to electricity is very high at 80.8 out of 100.

The data in the barometer in the figure shows the results of the access of the surveyed SMME businesses to a stable water supply. It is evident that that access to a stable water supply of the businesses is high at 79.8 out of 100.

PRIMARY RESEARCH FINDINGS

📄 Municipal Service Delivery (Continued)

- **Sanitation: Barometer for business access to suitable sanitation services from the municipality (n = 126)**



The surveyed businesses were also asked to indicate their level of access to suitable sanitation services from the municipality. The level of access to suitable sanitation services as shown in the barometer in figure 6 was high at 82.4 out of 100.



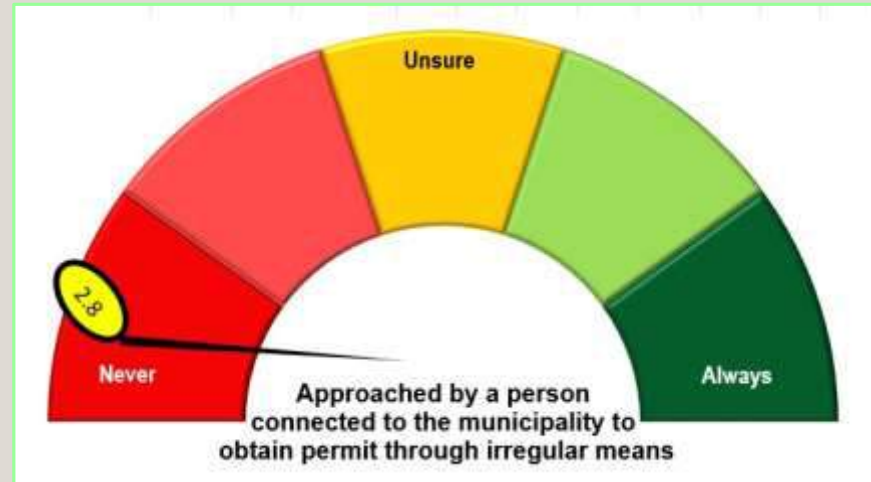
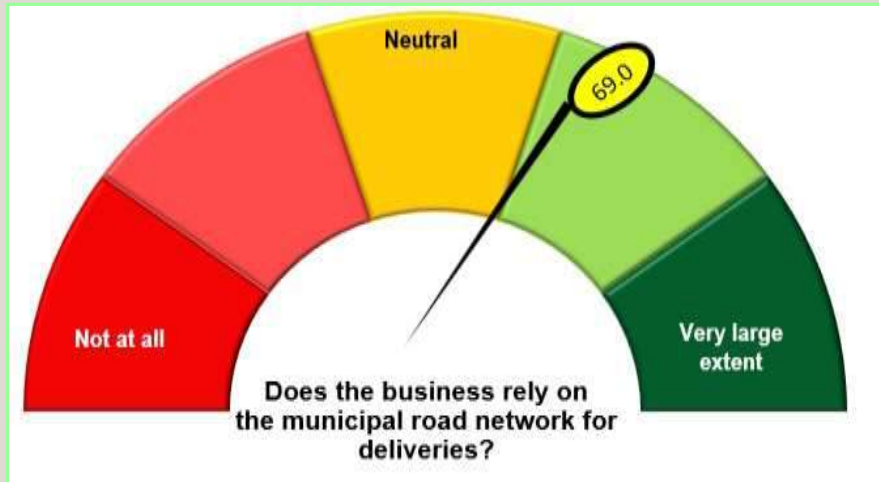
Regarding refuse removal, the surveyed businesses were asked to rate their satisfaction with refuse removal services from the municipality. These results as shown in the barometer in figure 7 reveal a marginally low satisfaction level by the businesses with the refuse removal services rated by the businesses at 54.4 out of 100

**Refuse removal:
Barometer for business satisfaction with refuse removal service from municipality (n=126)**

PRIMARY RESEARCH FINDINGS

Municipal Service Delivery (Continued)

- Roads and Transport: Business reliance on the municipal road network for deliveries (n=126)



Health and Safety:
**Perception of visible
 policing by municipal law
 enforcement daily in the
 area where business
 operates (n=126)**

The surveyed businesses were further asked to provide their rating of the effectiveness of the municipal law enforcement service. The results of these ratings are displayed in the barometer in figure 11. It is evident from the low rating of 17.2 out of 100 that there is despondency among the surveyed businesses regarding the effectiveness of the municipal law enforcement service

PRIMARY RESEARCH FINDINGS

Enterprise and Supplier Development

▪ Municipal Supply-Chain and Tenders

✓ This section presents results on enterprise and supplier development (E&SD). The major theme under discussion relates to municipal supply chain and tenders.

