

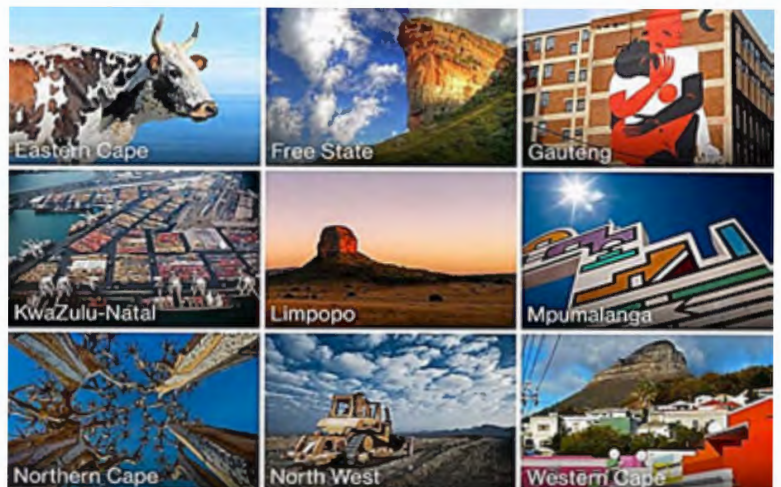
2022/23



Hollard.

SBI The big voice of
small business

*The real cost of municipal
dysfunctionality on SMEs
and the Informal Sector -
findings and
recommendations*



The Real Costs of Municipal Dysfunctionality on SMEs and the Informal Sector

Sponsor

- Hollard Insurance

Principal Investigators

- Professor Joshua Kembo and Mr Ricardo Hansby

Report Contributors

- Professor Joshua Kembo
- Dr Thami Mazwai
- Mr Ricardo Hansby
- Mr Rudyard Ijambo

Research Assistants

- Ms Kgotsfatso Mathabatha
- Ms Kagiso Moloko
- Mr Mosa Ramaru
- Mr Gavin Hansby

For enquiries and comments contact: Dr Thami Mazwai Mobile: + 27 (0) 83 376 9111

A. ACKNOWLEDGEMENTS

The Small Business Institute (SBI) relies on a vast network of support. This support comes in different forms and mediums. It allows the SBI to fastidiously carry out its mandate and to enhance its value proposition to its members, stakeholders and South Africa as a whole.

SBI members do not exist and function in a vacuum; they are active contributors to the economy of South Africa and are vulnerable to challenges in the environment in which they operate. To serve them, a collective effort is required. It is for this reason that the SBI is most grateful to Hollard Insurance which had the foresight to see the importance of availing resources for this particular exercise of gauging the impact of municipal dysfunctionality on SMME's, many of whom are their clients and others which form part of the small business ecosystem at local level.

The Board and Executive of SBI need to be recognized for prioritizing the issue of municipal dysfunctionality and its impact on member and non-member SMMEs and boldly deciding that it is a risk and challenge that require a deeper understanding.

The SBI extends its gratitude to Mtiya Dynamics and its professional team, which has been appointed to carry out this research project in a complex research context.

Moreover, the SBI thanks and appreciates the many SMMEs and informal business for participating in the research project and taking time out from running their businesses to enrich the country's understanding of what they have to endure and experience on a daily basis in their respective local municipal contexts. We wish you well with your businesses and broadly thank you for continuing to operate even in very challenging circumstances and times.

B. FOREWORD

South Africa's small, medium and micro enterprises, including informal sector entrepreneurs, have been resilient in the face of an escalating service delivery crisis that afflicts the entire edifice of the state. Macro-economic uncertainty is made worse by the spiraling costs of doing business, particularly at a localized level. The crisis in service delivery and municipal dysfunctionality is no longer isolated and sporadic; it has become systemic and requires structural changes while providing short-term alleviation to communities, including the small business community.

Despite their fortitude, the SMME and informal sector is not geared to readily absorb the exorbitant costs of service delivery failures by municipalities. While the ravages caused by service delivery is clear, the impact of municipal dysfunctionality on the SMME and informal sector has not been empirically tested. The study is set in this backdrop and set out to test - through a review of the existing body of knowledge and a targeted survey of SMMEs and informal businesses - the costs of municipal dysfunctionality on businesses on the lower quantile of the pyramid.

The Small Business Institute acts as the voice and representative of some of these businesses and has recognized the need to explore and unpack this theme with the importance it deserves. The report is not meant to castigate government for its failures, but to serve as one of many tools to influence public policy and proffer solutions to the challenges in the local government sphere.

Taking this approach allows for a balanced reflection of research results, which also point to acceptable satisfaction levels among certain SMMEs of some areas of service delivery. This is most welcome.

The SBI recognizes that one survey and literature review may not be enough to capture the full extent of the impact of municipal dysfunctionality on the SMME and informal sectors. However, it is an important and significant step to contribute towards the solutions which may alleviate the disproportionate burden carried by SMMEs and the informal sector with regards to service delivery failures and municipal dysfunctionality. After all, they remain the mainstay of activity in the real economy and provide livelihoods to the majority of South Africans.

C. EXECUTIVE SUMMARY

The Small Business Institute (SBI) commissioned research 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. Recognising that similar studies may have been done, it was important to review the existing body of knowledge already produced. In so doing, it was found that most 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. 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. However, 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 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.

Table of Contents

Item Number	Content Narrative	Page Number
A	Acknowledgements	2
B	Foreword	3
C	Executive Summary	4
1	Introduction	12
2	Overall Methodological Consideration	15
Part 1: Literature Review and Analysis		
3	Integrated Municipal Functionality	18
4	Municipal Governance	24
4.1	Policy and Legislative Considerations	24
4.2	Governance and Administration	26
4.3	Municipal By-Laws, Red Tape, Permitting and Licensing	31
5	Municipal Service Delivery	38
5.1	Water and Sanitation	41
5.2	Electricity	45
5.3	Safety and Security	47
5.4	Health and Product Safety	48
5.5	Roads and Transport	49
6	Local Economic Development, Enterprise and Supplier Development	51
6.1	Local Economic Development	51
6.2	Enterprise and Supplier Development	53
6.3	Informal Sector Support	56
7	The Role of National and Provincial Government	59
Part 2: Primary Research Findings		
8	Data Collection Instruments and Methods	61
9	Research Ethics	61

10	Analysis of Survey Results	61
10.1	Introduction	61
10.2	Demographic Analysis	63
10.3	Business Concerns	64
10.4	Governance, Administration and Compliance	65
10.5	Municipal Service Delivery	71
10.6	Enterprise and Supplier Development	77
11	General	79
12	Concluding Remarks	88
13	Recommendations	90

List of Figures and Tables

→ Figures

Figure Number	Narrative	Page Number
1	Rating of Ease of Doing Business	34
2	Time to obtain all necessary pre-construction clearances	36
3	Time to obtain a building permit	36
4	Total time to deal with construction permits	37
5	Service delivery protest activity per year 2004 -2020	40
6	Barometer measuring awareness with requirements for business permits	66
7	Affordability and possession of business permits	67
8	Satisfaction with the time to obtain a building permit	69
9	Analysis of other municipal processes that SMEs rely on	70
10	Electricity supply barometer	72
11	Water supply barometer	73
12	Sanitation barometer	73
13	Refuse removal barometer	74
14	Roads and transport	75
15	Health and safety (15-17)	75-76
18	Service delivery to a specific business	80
19	Service delivery to the informal sector	81
20	Service delivery to the business community at large	82
21	Experience with municipal officials (21-26)	82-86

→ Diagrams

Diagram Number	Narrative	Page Number
1	Instruments at the direct and immediate disposal of local government	33
2	Three areas of National and Provincial Government support	59

→ Tables

Table Number	Narrative	Page Number
1	State of Local Government: Indicators	22
2	Distribution of SME respondents by province	62
3	Distribution of SME respondents by area	63
4	Gender distribution	63
5	Ethnic distribution	64
6	Distribution of respondents by business concerns	64
7	Number people employed in SME companies	65
8	Awareness regarding business permitting and licensing	65
9	Reliance on building permits	68
10	Cost of obtaining a building permit	68
11	Municipal service delivery	71
12	Ratings of awareness regarding business permitting and licensing	77
13	Perceptions regarding service delivery aspects of Municipalities'	79

List of Abbreviations

COGTA	Cooperative Governance and Traditional Affairs
DDM	District Development Model
EODB	Ease of Doing Business
ESKOM	Electricity Supply Commission
EWN	Eye Witness News
EHD	Environmental Health Directorate
GDP	Gross Domestic Product
IGR	
IMF	International Monetary Fund
LED	Local Economic Development
MSME	Micro, Small and Medium Enterprise
MFMA	Municipal Finance Management Act
NERSA	National Energy Regulator of South Africa
NDP	National Development Plan
PESTLE (A)	Political, Economic, Sociological, Legal and Environmental (Analysis)
REDS	Register of Employees Dishonesty System
SALGA	South African Local Government Association
SMME	Small, Medium and Micro Enterprises
SBI	Small Business Institute
SERI	Socio-Economic Rights Institute of South Africa
SAST	South African Standard Time
SACN	South African Cities Network
SAICE	South African Institute for Civil Engineering
WWTP	Waste Water Treatment Plant
WSA	Water Service Authority
QLFS	Quarterly Labour Force Survey

Hollard.

***The real cost of municipal
dysfunctionality on SMEs
and the Informal Sector -
findings and
recommendations***



1. 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.”¹ (*News 24 article by Zandile Khumalo, October 6, 2022*)

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*

¹ News 24, 6 October 2022

operational efficiencies negatively, which adds a significant cost burden.”² (Astral Foods, Audited Summarised Consolidated Results for the year ended 30 September 2022. P2)

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.³(*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**.”⁴ (*The Unseen Sector Report on the MSME Opportunity in South Africa: A report on the MSME Landscape in South Africa, 2018 p6*)

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:

*“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”⁵ (Worku Z (2016). *The impact of poor quality municipal services on small enterprises. Investment**

² Astral Foods, Audited Summarised Consolidated Results for the year ended 30 September 2022. P2

³ National Development Plan: 2012

⁴ The unseen sector report on the MSME opportunity in South Africa: A report on the MSME landscape in South Africa 2018 P. 6

⁵ Zeleke Worku (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

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.”⁶ (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)

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.”⁷(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)

SMMEs and informal businesses rely on municipalities for a conducive business environment broadly. 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. 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

⁶ P. 274

⁷ Ease of Doing Business in Local Government: Push and Pull Factors for Business Investment in Selected South African Municipalities Gerrit van der Waldt 1 and David Fourie 2, July 2022. P 470

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.”*⁸ (Consolidated general report on local government audit outcomes: MFMA 2020-21). 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.

2. OVERALL METHODOLOGICAL CONSIDERATIONS

The study deliberately sets out to target the entire spectrum of SMMEs. Because the operating requirements are different for informal sector businesses and for formal sector SMMEs, a differentiated approach was adopted to cater for these nuances by adapting the research tools accordingly.

There is an existing body of knowledge about municipal failures, most of which do not neatly dovetail to determine how this dysfunctionality affect the SMME community. Some of the literature refer to ease of doing business, but the limitation of this, is that the focus is mostly on red tape that SMMEs have to navigate at municipal level. These all remain critical for the issue at hand. For this reason, the study incorporates a variety of literature on municipal dysfunctionality ranging from service delivery and governance to red tape and compliance in order to generate a more wholistic picture of challenges faced by SMMEs at local government level.

⁸ Consolidated general report on local government audit outcomes: MFMA 2020-21

Anecdotal references in the existing body of knowledge on how SMMEs experience local government dysfunctionality has become more common and while scientifically not constituting a continuum, points to the systemic erosion of the local government sphere and that SMMEs are not unaffected by this. To establish the factual continuum, this study – in particular the primary research component - has become of critical import.

It allows for establishing links, trends and patterns that serve as the basis for formulating recommendations.

This study is unique in a sense. Instead of making municipalities the units of measurement, it has made SMMEs the predominant focus. The study is, as a result, not a reflection on the performance of a particular municipality, but the lived-experience of SMEs across the board when it comes to the functionality or dysfunctionality of municipalities. Its scope does not aggregate the performance of municipalities geographically *per se*, but there are reflections on locational factors throughout the narrative of this study.

Structure

This study therefore entails both primary research and a literature review as other direct research has already been done in this field, but well established literary patterns point indirectly to how municipal dysfunction affects SMMEs in the country broadly. It is for this reason that a two-pronged methodology informs this study.

