2016/2017
ANNUAL REVIEW

SMALL BUSINESS AND COOPERATIVES IN SOUTH AFRICA

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MINISTER'S FOREWORD

I t is with great pleasure that I present the Annual Review of Small Businesses and Cooperatives in South Africa (2016-2017) on behalf of the Department of Small Business Development. This is the second Annual Review since the proclamation of the Department in 2014.

The Annual Review of Small Businesses and Co-operatives in South Africa aims to contribute towards the promotion and development of small, medium and micro enterprises (SMMEs) as well as co-operatives by building a better understanding of the complexities of the sector by reviewing and analysing available data as well as engaging SMMEs, Co-operatives, government departments and agencies and highlighting the challenges faced by SMMEs and Co-operatives in South Africa. The review places its emphasis on the development and improvement of the Small Enterprise Development ecosystem as a whole with the provision of the information that seeks to update the state of the sector.

The findings of the Annual Review allows for policy dialogue to stimulate even greater participation by all stakeholders in the design and implementation of future policy and programme interventions for the sector to create the optimal enabling ecosystem for the sector. The objective is to allow for evidence based research, policy and programme development.

Albeit a persistent decline in the number of SMMEs and co-operatives since 2008, I am happy to point out that the Review reveals some positive developments since 2014. According to the Statistics South Africa's Quarterly Labour Force Statistics, small and very small enterprises is the only size category of enterprises that registered an upward growth of 1.65 percent in the number of entities from 2014 to 2016. The same applies to the contribution to GOP and employment, i.e. although there has been an overall decline in the contribution of SMMEs and co-operatives to GDP and employment since 2008 there has been a recovery in both measures since 2014, i.e. the contribution by SMMEs and Co-operatives to GDP increased from 46.65 percent in 2014 to 48.04 percent in 2016 and employment from 62.09 percent in in 2014 to 63.98 percent in 2016.

It is our sincere hope that the insights on the SMME and Co-operative sector findings and recommendations put forward in this Review will assist and contribute towards robust policy dialogue amongst key stakeholders to ensure the continued improvement of the Small Enterprise Development ecosystem.

Lindiwe Zulu, MP
Minister of Small Business Development

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Images in this report are from the Wikimedia Commons series, 'African People at Work'.

EXECUTIVE SUMMARY

The following presents a brief outline of the *2016 Annual Review of Small Business and Cooperatives* (hereafter, the review). This outline is constructed to present the conceptual framework and methodology used for the analysis, as well as some of its key findings and recommendations. The review found that challenges faced by SMMEs remain relatively persistent over time. Furthermore, challenges faced by the government agencies and departments mandated to assist SMMEs are consistent across these departments. These findings suggest a small number of key recommendations, which would have wide-ranging effects on the effectiveness of government and the experience of SMMEs.

Methodology

The review was compiled jointly to understand the context and experience of SMMEs in South Africa, at present, and for the purpose of improving SMME development policy. As such, the conceptual framework used was one which focused on integrating the experiences of government departments with those of the SMMEs themselves. The review attempted to understand the assumptions and challenges faced by government agencies mandated to develop SMMEs, as well as the experiences and challenges of SMMEs and, finally, to explore the areas and ways in which government policy is not being effectively implemented to improve SMME experience.

These methodologies were designed with particular research and data constraints in mind. Firstly, very little data exists on SMMEs themselves and, taken in isolation, each data set contains limited information. Second, there is no quantitative data available on the experiences of government departments and agencies that are operating in the sphere of SMME development. Furthermore, the vast array of government departments and agencies that operate within this field, make the collection of such data time consuming and expensive. Given these constraints, the following methodology was used in order to establish key findings through integrating various research approaches:

- A **literature review** was used to establish the evolution of government policy with regards to SMME development. Furthermore, the literature review established key constraints to SMME operations in the past, so as to give context to the study.

- A **statistical analysis of existing data** was used to establish the current shape of the SMME environment. This included the demographic and geographic profiles of SMME owners as well as the contribution of SMMEs to the South African economy. This statistical analysis emphasised long-term trends in the above measures by comparing them to those observed in 2004.

- **Qualitative interviews** with key government stakeholders were conducted so as to gain an understanding of government assumption and knowledge regarding SMME experiences. Furthermore, these interviews allowed for an analysis of the key constraints and inhibitors to government departments and agencies effectively implementing their programmes and interventions.

- Two **provincial case studies** were conducted, using the Free State Province and Gauteng Province, in order to gather more nuanced and specific information on the implementation of government policies. The case studies focused on the

implementation of the state's 30-day payment turnaround policy and investigated key inhibitors and enablers for the effective implementation of the policy.

- Finally, the review makes use of two **quantitative surveys** that were conducted with small business owners in the informal and formal sectors. This section of the review clarified the current experiences of SMMEs and identified the challenges experienced by them, the assistance desired by SMME owners and the perceptions of SMME owners of government policies and interventions.

The benefits of this research design are that it incorporates both rigorous analytical tools and flexible analysis. The structured analysis included in the desktop statistical analysis and quantitative research allows for easy comparison over time and is easily replicable in the future. The qualitative aspects of the research are easily adaptable, which allows researchers to adapt to significant changes in the sector whilst maintaining a consistent methodological approach.

Key findings

One of the key characteristics established by the review is that there is a large amount of consistency in the findings. This consistency applies to both the SMME experience – with particular reference to their challenges – and the experiences of government agencies. As such, this outline will present the most persistent findings of the review:

Government targeting and differentiation should focus on size categories and sectors

The experiences of SMMEs and challenges faced by them are relatively consistent: all SMME owners report struggling to access sufficient financing and capital, adequate premises and sufficient staff. However, the particular reasons and effects of these challenges differ between the formal and informal sector, as well as between SMMEs of different size categories within each sector.

Government agencies lack the necessary systems and procedures to effectively implement their policies

SMMEs and government agencies both reported a high degree of policy volatility and ineffective systems and procedures. This is most clearly evidenced in the high rate of late payment to SMMEs who completed tendered projects for government departments. SMME owners report that they do not know where to access information or how procedures work in different departments, increasing the time costs associated with their relationship with government departments. Furthermore, they report long feedback times and a high rate of failure to deliver on promises from government agencies, which negatively affects government reputation among SMME owners.

Similarly, government departments report low levels of coordination and communication as well as high degrees of inefficiency due to duplication. This increases the costs associated with operating these agencies and reduces efficiency.

Government initiatives are not adequately targeting highly vulnerable groups

With some exceptions for women and black-owned enterprises, the government initiatives and assistance programmes are inadequately targeting vulnerable groups. Similarly, excessive assistance is given to medium-sized enterprises, at the expense of micro- and small enterprises. The informal sector also gets very little assistance in comparison to the formal sector. In

many cases, these groups suffer under larger constraints than those who are receiving assistance. Furthermore, they are more likely to rely on their businesses as a means of survival than are their larger, formalised counterparts.

The regulatory and legislative system is too burdensome on SMMEs

SMMEs currently face much of the same regulations and legislative requirements as larger firms, but are less able to comply with these. These regulations, as well as the introduction of taxes, are listed as primary barriers to formalisation and employment. Furthermore, the compliance costs of these regulations are prohibitively high for SMMEs, preventing them from growing their businesses.

SMME uptake of government projects is low due to the quality and accessibility of these initiatives

SMMEs report that government programmes are inaccessible due to location, the time associated with accessing these programmes and the long turnover time from government departments. Furthermore, SMME owners report that government initiatives are overly simplified once businesses have moved from the start-up phase.

Primary recommendations

Given the resource constraints faced by government departments and agencies operating in the SMME sphere, it is vital to consider which recommendations will have the widest impact. The following comprises three of a total fourteen recommendations included in the full report. However, the full set of recommendations each includes one of the following elements. The recommendations presented here, then, are those which are believed to have the largest impact on both the efficiency and effectiveness of government and the experiences of SMMEs.

Consolidating government information through the development of a national database

The review recommends that the Department of Small Business Development maintain a national database of SMMEs in both the formal and informal sectors. This database should include all relevant information, as well as track important markers such as all applications for assistance and their status (under review, denied, granted etc.), the use of non-financial assistance by government agencies, the stage of development of the enterprise and, where relevant, the progression of documentation – including invoices – through the state system.

Such a database will assist government agencies with communication and coordination as well as enabling faster turnaround times for feedback to SMMEs and improved targeting of government assistance. Through monitoring the use of government assistance programmes and SMME development over time, government agencies will also be able to more accurately assess the impact and quality of the programmes on offer. This allows for faster improvements of government assistance and encourages government agencies to concentrate on those programmes which demonstrably improve the development of SMMEs.

Standardising government processes and systems and improving key performance indicators

There is a need to standardise the bureaucratic process across departments and agencies, as well as across the beneficiaries so as to reduce the current silo mentality. The Department of Small Business Development should strengthen its ties to the Department of Planning,

Monitoring and Evaluation as well as to the National Treasury in order to establish a task team that is able to determine which departments and agencies have established systems and procedures which work well. Once this has been completed, the DSBD can integrate and standardise systems across departments and agencies as well as establishing consistent performance indicators for these agencies. By evaluating the systems and processes already in place, the DSBD can reduce the costs of implementing untested systems. Standardisation also allows for more efficient monitoring, feedback and evaluation of the SMMEs themselves, and ensures a consistent framework for evaluating the efficiency of the departments themselves.

Develop a SMME growth package, which caters to SMMEs in each stage of the business journey

SEDA, SEFA and provincial agencies should develop mechanisms which allow them to identify SMMEs at different stages of development so as to improve programme targeting and, thereby, improve the quality and relevance of government initiatives. In developing their SMME support initiatives, these agencies should conceptualise this support as a long-term package, which allows SMMEs to receive appropriate support at each stage of the business journey. Through developing such support packages, government agencies can conceptualise a predetermined and desired end-goal for the development of SMMEs. This allows for better quality and targeted assistance, as well as improving the ability to evaluate the effectiveness of interventions as SMMEs move through this business journey.

Conclusion

In closing, the review presented an analysis of the SMME sector in South Africa for 2016. The review determined that the challenges faced by SMMEs have been persistent over time, with lack of access to finances and premises, as well as burdensome regulations severely inhibiting SMME development. The review considered the SMME environment in a holistic manner, considering also the constraints and challenges faced by government entities mandated to support these enterprises. The finding is that these agencies remain disconnected, with poor systems and procedures and little leadership on a national scale. This reduces the positive impact of government programmes on SMMEs and results in inefficiencies in government programme development and implementation. The review recommends standardised systems and protocols to monitor government effectiveness and increase efficiency. Furthermore, it recommends the development of a standardised database to encourage collaboration and improve programme targeting. Finally, it recommends that assistance to SMMEs should be conceptualised as a part of a holistic business journey so as to improve the quality and relevance of assistance provided to SMMEs at each stage of the journey.

LIST OF ACRONYMS

AD	Acting Deputy
BBB-EE	Broad-Based Black Economic Empowerment
BER	Bureau for Economic Research
BRAIN	Business Referral and Information Network
BRICS	Brazil, Russia, India, China and South Africa
CEO	Chief Executive Officer
CIPC	Companies and Intellectual Property Commission
CSIR	Council of Scientific and Industrial Research
DED	Department of Economic Development
DG	Director General
DoL	Department of Labour
DPME	Department of Planning, Monitoring and Evaluation
DSBD	Department of Small Business Development
DTI	Department of Trade and Industry
FDC	Free State Development Corporation
FS-DESTEA	Free State Department of Economic, Small Business Development, Tourism and Environmental Affairs
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GEP	Gauteng Enterprise Propeller
GP-DED	Gauteng Provincial Department of Economic Development
NDP	National Development Plan
NPI	National Productivity Institute
NYDA	National Youth Development Agency
QLFS	Quarterly Labour Force Survey
REB	The Real Economy Bulletin
RSA	The Republic of South Africa
SA	South Africa
SADC	Southern Africa Development Countries
SAMAF	South African Finance Apex Fund
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMME	Small, Medium and Micro Enterprises
SOE	State-Owned Enterprise
TEA	Total Early-Stage Entrepreneurial Activity
VAT	Value Added Tax

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CHAPTER ONE

Introduction and South African context

1.1 INTRODUCTION

The *2016 Annual Review of Small Businesses and Cooperatives in South Africa* (hereafter, the review) is intended to serve a number of purposes. The ultimate goal of any such research must be to contribute towards the promotion and development of the small, medium and micro enterprise (SMME) sector. Due to the incredible complexities of the sector and the importance of its development to the South African economy, the review takes an integrated approach in considering both the experiences of SMMEs themselves, and that of government departments and agencies.