Municipal Service Delivery (MSD)	n	Mean	Std. Deviation
Q. Is the product that you manufacture and/ or service that you provide something that the municipality may make use of?	124	57.5	41.9
Q. Have you tendered for any specific opportunities at the municipality in the last 18 months?	124	16.5	31.4
Q. Have you ever been approached by anyone with links to the municipality to pay for securing opportunities at the municipality within the last 3 years?	124	6.9	20.7
Q. Have you been invited by the municipality to participate in any tender opportunities and supply-chain information sharing engagements (e.g., workshops/seminars)?	122	13.9	27.1

PRIMARY RESEARCH FINDINGS

Enterprise and Supplier Development (Continued)

Municipal Supply-Chain and Tenders

✓ This section presents results on enterprise and supplier development (E&SD). The major theme under discussion relates to municipal supply chain and tenders.

Q. Have you participated?	113	18.6	31.1
Q. If yes to the previous question, have these engagements been of any benefit?	30	26.7	40.4
Q. Do you think the municipality favours certain companies in awarding tenders?	120	75.6	20.1
Q. Do you think there might be corruption involved in the awarding of tenders and other opportunities by your municipality?	123	72.6	21.1
Q. Do you believe there might be political interference in the award of tenders and opportunities by the municipality?	123	73.2	21.7

PRIMARY RESEARCH FINDINGS


Enterprise and Supplier Development (Continued)

▪ Municipal Supply-Chain and Tenders

✓ This section presents results on enterprise and supplier development (E&SD). The major theme under discussion relates to municipal supply chain and tenders.

Q. Do you think your business would have been more viable if it received tender awards from your municipality?	123	63.2	33.5
Business Support			
Q. Are you aware of any business support services your municipality offers to SMEs like yours?	124	22.2	35.7
Q. Do you regard the structure as functional?	93	35.5	26.1

PRIMARY RESEARCH FINDINGS

 **General**

▪ **Mean ratings of perceptions regarding service delivery aspects of municipalities (n = 126)**

Municipal Service Delivery (MSD)	n	Mean	Std. Deviation
Q. How would you rate service delivery by the municipality to your business?	126	37.1	23.0
Q. How would you rate service delivery by the municipality to the business community in your area at large?	125	28.2	21.3
Q. How would you rate the impact of dysfunctional service delivery by the municipality on your business?	124	54.8	30.7
Q. As a small business please rate your experience in dealing with municipal officials in the following areas {Availability to deal with queries/request}	119	29.4	23.4
Q. As a small business please rate your experience in dealing with municipal officials in the following areas (Approachability)	124	34.5	27.9

PRIMARY RESEARCH FINDINGS

General (Continued)

- Mean ratings of perceptions regarding service delivery aspects of municipalities (n = 126)

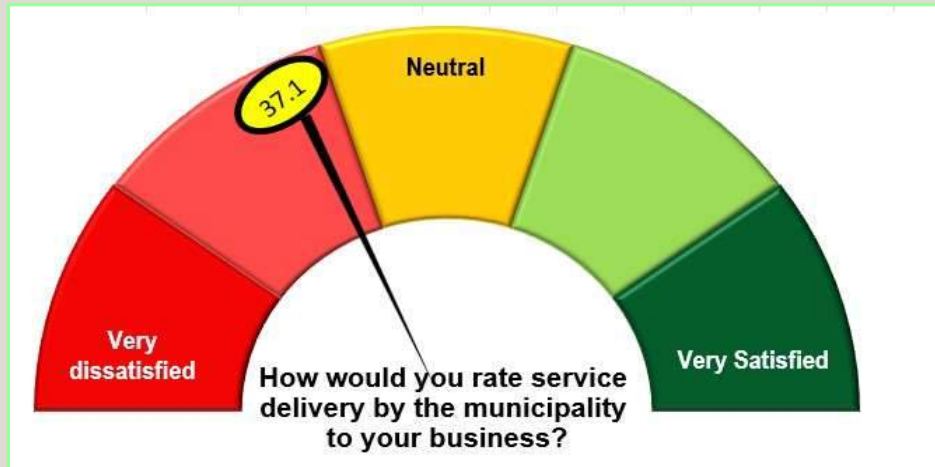
Q. As a small business please rate your experience in dealing with municipal officials in the following areas (Politeness /Courtesy)	123	38.6	28.5
Q. As a small business please rate your experience in dealing with municipal officials in the following areas (Honesty)	121	31.2	24.2
Q. As a small business please rate your experience in dealing with municipal officials in the following areas (Information Sharing)	126	31.9	25.6
Q. As a small business please rate your experience in dealing with municipal officials in the following areas (Remedies Mistakes)	112	28.1	25.6