As a result, the report is dichotomized into the following two interrelated parts:

Part I, which is contextual, and which entails the literature review and analysis in which municipal dysfunction is generally well documented and which contains specific research on the impact of municipal dysfunctionality on business broadly and in some cases on SMMEs specifically;

Part II, allows for more specifically address the “real” impact of municipal dysfunctionality on small businesses as it contains the Findings of the topical surveys canvassed with the SMME community in various municipalities.

Thematically, **Part I** of the report is divided into three components, namely: 1) Municipal Governance, 2) Municipal Service Delivery and 3) Municipal SMME support. Although intimately interrelated - and in practice inseparable - this is done conceptually and to provide structure to the report. It unpacks under these themes the various tenets of the municipal interface with the SMME and informal sectors, but cross referencing ensures that the narrative is integrated. The report also reflects on the role of organized local government, national and provincial governments in supporting municipalities, which technically can be considered part of the governance framework for local government, but the practical aspects thereof is dealt with separately for ease of reference.

Part II of the Report is thematically aligned to the issues being addressed in Part I and which contains the findings of key questions directly raised with SMMEs as to their routine interaction with municipal leadership, officialdom, policies, regulations, procedures and specific services. This is preceded by highlighting key methodological considerations that informed the empirical study.

Finally, the study report postulates a number of recommendations on how to improve municipal services to SMMEs. Some relate to the requirement for policy and systemic changes while others deal with the intermediary actions that can be taken by local government stakeholders to improve service delivery for SMMEs in order to unlock their full business and economic potential.

PART I: LITERATURE REVIEW AND ANALYSIS

3. 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. This, however, should not serve as an excuse for not adhering to basic standards of supporting the SMME sector at a local level.

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.⁹ (*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.

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:

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

⁹ MFMA 2020-21 consolidated general report on local government audit outcomes. P. 9

Current outcomes suggest that South Africa's municipalities are failing in many of these respects.

The consequences for the country are dire and widespread. 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.”¹⁰ (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:

“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.”¹¹ (MFMA 2020-21 consolidated general report on local government audit outcomes. P. 20)

¹⁰ Municipalities can play a key role in South Africa's economic development. Here's how Published: October 15, 2021 9.00am **SAST** Johann Kirsten and Helanya Fourie, Bureau for Economic Research, Stellenbosch University

¹¹ 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.”¹² (MFMA 2020-21 consolidated general report on local government audit outcomes. P. 4)

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...”*¹³

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

¹² MFMA 2020-21 consolidated general report on local government audit outcomes. P. 4






¹³ <https://www.businesslive.co.za/bd/national/2022-11-07-local-government-is-spiralling-downwards-says-salga/>

stable – with the vast majority of these municipalities located in the Western Cape, led by the Democratic Alliance.”¹⁴

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

State of Local Government : Indicators

Table 1

	 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 Disputes in bylaws External political interference in councils Persistent & frequent section 139 interventions (esp. on dissolution of council) 	<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 Biased 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 Flawed 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 Coal adds by interest groups on poor service delivery
High Risk	<ul style="list-style-type: none"> Minimal out-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 responsive 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 serviced 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 responsive 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 serviced 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 respond 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 responsive 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 Inrequent service delivery protests

The above table shows the best and worst run municipalities in South Africa: Business Tech Article- Staff Writer August 25, 2021

¹⁴ Business Tech This map shows the best and worst run municipalities in South Africa Staff Writer 25 August 2021

State of Local Government Barometer

PROVINCE	Number of municipalities	Dysfunctional (Red)	Medium Risk (Orange)	Low Risk (Yellow)	Stable (Green)
Eastern Cape	39	33	14	14	0
Free State	23	11	11	1	0
Gauteng	11	2	2	1	1
KwaZulu-Natal	54	22	20	22	1
Limpopo	27	3	21	3	0
Mpumalanga	20	5	9	4	1
North West	22	20	2	5	0
Northern Cape	31	3	16	5	1
Western Cape	30	0	2	10	12
Total	257	64	111	66	16



If these are the reports of key institutions in the local government ecosystem, it is not surprising that SMMEs generally have been negatively affected by the parlous state of municipalities

4. MUNICIPAL GOVERNANCE

4.1. Policy and Legislative Considerations

- ***Constitutional and Legislative Bedrock for Municipal Support to SMMEs***

The Constitution in sections 152 and 153 enjoins all municipalities to promote economic development locally. The Municipal Systems act in section 26 gives legislative expression to the Constitution in this regard and politically compels councils to include local economic development in their planning processes and reiterates this in section 86.

The state of local government, clearly indicates that this constitutional and legislative imperative is undermined and compromised by national and provincial government in support of local government and local government itself. It has deleterious national ramifications which is difficult to quantify.

Because of statistical gaps and anomalies in data, it is exceedingly difficult to make the leap from measuring the impact of dysfunctionality of municipalities on SMMEs on the GDP of South Africa from a macro-economic point of view to the net effect on the costs of doing business in a dysfunctional municipal environment on individual SMMEs. It cannot be neatly measured, given the confluence of overall state failure. The boundary, for example, in electricity distribution failures by Eskom and municipalities is not always clear.

Furthermore, the Constitution and the local government legislative framework have not been applied consistently across the board and the participation of the SMME sector in municipal policy-making and the passing of local governance frameworks has been limited. It is for this reason that the Motlanthe Panel remarked in its 2017 report that:

“Participation in policy-making is a prerequisite for public administration to be developmental in nature and effect. Moreover, participation can be meaningful only if adequate, relevant and timely information is provided by the state concerning its

proposals, and if public administration is responsive and accountable. Section 156 of the Constitution requires that municipal ‘by-laws must be accessible to the public’. Section 160 of the Constitution states ‘Internal procedures’ requires in (4) that no bylaw may be passed by a Municipal Council unless ‘the proposed by-law has been published for public comment’. Echoing provisions concerning national and provincial legislatures, Subsection (7) stipulates that municipal councils must conduct their business ‘in an open manner, and may close its sittings, or those of its committees, only when it is reasonable to do so having regard to the nature of the business being transacted’. Chapter 4 of the Municipal Systems Act is dedicated to ‘Community participation’. It includes a range of provisions that clearly envision the developmental role of participation.”¹⁵

As will be enunciated further in this study, the literature indicates that these constitutional and legislative imperatives have evaded the SMME sector for most part. Laws have been made for SMMEs by municipalities, not with the active participation of SMEs.

- **District Development Model (DDM)**

A form of more centralized planning, the **DDM** is aimed at ensuring an all of government and whole of society approach to local government. It is meant to break the “*silo*” mentality and to improve inter-governmental efficiencies horizontally and vertically.



The DDM should be expressed in the form of a “One Plan” in each district of the country.

While conceptually sound, it fails to overcome the structural barriers to improved municipal performance. It may even confuse proper planning, displace the locus of implementation and dilute accountability for projects and budgets aimed at ensuring targeted service delivery. It fails to adequately take into account the role of communities – let alone SMMEs – in service delivery.

¹⁵ High-Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change. P 378

It does not address issues of basic standards of ease of doing business uniformly across districts and prioritises catalytic initiatives more than smaller ones. It may be of value in the bigger picture, but it is of limited effect in relieving the plight of SMMEs in accessing services. As it stands, there appears to be resistance to the model on grounds that it impedes on the powers and functions of local municipalities, it appears to be grossly underfunded and early experiments have yielded very limited – if any – results.

4.2. Governance and Administration

▪ Leadership

The flywheel of good municipal governance is astute leadership. It is doubtful whether there will be sound municipal governance without astute leadership that can provide direction to municipalities and their communities.

When the Auditor-General themed an entire local government audit report “*Ethical and accountable leadership should drive the required change (2019/2020)*”, very close attention should be paid to the impact of a lack of credible leadership on municipal functionality and by implication local economies that rely on the business sector to function. The Auditor-General therefore regularly admonishes local government for not heeding its consistent calls for decisive leadership on the issue of municipal performance.

In a divided, historically polarized and troubled society like South Africa, the need for leadership that unifies is even more compelling. The trend suggests the opposite. Local political leadership often exploit the schisms in communities for short-term political gain that are self-serving. Sometimes, new divisions are also created.

The entrenched fault-lines in the causal link between poverty and unemployment and ethnicity have been debilitating in development efforts. It is directly related to ownership and entrepreneurship. Most successful small businesses can be regarded as being owned and

controlled by the white minority and these reinforce social envy from the political leadership to segments of the small business community. Further animosity is created when politicians exploit this, which leads to the “othering” of successful small businesses owned by previously advantaged entrepreneurs. This stunts the transfer of skills and wealth. Not creating a conducive environment for collaboration and building platforms for social cohesion is not good for business.

Another key tenet of leadership is effective decision-making. Markets, relied on by the business community to conduct business, are characterized by swift trade and investment decisions. While it is common cause that political and policy decisions are subject to consultation, consultation processes should not be endless and indefinitely delay development decisions which are critical for investor confidence and the ability of the small business sector to function on a daily basis. Investment decisions for both big and small business feed off policy stability and predictability. Decisive leadership would therefore play an important role in helping business to trade and invest more locally, which stand to contribute to employment creation and economic growth at a local level

Ethical leadership, in turn, sets the scene for preventing elite capture of municipalities and rooting out corruption and rent-seeking. Without ethical leadership, municipalities are bound to become havens for corrupt activities and malfeasance. South Africa has a sufficient legislative and regulatory system to legally deal with corruption. The challenge is that local patronage networks are not imbued with a culture of ethical conduct. The solution is to be found in the values and ethics espoused and adhered to by political leadership in municipalities. Engendering a culture of ethical leadership is not only up to communities by electing appropriate local leaders and insisting on accountability by leadership, but also requires a working IGR partnership with national and provincial governments.

- ***Capable state***

The parlous state of officialdom within municipalities is outlined by the Auditor-General in the following manner:

“We particularly emphasised that the direction, supervision and review role of senior management must be strengthened – in our assessment, the senior management of only 11% of municipalities was fully effective. More municipalities regressed than improved in this area over the term of the previous administration.”¹⁶ (MFMA 2020-21 Consolidated general report on local government audit outcomes, P. 5)

Administratively, to ensure that the small business community flourishes, a capable state is required. Leadership at this level revolves mostly around the managerial and technical capabilities and competency of officialdom. This was one of the findings of the van der Walddt and Fourie research into the ease of doing business:

“The establishment of an enabling business environment is further hampered by a lack of capacity in especially rural, local municipalities to attract qualified and skilled personnel. Expertise in areas of trade and investment is required to ensure that municipalities successfully attract and retain investment. Good corporate governance and skilled, capable municipal managers, planners, and project managers are all pull factors that investors consider when choosing between municipalities. This is usually gauged by considering whether municipalities receive clean audits and have a track record of well-planned and executed municipal projects.”¹⁷ (Gerrit van der Walddt 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)

The prevalence of nepotism and cadre deployment looms large at municipal level and this is exacerbated by the localization of patronage networks that sacrifice skill and qualifications at the altar of expediency, greed and populism. The challenge for municipalities to edge closer to the objective of a capable state is tellingly described by Kirsten and Fourie in their study:

¹⁶ Consolidated general report on local government audit outcomes: MFMA 2020-21, P. 56

¹⁷ Ease of Doing Business in Local Government: Push and Pull actors for Business Investment in Selected South African Municipalities Gerrit van der Walddt 1 and David Fourie 2, July 2022. P. 483

“... Personnel vacancy rates are high. And there is a lack of competencies. Political influence and interference in the appointment of managers and other municipal executives contribute to the problem.”¹⁸ (Johann Kirsten and Helanya Fourie, Bureau for Economic Research: Municipalities can play a key role in South Africa’s economic development. Here’s how Published: October 15, 2021 9.00am SAST)

The reality is stark according to the Auditor-General as it affects the delivery of important services, not only relied on by the general population, but also playing a role in the sustainability of SMMEs themselves:

“Our audits of key water, sanitation and road infrastructure projects funded by conditional grants found that half of these municipalities struggled with project management, resulting in delays in project completion, overspending on contract amounts, and contractors being paid for substandard work. These municipalities already struggle financially and cannot afford to waste the limited resources available to fund basic service delivery initiatives. Poor project management was largely due to a lack of technical skills and vacancies in the technical departments and in positions responsible for signing off on work done in the project management units.”¹⁹ (MFMA 2020-21 consolidated general report on local government audit outcomes p40)

Municipal administrations should be relatively insulated from undue political contestation and interference, but this is not the case, as attested to by the National Development Plan. There is an appreciation by all that there needs to be a political and administrative interface. The character of this interface, however, should be in accordance with what is legally, administratively and ethically allowed as underscored in the NDP: *“The public service needs to be*

¹⁸ Municipalities can play a key role in South Africa’s economic development. Here’s how
Published: October 15, 2021 9.00am SAST Johann Kirsten and Helanya Fourie, Bureau for Economic Research,
Stellenbosch University

¹⁹ Consolidated general report on local government audit outcomes: MFMA 2020-21, P. 40

*immersed in the development agenda but insulated from undue political interference.”²⁰
(National Development Plan, 2012. P. 408)*

A capable state, at municipal level, is not only about the technical and managerial prowess of administrators. It is also about accountability and a sense of integrity:

“The poor audit outcomes and inadequate service delivery by many municipalities during the term of the previous administration were the result of a pattern of behaviour and conduct by leaders and officials that led to a local government culture in which performance, accountability, transparency and integrity were not prevalent.”²¹ ((MFMA 2020-21 Consolidated general report on local government audit outcomes p20)

The enforcement of accountability comes through consequence management. Communities are increasingly incensed by what is perceived as a lack of consequence management by municipalities. While fruitless and wasteful expenditure, corruption and fraud are rampant, there seems to be very few that are held to account for these governance failures which do not inspire confidence in the system.