To this end, the research begins with an updated overview of small, medium and micro enterprises in South Africa; with particular reference to the characteristics of these businesses and the business owners, as well as the historical struggles facing small businesses. The review finds that the composition of the SMME sector has remained relatively consistent over time, with little increase in the participation in small business ownership by vulnerable groups such as women and the youth. Furthermore, the challenges faced by SMME owners have also been persistent, with primary struggles including access to finances and burdensome government regulation.

Next, the review considers an historical overview of government policies on the development of SMMEs so as to place further analysis of government departments in context. The review then investigates the role of government departments, through an analysis of their mandates, their assumptions and knowledge regarding SMMEs and their struggles and constraints in achieving their goals. In this regard, the review concludes that, although the evolution of government bodies and policies has been well justified and relevant to the needs of the sector, there has been a lack of consolidation among these agencies and policies. This lack of consolidation has resulted in inefficiencies among government departments which compromise their ability to work effectively.

Furthering this analysis, the research includes two case studies, which consider the Gauteng Province and the Free State, so as to better understand the policy implementation process. These case studies include a review of the inhibitors and enablers faced by government departments in implementing the governments' thirty-day payment turnover policy. Through this analysis, the review finds that the implementation of state policies and interventions in the SMME sector are significantly inhibited by poor systems and procedures. This includes a lack of standardisation across agencies and departments and unclear or non-transparent performance indicators.

The review then investigates the experiences of SMME owners at present, as well as their perceptions of government development initiatives – through the use of quantitative analysis of primary data gathered for the purpose of this review. The key findings are that the experiences of SMMEs are most prominently distinguished by their size categories and the environment in which they operate (i.e. formal or informal sector). Furthermore, the sector as a whole faces similar challenges; namely, lack of access to finance, inadequate premises and poor marketing skills or inconsistent clients.

The report then concludes with a review of key findings and a set of recommendations for improved SMME development.

Although this review forms part of an annual series, the 2016 report adds value to the existing body of research through its integrated approach, which considers government constraints as well as SMME challenges. In doing so, the review is able to establish recommendations which are both able to be implemented, within the constraints of government, and relevant to SMMEs. The research focuses on the distinction between the formal and informal sectors, as well as on the distinct experiences of businesses within each size category. This is so that the research complements the government's targeted approach and framework for SMME development.

1.2 CONCEPTUAL FRAMEWORK AND METHODOLOGY

In compiling this review, it is important to bear in mind the context and purpose for which the review will be used. While one objective is to provide up to date information on the state of SMME development in the country, this information itself also provides the context for further development of government policies, programmes and strategies. As such, it is necessary to consider the full ecosystem within which SMMEs operate.

1.2.1 Introduction

This section considers this ecosystem and presents a conceptual framework through which to analyze and investigate the development of SMMEs in South Africa. The section considers the way in which government initiatives are developed, the experiences of SMMEs and their owners and the connection between these features. Finally, the section describes the research methodologies used for the analysis in this report. This conceptual and methodological framework represent an integrated approach to SMME analysis; allowing for both flexibility and comparability across time.

Within this the SMME ecosystem, government departments and agencies develops policies and projects to enable the SMME sector. The efficacy of these policies and projects are then evaluated through research, after which the success of the projects/policies and their underlying assumptions are either confirmed, or refuted, in which case, policies and projects, and their underlying assumptions need to be revisited.

What is important to note about this system, is the diverse range of factors that influence the effectiveness of SMME development policies and programmes; as well as the way that these influence one another. A few key relationships are worth noting here. First, effective government policies alter the experiences of SMMEs in the long run. These altered experiences, in turn, should result in an adjustment to government policies, in order to meet the new needs of the sector. Second, effective government policies *require* SMME uptake – policies cannot make a change if they are not used by those groups which they target. Third, uptake of policies and programmes is dependent on a number of factors. The most important of these are: relevance (do the policies address the needs and experiences of SMMEs), accessibility (are the targeted groups aware of the policies and able to make use of them), and effectiveness (are the programmes and policies of good quality and delivered well). Finally, the accessibility, effectiveness and quality of government programmes are affected by a large set of constraints placed on the agencies and departments mandated to implement them. These constraints include – but are not limited to – budgetary, communication and information constraints.
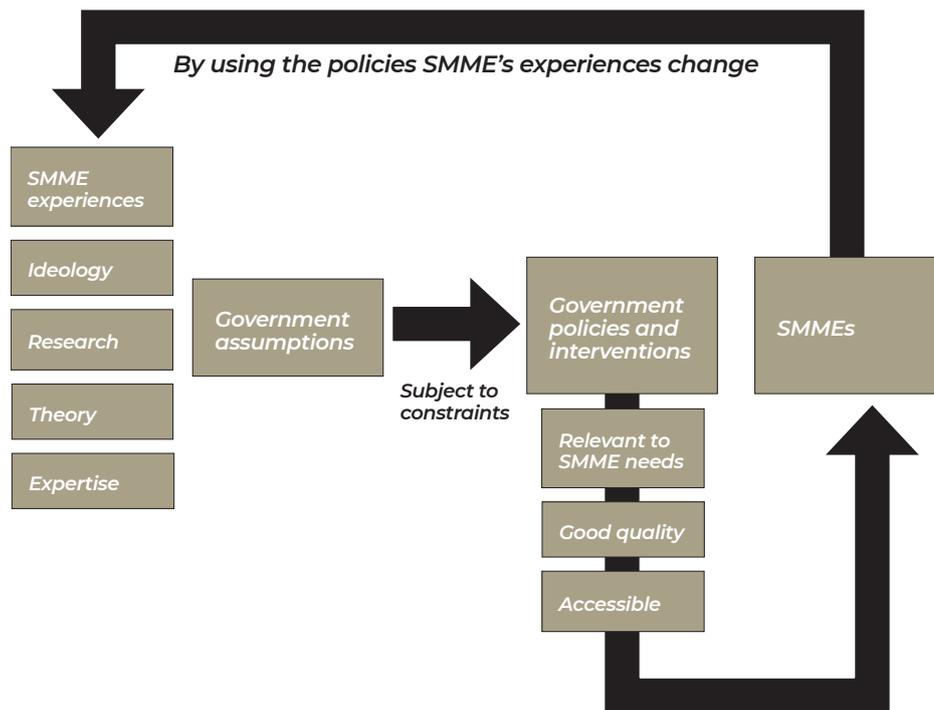
Figure 1: The relationship between government policy and SMME experiences

Once one understands this system, it becomes easy to identify the biggest ways in which effective SMME development can break down. If government assumptions or understanding on the experience of SMMEs is out-dated, then uptake of policies or programmes based on this out-dated information will be low. Similarly, if the accessibility, effectiveness and quality of policies and programmes are not of sufficient standard, they will not be used by the target group. This results in inefficient and ineffective use of government resources and a slower progression and development of the SMME sector as a whole.

In light of the above, this report takes an integrated approach to reviewing the SMME sector in South Africa. The overall goal of the review is to understand the sector so as to inform and improve the development of government policy and initiatives for developing SMMEs. In order to accomplish this task, the review must consider the framework described above and give insight to each of the variable elements of this framework.

1.2.2 Defining small business

For the purposes of this review, the term 'business owners' will refer to the owners of SMMEs whilst entrepreneur refers, specifically, to those involved in a start-up or new business activity. In this sense, the term 'business owner' includes entrepreneurs, whilst the term 'entrepreneur' is limited to those in the early stages of business activity. Furthermore, those working for a family business without pay were ignored for the purposes of this review. This has been done in order to remain consistent with the methodology of previous reports and to ensure comparability across reports.

Table A1 (Appendix A, i), from the 2004 Annual Review of Small Business in South Africa (DTI, 2005), includes a comprehensive account of what measures are used to establish micro, very

small, small and medium businesses. In this review, definitions based on number of employees (and not turnover) are used unless otherwise specified. Although there are a handful of exceptions, the general measure is such that micro enterprises employ 5 or less people; very small enterprises employ between 5 and 20 people; small enterprises employ between 20 and 49; and medium enterprises between 50 and 200 (DTI, 2005).

It is important, further, to note that small business can take many forms. This review considers the distinction between survivalist firms – which operate out of an economic need for survival – and those started out of opportunity. In the GEM (2017) research, these are distinguished by their owners, with entrepreneurs being categorised as necessity-driven and opportunity-driven. Furthermore, the review takes into account whether firms operate in the formal or informal sectors so as to establish whether there are any distinct differences between these two sectors. These types of distinctions are important in order to achieve a balanced, nuanced and accurate view of SMMEs, as it is reasonable to suppose that they will have an impact on the operations, challenges and success of the business.

Integrated approach

In the past, most reviews of the SMME sector have focused on the experience of small businesses, without consideration of how government assumptions and knowledge feed into the development of this sector. This review uses an integrated approach to establish both the experiences, struggles and characteristics of the SMME sector, as well as the assumptions and constraints faced by the relevant government departments and agencies.

In doing so, the review places its emphasis on the development and improvement of the SMME ecosystem as a whole. This ensures that adjustments to government strategies and programmes are done in a way that is effective and efficient; working with the appropriate assumptions about the experience of SMMEs and their owners, as well as within the constraints faced by government departments. As such, the review aims to establish the following:

- The challenges and experiences of SMMEs and their owners

- Government assumptions about these experiences

- The experiences of government departments and agencies who are working in this field, including the constraints faced by these departments and agencies

- The factors influencing SMME uptake of government programmes and initiatives

1.2.3 Methodological framework

In order to accomplish the above tasks, a combination of various research methodologies was used. These methodologies were designed with particular research and data constraints in mind. Firstly, very little data exists on SMMEs themselves and, taken in isolation, each data set contains limited information. Second, there is no quantitative data available on the experiences of government departments and agencies that are operating in the sphere of SMME development. Furthermore, the vast array of government departments and agencies that operate within this field, make the collection of such data time consuming and expensive. Given these constraints, the following methodology was used in order to establish key findings through integrating various research approaches:

Literature review

The research was grounded and contextualised through a literature review. This review focused on two elements of the questions addressed by this report: the changes and evolution of government policies and departments as well as the experiences of SMMEs to date.

Statistical analysis

A statistical analysis was conducted, using existing data gathered by Stats-SA and the Global Entrepreneurship Monitor.[1] This review focused on comparing current statistics with those presented in 2004, so as to understand long-term trends. The specific methodologies used to make these estimates are discussed in Chapter Three. Broadly speaking, the analysis concentrated on establishing the size and scope of the sector, as well as the characteristics of small businesses and their owners.

Qualitative interviews

Due to the lack of available data within government departments, as well as the sensitive nature of the research, this review made use of qualitative interviews with key stakeholders in government. The review focused on government mandates and assumptions about SMME experiences. It also explored the experiences and challenges faced by government departments. This research exercise enabled a review of the consistent concerns, beliefs and challenges faced across many government departments and agencies, while still allowing for nuanced perceptions and contexts to be taken into account. The full interview guide can be found in Appendix F (xxi) and the sample is discussed in Chapter Five.

Case studies

In order to further develop the research on government experiences and challenges, two case studies were also conducted. These case studies focused on particular provinces (Gauteng Province and the Free State) and focused on government implementation of policy. In particular, the government 30-day payment turnaround policy, which states that "unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice" (National Treasury, 2011: 1). This particular policy impacts both SMMEs and government agencies. As such, it is of particular interest to the research presented here. The case studies included analysis of government policies and documents, as well as two interviews (See Appendix D, xviii).

Quantitative research; qualitative augmentation

Finally, the investigation into the experiences of SMMEs, as well as their use of government interventions, was conducted through two surveys. These were separated into formal and informal sectors to allow for a differentiated research approach across sectors. The sampling description can be found in Chapter Four and a full data description can be found in Appendix E (xx).