The data shown in the table and in the series of barometers that follow show the responses to the perceptions of the surveyed businesses regarding service delivery from the municipalities

PRIMARY RESEARCH FINDINGS

General (Continued)

- Barometer for service delivery by the municipality to the specific business (n=126)



The barometer results shown in figure 12 reveal that there were very low satisfaction levels regarding service delivery to the businesses of respondents by the municipalities as demonstrated by the low score of 37.1 out of 100.



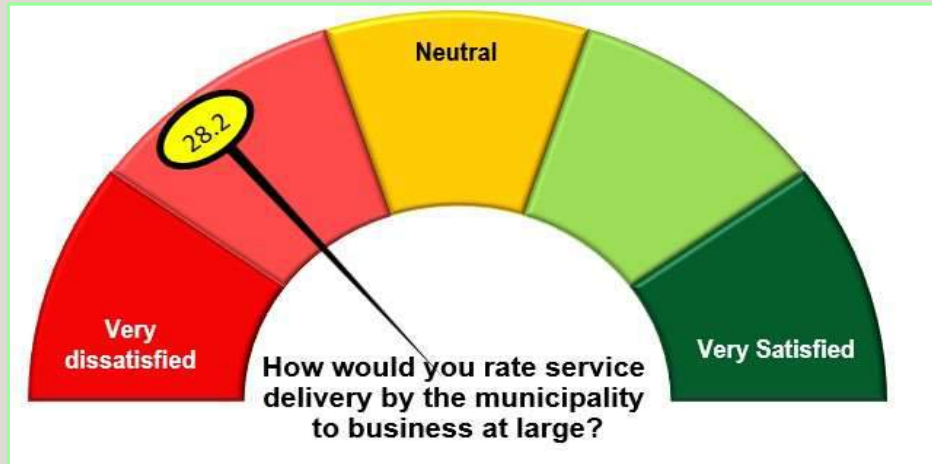
The businesses in the informal sector were also asked to indicate how they would rate service delivery by the municipality to their business.. The responses show consistency between the formal sector and informal sector regarding low perceptions of service delivery by municipalities to the businesses

Barometer for service delivery by the municipality to the Informal Sector business (n=126)

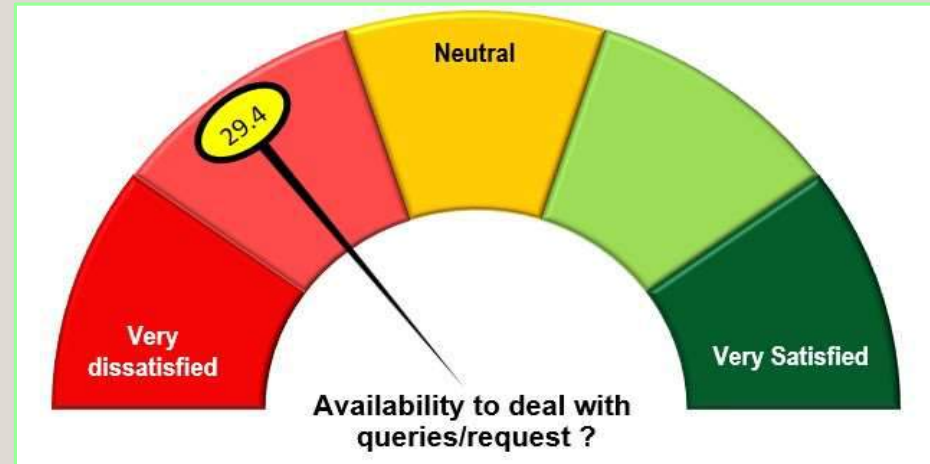
PRIMARY RESEARCH FINDINGS

General (Continued)