This is important for SMMEs. It was found in a study by Kwamena Kyarku that:

“Research into the effect of corruption on small and medium enterprises reveal an astonishing finding. The results of a survey conducted in developing countries show that 1% increase in corruption in the SME sector leads to 36.12% decline in SME growth in terms of turnover and employment”²² (Kwamena Kyarku, 2017: “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)

²⁰ NDP, 2012. P. 408

²¹ Consolidated general report on local government audit outcomes: MFMA 2020-21, P. 56

²² Kwamena Kyarku, 2017: “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

4.3. 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.”*²³ (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)

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.”*²⁴ (SERI et SALGA, *Towards Recommendations on the regulation of informal trade at Local Government Level* P. 6)

²³ 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. 483

²⁴ SERI et SALGA, *Towards Recommendations on the REGULATION OF INFORMAL TRADE AT LOCAL GOVERNMENT LEVEL*. P. 6

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.”²⁵ (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)

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.”²⁶ (STATE OF SOUTH AFRICAN CITIES: South African Cities Network. P. 101)

²⁵ 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. P470

²⁶ 2021 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:

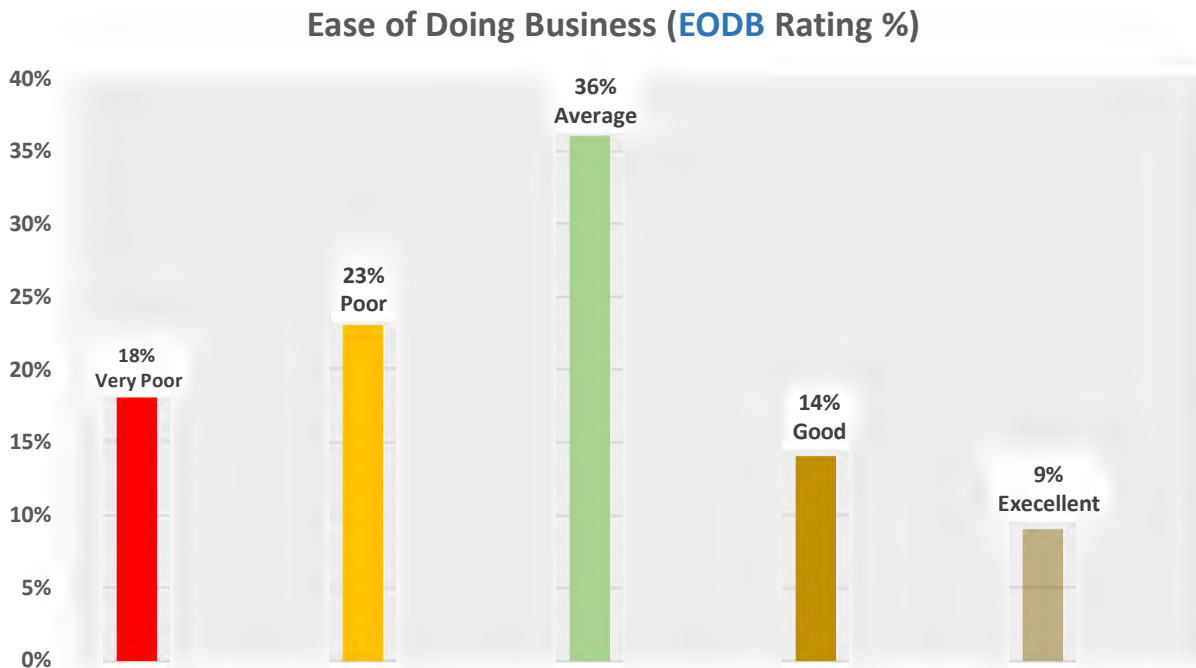


Diagram 1

In many cases these are not optimally used to enhance the economic positioning of municipalities and are either in disarray or cumbersome, whether for big business, small business or informal businesses. To this end, it is concerning that the ease of doing business study found:

“The participants were requested to rate their experiences in terms of business attraction and retention based on their interactions with municipalities. Chart 1- illustrates their responses

Figure 1-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.”²⁷ (Gerrit van der Waldt and David Fourie Ease of Doing Business in Local Government: Push and Pull Factors for Business Investment in Selected South African Municipalities July 2022. P479)

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

²⁷ 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. P479

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.”²⁸ (Zelege Worku 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-P. 277 2016)

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.”²⁹ (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)

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:

²⁸ Zelege Worku (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

²⁸ P. 277

²⁹ Kwamena Kyarku, 2017: “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

Figure 2-Time to obtain all necessary preconstruction clearances

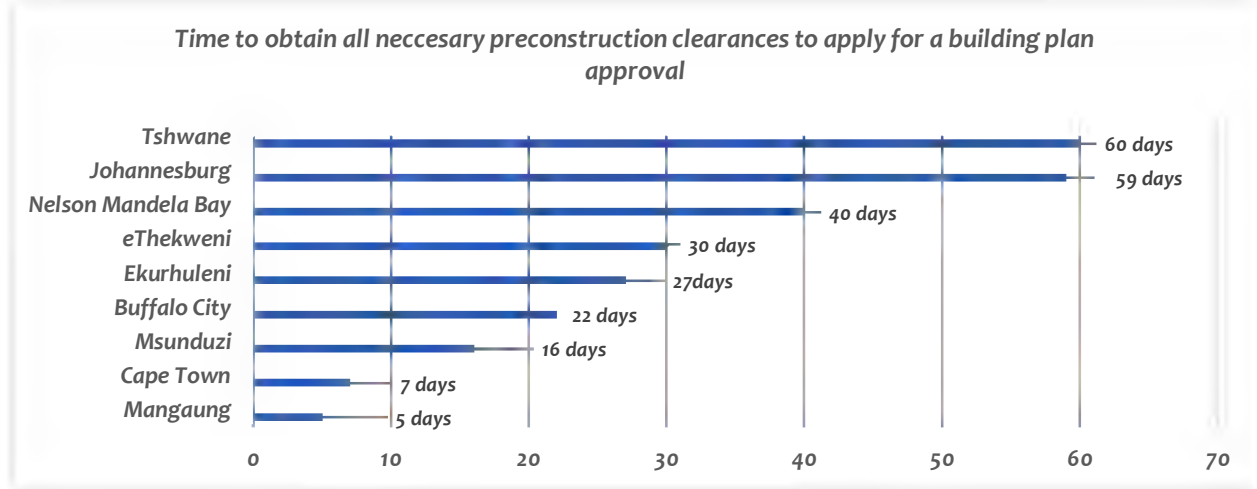


Figure 3-Time to obtain a building plan approval

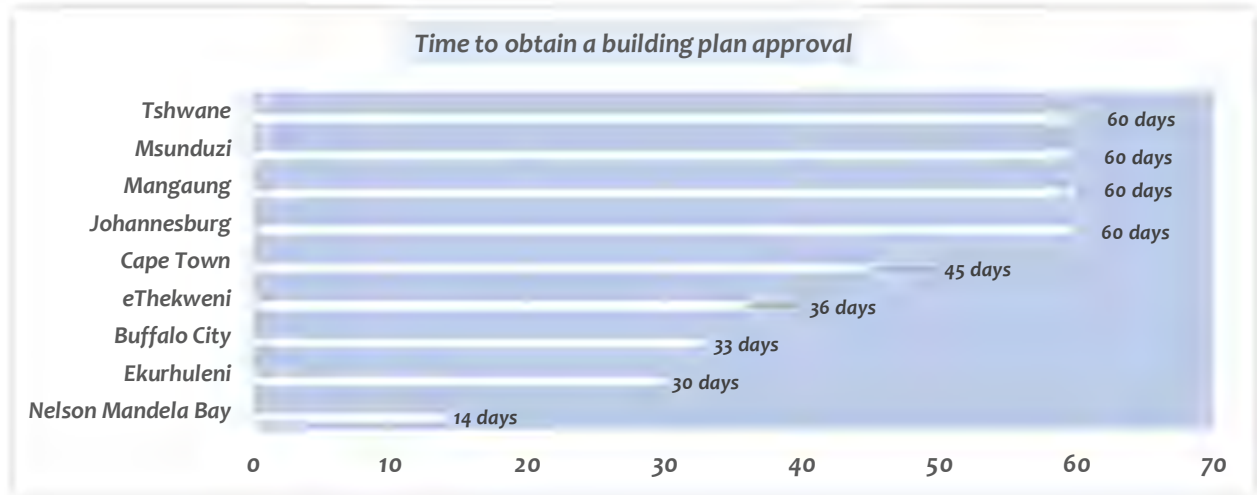
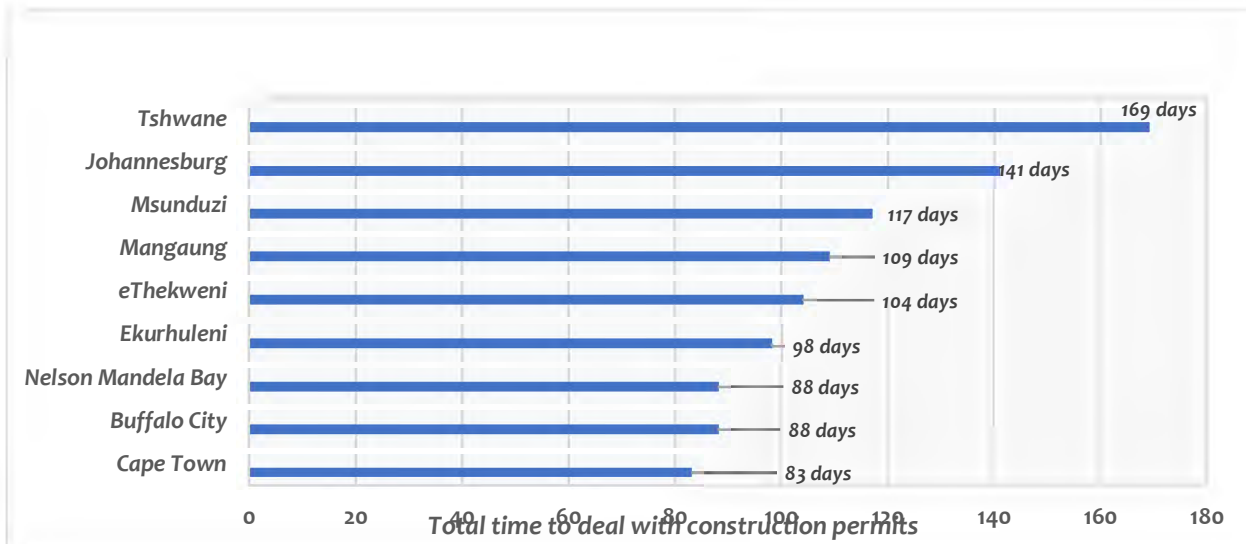


Figure 4: Total time to deal with construction permits



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.”³⁰ (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*)*

Whereas in 2017, under the stewardship of former President Kgalema Motlanthe, the High-Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change³¹

³⁰ 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. 483

³¹ High-Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change

completed a review of policy and legislative challenges that curtail growth and development in the country, local policies, regulations and laws significantly add to the burden of SMMEs and fundamental differences across municipalities make it important to conduct a similar review for local government across the spectrum. Isolated red-tape reduction exercises may be useful, but they do not address the major structural regulatory deficiencies that SMMEs have to face at municipal level.