Although the focus of the surveys was to gather quantitative data, the survey design included a number of spontaneous-response questions. These questions allowed for some of the benefits of qualitative research. This ensured that the research was not neglecting important questions which SMME owners may self-identify. It also ensured a better understanding of the particular contexts and circumstances faced by SMMEs.

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1   Although the Bureau of Economic Research completed a study on SMMEs in South Africa, the data from this study was not publicly available

1.1.3 Research limitations

The research presented in this report is subject to a number of limitations, although every effort was made to overcome these. The most significant of these are:

Difficulties in conducting qualitative interviews with government departments

While this study aimed to consult with 15 government departments and agencies, only 10 of these responded to requests for telephonic or electronic interviews. Furthermore, a number of these agencies were only able to complete the interviews over e-mail, which prevented researchers from probing specific statements for clarity, or from asking for more detail in given questions.

Insufficient existing data

There is no publicly-available data in South Africa, which focuses specifically on SMMEs and cooperatives. While nationally collected datasets – such as the Quarterly Labour Force Survey (QLFS) – does include some data on SMMEs, this data is insufficient for drawing nuanced causal relationships. Importantly, this data does not allow the researchers to distinguish cooperatives from other businesses and does no allow for research to distinguish between medium- and large-sized enterprises. Furthermore, there is no publicly available data on government initiatives and programmes, or the implementation of the government 30-day payment turnaround policy. This lack of data limited the research into government's role in the SMME ecosystem and meant that researchers had to rely on qualitative interviews.

Uncertainties regarding true random sample

In the case of the primary data, collected for the purpose of this study, caution should be taken when generalising the results to the entire SMME population. This is because data collection difficulties and time constraints prevented the researchers from collecting a true random sample. In particular, the sample size would, ideally, be larger than that collected for this research and the collected sample included an over-representation of both micro-enterprises and cooperatives. Such over-representation was the result of meeting provincial and industry sampling requirements, as further discussed in Chapter Seven.

Research collection methods, which limited analysis of nuanced and detailed sub-populations

Both the available and collected data did not allow for detailed and nuanced analysis of the experience and dynamics within cooperatives or in vulnerable groups (such as women- and youth-owned businesses). In order to establish the key findings reported in this Review, the time to complete the surveys had to be considered when developing the initial survey questionnaires. Given the large number of important general considerations, it was impossible to include further questions for these sub-populations. Future research can greatly benefit from focus group interviews in these areas in order to better understand the nuanced experiences and challenges faced by these groups.

Self-reported data which may be subject to inaccuracies and misunderstandings

As with any self-reported data, there are likely to be inaccuracies in the survey data collected for this report. As well as inaccurate reporting, the research may be subject to misunderstandings regarding the questions and capturing errors by fieldworkers. Although every effort was made to clean the data of observable errors, it is not possible to ensure than no such inaccuracies are included in the final dataset. Finally, an analysis of the data indicates that business

owners may overestimate the size of their businesses as there was a very low correlation between size category as reported by the business owner themselves and size category as calculated by number of employees.[2]

1.1.4 Application and implications for future research

The benefits of this research design approach are that it incorporates both rigorous analytical tools and flexible analysis. The structured analysis included in the literature review and desktop statistical analysis allow for easy comparison over time in order to establish trends within the sector. Similarly, it is possible to replicate the quantitative research so as to make similar comparisons in future research.

Whilst these comparisons are important, it is also necessary to consider the flexibility and adaptability of the methodological approach. This is because there may be significant changes in stakeholder or experiences within the sector over time. An adaptable approach allows researchers to make the necessary adjustments for such changes, while maintaining a consistent methodology and analysis.

For instance, the response options within the quantitative survey can be expanded to meet changing circumstances. The case studies can be conducted for different policies or by different criteria. Finally, the qualitative interviews can be replaced with focus group discussions with important groups within the SMME sector to establish how these groups deviate from the baseline experience established in the rest of the research. One such analysis could include the investigation into the experiences of women or the youth in the SMME development context.

1.3 THE SOUTH AFRICAN CONTEXT

1.3.1 Introduction

The Department of Trade and Industry (DTI, 2003) states that the "government has prioritised entrepreneurship and the advancement of Small, Medium and Micro-sized Enterprises as the catalyst to achieving economic growth and development". The South African government has maintained that these small businesses are key contributors to the country's National Development Plan (NDP) goals of reducing poverty and inequality. Small businesses are intended to accomplish this through their contributions to employment and Gross Domestic Product (GDP), especially among groups vulnerable to high levels of poverty. This section considers the economic, regulatory and institutional environments in South Africa so as to contextualise the development of SMMEs.

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2 The survey did not include a question on business revenue, which may have been better correlated with self-reported size category. However, business revenue is often inaccurately reported (hence its exclusion) and there is no way to determine whether the bias in reporting on revenue and size category operate in the same direction (i.e. whether business owners report being in a larger category than they are and report higher revenues than they make)

1.3.2 The economic, institutional and regulatory environment for small business in South Africa

Two principles have informed the government's policy design and implementation of interventions that support small, medium and micro enterprises. SMMEs are seen as a vehicle to promote job creation, thereby improving economic redistribution, and enhance competitiveness, and the 'needs of the SMME economy set the context for an infrastructure of institutional and policy support' (Rogerson, 2000: 133).

Based on these principles, the government's policy approach towards SMME development focuses on identifying bottlenecks hindering SMME participation in the economy and developing interventions to address them. These interventions cover six broad themes:

- Accessing finance and credit;
- Improving business infrastructure and service provision;
- Skills development and training;
- Addressing distortions created by urban land markets and a fragmented spatial economy;
- Reducing high barriers to entry for new entrants arising from the concentration of economic activity in a handful of large corporations and State-Owned Enterprises (SOEs) and
- Improving the linkages between the value chains of large enterprises and SMMEs, using preferential business procurement to create subcontracting opportunities. (Rogerson, 2000: 134).

Within this context, it is important to understand the economic, regulatory and institutional environment in which SMMEs must operate. Specifically, it is necessary to consider how these factors impact and influence SMMEs and SMME owners, as well as how they affect the creation and development of SMMEs in the country. This section gives a broad overview of these features of the South African economy, so as to lend context to the full report.

In its 2017 Budget Review, the National Treasury of South Africa describes an improvement in the global economic growth outlook from 2016. However, despite this global improvement, South African economic growth prospects remain moderate, with estimated growth of 1.3% in 2017 and 2% in 2018 (National Treasury, 2017). The National Treasury (2017: 11) acknowledges low levels of business confidence, poor service delivery and policy instability as leading causes of this low growth.

Moreover, unemployment reached 26.5% in the fourth quarter of 2016, with youth unemployment[3] as high as 43% in this same period (National Treasury, 2017: 14). Unemployment increased to 27.7% in the third quarter of 2017, with youth unemployment decreasing to 38.6% in this time (Stats-SA, 2017). Furthermore, the Rand has experienced a large real depreciation since 2010 (National Treasury, 2017:17). Such depreciation supports foreign investment and South African exports, although it simultaneously contributes to higher costs of imported goods and products in the South African economy. Finally, headline inflation increased by 2.2 percentage points, to 6.4%, from 2015 to 2016 (National Treasury, 2017: 18). While predictions in 2016 were that inflation would remain above 6% until 2018, 2017 saw a decrease in headline

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3   Youth unemployment, here, is defined as unemployment among those aged 18 to 29 years old.

inflation to 4.8% by October (Stats-SA, 2017). While this change is positive for both the economy and SMMEs, the higher inflation predictions in 2016 itself would have had an impact on consumer and employer expectations during the year and these expectations, regardless of eventual performance, would have negatively affected the environment for SMMEs during the 2016 period (Stats-SA, 2017).

Overall, then, the economic outlook for businesses in South Africa is relatively bleak for the near future. With increases in prices in the face of lower real disposable incomes for consumers, business owners can expect both decreases in sales and increases in costs. Stats-SA (2017a) reports that the profit margin ratio – a measure of how much profit a business obtains from every Rand of turnover it generates – declined from 11 cents per Rand in 2005 to only 5 cents per Rand in 2017.

There is little detailed, contemporary research on the regulatory environment in South Africa, and it's effects on SMMEs and businesses. In its annual *Doing Business Project*, the World Bank reports on a number of business costs, regulations and institutional factors which affect the overall cost of doing business in a given country, on an annual basis. One such measure is the 'quality of judicial processes index', which scores the judicial process in a country, based on 26 specific measures. The index ranges from 0 to 18, with 18 being the highest possible score. Overall, South Africa earns a score of 7 on the quality of judicial processes and ranks 113th out of 189 countries in terms of the time and costs associated with resolving commercial contract disputes (World Bank, 2017).

Table 1, below, summarises the rankings for all five BRICS nations, in each of the indicators used in this report. The table illustrates that South Africa ranks rather well in a number of measures; for instance, it places 22nd out of 190 countries with regards to protecting minority investors and 50th out of 190 with regards to resolving insolvency. Other measures in which the country ranks relatively highly include getting credit and ease of paying taxes. These areas of comparative advantage could potentially be leveraged in favour of SMME development. It is worth conducting further research into why South Africa scores so well in the measure for accessing credit while simultaneously reporting that SMMEs struggle to access finance. Conversely, South Africa fares poorly in terms of business start-up, access to electricity, cross border trade and contract enforcement.

Table 1: World Bank Doing Business project – 2017 rankings* BRICS					
Indicator	South Africa	Brazil	China	India	Russia
Ease of doing business	74	123	78	130	40
Starting a business	131	175	127	155	26
Dealing with construction permits	99	172	177	185	115
Getting electricity	111	47	97	26	30
Registering property	105	128	42	138	9
Getting credit	62	101	62	44	44
Protecting minority investors	22	32	123	13	53
Paying taxes	52	181	131	172	45
Trading across borders	139	149	96	143	140
Enforcing contracts	113	37	5	172	12
Resolving insolvency	50	67	53	136	51

Report considers 190 countries in total; ties in rankings are possible

These findings have been persistent over time, with research conducted in 2006 by Rankin (2006:10) highlighting that a large proportion of South African business owners consider government regulation to be a severe constraint on the ability of businesses to grow in South Africa. In particular, 33% of business owners noted labour regulations as a major or very severe obstacle to business, with 18% and 17% identifying policy uncertainty and trade regulations respectively as severe obstacles to business (Rankin, 2006:10). Anti-competitive practices and tax administration also received significant attention in the study. When firms were given the opportunity to spontaneously submit their strongest obstacle to doing business, labour regulations were the most commonly mentioned obstacle (Rankin, 2006:11).

Further reinforcing Rankin's research, these same concerns were highlighted by various government officials, who were interviewed for this report (See Chapter Six for details). More specifically, stakeholders noted high compliance costs and inhibitive legislation as barriers for SMME development. The Small Enterprise Financing Agency (SEFA) noted that SMMEs are subject to most of the same legislative and regulatory requirements as are the larger firms.

These requirements include stringent labour legislation, which significantly increases the cost of employing additional staff. Further examples include the current legislation on business rescue,[4] which imposes higher costs on Small Business, relative to large firms. The regulatory environment, then, appears to be such that one could expect significant negative impacts on formalisation and employment. This is especially true in smaller firms who do not possess the economies of scale to make such costs acceptable.

Although South African rankings vary considerably across the measures shown in Table 1, the World Bank (2017) data also indicates that we rank 4th out of 49 Sub-Saharan African countries. In this overall ranking, South Africa is behind Mauritius, Botswana and Rwanda but ahead of Kenya, the Seychelles and Zambia. Table A2 (Appendix A, iv) presents the rankings for a select number of Southern African Development Countries (SADC). This table suggests that, on balance, South Africa's institutional environment – as measured here – is relatively accommodating for small businesses.

Comprehensive consideration of the regulatory environment in South Africa must also examine the legislative environment. SBP (2012) conducted a review of the South African legislative process, with particular emphasis placed on SMMEs. The research finds that legislation regarding SMMEs is "carelessly drafted" and "ineptly written" (SBP, 2012). These concerns relate specifically to the lack of coherence across legislation, which often results in competing or conflicting legislation in this field (SBP, 2012). Such concerns impact both the SMMEs – who must comply with the legislation – as well as government departments – who must find a way to operate efficiently in spite of these contradictions (SBP, 2012).