- Barometer for service delivery by the municipality to the business community at large (n=126)



The businesses were further asked how they would rate service delivery by the municipality to the business community in their area at large. The barometer shows that there is a correspondingly very low rating of service delivery by the respondents with regard to service delivery by the municipalities to the business community at large.



The respondents were asked to, as a small business, rate their experience in dealing with municipal officials regarding (a) Availability to deal with queries/requests; (b) Approachability; (c) Politeness/Courtesy (d) Honesty (e) Information Sharing; and (f) Remedies Mistakes. To this end, a survey respondent from Emfuleni disparagingly noted:

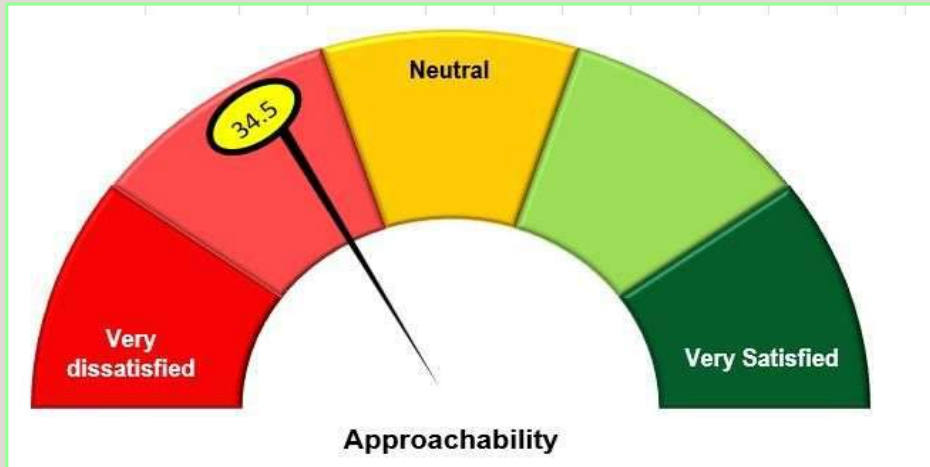
“They should be honest”

Barometer for experience in dealing with municipal officials: Availability to deal with queries/request (n=126)

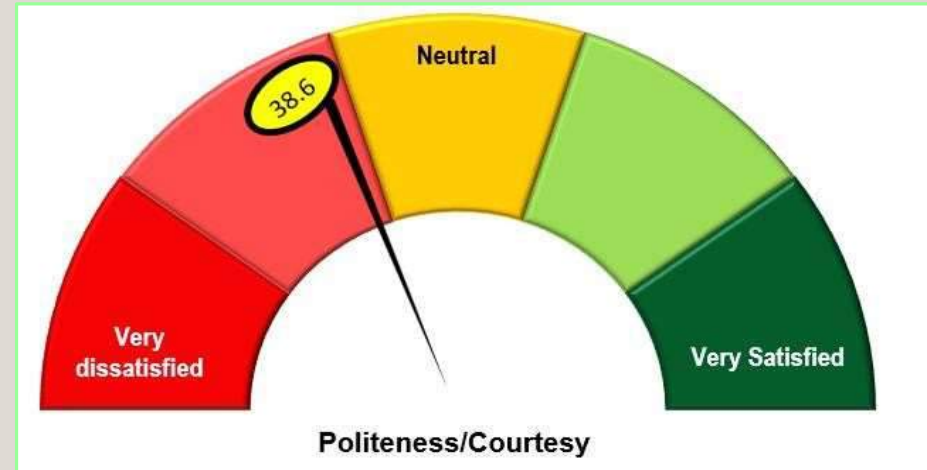
PRIMARY RESEARCH FINDINGS

General (Continued)

- Barometer for experience in dealing with municipal officials: Approachability (n=126)



The barometer portrays a very low rating of 29.4 out of 100 with respect to the experience of the businesses with the municipality regarding the approachability of municipality officials in dealing with the businesses. The informal sector businesses also gave a generally low rating for this aspect of 43.2 out of 100.