5. 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.

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.”³² (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. P473)

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.”³³ (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)*

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

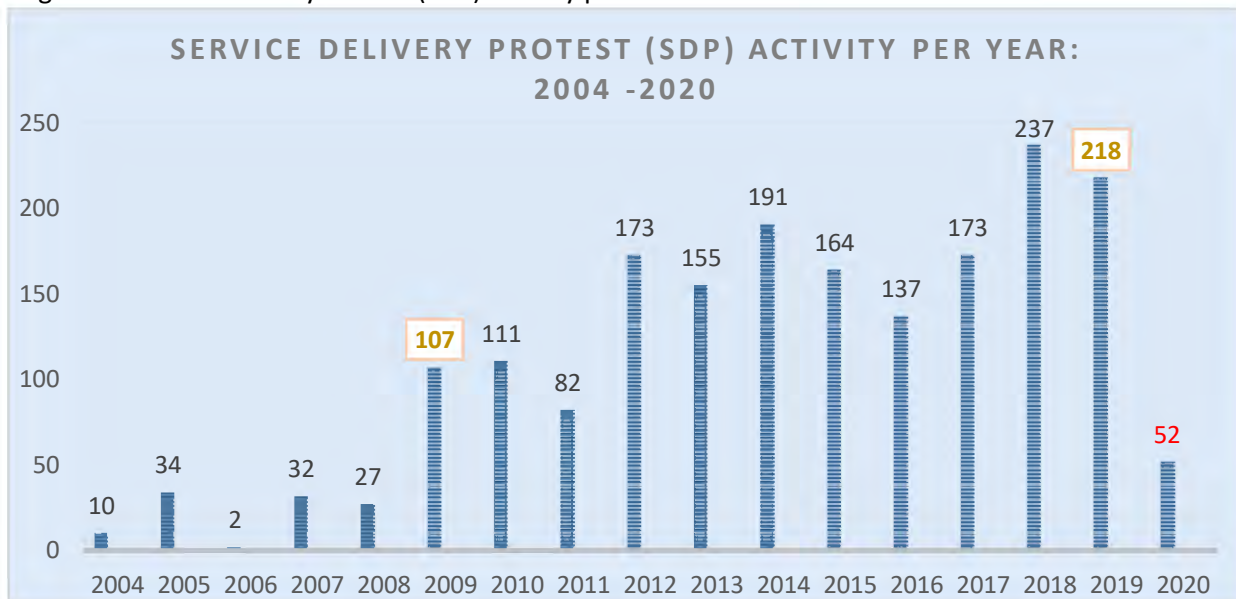
³² Ease of Doing Business in Local Government: Push and Pull actors for Business Investment in Selected South African Municipalities Gerrit van der Waldt 1 and David Fourie 2, July 2022. P 472 - 473

³³ 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. 483

*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.*³⁴

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:

Figure 5: Service Delivery Protest (SDP) Activity per Year 2004-2020



(Source: Municipal IQ Municipal Hotspots Monitor [January-July])

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.

The stability brought by the provision of both service delivery infrastructure and economic infrastructure contributes to creating a conducive environment for SMEs to operate in: *“It is evident that municipalities must provide an enabling environment for investment by providing*

³⁴ YD Davids et al, HSRC, Municipal Skills and Capacity Assessment Study, 2022, p. 41

basic services, especially reliable water and electricity supply, as well as road infrastructure.”³⁵ (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)

But it is obvious based on the decaying state of municipal infrastructure that municipalities for most part struggle do so because *“Operation and maintenance activities are complex and require a cadre of skilled technical professionals if we are to avoid compromising the lifespan of assets through neglect. Most municipalities are desperately understaffed in these crucial positions or staffed by people who do not have the required training or experience.”³⁶ (SAICE 2022 Infrastructure Report Card for South Africa, P. 16)*

5.1. 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.”³⁷(Series of Papers on Rural-Urban Linkages: Agro-food value chain SACN Programme: Urban Policy July 2015 P. 49)*

³⁵ 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 2022P. 483

³⁶ SAICE 2022 Infrastructure Report Card for South Africa, P. 16

³⁷ Series of Papers on Rural-Urban Linkages: Agro-food value chain SACN Programme: Urban Policy Date: July 2015 P. 49

And: *“Specific issues that must be addressed are the business and financial risks of modern commercial farming, and the extent of poverty in the traditional subsistence farming sector.”*³⁸
(Nic Opperman: Water: A looming crisis? P. 24)

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.”*³⁹ (Jenny Day:-Water: A looming crisis? Trends and problems in water quality P13)

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.”*⁴⁰ (Jenny Day:-Water: A looming crisis? Trends and problems in water quality P9)

³⁸ Water: a looming crisis? Nic Opperman, P. 24

³⁹ Water: a looming crisis? Trends and problems in water quality Jenny Day, p 9

⁴⁰ Water: a looming crisis? Marlene van der Merwe-Botha, P. 13

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. These WSAs have been placed under regulatory focus, requiring each of them to submit a detailed corrective action plan to DWS.”⁴¹ (SAICE 2022 Infrastructure Report Card for South Africa, P. 24)

The SAICE Report’s own findings place water supply for all other areas other than major centres at a rating of D-, meaning it is at major risk of failure.⁴² (SAICE 2022 Infrastructure Report Card for South Africa, P. 24). Indeed, some systems have already collapsed.

In other instances, water is critical for the production of beverages. The quality of the water also becomes of concern. As found by SAICE and other sources, including the Department of Water and Sanitation, water quality is on the decline in most municipalities. This must have a huge bearing on the additional measures businesses, in particular water-intensive SMMEs (including emerging farmers), must put in place to ensure an improvement in water quality. There would be clear cost implications. At the same time, this state of water infrastructure must also weigh heavily on the investment decisions of potential new entries into certain industries, thus constraining new investments and economic growth.

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.

⁴¹ SAICE 2022 Infrastructure Report Card for South Africa, P. 24

⁴² SAICE 2022 Infrastructure Report Card for South Africa

Loadshedding also has a negative effect on water distribution. Electrical pumps for the distribution of water stop working when there is loadshedding and either affording the acquisition of generators or running them is costly to municipalities and not sustainable. This also applies to sourcing water tankers for interim relief. This could place upward cost pressures on municipal budgets and increases the cost of doing business in municipalities. It appears that this unsustainability will continue, given the findings of Eskom's report on electricity generation over the next five years. It could last longer.

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.

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 Ethekewini, 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."*⁴³

⁴³ <https://www.dailymaverick.co.za/article/2022-11-22-more-than-half-of-durbans-water-goes-to-waste-costing-the-city-millions-every-day/>

5.2. 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.

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.”⁴⁴ (SAICE 2022 Infrastructure Report Card for South Africa, P. 45)*

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 Yazi, 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:

⁴⁴ SAICE 2022 Infrastructure Report Card for South Africa, P. 45

“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.”⁴⁵

Furthermore, municipalities owe considerable debts to Eskom for bulk electricity supply. That municipalities have boosted their income by placing a margin on the unit cost of electricity to the end-consumer, has complicated matters:

“In September 2022 National Treasury reported that municipalities owed creditors (primarily Eskom and water boards) just under R90 billion, and that the municipalities themselves were owed R255 billion by their customers.”⁴⁶ (SAICE 2022 Infrastructure Report Card for South Africa, P. 45)

Moves are afoot by NERSA to regulate this more stringently to avoid the exploitation by financially hamstrung municipalities of this income source. This will bode well for the SMME sector, which requires price competitiveness but also price stability to function optimally.

Placed in context, electricity supply has directly and indirectly impacted on the bottom line of 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

⁴⁵ <https://www.businesslive.co.za/bd/opinion/2022-11-28-timothy-treagus-running-on-empty-informal-economy-crippled-by-rolling-blackouts/>

⁴⁶ SAICE 2022 Infrastructure Report Card for South Africa, P. 15

unsustainable especially in the face of fuel price increases and given the capacity of some of the processors.”⁴⁷ (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.⁴⁸ (*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”⁴⁹ 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.

5.3. 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:



SAFETY & SECURITY

- Collaboration with the South African Police Service
- Visible municipal policing
- The provision of safe and secure trading hubs and infrastructure with adequate lighting

⁴⁷ 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

⁴⁸ FinScope MSME Survey South Africa 2020. P. 89 Survey South Afra 220

⁴⁹ The South African Cities Network report in its PESTLE analysis flags the “Increasing cost of electricity and inconsistent supply to remote rural areas p36

The safety of patrons at taverns and shebeens have recently come into the spotlight after what appears to be sporadic mass killings and deaths at these venues which have escalated to almost a weekly basis. Taverns and shebeens are also small businesses and complying with the law has not been a virtue of this sector. Municipalities play a crucial role in enforcing certain health and safety standards, but it seems local authorities turn a blind eye to ensuring the rule of law for the sector and educating owners on their legal responsibilities. In many instances this is a function of the availability of resources for municipal law enforcement and the availability of capacity to do so.

Attesting to the integrated nature of service delivery, it has become common cause that small businesses and informal traders suffer an escalation in crime during loadshedding. Municipal law enforcement should factor this into their weekly planning as loadshedding schedules are widely available.

As municipal infrastructure degrades further, the SMME sector, in particular the informal sector, is very likely to experience an increase in being the targets of wayward crime. The Finscope MSME Survey of 2020 found that crime was listed as the fourth top reason cited by faltering businesses as an obstacle towards business success.

5.4. Health and Product 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).”⁵⁰

This study only relates to major urban centers and the picture could be more eschewed if the entire spectrum of municipalities were taken into account.

In the fresh produce sector, in which many SMMEs operate, it was found that *“non-compliance to food safety and health standards, and management capacity”⁵¹* of municipal fresh produce markets undermines the very health and safety requirements imposed by municipalities on SMEs. It is therefore not only expediently a matter of compliance, but one of all parties ensuring that these standards are possible to meet and align with public health requirements.

5.5. 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:

“Paved roads in the Major urban areas: D”

⁵⁰ World Bank, Doing Business in South Africa, 2015. P. 23

⁵¹ 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. 46

With the exception of the Western Cape, the condition of most paved provincial roads is substandard. There is a risk of further deterioration due to increased vehicle overloading, poor maintenance and the steady reduction of skilled personnel in roads departments. In major urban areas the condition of paved roads has also continued to deteriorate. While obtaining reliable road condition data for smaller municipalities was not possible, their roads generally suffer from significant and increasing maintenance neglect.

Other Municipalities Paved roads: D-

Provincial and municipal authorities share the country's gravel roads approximately equally. Gravel roads constitute nearly 80% of the country's road network, but few of them are in a satisfactory condition due to lack of capacity and insufficient funding.

Provincial and municipal unpaved roads: E

Most South Africans (73% of the population) depend heavily on public and non-motorised transport. Around 20% of workers walk all the way to their place of employment. All public transport users also require pedestrian infrastructure for their first/last kilometer, as well as stops, stations and ranks. Statistics on infrastructure conditions for these modes are mostly unavailable, often due to a complete lack of services. This not only creates inefficiencies in public transport services, but also contributes to an extremely high road fatality rate (12 577 persons in 2021), of which over 40% are pedestrians.”⁵² (SAICE 2022 Infrastructure Report Card for South Africa, P. 9)

With 68 bridges requiring urgent repair and 12 000 km of road that has deteriorated from poor to very poor, Johannesburg - as the financial heartland of South Africa - visibly serves as the most recognized example of infrastructure decay. It affects the cost of doing business and small businesses particularly are vulnerable to the degradation in the municipal transport

⁵² SAICE 2022 Infrastructure Report Card for South Africa, P. 9

infrastructure and systems of the country. It affects their ability to efficiently and effectively receive business inputs and deliver goods and services to markets.

In rural areas, this is compounded and while data is limited on the decay of the municipal road infrastructure in rural areas, the lived-experience of SMMEs in the hinterland is far worse than those operating in urban centers where economies of scale assist and alternatives may be available

6. LOCAL ECONOMIC DEVELOPMENT, ENTERPRISE & SUPPLIER DEVELOPMENT

6.1. 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.”*⁵³

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.”*⁵⁴

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.

This was partially conceived of in the National Framework for LED in South Africa (2006-2011: p.), but falls short of ascribing the underlying purpose of such engagement and collaboration:

“It is essential that there is proper communication and regular contact between municipalities and organised business and labour. This enables all sides to develop their understanding of the dynamics in the local economy and what is required to maintain competitiveness and social cohesion. Participation by Labour and civil society should be encouraged. It is also important for municipalities to be confident in understanding and dealing with business and labour representatives so that negotiations and agreements that are visionary and responsible are concluded.”