When considering this institutional environment, it is important to consider all aspects thereof that may affect SMMEs. Among these additional considerations, is the effectiveness of government agencies and departments in their interactions with SMMEs. One measure of the effectiveness of these interactions is government responsiveness. While the research presented in Chapter Four of this review give detailed insights into this particular measure, the National Treasury (2016:2) gives some insight into the institutional environment of South Africa, as measured by government responsiveness in general. In particular, the National Treasury (2016:2) identified that 25% of government suppliers feel that they "do not get timely

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4   The business rescue legislation requires failing businesses to go into 'business rescue' in an attempt to save the business. However, such a process requires that the business covers the monthly expense of a 'business rescue officer', whose service fees often exceed the monthly turnover of small enterprises.

and accurate feedback on invoice queries". Similarly, 25% felt that government decision cycles were too slow and 34% felt that they were not paid on time by government (National Treasury, 2016b:2). These indicators are of particular relevance to SMMEs because the National Treasury revised government preferential procurement policy to ensure that 30% of State procurement will be set aside for SMMEs and cooperatives (National Treasury, 2017b).

Another measure of institutional environments includes perceptions of corruption. The *2016 Annual Report* from Corruption Watch describes the trends in South African measures of corruption, as well as perceptions thereof. It reports that, in 2016, South Africa received a score of 45 out of 100 for the Annual Corruption Perceptions Index.[5] This index assigns a score between 0 and 100, with lower scores being associated with higher levels of corruption. The relatively low score represents a marginal improvement for South Africa over the past five years but is still considered a cause for concern (Corruption Watch, 2017). In particular, the highest prevalence of corruption reports occurred in the Gauteng province. Abuse of power and procurement corruption were the two most reported perceived forms of corruption, with national and local governments making up a combined 50% of corruption reports (Corruption Watch, 2017).

Further institutional environment considerations include perceptions and experience of crime. Stats-SA (2017b) reports that South Africans are experiencing decreasing levels of crime. At a household level, there was a 2 percentage point decrease in the incidence of crime between 2016 and 2017. Despite this, feelings of safety when walking alone in their neighbourhood when it is dark decrease from 31% to 29% in the same period (Stats-SA, 2017b). For businesses in particular, research suggests that perceptions of crime are particularly high among small business owners, particularly for those operating in densely populated areas (SBP, 2008:21). These perceptions are recorded as both a concern regarding crime in general, and perceptions of individual risk. In the research by SBP (2008:22), 70% of small business owners surveyed agreed with the statement "I and/or my staff are at serious risk of crime while at work". This same research indicated that just over 50% of respondents had experienced an incident of crime in the past year (SBP, 2008:30).[6] Further research by Moyo (2011), indicated that smaller firms are more vulnerable to crime than are their larger counterparts, suggesting that there is some measure of rationality in business owners' concerns regarding safety.

1.4 CONCLUSION

The 2016 Annual Review of Small Businesses and Cooperatives in South Africa serves to contribute to the development of SMMEs in the country through a rigorous analysis of the full SMME ecosystem. The review accomplishes this task through an integrated research methodology, which aims to understand the context within which SMMEs must operate, the knowledge and challenges faced by government departments who are mandated to assist SMMEs, as well as the challenges and experiences faced by the SMMEs themselves. Furthermore, The Review adds value to the existing body of literature through this integrated approach, which considers the ecosystem more fully than previous studies have done. The combined use of qualitative and quantitative methods in this approach also allows for considerable flexibility in the specific research methodologies employed for future research, while maintaining high degrees of comparability across time periods. This ensures that future reviews are able to

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5   The index ranks countries by their perceived level of public sector corruption
6   Although this research is from some time ago, it relies on the most recent data available for small businesses

adequately and accurately evaluate the performance of the sector and the ecosystem under consideration.

With regards to 2016 in particular, this chapter has presented an overview of the economic, regulatory and institutional environment in South Africa. Such an endeavour allows for contextualisation of the development and performance of the sector. On balance, although the South African economy performed somewhat better than anticipated in the later quarters of 2016 and early quarters of 2017, the largely pessimistic predictions regarding inflation, unemployment and economic growth for 2016 and 2017 would have influenced the expectations of the public. These expectations would further affect the performance and business environments of SMMEs operating in this period. Furthermore, there are substantial concerns regarding the regulatory environment for businesses in South Africa, with research persistently showing that there are significant regulatory burdens placed on new businesses. The interaction between government agencies and SMMEs also points towards burdensome institutional environments; where corruption and crime rates remain high and government responsiveness to SMMEs which win state contracts remains low.

Overall, then, it is reasonable to conclude that the economic, regulatory and institutional environments in South Africa are such that substantial pressures are placed on SMMEs. These include high time and compliance costs of labour and other regulations – for instance, the persistent complaints regarding the time it takes to register a business – high crime rates and the uncertainty associated with government payment systems. These circumstances suggest that SMMEs may be bearing excessive costs to formalisation, employing additional staff and the day-to-day tasks of running a business.

CHAPTER TWO

Understanding SMMEs in South Africa – a review of the literature

2.1 INTRODUCTION

This chapter investigates the current literature on SMMEs in South Africa, with the particular aim of lending detailed context to the current state of the SMME sector in the country. To this end, the chapter begins with an historical review of South Africa's SMME policy. Thereafter, the chapter describes the primary challenges faced by SMMEs in South Africa. In so doing, the chapter describes consistent features of the literature on the topic, as well as presenting the inter-related nature of these challenges for SMMEs in general. Finally, the chapter describes South Africa's entrepreneurial landscape; considering the populations' perceptions of entrepreneurship and its perceived ability to act on entrepreneurial opportunities.

2.1.1 An overview of SMME development policy

With regards to SMME development policies in South Africa, the government considers promoting SMMEs to be a shared task, involving a wide range of different national and provincial departments, as well as municipalities, non-governmental organisations (NGOs) and the private sector (DTI, 2005b:24). As such, SMME policies are designed to fit within the national policy ecosystem, taking into account the broader policy environment. This approach is taken to ensure efficient and effective use of resources, wherein limited public funds are channelled into mutually reinforcing activities and increasing positive-feedback loops between policies.

In particular, South Africa's SMME policy environment has been informed by the macroeconomic policies listed below. These have provided a framework, as well as the mandate and rationale, for SMME development strategies and policies thus far. Table B1 (Appendix B, v) further elaborates on the critical policies and strategies, which impact SMME development. In summary, they are:

- National Strategy for the Development and Promotion of Franchising in South Africa (released in 2000);
- The Micro-Economic Reform Strategy (released in 2002);
- The Broad-Based Black Economic Empowerment (BBBEE) Legislation (2004);
- The Accelerated and Shared Growth Initiative (released in 2006);
- Industrial Policy Action Plans (released in 2007);
- The National Industrial Policy Framework (released in 2007);
- The New Growth Path (released in 2011); and
- The National Development Plan (released in 2011)

This approach means that, at first glance, South Africa's SMME policy space seems crowded, as there are a multitude of policies and strategies that appear similar. However, on closer inspection, policies can be placed into three distinct categories: foundational policies, sector-based policies and programmatic incentive schemes.

Foundational policies define the structure of the SMME support ecosystem by setting the outcomes for the SMME sector (i.e. job creation, economic activity and poverty alleviation), by defining interventions (i.e. scope, approach and delivery mechanisms) and by assigning institutions' responsible for implementing these interventions. Sector-based strategies are those which take into account the specific requirements of different sectors and size categories within the SMME space. These focused primarily on cooperatives and vulnerable groups within the SMME context. These strategies applied the same principles as foundational policies

but attempted to refine these to the specific sector which they applied to. Programmatic incentive schemes are designed based on the sector-based policies and have a tightly defined scope. Where foundational and sector-based policies defined the context and principles upon which SMME development should function, programmatic incentive schemes aim to put these principles into action. Table 2, below, outlines the most prominent policies and Acts for each policy category.

Table 2: Prominent policies and acts for policy categories		
Foundational Policies	**Sector-Based Policies**	**Programmatic Incentive Schemes**
■ The National Strategy on the Development and Promotion of Small Business in South Africa (1995) ■ National Small Business Act (1996; revised 2004) ■ Integrated Small Business Development Strategy (2004 – 2014) ■ The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005)	■ Cooperatives Development Policy (2004) ■ Cooperatives Act (No. 14 of 2005) ■ Integrated Strategy on the Development and Promotion of Cooperatives (2012) ■ National Informal Business Upliftment Strategy (2013) ■ Youth Enterprise Development Strategy 2013-2023 (2014)	■ The Black Business Supplier Development Programme (2002) ■ The Cooperative Incentive Programme (2004/05) ■ The Amended Black Business Supplier Development Programme (2010) ■ The Informal and Micro Enterprise Development Programme ■ The Shared Economic Infrastructure Facility

In brief, the South African government's approach to SMME development has gone through three distinct phases. Phase One (1994 – 2003) was characterised by a tentative exploration of the policy environment surrounding SMMEs. This exploration meant that the state focus was on expanding government reach and understanding of SMMEs, with few concrete policies developed to actively assist them in meaningful ways. As such, Phase One – although important – was not all that successful in promoting and developing SMMEs. Despite this, it laid the groundwork for the developments seen in Phase Two. Phase Two (2003 – 2009) saw some consolidation and refinement of the service providers and departmental objectives in the sector, with South Africa in the third phase of this policy development at present.

The remainder of this section considers a brief overview of the historical shifts in government policies since the inception of our democracy. It is valuable, however, to consider the general state of this policy environment at present. Despite the early attempts to consolidate government's role, interviews with government stakeholders[7] indicate that additional restructuring in 2014 has resulted in the overall policy climate remaining muddy and uncertain. Although significant strides have been made in government's conceptualisation of the SMME sector, and the role of government therein, there is still a lot to be done with regards to coherent, comprehensive and efficient implementation of these ideas.

Creating the policy and institutional environment between 1995 and 2003

Promoting SMME development has been a government objective since the transition to democracy in 1994. Prior to this, government's economic and industrial policy promoted the growth and development of resource-based sectors, populated by large state-owned enterprises and corporates to extract and beneficiate commodities. This policy led to the creation of mega entities (e.g. Iscor and SASOL) which represented the sector (e.g. steel and petrochemicals), and concentrated the production of goods and services in the hands of oligopolies. In this environment, SMMEs faced high barriers to entry, making it difficult for them to compete, and resulted in them remaining on the economy's periphery.

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7   See Chapter Four for further discussion

Thus, a primary objective of the ANC government, as set out in its 1995 White Paper, was to create an enabling environment for SMMEs. Yet, a review of the literature indicates some reasons why the implementation of the White Paper fell short of expectations. These include its supply-driven approach which paid little attention to the market's needs; a government-led institutional environment that was ill-equipped to connect with stakeholders (Mthimkhulu, 2014: 14); and a regulatory environment which did not support the mandate of institutions to develop SMMEs (Rogerson, 2004). In essence, the White Paper (1995) represented a theoretically sound approach to SMME development, but failed to take into consideration the real structure of the South African economy and the level of skills within its population.

Modifying the policy and institutional environment between 2004 and 2008

Given the failings with the first phase of government efforts to support SMMEs, the policy environment required substantial revision and modification. Despite the lack of specific support to SMMEs in this first phase, the government gained invaluable lessons through the process of establishing small business support institutions and programmes. These lessons formed the basis for Phase Two, which was initiated by the release of *The Integrated Small Business Development Strategy in South Africa 2002 – 2014* (hereafter referred to as the Strategy). The Strategy (2003) summarised the gaps and weaknesses of the approach developed in the White Paper (1995) and identified the following key recommendations:

- Generic small business development approach was ineffective and a more nuanced approach was required, suggesting the need for differentiated services, instruments and delivery concepts adapted to the different segments of small, medium, and micro enterprises.

- Poor alignment across agencies providing services which indicates that the DTI coordination function through its Centre for the Promotion of Small Business was ineffective and an alternative coordination point was needed.