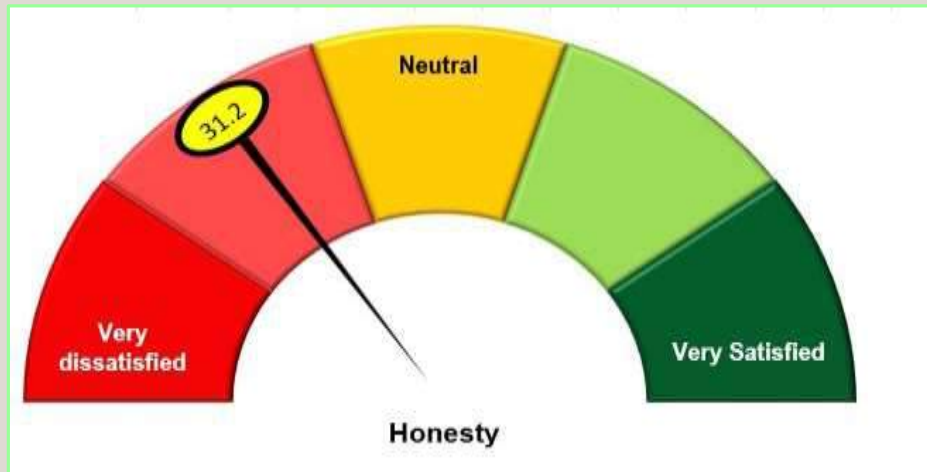
The barometer indicating the experience of businesses with municipal officials with respect to politeness and courtesy is shown in figure 17. The results again portray a very low rating of 38.6 out of 100 with respect to politeness/courtesy of municipal officials in dealing with the businesses.

Barometer for experience in dealing with municipal officials: Politeness /Courtesy (n=126)

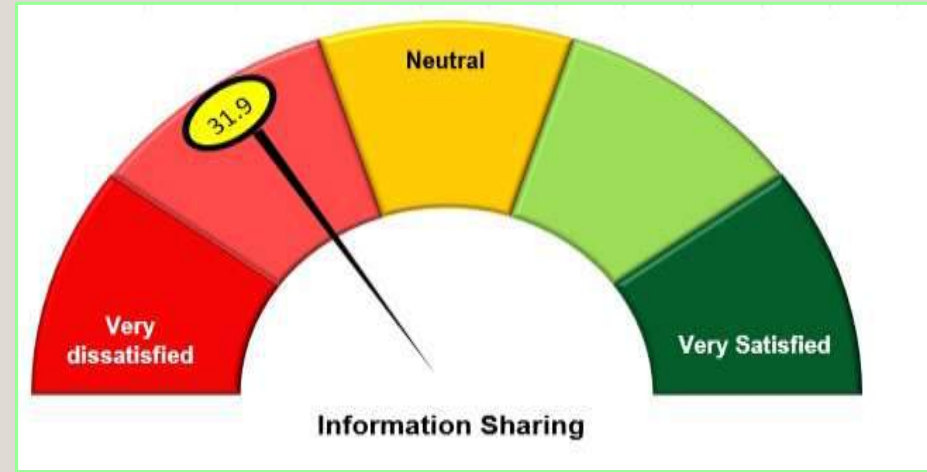
PRIMARY RESEARCH FINDINGS

General (Continued)

- Barometer for experience in dealing with municipal officials: Honesty (n=126)



Again, the mean rating of the honesty of municipal officials in dealing with the businesses is associated with a very low mean rating of 31.2 out of 100, as depicted in the barometer. The informal sector ratings are also low for this service aspect at 36.7 out of 100.