South Africa suffers from an ingrained social partner “*trust deficit*.” The economy can only grow and opportunities be developed if there is collaboration between the critical economic actors. Most municipal LED strategies only blithely make mention of the need for collaboration or resolve to establish or strengthen structures of collaboration, but without properly defining the focus of these collaborative platforms and delineating roles and responsibilities with clear terms of reference, the risk is at these initiatives will result in talk-shops and add to the tendency of endless consultation.

6.2. Enterprise and Supplier Development (E&SD)

6.2.1. Enterprise Development

▪ *Challenges with SME and Cooperatives Development*

South Africa is awash with initiatives in enterprise development, including supplier development. Many of these initiatives can be found at district and local level as part of local economic development by municipalities. Despite this, the failure rate of emerging enterprises in South Africa is exceptionally high and this calls for a different approach.

Being aware of the pitfalls of enterprise and supplier development upfront, could assist with reducing the risks of implementing irrelevant or inappropriate enterprise and supplier development programmes at municipal level throughout the country, which fuels perceptions by SMMEs of municipal dysfunctionality. 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;
- » Inappropriate skills to drive enterprise development;
- » The conflation of enterprise development with socio-economic development;
- » Ignoring economic fundamentals such as competitive and comparative advantages in enterprise development initiatives;

- » Deviating from tried and tested business principles in enterprise development, sometimes invoking community development principles and limiting programmes to mere skills development on its own;
- » Initiatives are disjointed;
- » Duplication;
- » Not value chain or opportunity based (mostly not in the productive sectors of the economy);
- » Low level;
- » Not based on partnerships with key economic stakeholders;
- » Lack of access to linkage platforms;
- » Lack of organizational platforms;
- » Arms-length support;
- » Of a very low quality in terms of services received;
- » Separation of financial support from non-financial support; and
- » Not integrated

Challenges specifically experienced by emerging businesses include some of the following:

- » Low levels of economic and financial literacy;
- » Lack of business leadership and management expertise;
- » Lack of access to business and market information;
- » Lack of awareness of support services;
- » Lack of access to sources of funding;
- » Lack of negotiating capacity vis-à-vis government and larger or established enterprises;
- » Disregard for the importance of compliance; and
- » Lack of business management policies, systems and procedures

It stands to reason, if municipalities do not have the capacity and resources to address these shortcomings, the impact of their LED, enterprise and supplier development initiatives will be limited.

It also resonates with the 2012 – 2014 longitudinal study of the experience of SMEs in the City of Tshwane with municipal services and support which recorded the following:

“Findings reported by Khale (2015), Marivate (2014) and Edoho (2015) indicate that the current high failure rate among start-up SMEs in and around Tshwane is attributed to inefficient municipal services, overregulation, unnecessary bureaucratic procedures, lack of transparency, lack of good governance, lack of efficiency in the administration and management of license applications, inability to assess and evaluate tax, lack of entrepreneurial skills, lack of accounting and auditing and bookkeeping skills, inability to draw up business plans, inability to make oral presentations, inability to network with business rivals and competitors, difficulty in securing loans from commercial banks and microlending financial institutions and lack of infrastructure.”⁵⁵ (Zelege Worku. 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. 2016)

On the capacity building element of enterprise and supplier development, the study found the following:

“The adjusted hazard ratio of the variable “lack of tailor made training programs” is 2.89. This shows that businesses that were owned or operated by people with the perception that the City of Tshwane did not have a tailor made training program for newly established SMEs were 2.89 times as likely to fail in comparison with businesses that were owned or operated by people with the perception that the City of Tshwane has a tailor made training program for newly established SMMEs”.⁵⁶ (p277)

⁵⁵ Zelege Worku (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

⁵⁶Zelege Worku (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. 277

Part of the challenge with municipal support services to SMMEs in supplier and enterprise development is that in a resource-constrained context, such as that of most municipalities in South Africa, manageable targets have not been set to ensure a basic level of success. Instead, a wide approach has been adopted to support all and sundry, while in reality, not assisting any SMME in a meaningful way.

It is for these reasons that a study by the Centre for Development and Enterprise (CDE) on youth unemployment found that:

“Far too frequently conversations focused on providing employment through municipal procurement policies, which, at best could only employ a small number of young people; or more directly through increasing employment by the municipality itself or through local projects that sought to help some young people become more employable or more entrepreneurial. Far too little time was spent on what municipalities could do to promote local growth by attracting new investments, new firms and by helping existing enterprises expand.”⁵⁷ (Centre for Development and Enterprise, Business Growth and Inclusion: Tackling Youth Unemployment in Cities, Towns and Townships, 2017, P. 13)

6.3. 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

⁵⁷ Centre for Development and Enterprise, Business Growth and Inclusion: Tackling Youth Unemployment in Cities, Towns and Townships, 2017, P. 13

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.”⁵⁸ (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)

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.”⁵⁹

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.

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:

⁵⁸ 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

⁵⁹ United Cities and Local Governments in an LED Policy Paper (p. 16),

“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”.⁶⁰

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.

⁶⁰ SERI et SALGA, Towards Recommendations on the REGULATION OF INFORMAL TRADE AT LOCAL GOVERNMENT LEVEL. P. 5

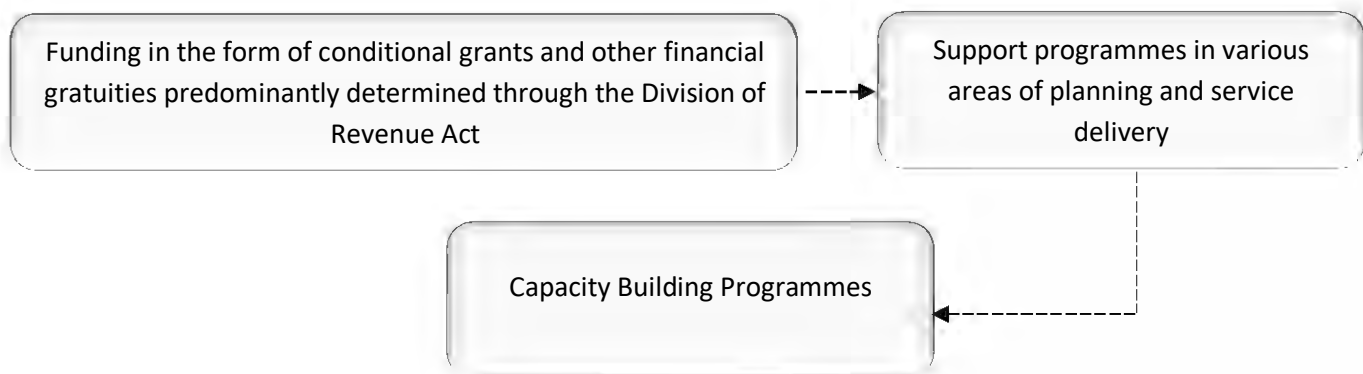
7. THE ROLE OF NATIONAL AND PROVINCIAL GOVERNMENT

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:

Diagram 2



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.

PART II: PRIMARY RESEARCH FINDINGS

8. 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.

9. 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.

10. CHAPTER TWO: ANALYSIS OF SURVEY RESULTS

10.1. Introduction

This section (*Part II*) presents descriptive analyses of the findings emerging from the SMME survey. The analyses reflect on the perceptions of the survey participants regarding aspects of municipal Governance, Administration, and Compliance, Municipal Service Delivery (MSD), Enterprise and Supplier Development (E&SD) offered by municipalities, general aspects with respect to the service delivery activities of the municipalities. The varied measures of satisfaction, functionality, and consistency are consolidated as ratings out of 100 and are presented in the form of a statistical barometer to quantify the level of perception regarding the measured aspects. The quantitative analyses include the views of 126 respondents who participated in the SME survey. Some qualitative data was also collected from other participants that responded to

the survey. In total there were 331 respondents. Based on the provincial response rates, the analysis is restricted to a 'national level'. The analysis is presented thematically as follows:

- Demographic characteristics
- Governance, Administration and Compliance
 - *Business Permitting and Licensing*
 - *Red Tape*
- Municipal Service Delivery (MSD)
 - *Electricity*
 - *Water*
 - *Sanitation*
 - *Refuse Removal*
 - *Health and Safety*
- Enterprise and Supplier Development (E&SD)
 - *Municipal Supply-Chain and Tenders*
 - *Business Support*
- General

10.2. Demographic Analysis

For the quantitative analysis, this section of the report presents the demographic characteristics of the 126 survey participants (respondents) from the surveyed SMEs. The cohort analysis by selected demographic variables serves to better contextualize the outcomes of the research findings which are discussed in more detail in the forthcoming sections.

Table 2: Distribution of SME Survey Respondents by Province (n = 126)

Province	n	%
Eastern Cape	2	1.6
Free State	29	23.0
Gauteng	17	13.5
Limpopo	5	4.0
Mpumalanga	2	1.6
North West	46	36.5

Northern	17	13.5
Western Cape	4	3.2
NS	4	3.2
Total	126	100.00

As shown in table 1, 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.

Table 3: Distribution of SME Survey Respondents by Area of Residence

Province	<i>n</i>	%
City/ Urban	49	38.9
Informal	17	13.5
Suburb	30	23.8
Township	28	22.2
NS	2	1.6
Total	124	100.0

The data in table 2 shows that about 2 out of 5 of the respondents were residing in cities or urban areas. Close to half of the respondents resided in either suburb or township areas. The remaining 1.6% did not specify their area of residence.

Table 4: Gender distribution of survey respondents (n = 1 900)

Gender	<i>n</i>	%
Female	40	31.7
Male	82	65.1
NS	4	3.2
Total	126	100.0

The gender distribution of the surveyed respondents is displayed in table 3. The analysis shows that 65.1% of the respondents were female while 31.7% were males. The remaining 3.2% did not specify their gender.

Table 5: Ethnic distribution of SME respondents (n = 126)

Age group	n	%
African	76	60.3
Coloured	13	10.3
Indian	8	6.3
White	26	20.6
NS	3	2.4
Total	126	100.00

The data in table 4 show that there was good representation in the survey with respect to ethnicity. This distribution is desired because it depicts the distribution of the general population regarding ethnicity.

10.3. Business Concerns

Table 6: 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

**Please note that this is a multiple response tabulation*

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%).

Table 7: Number of people employed in the SME company (n = 126)

Measure	Casual or Permanent Employees		
	Male	Female	Total
Sum	1611	1414	3132
N	116	120	122
Mean	13.89	11.78	25.67
Standard Deviation	23.436	21.423	40.524


The survey sought to determine the number of casual or permanent employees in the surveyed SMMEs. The data in table 6 shows that the surveyed SMMEs employed more males than females. The respective mean numbers for males and females were 13.9 (std deviation=23.4) employees and 11.8 (std deviation=21.4) employees. The surveyed SMMEs hve an overall mean number of employees of 25.7 (STD deviation= 40.5) employees.

10.4. Governance, Administration and Compliance

▪ Business Permitting and Licensing

This section of the report explores the perceptions of the surveyed respondents regarding Governance, Administration and Compliance. The first sub-section examines aspects of business permitting and licensing.

Table 8: 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

The data in table 7 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.

Figure 6: 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.

Figure 7: Affordability and Possession of Business Permitting and Licensing (n = 126)

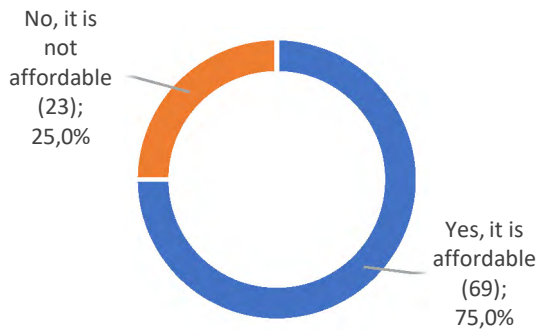


Figure (a): If aware, is the cost affordable?

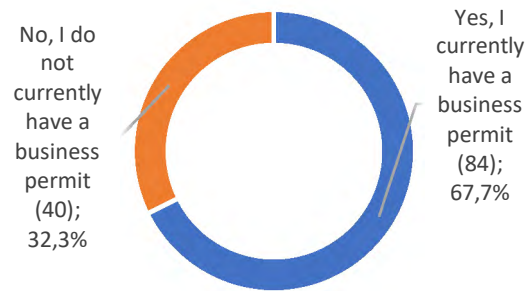


Figure (b): Do you currently have a business permit or trading license?