- Too many institutions involved, with a few of them ineffective, and all of them, their activities not mutually beneficial (i.e. creating positive feedback loops and generating economies of scale). There was therefore a need to consolidate support institutions and programmes that had proliferated across government in order to improve the operational capacity and outreach capacity of newly formed institutions (e.g. Ntsika Enterprise Promotion Agency, Khula Enterprise Finance Limited).

- The delivery model was too 'bottom–down' driven, resulting in marked differences between the quality of services received on-the-ground because of wide spread regional and local differences in policy absorption. Hence, to improve the consistency of services, a more bottom-up approach was required.

- For SMME development initiatives to be successful, basic formal and technical education needed special attention.

- Private sector participation was inadequate, and there was a need for business associations to play a more significant role in the support process.

In response to these revisions and lessons, the lead institutions driving SMME development were overhauled. Three out of the four lead implementing agencies, supporting the DTI, changed. The Small Enterprise Development Agency (SEDA) was established in December 2004 through the National Small Business Amendment Act, 29 of 2004 (GEM, 2014:38 and DTI, 2008:29). SEDA was given the responsibility of overseeing the localisation of 'non-financial support to small enterprises through a national network of access points' (DTI, 2005b:4). A new funding agency called the South African Micro Finance Apex Fund (SAMAF) was created

to supplement Khula's activities.[8] SAMAF concentrated on localising access to micro-finance (DTI, 2005b:4). Khula is the only lead agency from Phase One to remain, but its role was redefined, to have 'a more focused retail approach to small and medium-sized enterprise (SME) finance, primarily [targeting] black-owned businesses, start-ups needing small loans with limited security, as well as SMEs in under-served provinces' (DTI, 2005b:4).

In its efforts to develop and refine its small business strategy, the government has used each previous strategy as a departure point for its successor. The principles of integration and targeted support that were highlighted in the Strategy (2003) were refined in the 2005 *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises*. As such, all new programmes, products, services and delivery mechanisms are evaluated to ensure that they support existing mechanisms, reduce duplication and add value to the current SMME ecosystem.

This approach is primarily driven by the acknowledgement that the SMME sector is made up of a multitude of stakeholders, environments and contexts. The implication of this is that policy and programmes need to be both integrated and targeted, a balance which is often very difficult to find. Importantly, implementation of this approach requires buy-in and contributions from national, provincial and local governments as well as a range of external and parastatal stakeholders. Table B3 (Appendix B, xi) describes the policy focus areas and stakeholder contributions, designed to achieve this goal of coordinated and targeted assistance.

Fine tuning government policies from 2009 to 2016

In its initial stages of developing the SMME ecosystem, government focused on establishing a comprehensive account of the SMME environment, with policies suitable for governing it. In its later stages, the focus shifted to simplification and streamlining the process of accessing these targeted assistance programmes. This included a handful of significant shifts in the institutional environment. Most notable among these, is the establishing of the Department of Economic Development in 2009 and the Department of Small Business Development in 2014. The latter of these changes removed the DTI from its leadership role in the SMME sector and, instead, established a dedicated department to ensure that small business development receives more attention and focus. This change, along with the merging of Khula, SAMAF and the IDC to form the Small Enterprise Finance Agency (SEFA), are indicative of state attempts to improve institutional alignment. Despite these commendable attempts, the success of these efforts remain debatable.[9] Table 3, on the following page, gives an outline of the current agencies and departments responsible for SMME development.

Although the mandate for DSBD is similar to that of the DTI, with regards to SMME development, the formation and placement of the department has resulted in some internal contradictions between policy and project objectives. For instance, projects which address poverty alleviation seldom address market access issues for SMMEs. This internal contradiction places significant strain on the resources available to the Department, forcing it to prioritise projects which either have high impact but low reach, or low impact but high reach. Because of this, the DSBD favours a multi-stakeholder delivery model that allows it to crowd-in additional resources and expertise. Although there are clear benefits to such a model, it further complicates the difficult task of coordination between various agencies and departments.

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8   Khula Enterprise Finance Limited (hereafter, 'Khula') was established in 1996 as an SMME financial assistance agency, operating under the DTI
9   See Chapter Four for further discussions on this point

Table 3: Overview of current implementing agencies/divisions for SMME development policies	
Responsible department	**Implementing agencies and/or divisions**
Economic Development Department (established in 2009)	Industrial Development Corporation
Department of Trade and Industry	■ South African Business and Technology Incubation Association ■ National Small Business Advisory Council
Department of Agriculture	Land Bank and Micro-Agricultural Finance Institute of South Africa
Department of Small Business Development (established 2014)[10]	■ National Youth Development Agency (established 2009) ■ Enterprise Development Unit ■ Small Enterprise Finance Agency (migrated to DSBD in 2015) ■ Enterprise Development Unit ■ Informal Business and Chamber Support Directorate ■ Cooperatives Development Unit ■ Small Enterprise Development Agency[11] ■ National Empowerment Fund ■ The National Youth Development Agency (NYDA)
Parastatal Agencies	CSIR, Development Bank of Southern Africa, South African Bureau of Standards, BRAIN[12] and The National Small Business Advisory Council
Department of Public Works	Vuk'uphile, a learnership initiative of Expanded Public Works Programme
Department of Minerals and Energy	Support services required by the small-scale mining sector
Department of Science and Technology	■ Tshumisano Trust (between 2004 and 2008).[13] ■ Technology and Innovation Agency (established 2008)
Department of Labour	The National Productivity Institute (NPI) and SETAs
The Presidency	Inter- Departmental Committee on Entrepreneurship and Small Business Promotion (joint co-ordination point with the DTI)

Further difficulties arise when one considers the emphasis placed on the South African National Development Plan (NDP), which informs all policies developed by the DSBD (Department of the Presidency, 2011). The NDP emphasises the reduction of poverty and inequality in South Africa along with a focus on increasing employment and empowering vulnerable and previously disadvantaged groups (Department of the Presidency, 2011). Given the potential role that SMMEs can play in attaining these goals of reduced inequality and poverty and increased employment, the DSBD must ensure that these goals have been taken into consideration when it develops its strategies and interventions. Figure 2 illustrates the focus areas, interventions and 2016/2017 budget allocations established by the DSBD to date.

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10   The Broadening Participation Division of the DTI was transferred to the DSBD, which contained some of the functions for Small Business and Cooperatives enterprise development on 1 of September 2014 together with financial and human resources. In 2015/16. Governance and corporate services functions operated under the auspices of and through a Cooperation Agreement with the DTI. In the second semester DSBD established its own policy regime, Audit Committee and Internal Audit function; Risk Committee and risk management function; and appointed the Office of Chief Executive Officer, etc.

11   SEDA Technology Programme fully integrated in SEDA's structures in 2009

12   The government recognised that one of the shortcomings of its SMME programme was providing SMMEs with access to information. Consequently, government extended the services of the Business Referral and Information Network (BRAIN) to include an Internet portal from which active and potential entrepreneurs.

13   Tshumisano Trust established by the department of Science and Technology has established technology stations located at universities to facilitate the transfer of technology between tertiary institutions and small business.

5 Strategic Pillars	Interventions	Programmes and 2016/2017 budget
Enabling and regulatory legal environment	■ Public sector preferential procurement	■ **Policy and research:** R19 million
Enterprise development	■ Incubation & market access	■ **Monitoring and evaluations:** R8 million
	■ Business Development Services (SEDA)	■ **Competitiveness support:** R109 million
Intergovernmental	■ Access to financial assistance (SEFA) and incentive schemes	■ **Market development and stakeholder relations:** R9 million
Stakeholder partnership development	■ Township and rural enterprises focus + women, youth and people living with disabilities	■ **Cooperative development:** R63 million
Information knowledge development	■ Policy and regulatory environment	■ **SMME Development finance:** R345 million
	■ National Gazelles (SMME growth accelerators funded by SEDA)	

Figure 2: DSBD focus areas and interventions

2.1 THE STRUGGLES OF SMME OWNERS TO DATE

The most recent results of the GEM Survey (2016/2017), the World Bank Cost of Doing Business Review (2017) and the Global Competitiveness Report (2015/2016) indicate that entrepreneurs in South Africa face a difficult operating environment, both in absolute terms as well as relative to entrepreneurs operating in countries at the same level of economic development as South Africa. Figure 3, for instance, shows South Africa's scores in the Global Competitiveness Index. The score ranges from 1 to 7, with 1 representing the lowest score and 7 representing the highest. As can be seen in Figure 3, South Africa's scores lie somewhat above the median number. However, with the exception of the score for technological readiness, the country has seen moderate decreases in scores since 2007.
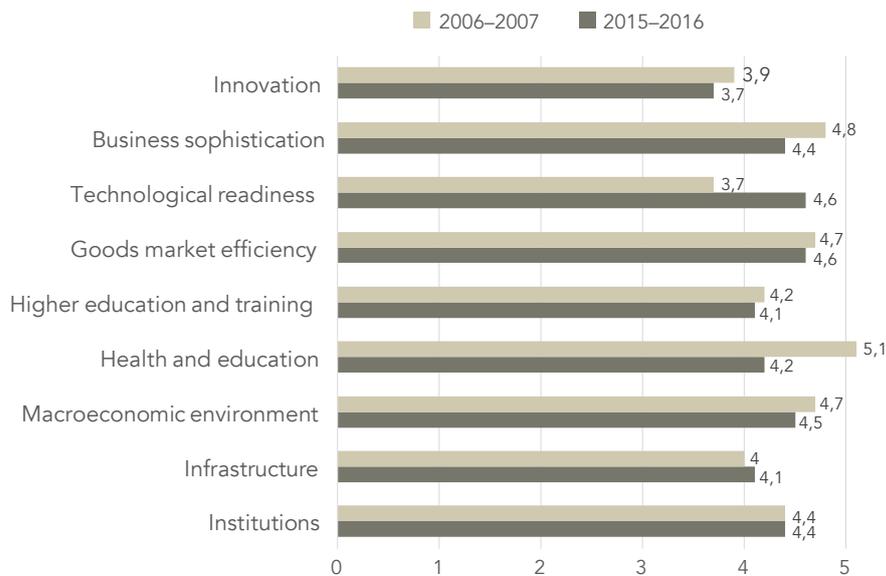
Figure 3: Global competitiveness index scores

These studies show that, between 2003 and 2016, SMMEs' operating environment and the ability of entrepreneurs to establish, run and expand their business did not substantially improve, and in a few areas, became more challenging. They concur that the key challenges facing entrepreneurs and SMMEs arise from government bureaucracy (i.e. so called 'red-tape' and restrictive labour regulation) and the limited availability of adequately skilled labour. Furthermore, the studies conclude, either directly or indirectly, that state-led SMME promotion initiatives have not yet achieved their objectives. The consensus seems to be that policy reform is still necessary, despite the significant efforts made by government. GEM (2017), in particular, argues that complex and non-transparent procedures make government programmes inaccessible to low-income business owners, thus minimising the effect of these policies. It is disappointing to note that the reports of poor implementation, low accessibility and high degrees of complexity in government policies have been consistent over time. Furthermore, GEM (2017) highlights that some measures of policy effectiveness and implementation have deteriorated since 2015.

The GEM Surveys[14] also provide additional analysis regarding South Africa's entrepreneurial conditions. Based on the results of surveys conducted between 2001 and 2015, the most pressing problems affecting SMMEs "cluster around the areas of government programmes and policies, school-level entrepreneurship education and training, research and development transfer, and cultural and social norms supporting entrepreneurship" [15] (GEM, 2015:48). Furthermore, the experts who participated in the GEM 2015 National Expert Survey reached the same conclusion. They identified three critical constraints: government policy (61%), access

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14 The GEM Surveys are made up of two surveys: an Adult Population Survey (APS) and a National Experts Survey (NES). Each is conducted annually with the APS being administered and overseen by academic teams in the participating economy. The APS is conducted using a random representative sample of no less than 2000 adults between the ages of 18 and 64 years old. The NES is conducted with a minimum of 36 experts per country, with a minimum of 25% of these being entrepreneurs or business people and 50% being professionals. The NES survey is conducted as an interview and takes geographic, demographic and sectorial factors into account so as to ensure a balanced sample.