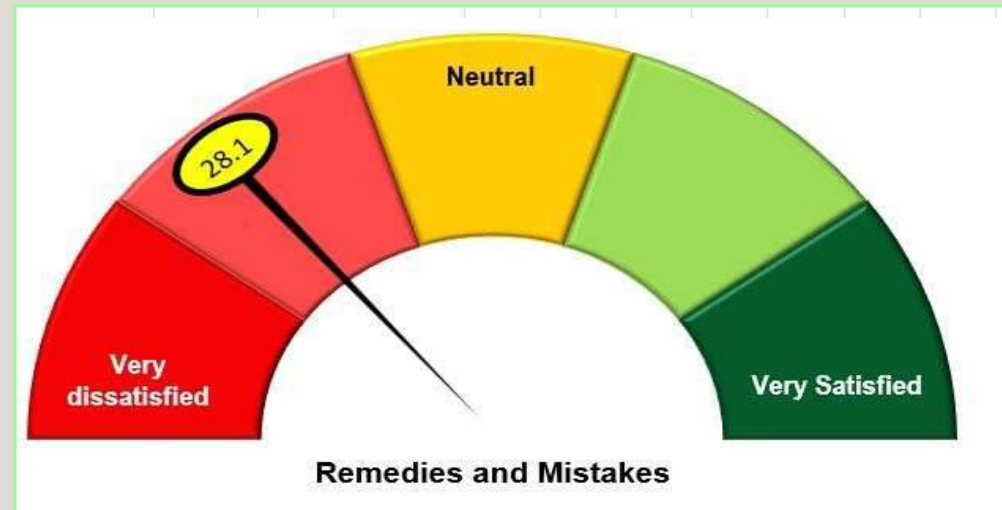
A survey participant from Emfuleni Municipality poignantly noted that “they should freely offer business support without biases and gatekeeping.” A participant from the City of Johannesburg called for “easy access to relevant municipality information to the community.” Similarly, a respondent from Saldanha Bay Local Municipality in the Western Cape opined: “No communication on upcoming opportunities for SMME’s.”

Barometer for experience in dealing with municipal officials: Information Sharing (n=126)

PRIMARY RESEARCH FINDINGS

General (Continued)

- Barometer for experience in dealing with municipal officials: Remedies and Mistakes (n=126)



The small businesses were asked to rate their experience in dealing with municipal officials in remedying mistakes. There is consistency with the ratings of the small businesses regarding their experiences with the municipal officials with respect to the services aspects that were measured in this component of the survey

CONCLUDING REMARKS

- There is resonance between the findings of the analysis drawn from the rich tapestry of literature on municipal dysfunction and the findings of the empirical study. The broader milieu suggests that South Africa is edging ever closer to a failed state. Its most telling manifestation can be found at local government level where a number of municipalities are either in intensive care or have all but collapsed completely
- For SMMEs that operate in the local government space, these challenges have exacerbated what can be regarded as the generic challenges they ordinarily face. They carry a disproportionate burden, but survive in the face of this debilitating context
- As the findings indicate, these challenges affect their potential to operate and to contribute more effectively to the economy. Encouragingly, the results showed that the awareness levels among small businesses of business permitting and licensing was high
- Also of concern is that some of the businesses must grant a favour or pay someone with links to the municipality to obtain a business permit or trading license, apart from the fee that is normally required to obtain the same license or permit
- Regarding obtaining health and safety permits, there is an observation that some of the businesses had been approached by someone with links to the municipality to obtain the permit by effecting payment over and above that which is required for the permit itself

CONCLUDING REMARKS (CONTINUED)

- There is a wide-ranging perception among the small businesses that tenders are awarded based on certain favours to companies. This is also reinforced by the finding that there are perceptions among SMMEs that there might be corruption in the awarding of tenders from the municipalities
- This is coupled with a belief among businesses that there might be political interference in the award of tenders and opportunities by the municipalities. SMMEs also thought that their businesses would have been more viable if they received tender opportunities from the municipalities
- It is also of concern that a small proportion of businesses were aware of the business support services from the municipalities. This is consistent with the perception among small businesses that the business support structures from their municipalities were not functional
- There were very low satisfaction rates with the experience of SMMEs in dealing with the municipalities on the availability of municipal officials to deal with queries/enquiries

