

KOUGA SMME DEVELOPMENT DRAFT POLICY

1. DEFINITIONS

- **Black people** refer African, Colored and Indians.
- **Accredited service providers** – service providers who meets the requirements of supply chain.
- **Disabled person** – refer to a physically challenged individual
- **SMME** is a small, medium and micro enterprise which operates in any business sector, must be registered on the centralized supplier data- base.
- **Black economic empowerment**-sole purpose is to empower Smme's owned by PDI's.
- **Council** refers to Kouga Local Municipality.
- **Cooperative**- people centered enterprises, owned and controlled by members of that particular coop. minimum is 3 and maximum 5.
- **Preferential procurement**- targets and empower individuals owned by HDI's
- **Functionality**- ability of a tenderer to deliver goods and services as per the tender document.
- **QSE** -qualifying small business enterprise in terms of BBBEE act.

Designated group means-

- Black people
- Women;
- People with disabilities; or
- Small enterprises, as defined in section 1 of the National Small Enterprises Act, 1996 (Act No. 102 of 1996)

2. INTRODUCTION

The role played by small businesses is being increasingly recognized all-over the world. The perceived potential of small businesses to create employment has caused governments in many countries to pay the small business sector more attention.

As stated in the *National Strategy for the development and promotion of small business in South Africa*, the creation of an enabling environment for the development of small businesses needs to happen at both national and a local level.

On a local level, opportunities and resources need to be identified and utilized in a way that takes into account the local characteristics and resources.

Kouga Local Municipality is committed in the implementation of Government policy framework that seeks to empower SMME's in the municipal space.

Why support to SMME's

- SMME's have shown a remarkable capacity to absorb Labour, albeit largely unskilled
- SMME's are usually locally owned and controlled and can strengthen the extended family and other social systems and cultural traditions.
- SMME' provide a 'nursery' and a proving ground for entrepreneurship and innovation.
- Because the profits of small enterprises are not dependent on long production runs, small firms can manufacture smaller quantities of products, which have a regional or even a local market only.
- SMME 's provide employment for and sometimes expand the entrepreneurial talents of women.

3. RATIONALE

- KLM does not create sufficient opportunities for SMME's particularly HDI's.
- Develop local Smme's into successful entrepreneurs.
- Empower Smme's through identifying and availing minor works in all municipal departments.
- Graduates and semi-literate youth do not participate sufficiently in the local economy.
- Proximity to Smme and cooperative support centers i.e. SEDA, NYDA, CDC.
- SMME's and Cooperatives lack resources for them to participate in the Local Economy.

4. LEGAL FRAMEWORK/PARAMETRES

The policy is guided by the following legislations:

- Broad-Based Black Economic Empowerment Act No 53 of 2003 of the Employment Equity Act No 55 of 1998.
- Preferential Procurement Policy Framework Act No 5 of 2000
- National Small Business Act 102 of 1996;
- Skills Development Act 97 of 1998;

- The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa published by the Department Trade and Industry reference WPA/1995. 16317 28 March 1995.

5. DEFINING SMME'S

Defining SMME 's

Micro-enterprises

Annual turnover is less than the VAT registration limit (then R1 50 000); no more than 5 paid employees. These generally lack formality in terms of registration for tax, labour law, premises, or accounting procedures (e.g. minibus taxis, spazashops, home industry). The category subsumes the survivalist group of enterprises, which generate income less than the poverty line, have no paid employees and minimal asset value.

Very small

Fewer than 10 paid employees, except in mining, electricity, manufacturing and construction, where the upper limit is 20. Enterprises operate on the formal market and have access to modern technology. Lower limit: self-employed e.g. artisans, professionals (Limits are rather fluid).

Small

Fewer than 50 employees. Enterprises are generally more established than the very small class, with more complex business practices. They have often outgrown direct supervision by the entrepreneur and developed a secondary coordinating mechanism.

Medium

Maximum of 100 employees, except in mining, electricity, manufacturing and construction,

6. PROBLEMS FACING SMME'S

In order to develop an appropriate support framework for SMME 's, it is necessary to review what we know about the main problems faced by SMME 's.

- **Financial constraints**

Lack of working capital is the major constraint at start-up, while a lack of investment funds becomes more significant as time passes.

Access to finance from formal lenders is scarce before a firm is at least three to five years old.

There is substantial unmet demand for finance among young firms.

- **Market constraints**

A lack of customers, increasing competition, and the rising cost of supplies are felt most acutely by micro-enterprises.

These firms tend to operate in small, location-specific, low-income niche markets; broader markets were found to be virtually closed to them.