15 GEM noted that the high risks associated with entrepreneurship are not mitigated by a culture and society, which encourages and admires business ownership or self-employment. In particular, they observed that a number of experts criticised the development of an entitled population, which was unwilling to attempt business ownership without significant government support.

to finance (44%) and education and training (42%). Since 2001, when the first GEM National Expert Survey was conducted, these three constraints have been consistently raised as critical bottlenecks.

Figure 4 represents the results from the Global Competitiveness Survey on inhibitors to business in various countries. The report asks experts in each country to rank the most problematic factors for doing business from one – most problematic – to five. The results are then weighted to reflect their relative ranking and an overall score out of 100 is calculated. The absolute numbers represented by these scores cannot be interpreted in any meaningful way – a score of 100 would simply mean that all respondents ranked a particular factor as the most problematic factor for doing business. However, the weighted scores presented in Figure 4 are able to give insight with regards to those aspects of doing business which experts consider the most inhibitive. In this sense, it is immediately obvious that inefficient government bureaucracy has come to be seen as a highly inhibitive factor to doing business over time. Relatedly, policy instability and corruption have also risen dramatically in importance in recent years.

Figure 4: Global Competitiveness Survey – most problematic factors for doing business

It is important to note that the relative ranking of 'an unskilled workforce' has substantially declined since 2006. Other such reductions – although by smaller margins – include access to finance, the work ethic of the labour force and crime. Access to infrastructure has also improved over time. These improvements are important to note, as they may present some indication of successful policies in government thus far. Other significant changes include an increase in corruption, inefficient government bureaucracy and policy instability. This indicates that experts and business owners are becoming more concerned about these factors as they relate to business operations. Although there is no aspect of these scores that are entirely unrelated to state operations, it is especially important to note that those aspects of doing business which relate directly to government policies or interactions – namely, labour regulations, policy instability and government bureaucratic procedures – are the elements which experienced the largest increases.

This section considers these impediments to SMME development in more detail. Specifically, it considers four categories of impediments: (1) cumbersome regulatory requirements; (2) high costs to business; (3) low skill levels; and (4) lack of access to finance. These categories are selected based upon a review of the literature to date – including the *Annual Review of Small Business in South Africa* conducted from 2004 to 2014 – as well as the data described above. While some aspects of the information covered in the remainder of this section were not highlighted by either the Global Competitiveness Index or the GEM analysis, they have been consistently raised as concerns in research into the SMME sector in particular. As such, it is necessary to point out that the experiences of business at large (particularly business experts) may differ significantly from those of small businesses. Furthermore, it is important to note, that the impediments listed do not operate in isolation. Instead, they operate within a system where these challenges compound each other and worsen their effects. This is illustrated by Figure 5, below.
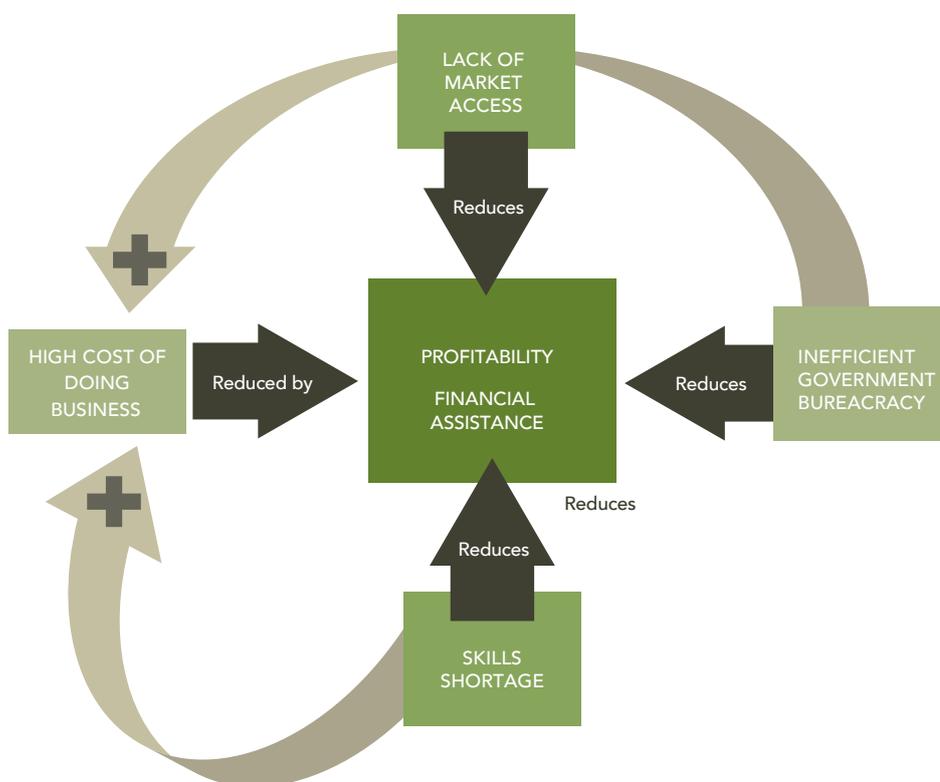
Figure 5: Compounding effects of impediments to SMMEs

The lack of access to markets reduces profitability through reduced sales and increased infrastructure, communication and transport costs (DTI, 2004). As a requirement for financial assistance in the private sector, this lack of market access also prevents SMME owners from accessing the necessary finances to run and manage their businesses (BER, 2016). Furthermore, skills shortages in the labour market increase the cost of doing business. Unskilled labour have lower productivity levels than their skilled or semi-skilled counterparts and, in small businesses where employees frequently have to fulfil multiple roles, the shortage of skilled and semi-skilled labour reduces the marginal productivity of the enterprise as a whole (McIntosh, 2002). Skill shortages also limit the access to finance because business owners themselves are unable to produce acceptable business plans, market research or business ideas (BER, 2016). Finally, low skill levels increase the cost of doing business because owners have to rely on

costly trial-and-error models and have little financial or regulatory flexibility to do so in a cost effective manner (DTI, 2004). Next, each of the four highlighted impediments is discussed individually.

2.1.1 Cumbersome regulatory requirements

South Africa's SMME sector is characterised by a sharp divide between the formal and informal sectors with the majority of SMMEs concentrated in the micro- and survivalist enterprises found in the informal sector (DTI, 2008). While informality has extremely low barriers to entry and allows for the neediest of a society to engage in some degree of entrepreneurship, they have little growth potential and employ few people, resulting in little contribution to the NDP goals. It is important to note, here, that firms in the informal sector do employ *some* people; however, these employment contributions are small relative to those in the formal sector (DTI, 2005). The implication, then, is that government policies should be such that informal businesses are encouraged and enabled to eventually enter the formal sector where growth and employment become possible (BER, 2016).

Unfortunately, regulatory and tax burdens have been listed as considerable constraints to doing business in every report on SMMEs from 2003 to 2016 (DTI, 2004; DTI, 2005a; DTI, 2008; BER, 2016). Regulatory burdens, in particular, fall more heavily on small businesses and create a perverse incentive that discourages formalisation (DTI, 2004; DTI, 2005a). A small number of specific concerns have been highlighted by small business owners in the last decade. The most consistent concern has been inefficiencies in government bureaucratic systems. Such inefficiencies have resulted in time delays in receiving permits and licenses, high levels of paperwork and bureaucratic 'red tape' and, importantly, a lack of coordination between government departments (BER, 2016). This lack of coordination has, in itself, resulted in duplication, longer waiting times and general confusion regarding processes; thereby making the system less efficient (BER, 2016).

Finally, the tax systems currently in place give no considerable concessions to those businesses operating in the SMME sector, with the Value-Added Tax (VAT) system being cited as particularly troublesome. The system requires VAT to be paid upon invoicing and not upon receipt of payment, resulting in significant cash flow constraints for small businesses (DTI, 2004). While the South African government has a large number of economic policies and goals that need to be overseen, the recommendation that improving government efforts through clearer coordination and communication between departments is worth substantial investigation[16] (DTI, 2008).

2.1.2 Lack of access to finance

In order for SMMEs to start and to prosper, they require financial capital. This is especially true given the high degree of necessity-driven SMMEs, where access to personal finances is not readily available (DTI, 2008). This concern is compounded by the fact that financial access is divided along sector and demographic lines. Specifically, the informal sector finds it more difficult to access finances and financial aid. A large portion of the financial assistance available – especially from the private sector – was granted to white males in recent years (BER, 2016). This is significant because white males dominate SMMEs in the formal sector, with

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16 It should be noted that an attempt at this was made through the instituting of the DSBD. However, these changes have not yet met this goal. Whilst SMME development agencies all operate under the DSBD, the research in Section Six indicates that most agencies operate independently with many complaining of competing mandates and a lack of coordination.

other demographic groups listing lack of finance as a prohibitive factor for moving from the informal to the formal sector. This means that the goals that SMME policies aim to address are not being met, as population groups that require financial assistance the most, are not receiving it.

The question then becomes whether such lack of access is due to financial constraints in the economy – where such financial assistance is simply not available – or due to the inability of business owners to access the funds that are available (Rabie et al, 2016; UCS, 2011). A study that focused on access to credit and support for SMMEs in South Africa concluded that, while financial and investment constraints are significant in the country, the larger constraint comes from lack of individual ability and skills (Rogerson, 2013; UCS, 2011) wherein business owners lacked sufficient skills to produce viable business plans (BER, 2016). Furthermore, business owners lacked sufficient collateral for business loans and had little or no credit history - both requirements for financial assistance (BER, 2016).

In this regard, it appears that business owners attempt to learn by doing, creating a more difficult business environment for themselves when they start up. For these reasons, capital is much more readily available for established businesses than at the start-up stage, where this assistance is usually most needed (BER, 2016).

2.1.3 High costs of doing business

South African entrepreneurs struggle under particularly high costs of doing business (DTI, 2005a). These costs are derived from three particular sources: poor infrastructure, restrictive labour laws and high crime rates. With regards to infrastructure, business owners have identified communication, utilities, transport and land as particularly high physical costs to doing business (BER, 2016; DTI, 2008; Rogerson. 2008). Personal infrastructure – such as legal and accounting costs – is also listed as being prohibitively high (BER, 2016). Such costs contribute to the high level of business failure by reducing business profitability. This, in turn, contributes to the fact that few businesses progress beyond the early stages into stages of growth where employment and stability increase (DTI, 2004).

High labour costs have been listed as a primary barrier since 2004 and have continued to be listed as a constraint. (DTI, 2005a; BER, 2016). These costs relate both to minimum wage laws as well as labour regulations which prevent businesses from responding to cyclical changes in the market or economy (BER, 2016).

High labour costs are particularly concerning in labour-intensive industries such as textiles and construction, where labour laws act as an incentive against increasing employment (BER, 2016; Rogerson, 2008). Recent years have seen SMMEs shift into the tourism and accommodation sector, which is a sector in which labour requirements are often seasonally dependent. If labour laws prevent small businesses from adjusting to such seasonal changes, business owners will choose lower costs over increasing employment. This reduces the contribution of SMMEs towards the NDP goals (Rogerson, 2008; Soeren, 2005).

High levels of crime are also listed as a source of increased costs, as small businesses are forced to implement expensive security measures to protect their goods and capital (DTI, 2008; BER, 2016). These costs are exacerbated by a lack of infrastructure and formality, such that informal businesses that have little place to store goods are discouraged from active entrepreneurship.

Given the high unemployment rates in South Africa, it is unsurprising that many individuals turn to entrepreneurship for income. This is substantiated by the finding that SMMEs are most often started out of necessity and not business opportunity (DTI, 2008). In these circumstances, high business costs are particularly difficult because it is precisely those individuals who are starting businesses who do not have access to the finances to pay such high costs. This distinction may also account for the high rate of failure for small businesses in South Africa, although further research is needed to establish a causal relationship. It is reasonable to consider that necessity-driven businesses lack the skills, business ideas and resources to start and run their businesses in a way that enables long-term success.