RECOMMENDATIONS

- The research study demonstrates that the needle has not moved in a significant way over the last 10 years and more to improve service delivery by municipalities to the SMME sector
- The recommendations will align with existing constitutional and legislative imperatives. In this regard, the jurisprudence and legal precedence broadly confirm the role of municipalities in supporting both big and small business.
- It has to be borne in mind that the recommendations generated in this study may not be unique. The HSRC notes the following in their study: *“There have been several government initiatives introduced to address service delivery challenges and the dysfunctionality of municipalities to date, and none of them have really borne any fruition in terms of responding to the local governance crisis.”*
- The toxic cocktail of municipal challenges appears to be all interrelated. However, for practical purposes, recommendations will be classified into categories so as to specifically address topical challenges identified in the research
- Given the structural nature of deficiencies in service delivery, municipal governance and support to the SMME and informal sector at local level, the following recommendations highlight the “how” and the “what” of possible improvements to the municipal landscape in order for an improved socio-economic contribution by SMMEs

RECOMMENDATIONS (CONTINUED)

▪ **Structural/Political**

✓ Political stability

- While the emergence of smaller political parties is a welcome trend to offer alternatives and for improved political contestation, they could potentially disrupt political stability and usurp policy certainty which is as critical for SMMEs as for more established businesses to trade and invest optimally
- To this end, greater measures are required to insulate administrations at local government level from political interference, rent seeking and expediency, all of which affect service delivery to the broader community but in particular to SMMEs and informal businesses

✓ Municipal Viability

- Accelerate implementation of District Development Model and involve business in more than consultation but also as implementing partners
- Reduce the number of municipalities and integrate them into viable service delivery units and Improve revenue generation and implement revenue enhancement initiatives

RECOMMENDATIONS (CONTINUED)

- **Structural/Political**

- ✓ **Service Delivery Improvements**

- Cogta/Salga to provide improved framework for quality Integrated Development Planning in which municipalities are compelled through regulations to consult business, in particular SMMEs
- Effective monitoring of IGR conditional grants

- ✓ **Institutional**

- Capacitate Cogta and provincial departments of cooperative governance with the appropriate resources and skills to support municipalities with service delivery planning and project preparation, project implementation and monitoring and evaluation
- Resource and technical assistance partnerships with the private sector, such as Business-Adopt-a-Municipality, needs to be strengthened, up scaled and expanded

- ✓ **Municipal Governance**

- Conduct economic impact assessments of all policies, by laws, regulations
- Simplify and standardize business permitting requirements and processes for SMMEs and the informal sector

RECOMMENDATIONS (CONTINUED)

- Conduct regular awareness campaigns (including through social media) of business regulations and processes
- Vacancy rates need to be addressed as a matter of priority and municipalities together with the local business community need to explore ways of allowing for secondments where critical skills cannot be sourced
- Fiscal relief for municipal debt owed by municipalities to Eskom

▪ **Service Delivery**

Enforce/inculcate Batho Pele principles in front-line services to SMMEs

✓ Water and Sanitation

- It is common cause that in most areas of the country failures in the provision of adequate water and sanitation will continue unabated at least for the medium-term. As a result, emergency water provision measures to communities, including to the SMME sector, should be planned for, budgeted for and provided for when these emergencies arise. Sufficient water tankers and other mediums of supplying emergency water should be catered for. If not, there could be a humanitarian crisis, let alone an economic meltdown

RECOMMENDATIONS (CONTINUED)

▪ Service Delivery

Enforce/inculcate Batho Pele principles in front-line services to SMMEs

✓ Water and Sanitation (Continued)

- This is no replacement for rigorous planning, implementation and maintenance of infrastructure projects, including the provision of economic infrastructure to SMMEs and informal businesses. To accelerate this, IGR partnerships and partnerships with the private sector may help alleviate the skills shortage in local government and improve resource allocation to this most critical of municipal services

✓ Electricity

- Improved interactive engagements by municipalities with their SMME community and the informal sector may lead to the development of local solutions to what appears to be an intractable national challenge. An example could be to consider a partnership with the local business community for the establishment of renewable energy micro-grids to both alleviate the problem of national loadshedding and in a cost-effective manner addressing the challenge of ageing local municipal infrastructure

RECOMMENDATIONS (CONTINUED)

▪ Service Delivery

Enforce/inculcate Batho Pele principles in front-line services to SMMEs

✓ Electricity (Continued)

- The increasing reliance on electricity tariffs by many municipalities to financially sustain themselves need to be addressed. Revenue enhancement methods need to include the requirement to balance the revenue sources of municipalities.
- Cable theft and illegal connections should be prioritized by municipal law enforcement to eradicate. Increasingly it is becoming clear that collaboration with communities and other stakeholders, including SMMEs, would be the only way to curb these scourges

✓ Refuse Removal and Waste Management

- Recognising that waste management is not only a one way function of refuse removal, SMME organisations and informal sector associations should encourage practices which enhance recycling and cleanliness in their trading areas which according to a survey participant from Johannesburg include enforcing “by laws about littering and public drinking.”

