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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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SYNOPSIS OF FINDINGS

- 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.

SYNOPSIS OF FINDINGS (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 of 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

SYNOPSIS OF FINDINGS (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

SYNOPSIS OF FINDINGS (CONTINUED)

- 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 coalesce 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 address municipal dysfunctionality as it pertains to services to the SMME and informal sectors

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

▪ 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)

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

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Thanking You

Any Questions of
Clarity?



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