- **Information**

This is an important element of empowerment for the business owner, and particularly for the emerging entrepreneur.

Lack of basic information about small business in the Historically disadvantage areas.

- **Equipment and technology**

The acquisition of efficient and reliable tools and access to technology represents the gap between survivalist and real sustainable expansion.

It is critical that appropriate technology is developed in an effort to promote the development of smaller businesses whose owners may not possess the skills to operate more sophisticated technology.

- **Laws and regulations**

Amongst micro-enterprises, there are municipal concerns (especially street traders), and problems with regards to health, safety, and Labour codes for the workplace and taxation

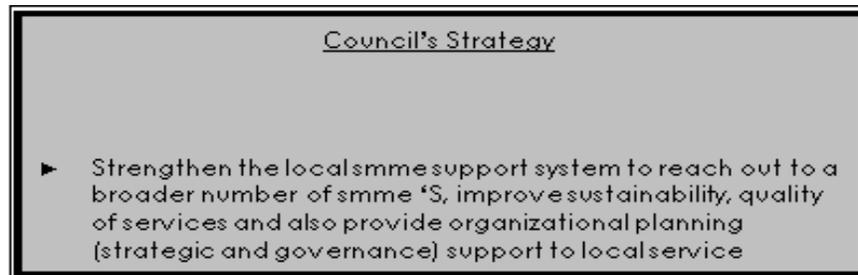
- **Skills development**

Access to proper business and technical skills is seen as one of the greatest areas of need in the Kouga , particularly by emerging entrepreneurs.

7. COUNCIL STRATEGY

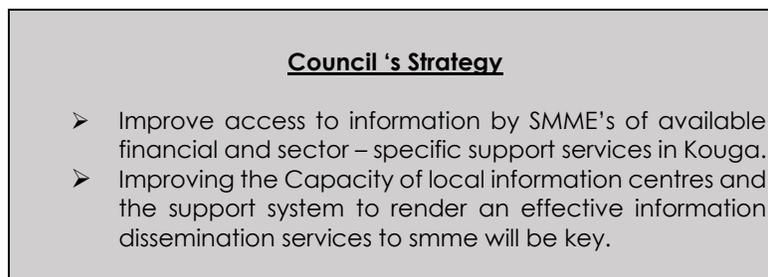
7.1 STRENGTHEN LOCAL SMME SUPPORT SYSTEM

The need to strengthen the local SMME system and to extend its services and infrastructure to other needy areas is recommended.



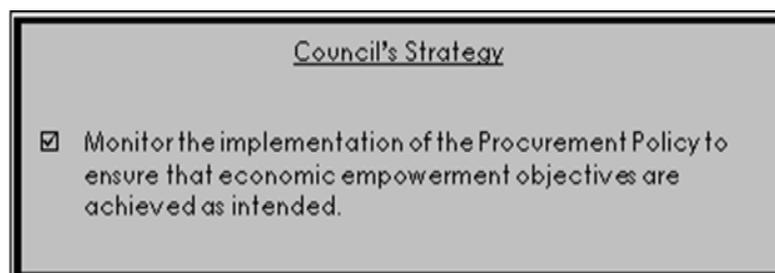
7.2 PROVISION OF RESEARCH AND INFORMATION

Conducting research and gathering information to influence and guide policy with regards to economic development of Kouga Municipality is a clear responsibility of Council, specifically the Economic Development Unit.



7.3 FACILITATE ACCESS TO MARKETS AND PUBLIC PROCUREMENT

The two main ways of enhancing market access for SMME's are through the public procurement, and the promotion of big to small business linkages. Promoting business linkages between SMME 's and big business also enhances market access for SMME 's



7.4 FACILITATE ACCESS TO FINANCE

Facilitating access to finance can be seen as an important element in the creation of an enabling environment for SMME 's.

<u>Council's Strategy</u>	
<input checked="" type="checkbox"/>	Improve access to information about existing financial support, institutions and initiatives in the Kouga area.
<input checked="" type="checkbox"/>	Lobby with financial institutions to improve lending

7.5 FACILITATE ACCESS TO TRAINING

Lack of access to business and technical training as one of the constraint areas. This is not a direct responsibility of local government, but the Council can facilitate access to training by:

<u>Council's Strategy</u>	
<input checked="" type="checkbox"/>	Encourage practical, sector-focused courses as well as internship and mentorship programmes.
<input checked="" type="checkbox"/>	Enhance awareness of available training programmes.
<input checked="" type="checkbox"/>	Encourage entrepreneurship training at schools
<input checked="" type="checkbox"/>	Fund training programmes and initiatives

7.6 FACILITATE ACCESS TO LAND AND INFRASTRUCTURE

Infrastructure development can be a useful job creation tool not only if it is labour intensive, but also if the nature of the infrastructure is such that it supports the development of small businesses. However, currently no measures or processes exist with regard to making land and infrastructure available to meet the particular needs of SMME 's.