2.1.4 Low skills levels

SMME growth and development are affected by low skills of both the owners of SMMEs and their employees. Owners often lack the soft skills' necessary for adequately managing staff, clients and suppliers. Low skills of employees have, however, been the most prominent complaint. Business owners have commented that the search for appropriately skilled employees is costly, as is the process of firing employees who are not a good match for the company (BER, 2016). In general, low skill levels in the labour market have been cited as a barrier to growth since 2003 and continue to be mentioned in the more recent analyses (DTI, 2004; BER, 2016).

Policy attempts to correct the problem have had little effect (Rabie et al, 2016). In 2007, surveys indicated that the Skills Development Levy – a government initiative aimed at improving the skills of employees – was considered "just another tax" and not seen to be improving the situation at all (Rogerson, 2013). Furthermore, minimum wage laws exacerbate the problem of low-skilled employees. Such employees, generally affected by minimum wages, generate relatively low revenues in comparison to their wages. If such problems persist, small businesses will not be able to grow out of the nascent stages as higher skilled staff becomes increasingly important as businesses grow (Soeren, 2005).

2.2. ENTREPRENEURIAL ENVIRONMENT IN SOUTH AFRICA

An important measure of the country's ability to foster and develop SMMEs is the entrepreneurship of its population. Entrepreneurial activity is defined as "an output of the interaction of an individual's perception of an opportunity and capacity (motivation and skills) to act upon this and the distinct conditions of the respective environment in which the individual is located" (GEM, 2014:35). The implication, of course, is that creating an enabling environment for SMMEs must include considerations of entrepreneurship and culture as well as the economic, social and political factors that have been discussed thus far. It is important to remember that, no matter the policy and economic environment, unless individuals perceive entrepreneurship as a viable alternative to full-time employment, the likelihood of them choosing starting a business is reduced. This is not to say that an enabling policy environment is not encouraging and it is entirely possible that a positive-feedback loop exists between a supporting environment and a greater interest in entrepreneurship.

The GEM methodology recognises that individual attitudes towards entrepreneurship influence the performance of the country's SMME ecosystem. In particular, positive perceptions of entrepreneurship by a society result in more individuals choosing entrepreneurship as a career path. Consequently, small business attracts greater resources from both the public

and private sectors. Given this virtuous cycle of growth, public-sector institutions have established a strong track record for promoting entrepreneurship overall.

2.2.1 South African perceptions of entrepreneurship

Given the above, it is encouraging to note that South African perceptions towards entrepreneurship have been steadily improving since 2003 (GEM, 2015). Table 4, below, shows that in 2003, 48% of adults believed entrepreneurship to be a 'good career choice', with this number increasing by 24.3 percentage points by 2016. This upward trend applies equally to 'high status for successful entrepreneurs' and 'media attention for entrepreneurship'. With the exception of the measure on 'good career choice', South Africa scores higher than the African average on all measures of positive perceptions on entrepreneurship. Such positive perceptions are largely attributed to high media coverage and attention to profiling successful entrepreneurs.

Table 4: Perceptions of entrepreneurship in South Africa between 2003 and 2016									
	2003	2005	2008	2010	2012	2014	2015	2016	Africa region 2016 average
Good career choice	*48	55,2	64.6	77.5	74.1	69.6	73.8	72.6	74.6
High status for successful entrepreneurs	48	56	62.2	77.6	74	72.9	76.1	78.1	76.7
Media attention for entrepreneurship	47.5	54.4	69.2	78.6	72.9	72.6	73.8	74.2	64.9

48 represents 48% of respondents agreed with the statement that being an entrepreneur is a good career choice (GEM, 2015:24; GEM, 2016:21)

Both increasing the status of entrepreneurship and adults' greater awareness of opportunities is encouraging, but it will not translate into greater SMME activity in the economy, if the perceived value of an opportunity is overshadowed by individuals' fear of failure and/or their perception of their capabilities as insufficient to turn this opportunity into a viable business. According to the GEM Survey (2015:25), individuals who are confident in their skills or believe they possess the necessary skills to start a business are four to six times more likely to be involved in some form of entrepreneurial activity'.

Table 5 summarises South African perceptions on capabilities and entrepreneurial opportunities. In spite of the positive changes in normative perceptions of entrepreneurship overall, South Africa displays some disheartening trends in perceived opportunities, perceived capabilities and fear of failure. Specifically, South Africa has lower rates than the African average for both 'perceived good opportunities' in entrepreneurship and 'perceived capabilities'. Furthermore, both these measures were following upward trends until 2015, but have decreased since then. Between 2015 and 2016, perceptions of good opportunities decreased by 14.3%, although the measure has maintained a substantial increase since 2001. Similarly, the measure for 'perceived capabilities' decreased by 16.5% between 2015 and 2016. Whilst the overall changes in these two measures since 2001 remains positive, the same cannot be said for 'fear of failure'. With the exception of 2005, fear of failure has seen persistent increases, although this has been at a decreasing rate. Furthermore, in South Africa, the fear-of-failure rate is 4.7 percentage points higher than the African average.

Table 5: Perceptions about accessing entrepreneurial opportunities from 2001 to 2016					
	2001	**2005**	**2015**	**2016**	**Africa region 2016 average**
Perceived good opportunities	*19,7	27,3	40,9	35.0	51.8
Perceived capabilities	30,4	35,2	45,4	37.9	58.6
Fear of failure	26	25,5	30,3	31.2	26.5

*19.7 represents 19.7% of respondents agreed with the statement that there are good entrepreneurial opportunities in South Africa (GEM, 2017:21)

Experts participating in the GEM Survey (2015: 26) observed that South Africa's national culture impedes entrepreneurial risk-taking. In the survey, respondents were asked how strongly they agree with the statement 'In my country, the national culture encourages entrepreneurial risk-taking' (GEM, 2015: 55). Respondents indicated strong disagreement with the statement, with NES interviews suggesting that many South Africans attempt to shift entrepreneurial risks (in particular, financial risks) to government through use of government assistance programmes (GEM, 2015:55). In addition, the GEM Survey (2015) also found that only Hungary and Croatia have lower scores than South Africa for social and cultural norms that encourage or allow actions leading to new business methods and activities. These cultural and social impediments may be compounded by the high relative costs associated with entrepreneurial risk-taking, given the high levels of unemployment and poverty in the country.

In order to understand the effects of this fear of failure, one has to consider its relationship to the positive perceptions of entrepreneurship displayed in Table 4. The GEM study attempts to give some clarity in this regard, through the 'Intentional Entrepreneur' metric.[17] This metric estimates the percentage of 18- to 64-year olds who intend to start a business within the next three years, but excludes individuals already engaged in any stage of entrepreneurial activity. Based on this metric, entrepreneurial intentions in South Africa have dropped from 12,2% of the adult population in 2001 to 10,9 % in 2015, which is nearly 50% less than South Africa's recorded high of 19,6% in 2010 (GEM, 2015:26).

The above finding has an important implication for the government's SMME development agenda, because it illustrates that South African adults can identify entrepreneurial opportunities in the market, but they find it difficult to make a commitment to purse them. Guiding adults from the concept of establishing a business to taking action has been inadequately addressed in the government's SMME support ecosystem and needs further attention.

The GEM researchers suggest that the government's starting point for encouraging entrepreneurship among adults that leads to starting a business is identifying and reducing factors which inhibit entrepreneurial intentions. This translates into reducing the risk of failure associated with being an entrepreneur as well as making it more attractive to own a business than being a full-time employee (i.e. reduce the risk and increase the potential return of being an entrepreneur). Improving this risk-return relationship requires programmatic interventions to reduce the costs involved in starting and running a business, increasing productivity levels

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17   The GEM methodology assumes that total entrepreneurship is a positive function of entrepreneurial perceptions (including perceptions of opportunity) and a negative function of the fear associated with entrepreneurial risk-taking. However, these assumptions may be flawed in the context of a poor economic environment; if the probability of business failure is high, then it is rational and reasonable to maintain a risk-averse stance on starting up a business. The research supplied by GEM does not compare the perceptions of entrepreneurial risk and the fear associated therewith to the economic climate of the country in question. Such an analysis may shed light on whether these assumptions remain valid in the South African context.

and expanding markets, and ensuring macroeconomic and political stability. Examples of these interventions include decreasing 'red tape', simplifying labour regulations and improving access to resources (e.g. capital and competitively priced appropriately skilled labour). Essentially, the focus of interventions needs to move away from policy and strategy development to project implementation.

Table 6: Prevalence rates of entrepreneurial activity among adults between 2001 and 2016								
	2001	**2005**	**2010**	**2013**	**2014**	**2015**	**2016**	**Africa region 2016 average**
Total Early Stage Entrepreneurial Activity (TEA)[18]	6.5*	5.2	5.9	10.6	7.0	9.2	6.9	17.6
Necessity-driven (% of TEA)	18.2	39.5	36	30.3	28.2	33.2	23.6	28.9
Opportunity-driven (% of TEA)	64.7	57.0	60.7	68.6	71.3	65.7	74.4	67.5
Ratio between necessity and opportunity	0.3	0.7	0.6	0.4	0.4	0.5	0.3	0.4

6.5 represents 6.5% of South Africa's adult population (GEM, 2017:28)

Table 6, above, gives a summary of GEMs measures on Total Early-Stage Entrepreneurial Activity (TEA), as well as measures of necessity-driven and opportunity-driven entrepreneurship. Overall, South Africa has maintained a general upwards trend in the TEA measure, although the increase is from a very low base. Furthermore, South Africa is a full 10.7 percentage points below the African regional average. However, South Africa has a lower number of necessity-driven entrepreneurs than the African region average, as well as a higher number of opportunity-driven entrepreneurs. The increase in opportunity-driven entrepreneurs represents a positive shift in South Africa's entrepreneurship landscape, with potential implications for both SMME policy overall and the entrepreneurial training and education programmes in the country. Overall, however, the percentage of entrepreneurs who fall into the necessity-driven category – i.e. those who start a business because they have no other means of finding work – has increased since 2001, albeit by less than the increase in opportunity-driven entrepreneurship.

2.4 CONCLUSION

This chapter presented an overview of the literature on SMMEs in South Africa to date. It relates a brief history of the policy environment for SMMEs in South Africa and notes that, while these policies have taken great strides, there remains important work to be done in terms of simplifying and clarifying these policies and mandates. In particular, the government could focus its efforts on adjusting tax legislation for small businesses so as to reduce the complexity and tax burden placed on these enterprises.[19] Further policies that could be considered include the business rescue policies, which require excessive financial contributions from small firms, and the registration and licensing processes, which could benefit from simplification and increased turnaround times.[20] Although some ground has been made in this regard, government agencies could benefit from a realignment of goals and mandates to ensure that agencies are prioritising outcomes in a way that is impactful and efficient. The review of state policy to date suggests that such a task has been attempted and that efforts

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18   TEA measures the percentage of the working-age population who indicate that they are about to start a business or who have started one in the past three years
19   See Chapter Four, Section 4.2 for further details
20   See Chapter Four, Section 4.2 for further details

continue to this day. Despite some progress, further research (see Chapter Four) indicates that there remains significant work to be done in this regard.

In reviewing the literature on SMMEs, this chapter considered the challenges faced by SMMEs, as identified in previous Reviews as well as related literature. The research indicates that there are several persistent challenges faced by SMMEs, which have not yet been adequately targeted. Primarily, these are cumbersome regulatory requirements, a lack of access to finance, the prohibitive cost of doing business and low skills levels of employees and business owners. The chapter argues that these challenges are interlinked and related to one another, with many of them worsening others. This implies that state policy can focus its efforts on combatting particular challenges, which will, in turn, assist in easing others. For instance, reducing inefficiencies in government bureaucracy will improve business profitability and access to financial assistance, while also reducing the cost of doing business. As such, state systems, regulations and procedures have the potential to significantly impact on the overall setting for SMMEs in the country.

Finally, this chapter considered the entrepreneurial environment in South Africa at present. The analysis in this regard presented mixed findings: South Africans exhibited positive sentiments towards entrepreneurship overall but perceived there to be few good opportunities for enacting this entrepreneurial spirit. Furthermore, there may be higher-than-normal risks associated with entrepreneurship in South Africa, given the high rate of business failure, the volatile economy and, especially, the high levels of poverty and unemployment experienced by the population. In these circumstances, even those individuals with good ideas and an entrepreneurial mindset may be discouraged from participating in business ownership for fear of the consequences of business failure.