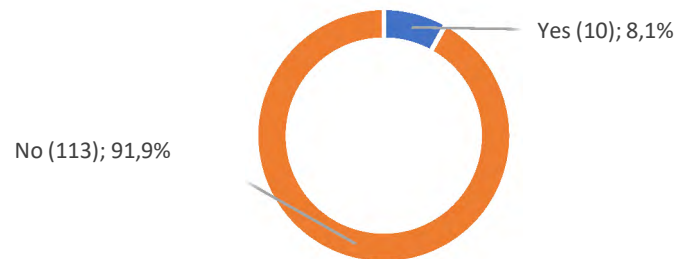


Figure (c): Have you ever had to grant a favour or pay someone with links to the municipality to obtain a business permit or trading license, other than the fee to obtain such a license or permit?


The data shown in figures 2(a)-(c) focusses on affordability and possession of business permitting and licensing. Respondents who said they were aware of such costs were asked if the costs involved in obtaining a business permit from their municipality were affordable. The responses to this question are shown in figure 2(a). A high 75.0% of the participants responded in the affirmative that the costs of getting a permit for their municipality were affordable. When asked if they currently had a valid business permit, it is concerning that a third of the respondents said that they did not have such permits (see figure 2(b)). The respondents were asked if they had 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. It is concerning that close to 10% of the respondents reported that they had

experienced such practices. This proportion could be higher, given that the current survey was partially self-administered. Self-administered surveys have been shown to be associated with under-reporting of sensitive business practices. Earlier research has shown that the prevalence of such business malpractices is much higher.

- **Red Tape**


The results presented and discussed in this sub-section 2.4.2 explore aspects related to red tape experienced by the small businesses.

Table 9: Reliance on Building Permits (n = 126)

 Q. Does your business rely on building permits?	%
Yes, our business relies on building permits	53.2
No, our business does not rely on building permits	46.8
Total	100.0

The respondents were asked if their business relied on building permits. It is observed from table 9 that over half of the respondents said that their business relied on building permits (53.2%).

Table 10: 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

*NS= 41

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.

Figure 8: Barometer for satisfaction with time to obtain building permit (n = 126)



The barometer shown in figure 3 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 figure 4 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 (CoA).

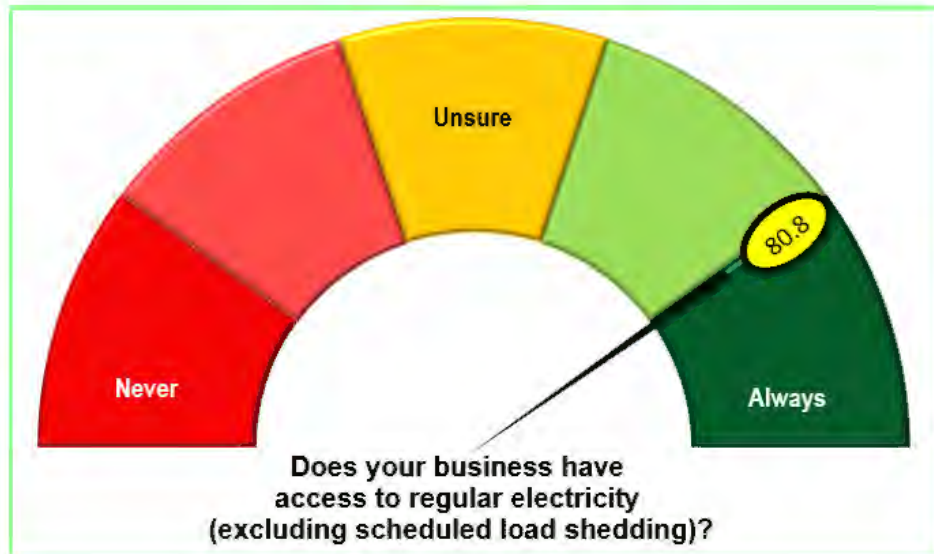
10.5. Municipal Service Delivery (MSD)

This section showcases the analysis of the data regarding Municipal Service Delivery (MSD). The service delivery aspects that are discussed pertain to electricity, water, sanitation, refuse removal, and health and safety.

Table 11: 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
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

Figure 10: Electricity: Barometer for business access to regular electricity (n = 126)



The data in the barometer in figure 4 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.

Figure 11: Water: Barometer for business access to stable water supply (n = 126)



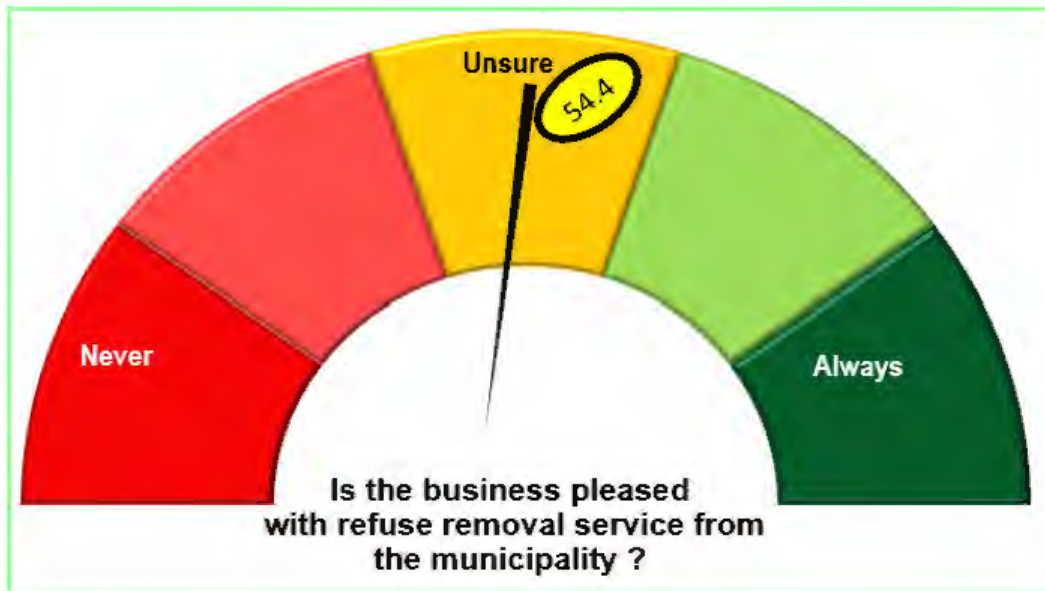
The data in the barometer in figure 5 shows the results of the access of the surveyed SMME businesses to a stable water supply. It is evident that that access to a stable water supply of the businesses is high at 79.8 out of 100.

Figure 12: Sanitation: Barometer for business access to suitable sanitation services from the municipality (n = 126)



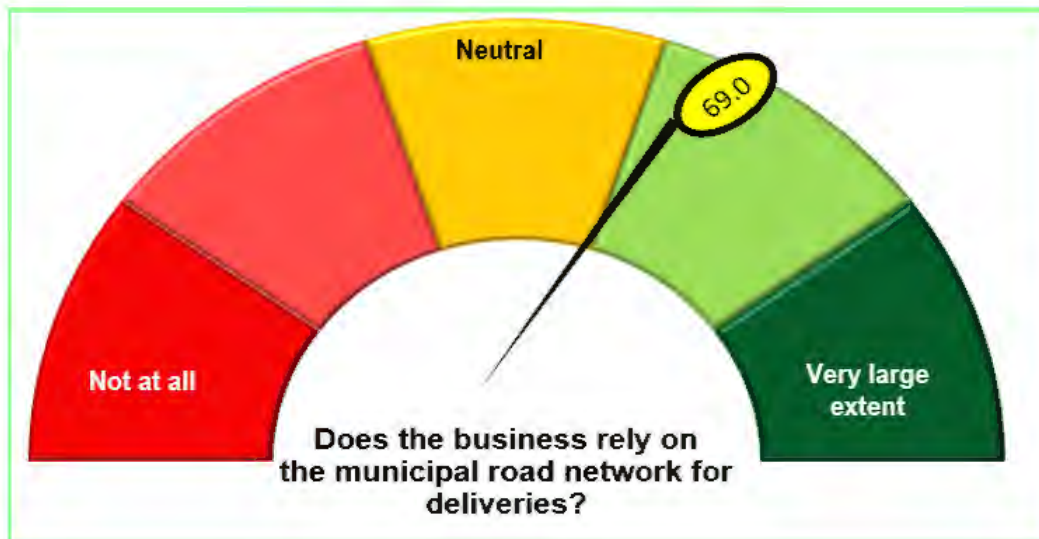
The surveyed businesses were also asked to indicate their level of access to suitable sanitation services from the municipality. The level of access to suitable sanitation services as shown in the barometer in figure 6 was high at 82.4 out of 100.

Figure 13: Refuse removal: Barometer for business satisfaction with refuse removal service from municipality (n=126)



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. One of the respondents from Mangaung Metropolitan Municipality tellingly stated that there is “no refuse removal.”

Figure 14: Roads and Transport: Business reliance on the municipal road network for deliveries (n=126)



The businesses were asked if they relied on the municipal road network for deliveries. The results as shown in the barometer in figure 8 show that there is a fairly high rate of reliance on the municipal road network for deliveries by the surveyed businesses at 69.0 out of 100.

Figure 15: Health and Safety: Approached by a person for irregular obtaining of permit (n=126)



The data in the barometer in figure 9 shows municipal service delivery aspects for businesses related to health and safety. In this regard, the surveyed businesses were asked if they had ever been approached by a person connected to the municipality to obtain a health and safety permit

through payment other than the fee attached to obtain the permit itself. The results show that a very low proportion of the surveyed businesses of 2.8 out of 100 said that they had ever been approached by a person with links to the municipality to obtain the permit by effecting payment over and above the one that is associated with the permit itself.

Figure 16: Health and Safety: Perception of the effectiveness of municipal law enforcement service (n=126)

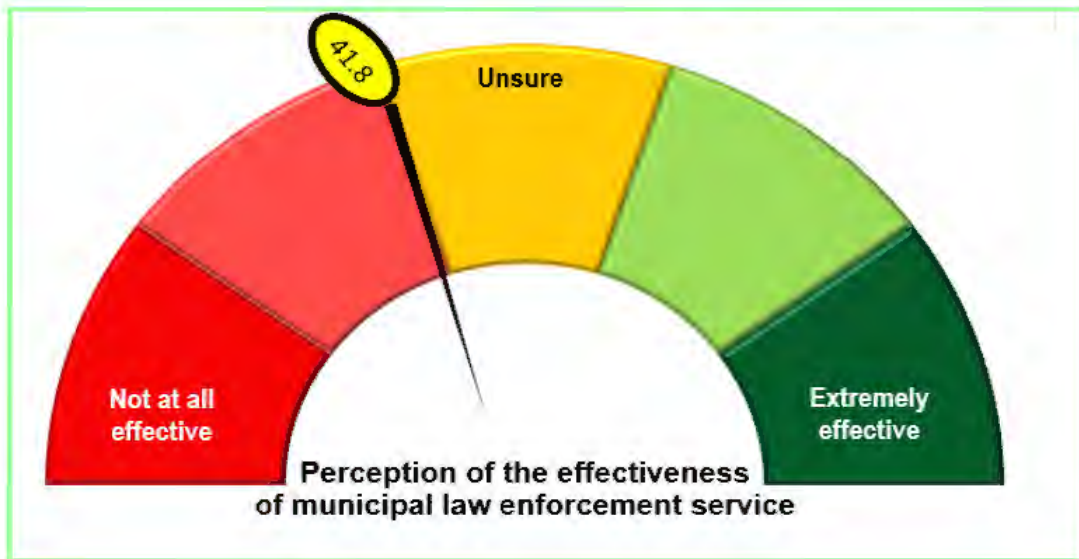
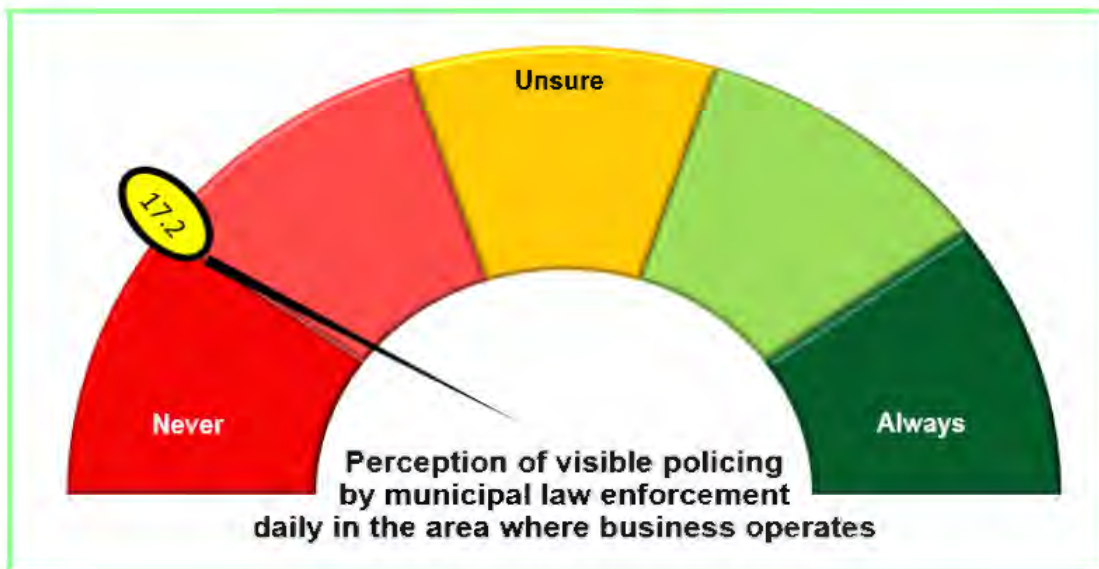


Figure 17: Health and Safety: Perception of visible policing by municipal law enforcement daily in the area where business operates (n=126)



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.