<u>Council's Strategy</u>	
<input checked="" type="checkbox"/>	Provide basic infrastructures such as electricity, sewerage, street- lights, water, market facilities, land and built-up industrial premises for SMME development. These facilities could be provided directly to SMME 's or support institutions at affordable subsidized rates.

As a first step, an audit of land use and ownership in Kouga is suggested, to identify unused and underutilized land and buildings, which could be made available to SMME 's.

7.7 REVIEWING THE LEGAL AND REGULATORY FRAMEWORK

The legal and regulatory framework within which SMME 's operate needs to be reviewed, to ensure that it is enabling rather than obstructive. This encompasses local bylaws and ordinances as well as the bureaucratic processes that affect fast-tracked economic development.

<p><u>Council's Strategy</u></p> <p><input checked="" type="checkbox"/> Co-ordinate regulatory reform action at local levels to ensure that municipal regulatory frameworks are in favour of SMME 's.</p>

7.8 CO-ORDINATION OF SUPPORT ACTIVITIES

The need for a neutral structure to play a pivotal role of facilitating and encouraging co-operation between Kouga -based business organizations and support institutions. Kouga is better positioned to provide such a co-ordination role to ensure coherence and collective approach to smme development.

<p><u>Council's Strategy</u></p> <p><input checked="" type="checkbox"/> Facilitate and encourage co-operation between local stakeholders both at a project and strategic level through various initiatives to ensure coherence and a collective approach to smme development in the Kouga area.</p>

8. POLICY OBJECTIVES

The policy seeks to: -

- Guide the municipality on the funding criteria for Smme development
- Promote increased participation by and opportunities for SMME's in the municipality's procurement processes

- Identify and assess minor contract opportunities within the municipality for the development and support of SMME's.
- Identify opportunities where minor contracts may be awarded to SMME's.
- Identify and align minor contracts with the development and support programmes for SMME's in the municipality.
- Promote partnerships between the municipality and the private sector in respect of the development and support to SMME's.
- Promote skills transfer, training, and accessibility to the processes of procurement through the implementation of SMME development and support programme of the municipality; and
- Promote monitoring and evaluation of the identification and development of SMME's.

9. POTENTIAL SECTORS FOR POLICY TARGETING

The following sectors must be supported based on their forward and backward linkages, and employment multipliers:

- Manufacturing (esp. agro-processing)
- Transport Services
- Agriculture (Citrus, crop and stock farming)
- Tourism (Township tourism)
- Catering and accommodation
- Construction
- Oceans Economy
- Textile, clothing and leather
- Food and beverages

10. SCOPE OF THE POLICY

This policy applies to all contracts awarded by Kouga municipality and its entity/s.

11. SMME DEVELOPMENT TARGETS

- SMME participation in the municipal economy is a priority of Kouga Municipality. This shall be achieved through an SMME Economic Empowerment Programme. The programme shall have the following components:

- The municipality shall set aside at least 30% of all jobs created by the municipality, other sector agencies and private sector, more especially those doing business with the municipality, for unemployed local youth cooperatives in the area.
- Facilitate at least 30% participation of local SMMEs and cooperatives entrepreneurs in business opportunities created by the municipality and within the

12. PROCUREMENT METHODS TO BE USED BY KOUGA LOCAL MUNICIPALITY

The municipality will implement the Preferential Procurement Regulations of 2017 in line with the Municipal Supply Chain Policy as indicated herein-under

12.1. General Methods

A Preference Points System must be developed, which awards tenders based on points for price as determined by standard conditions of tender for local SMMEs and/or the procurement priorities/developmental objectives of Kouga Municipality.

13. DATA BASE

As a general rule, all suppliers, Service Providers and Contractors who want to do business with Kouga Municipality should ensure that they are registered in Central Supplier Database.

14. AWARDING OF CONTRACTS FOR SMMEs

This shall be in line with the Municipal Supply Chain Policy.