RECOMMENDATIONS (CONTINUED)

▪ Service Delivery

Enforce/inculcate Batho Pele principles in front-line services to SMMEs

✓ Refuse Removal and Waste Management (Continued)

- Waste management, being a service delivery issue but also a business opportunity for local businesses should be explored as a waste management partnerships between municipalities and the SMME community that could represent an opportunity to develop the circular economy locally in every municipality

✓ Roads and Transport

- Apart from the populist and expedient campaigns of local political leaders to fix potholes, more sustainable and systemic solutions need to be explored. The problem of potholes was also highlighted by a respondent from the City of Johannesburg who said “improve local roads especially regarding potholes.”
- Options also need to be explored of privatizing the management and maintenance of economically viable sections of municipal roads to local SMMEs.

RECOMMENDATIONS (CONTINUED)

▪ **Local Economic, Enterprise and Supplier Development**

- Recruitment of appropriately skilled LED officials with core business development expertise as advocated by a survey respondent from Matjhabeng Local Municipality in the Free State: “Employing people who understand business.”

- Capacity building of LED officials in areas of business development and management to respond more effectively to the business needs of SMMEs in their areas

- With municipal assistance, SMMEs must organize themselves into local business structures to engage more effectively with municipalities and provide support to one another which speaks to the recommendation of a Nala Local Municipality respondent: “Give us a platform where we can communicate.” A respondent from Mangaung Metropolitan Municipality also reinforced this point: “Creating platforms for small business owners to engage and share ideas/build relationships and create markets for them.”

- The provision of business infrastructure to the informal sector and business hubs to SMMEs need to be demand-based, appropriately located to ensure market access and competitiveness and be affordable, which is described in the following manner by a survey participant from Saldanha Bay Local Municipality: “Finding affordable and suitable workspace or retail space.”

RECOMMENDATIONS (CONTINUED)

- **Local Economic, Enterprise and Supplier Development (Continued)**
- Open structured and unstructured interactive communication channels with SMMEs through various mediums, including regular social media feeds, workshops, seminars, briefings and notices. This consensus among most survey respondents is best described by a participant from Setsoto Local Municipality in the Free State: “Non-financial support like in a form of workshop or e-learning should be an ongoing thing. Just as pupils go to school every day for learning so should the support for entrepreneurs by a means of at least monthly support.”
- Amend supply-chain management policies to incorporate competitive sourcing from local SMMEs
- Compile list of goods and services that can be sourced competitively locally through targeted set-asides
- As with communication in general, municipalities should improve tender notice communication to local SMMEs as suggested by a respondent from Roodepoort in Johannesburg: “Advertise tenders public on local newspapers and online platforms to enable local businesses to participate. Arrange formal and informal engagements with small businesses and assist them to access the market.”
- Strictly enforce supply-chain management regulations in accordance with the principles of transparency, affordability and competitiveness to ensure that the concern raised by a respondent from Emfuleni Local Municipality is addressed: “They should cut out politics when it comes to tender awarding.”

RECOMMENDATIONS (CONTINUED)

- **Local Economic, Enterprise and Supplier Development (Continued)**
 - Roll out meaningful supplier readiness programmes for local SMMEs
 - Coordinate with DSBD, SEDA, Sefa, the DTIC, Department of Agriculture, Land Reform and Rural Development (DALRRD), private sector to crowd in enterprise and supplier development support for local SMMEs and the informal sector

GENERAL

There is merit in expanding the research and conducting a further longitudinal study based on the fact that it is difficult to measure service delivery improvement or deterioration and its impact on SMMEs in a short space in time

Thanking You

Any Questions of
Clarity?



Mtiya md
dynamics (Pty)Ltd