10.6. 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.

Table 12: Mean ratings of Awareness regarding Business Permitting and Licensing (n = 126)

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
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
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

The surveyed SMMEs were asked the extent to which the product that they manufacture and/or service that they provide is something that the municipality may make use of. The responses to this question, as provide in table 13, speak of a moderate rating of 57.5 out of 100. The businesses were further asked if they tendered for any specific opportunities at the municipality in the last 18 months. The data from this question shows a very low mean value of 16.5 out of 100, implying that very few of the businesses said that they had tendered for such opportunities at the municipality in the last 18 months. The reasons for this are unspecified, but there are signs that the result could be linked to perceptions of municipal corruption.

The surveyed businesses were further asked if they had ever been approached by anyone with links to the municipality to pay for securing opportunities at the municipality within the last 3 years. The responses to this question show a very low mean value of 6.9 out of 100. This result should be read with caution because of the nature of self-administrated surveys to produce underrated perceptions regarding subject matter of sensitive nature. A similar very low mean response of 13.9 out of 100 was obtained when the businesses were asked if they had ever been invited by the municipality to participate in any tender opportunities and supply-chain information sharing engagements (e.g., workshops/seminars). Even in view of the observed low levels of engagements of businesses by the municipality in this regard, the participation rates were very low at 18.6 out of 100. Likewise, the perceptions of the benefits of these engagements were very low at 26.7 out of 100, which may speak to the perceived quality and usefulness of the engagements.

The surveyed companies were asked if they thought that the municipality favours certain companies in awarding tenders. As shown in table 13 there is a wide-ranging perception (mean of 75.6 out of 100) that tenders are awarded based on certain favours to companies. The

surveyed companies were also asked if they thought that there might be corruption involved in the awarding of tenders and other opportunities by their municipalities. The mean rating of the responses to this question is a high 72.6 out of 100. In addition, when asked if they believed there might be political interference in the award of tenders and opportunities by the municipality, the responses show a high mean rating of 73.2 out of 100. A moderately high mean rating of 63.2 out of 100 speaks to the response of the businesses when asked if they thought their businesses would have been more viable if they received tender awards from their municipality. Looking at business support, it is of concern that the results point toward despondency among the businesses when they were asked if they were aware of any business support services that their municipality offers to SMMEs like theirs as shown by the mean rating of 22.2 out of 100 that is associated with this response. Finally, the businesses were asked if they regarded the business support structures from their municipalities as functional. It is evident there is concern among the businesses regarding the functionality of business support systems in the municipalities as revealed by the low mean rating of 35.5 out of 100 that is associated with the responses to this question.

11. General

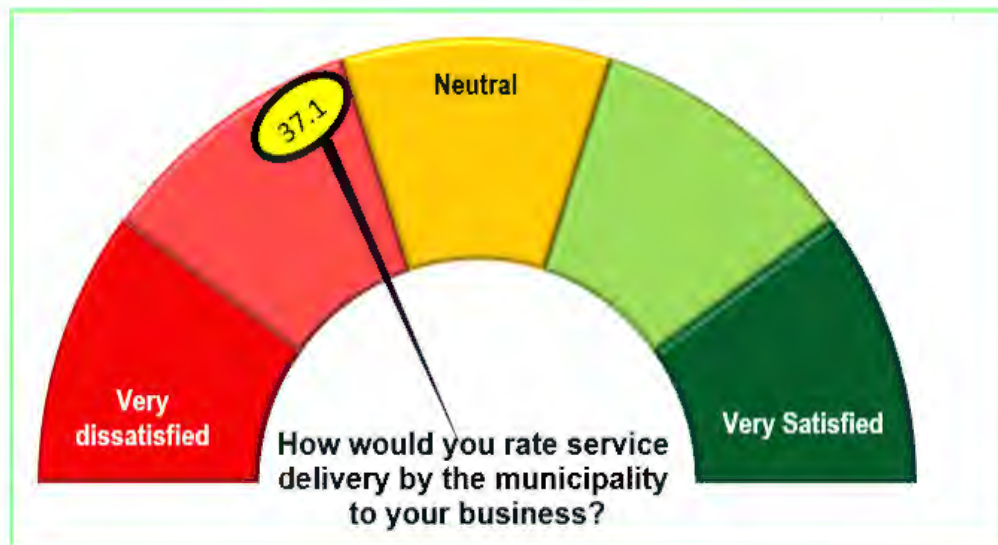
Table 13: Mean ratings of perceptions regarding service delivery aspects of municipalities (n = 126)

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

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

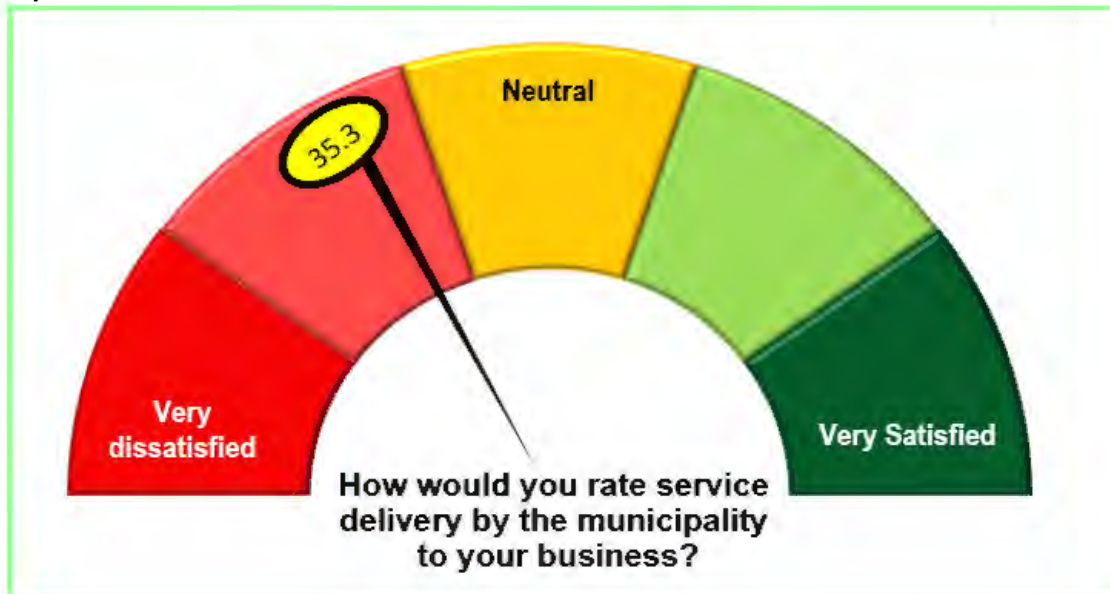
The data shown in table 14 and in the series of barometers that follow show the responses to the perceptions of the surveyed businesses regarding service delivery from the municipalities.

Figure 18: 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.

Figure 19: Barometer for service delivery by the municipality to the Informal Sector business (n=126)



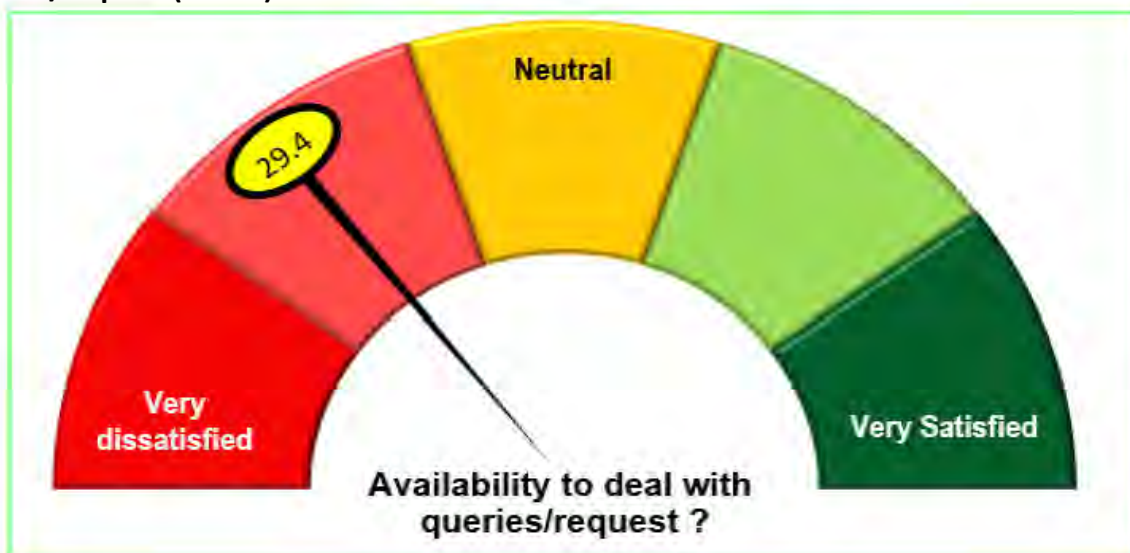
The businesses in the informal sector were also asked to indicate how they would rate service delivery by the municipality to their business. The results to this question are reflected in the barometer in figure 13. The responses show consistency between the formal sector and informal sector regarding low perceptions of service delivery by municipalities to the businesses. The informal sector gave a low rating of 35.3 out of 100 for the rating of service delivery to their businesses.

Figure 20: 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 in figure 14 shows that there is a correspondingly very low rating (mean of 28.2 out of 100) of service delivery by the respondents with regard to service delivery by the municipalities to the business community at large.

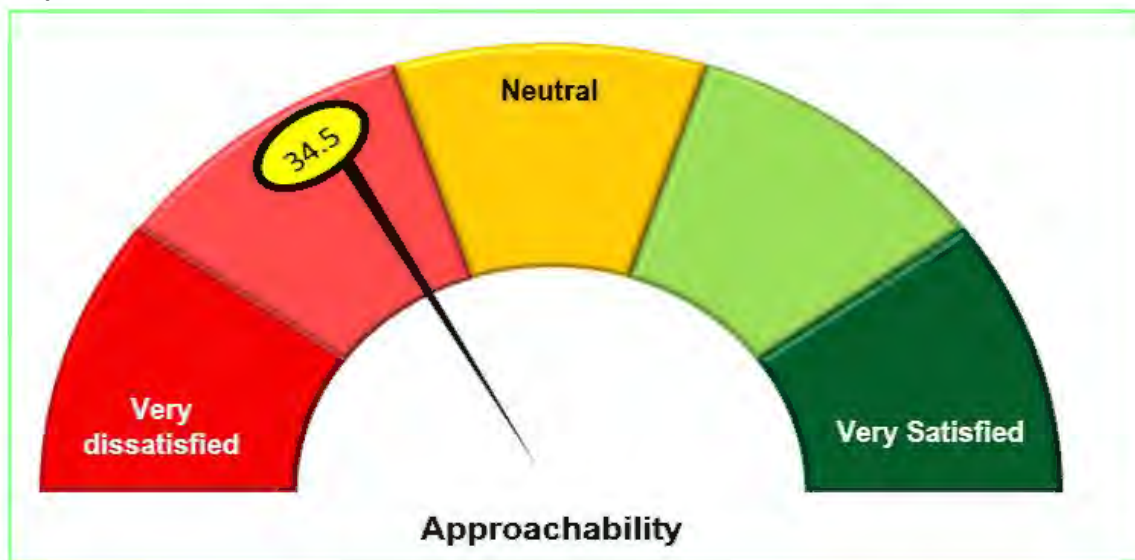
Figure 21: Barometer for experience in dealing with municipal officials: Availability to deal with queries/request (n=126)



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.”* However, honest and transparent dealings by municipal officials is premised on their availability in the first place and it is to this end that a respondent from Maluti Phofung Local Municipality noted the *“availability of Municipal officials especially the Mayor”* as important for improving communication between the SMME community and the municipality.