Upon finalization of the evaluation and the bidder who scored the highest total number of points is identified, the preferred bidder must be assessed to determine if the bidder is from the Kouga Local Municipal Area. Where the preferred bidder is not from the Kouga Local Municipal Area, bidders who scored within 10 points of the score obtained by the preferred bidder must be assessed to determine if the bidder is from the Kouga Local Municipal Area. Where there are bidders from the Kouga Local Municipal Area, these bidders must be further assessed to ensure that the bidders' price is within 10% of the price of the preferred bidder. Where there are bidders who meet these criteria, the bidder with the lowest price from the Kouga Local Municipal Area must be recommended for the award of the tender. Where there is no bidder from the Kouga Local Municipal Area, the contract must be awarded to the bidder who scored the highest total number of points (As required in terms of the SMME Policy);

15. PAYMENTS TO SMME'S

In line with government policy, all SMMEs should be paid within 30 days. The municipality is not liable for non-payment of sub-contractors and labourers by the main contractor.

16. DELIVERY OF SUPPLY

SMME shall be expected to deliver goods and services as determined by the agreement failing which, orders will be cancelled at no expense to council. Whilst Council encourages empowerment of local SMMEs, it will not compromise the quality of service.

17. ROLE OF THE MUNICIPALITY

Council shall declare certain commodities for the purpose of sourcing them from the previously disadvantaged groups and SMME's

Council shall provide the necessary support for the identified groups to be mentored until they reach a desired stage of being competitive and self-reliant.

Council will act strictly under supply chain processes and not allow SMME representatives to select contractors outside the tender processes.

The rotation of contractors is the responsibility of council in consideration of SMMEs development programme.

Council shall monitor the quarterly expenditure on local SMME and supply by local SMMEs and Cooperatives

18. CONTRACT LIMITS TO SMMES

This section will be informed by the Supply Chain Management Policy

19. MONITORING AND EVALUATION

LED Unit must ensure:

- Jobs created for SMME'S in their respective departments.
- Skills transfer and budgets spent on local SMME's.
- Strategies to mitigate SMME protests and work stoppages
- Strategies to minimize risks involved in the awarding of jobs and contracts to local Smme's.

Annexure A

1. SMME FUNDING DRAFT GUIDELINES

- Applicant must submit a comprehensive business plan that should contain the following, Company profile, Implementation plan, relevant experience with success, detailed budget breakdown,
- The project/business must exhibit economic merit in terms of profitability and sustainability,
- Business should operate within the Kouga area and applicants should be residents of Kouga, therefore proof of residence should be attached,
- Business Registration Documents E.g. Tax Clearance and CSD,
- Latest audited and actual financials (signed by the Finance Director, MD, CEO),
- Receiving and SMME Support Grant, irrespective of the amount granted is a privilege not a right,
- All beneficiaries must enter into an agreement with council, with council stipulating the conditions of this grant,

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3. BUSINESS PLAN GUIDELINES

General overview of the business:

- State if the business is a start-up operation or an existing business.
- Background/history of the business including the geographic location of the operations and how long the business has been operating for.
- Industry within which the business operates.
- Products/services being offered.
- Outline the amount of funding required.
- Other material issues such as number of existing and new jobs to be created; and new/existing contracts or letters of intent secured.

4. APPLICATION PROCESS

- Applications are invited via advertising in the local newspaper and on Municipal website. Within the advert the deadline for submission and other required criteria with regards to the SMME Support Grant application, must be stated.

4.1 SMME Support Fund Committee Comprises Of The:

- Portfolio Head
- Director of the Department
- Manager of the Section within the Directorate
- Officer of the Section

5. APPROVAL PROCESS

- The report of SMME Grant applications indicating proposed allocations is submitted to council.
- The council has the discretion to approve or reject and grants made to applicants as well as the amounts related thereto.
- All applicants, whether successful or not, are advised in writing by the relevant Directorate of the outcome of their application. No amounts are paid out to applicants until they have entered into written agreements with the Municipality.

6. CONDITIONS

- All applicants should submit all the relevant documents as stipulated in the call out.
- The council reserves the right to fund or not an organization for more than one year.
- The SMME grant must be exclusively utilized for the purposes specified in the agreement with a beneficiary.
- Beneficiaries must report monthly to the relevant directorate on actual expenditure against such transfer.
- Beneficiaries must acknowledge council's assistance in all publicity material and reports.

7. EXCLUSIONS

- Start – up Businesses.
- Where only one individual will benefit.
- SMME's residing outside the Kouga area.
- Non submission of relevant business documents without a reasonable explanation.
- If you receive approval of your grant and you are a full-time employee, you might be required to declare.



C DU PLESSIS
MUNICIPAL MANAGER

28 August 2020

DATE