The barometer in figure 15 shows that there is a very low rating of 29.4 out of 100 associated with the experience of businesses in dealing with municipal officials regarding the availability to deal with queries/requests. The responses from the informal sector survey show consensus between the small businesses and the informal sector on this service aspect with a low rating of 38.0 out of 100.

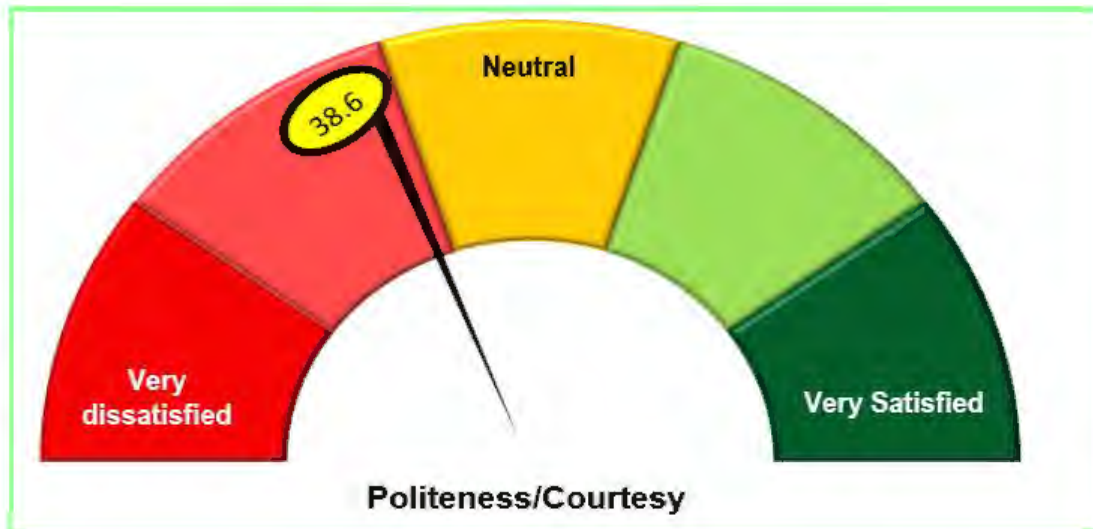
Figure 22: Barometer for experience in dealing with municipal officials: Approachability (n=126)



The barometer in figure 16 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.

Figure 23: Barometer for experience in dealing with municipal officials: Politeness /Courtesy (n=126)



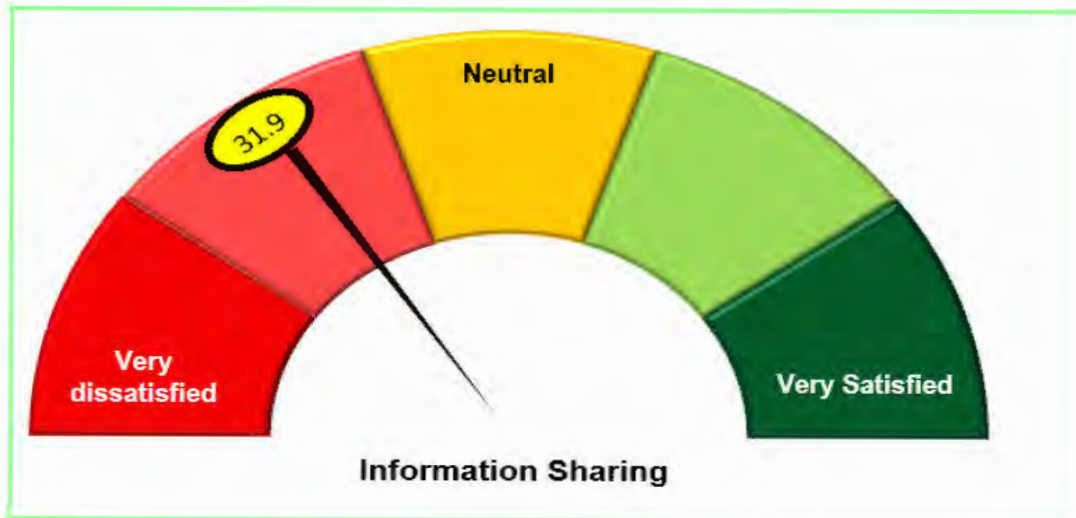
The barometer indicating the experience of businesses with municipal officials with respect to politeness and courtesy is shown in figure 17. The results again portray a very low rating of 38.6 out of 100 with respect to politeness/courtesy of municipal officials in dealing with the businesses. Although the informal sector ratings are generally marginally higher than those from the SMMEs regarding municipal service aspects, the responses from the informal sector on this service aspect show marginally higher but low ratings regarding politeness and courtesy of 45.5 out of 100.

Figure 24: 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 in figure 18. The informal sector ratings are also low for this service aspect at 36.7 out of 100.

Figure 25: Barometer for experience in dealing with municipal officials: Information Sharing (n=126)



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.”

The experience of the small businesses with the municipal officials with respect to information sharing is summarized in the barometer in figure 19. In consistency with the rest of the scores in this segment of the report, the small businesses gave a very low rating of their experience with municipal officials with respect to information sharing (mean rating = 31.4 out of 100). It is observed that the informal sector ratings for this service aspect is also a low 36.9 out of 100.

Figure 26: 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. This is evident from the corresponding low mean rating (mean of 28.1 out of 100) of their experience with the municipality regarding remedies and mistakes.

Overall, the results in this sub-section are of great concern with respect to the experience of the small businesses in dealing with the municipalities in several service-related aspects that

encompass the availability of officials to deal with queries and requests; approachability; politeness and courtesy; honesty; information sharing; and remedies mistakes. This is an indictment on municipalities as it relates to following and implementing the much-vaunted *Batho Pele* principles. One of the Emfuleni Municipality participants simply stated that “*Clients to get full service from officials.*”

12. 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. Included in this observation is that broadly most SMMEs are aware of the processes, costs, and the time it takes to obtain a business permit from the municipality. The SMMEs concern, however, is with the time it takes to obtain permits from their municipalities.

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. Such a malpractice stifles the potential and capability of small businesses to operate at their maximum capacity to more meaningfully contribute to the GDP of the country and to contribute to the creation of much-needed jobs, particularly for young people. The access to municipal services such as electricity, stable water supply, suitable sanitation services, and municipal road networks was quite high. However, there was marginally low satisfaction with refuse collection services from municipalities.

Again, 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. There is despondency among the SMMEs regarding the effectiveness of the municipal law enforcement

services by municipalities. 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. Finally, there were very low levels of satisfaction among small businesses and those in the informal sector regarding service delivery from their municipalities to the specific businesses and to the business community at large. For instance, 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. This concerning observation holds true for the experience of SMMEs with the municipalities on their approachability, politeness/courtesy, honesty, information sharing and attending to remedies and mistakes, while municipal foyers are emblazoned with commitments to *Batho Pele* principles.

The results from this study should be useful in the development and formulation of strategies for the improvement of service delivery for SMMEs in the municipalities. This will lead to the unlocking of the potential of the SMME sector to contribute more effectively to the economy.

13. Recommendations

This research report is predominantly predicated on the survey design and the subject matter that had to be addressed. However, since the literature review covered more areas than the areas in the scope of the surveys and empirical part of this study, the recommendations generated are also inclusive of findings in other studies and reports. Where practicable, these are generically overlaid with the recommendations generated from the empirical study. It 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. Moreover, 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.”⁶¹

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. Some of these are long-term and structural in nature – which may require political will and policy changes - whereas others are in the ambit of municipal decision-making and control and may involve very basic and common courtesies to SMMEs as proposed by a survey participant from Emfuleni Municipality: *“The municipality should be more open to sharing info to SMEs.”*

⁶¹ YD Davids et al, HSRC, Municipal Skills and Capacity Assessment Study, 2022, p. 41

However, 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 and the informal sector to local economies and indeed to the national economy:

13.1. Structural/Political

13.1.1. 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.

13.1.2. 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

Improve revenue generation and implement revenue enhancement initiatives

13.1.3. Service Delivery Improvement

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

13.1.4. 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

13.1.5. 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
- 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

13.2. Service Delivery

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

13.2.1. 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;
- 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.

13.2.2. 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.
- 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.

13.2.3. 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.”*
- 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.

13.2.4. 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.”*
- In a context of dwindling fiscal resources and limited technical expertise in the public sector, Intergovernmental Relations need to be improved where municipalities can tap into the resources and expertise of established national and provincial road agencies to build, service and maintain municipal roads.

- Options also need to be explored of privatizing the management and maintenance of economically viable sections of municipal roads to local SMMEs.

13.2.5. Safety and Security

- Increase visible and regular policing in business areas and informal trading areas to prevent incidences of crime as called on by an informal trader from the City of Cape Town: *“More law enforcement to patrol.”*
- Municipal law enforcement should factor the increase in crime when loadshedding occurs into their weekly planning as loadshedding schedules are widely available.

13.3. 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.”*

- 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.”*
- 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.”*
- 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.”*

- 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

14. 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.

Reference Sources

Astral Foods, Audited Summarised Consolidated Results for the year ended 30 September 2022.
p2

Centre for Development and Enterprise, Business Growth and Inclusion: Tackling Youth Unemployment in Cities, Towns and Townships, 2017, P. 13

Gerrit van der Waldt 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 470

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

High-Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change. P 378

<https://www.dailymaverick.co.za/article/2022-11-22-more-than-half-of-durbans-water-goes-to-waste-costing-the-city-millions-every-day/>

<https://www.businesslive.co.za/bd/opinion/2022-11-28-timothy-treagus-running-on-empty-informal-economy-crippled-by-rolling-blackouts/>

<https://www.businesslive.co.za/bd/opinion/2022-11-28-timothy-treagus-running-on-empty-informal-economy-crippled-by-rolling-blackouts/>

Jenny Day, The center for Development and Enterprise Round Table 2010-Water: a looming crisis? Trends and problems in water quality P. 9

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

Kwamena Kyarku, 2017: "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

M. Masuku and B. Selepe (2016: p. 1) in citing Meyer's (2014) note

Marlene van der Merwe-Botha, The center for Development and Enterprise Round Table 2010-
Water: a looming crisis? P. 13

MFMA 2020-21, consolidated general report on local government audit outcomes

MFMA 2020-21 consolidated general report on local government audit outcomes. P. 9

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

MFMA 2020-21 consolidated general report on local government audit outcomes. P. 4

MSME Survey South Africa 2020, P. 89

National Development Plan: 2012

Nic Opperman, The center for Development and Enterprise Round Table 2010 -Water: a looming
crisis? P. 24

SAICE 2022 Infrastructure Report Card for South Africa, P. 16

Series of Papers on Rural-Urban Linkages: Agro-food value chain SACN Programme: Urban Policy
Date: July 2015 P. 49

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

State of South African Cities 2021, South African Cities Network. P. 101

The SACN report in its PESTLE analysis flags the "Increasing cost of electricity and inconsistent
supply to remote rural areas" p36

The Unseen Sector Report on the MSME Opportunity in South Africa: A report on the MSME
Landscape in South Africa, 2018 p6

The United Cities and Local Governments in an LED Policy Paper (p. 16)

Towards Recommendations on the Regulation of Informal Trade at Local Government Level p6
SERI et SALGA

World Bank, Doing Business in South Africa, 2015. P. 23

YD Davids et al, HSRC, Municipal Skills and Capacity Assessment Study, 2022, p. 41

Zandile Khumalo, Johannesburg water crisis: Small businesses, old age homes use drums, bottles
of water to get by - News 24 article October 6, 2022

Zelege Worku (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