CHAPTER THREE

SMMEs and their owners in South Africa – a statistical overview
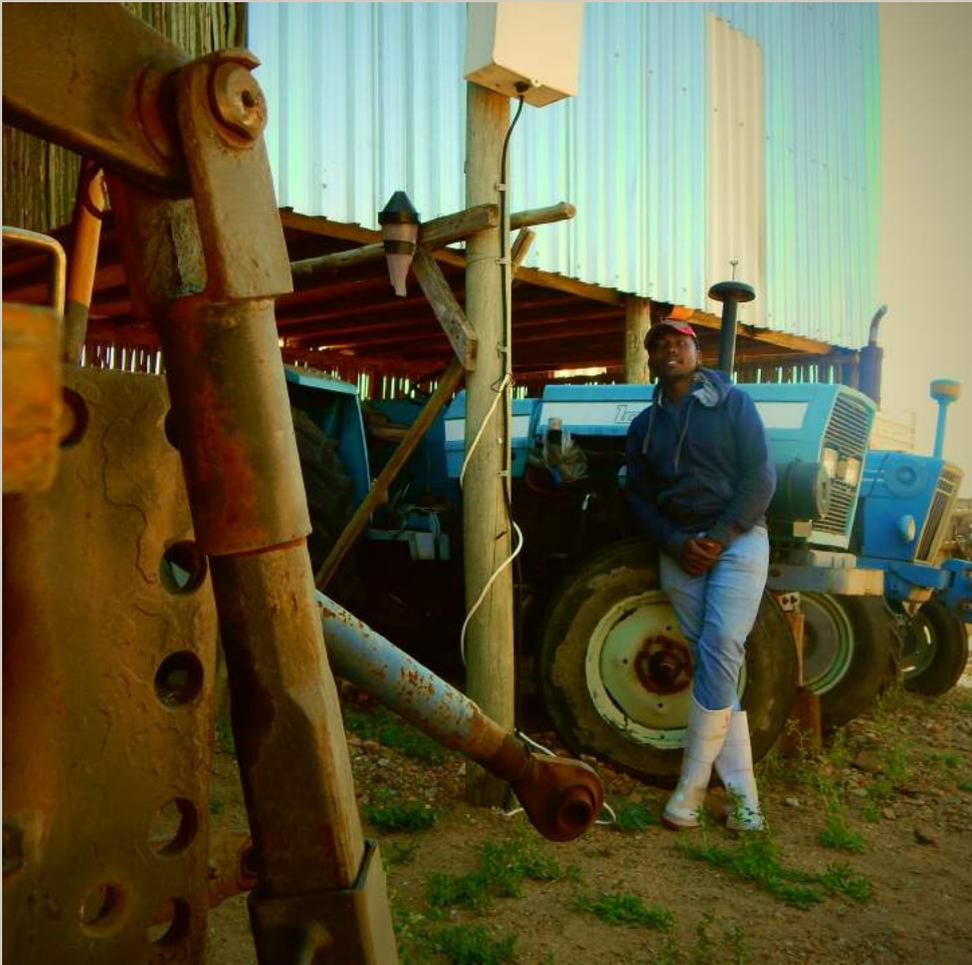
3.1 INTRODUCTION

The following chapter comprises a statistical analysis of South Africa's SMMEs. This analysis aims to understand the broad national context of SMME development, including a profile of SMME owners in the country. The analysis replicates statistics reported in previous reviews in order to draw comparisons over time and establish the growth and potential of the sector. The study concludes that the SMME sector has decreased slightly in size since 2008, despite increasing new business ownership rates in the same time period. This is likely due to high business discontinuance and failure rates. Overall, the sector has remained relatively consistent since 2008, with small positive changes being combatted by similar declines in other measures. For instance, while micro-enterprises have increased their contribution to GDP by roughly 15% since 2008, the contribution of small and very small enterprises to GDP has declined by just over 12%. Furthermore, although the sector has seen positive changes in the distribution of business-owners with regards to population groups – with black-owned enterprises increasing their share in the sector – there has been little improvement with regards to other vulnerable groups, such as women- and youth-owned enterprises.

3.2 DATA AND METHODOLOGY

There are, unfortunately, few existing data sources that can be used to study SMMEs. This is largely due to the fact that a large portion of SMMEs operate in the informal sector. This review uses a number of datasets to obtain the relevant statistics. A summary of these datasets is presented in the table below:

Table 7: Data sources			
Data source	**Focus**	**Reference period**	**Data type**
Stats SA Quarterly Labour Force Survey (QLFS)	Main activity of individuals	Quarterly	Household survey
Global Entrepreneurship Monitor (GEM)	Start-ups and new firms	Annual	Household survey
Stats SA GDP	All (business and non-business)	Quarterly	Accounting

The calculations for contribution to employment of each business class to total employment were derived from the QLFS dataset as follows:

- A table of the number of regular workers per business and per industry was generated and entities were transferred into size categories (micro, very small and small, medium and large) according to the definitions given in Chapter One (see Table C1 in Appendix C, xviii)

- Non-business sectors such as private households were ignored

- The share of total employment contributed by 'micro', 'very small and small' and 'medium and large' businesses was then calculated by industry, as well as overall. A similar methodology was used to calculate comparable statistics, such as the distribution of SMMEs across sectors.

The calculations for SMME contribution to GDP followed the Abedian method, as has been used in the *Annual Review of Small Business* since the 2003 report. The method decomposes GDP into total employee compensation and Gross Operating Surplus and calculates the contribution for each size category based on a set of assumptions within each part of this decomposition. A full description of this methodology can be found in Appendix C (xvi).

3.3 SIZE OF THE SECTOR

The following section describes the size of the SMME sector in South Africa. Table 8, below, shows estimated growth in the number of people who identify as self-employed in the country and compares this figure to the growth in the total working age population.[21] For the purpose of this study, self-employed is defined as those individuals who consider themselves employers as well as those who report being own-account workers. As indicated by the table, the number of individuals who identify as self employed has decreased by 3.04% since 2008, despite an increase in the working age population. This trend persisted across almost all time periods measured in Table 8, with the only exception being 2008 to 2010, where there was a 3.6% increase.

Table 8: Number of people identifying as self-employed in South Africa from 2008 - 2016					
	2008	**2010**	**2014**	**2016**	**% change since 2008**
Number of people identifying as self-employed	2 314 581	2 399 379	2 321 374	2 244 275	-3.04%
Working age population	31 544 170	32 945 091	35 176 613	36 668 993	16.25%

(Data: QLFS)

Using the GEM (2017:24) study, Table 9 reports findings on the percentage of South Africa's working age population who are starting a business,[22] run a new business,[23] run an established business[24] and who have discontinued a business in the past three years.

Table 9: Business ownership rates		
	2005*	**2016**
Nascent entrepreneurial rate	3.6	3.9
New business ownership rate	1.7	3.3
Established business ownership rate	1.3	2.5
Business discontinuance	2.9	4.5

*2005 was used here because no data was available for 2004 on business discontinuance
(Data: GEM, 2017)

What this data indicates is that fewer businesses are being started in South Africa (new businesses owners), than are being discontinued. If roughly 29% of nascent entrepreneurs move from the ideation phase to starting a business, these numbers will maintain a constant level of business ownership. However, the likelihood of this seems low, given the South African perceptions of ability and opportunity in the country (refer to Table 10). This suggests that government policy should potentially target nascent entrepreneurs to encourage small business growth in South Africa.

Furthermore, the ratio of business discontinuance – which is defined as the percentage of business owners who leave their businesses – to Total Early Stage Entrepreneurship (reported in Table 6) is 1.5. This means that for every person considering starting a business, 1.5 people exit

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21 Working age population, here, is defined as anyone who is older or equal to 15 years of age and less than 64 years of age
22 Defined as individuals who are planning on starting a business
23 Defined as a business that is less than 3 years old
24 Defined as a business that is more than 3 years old

their businesses (GEM, 2017: 28). Therefore, there is a net loss in entrepreneurship in the country, with the numbers of entrepreneurs decreasing over time (GEM, 2017:28). GEM's (2017:29) research indicates that 41.2% of early-stage entrepreneurs exited their businesses because the business was not profitable and 25.9% exited because of a lack of access to finance. This is in comparison to 5.9% who exited their business because of an opportunity to sell the business and 6.8% who found another job or business opportunity (GEM, 2017: 29). This research suggests that the high rate of business discontinuance in South Africa is due to the economic and business environment.

Finally, Figure 6 gives information from the CIPC (2017:27) on the number of company and cooperatives registrations over the past six years. These figures illustrate a general upward trend for both measures over time. Cooperative registrations, however, reached a peak in 2012/3 and have been steadily declining since that time. More specifically, there was a 58.4% increase in company registrations from 2014/5 to 2016/7, with 374 844 companies registered in 2016. In comparison, there was a 39.1% decline in cooperative registrations in this same period, with 12 424 cooperatives registering in 2016.
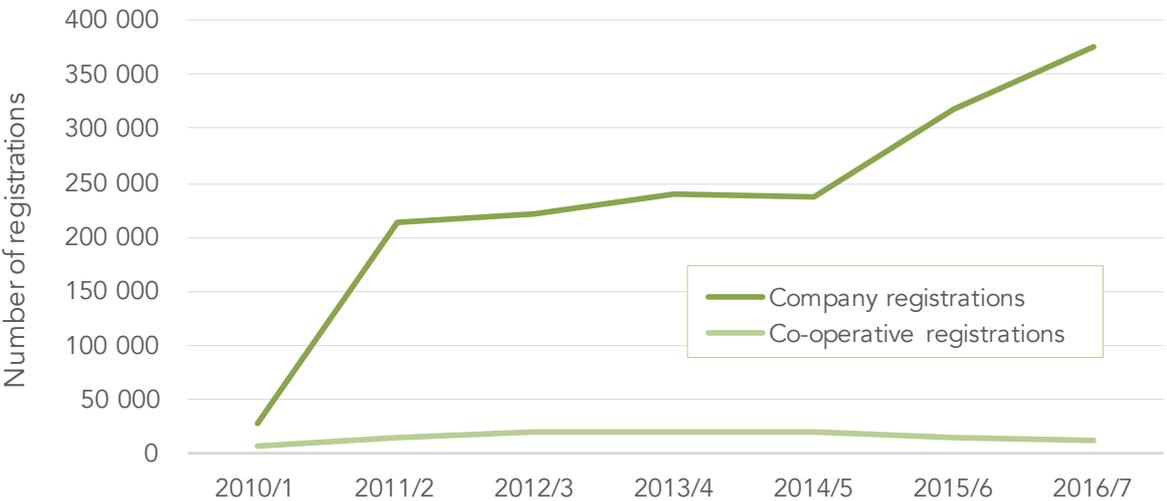
Figure 6: Company registrations from 2010–2016 (Data: CIPC)

While the CIPC does not report details regarding the number of business deregistrations or business discontinuance rates for South Africa, it is possible to make some comparisons using the GEM (2017) data discussed in Table 9. Table C2 (Appendix C, xix) presents estimates regarding the number of businesses that are discontinued or deregistered in South Africa. These estimates are likely to somewhat underestimate the number of deregistrations, as companies may not formally deregister. Regardless, GEM's (2017) business discontinuance rate is defined as the percentage of early-stage entrepreneurs who leave their business. Assuming, then, that this percentage of new business registrations will go into discontinuance in each year, Table C2 indicates a relatively stable but low level of business growth overall, with increases of less than 1% in 2015 and 2016 combined.

3.4 PROFILES OF BUSINESS OWNERS

The following figures illustrate the demographic profiles of business owners in South Africa. Calculations in this section are based on respondents who make up the working age population in the QLFS self-reporting as business owners. A relatively high proportion of SMME owners are among the older generations, with the sum of all owners between the ages of 36 and 65-years old accounting for 82% of all business owners in the country (see Figure 7). Given the disproportionately high levels of youth unemployment, these figures illustrate a need for SMME development programmes to target the youth. In fact, only 713 thousand youth are employed by SMMEs in the country, compared to 1.6 million adults.
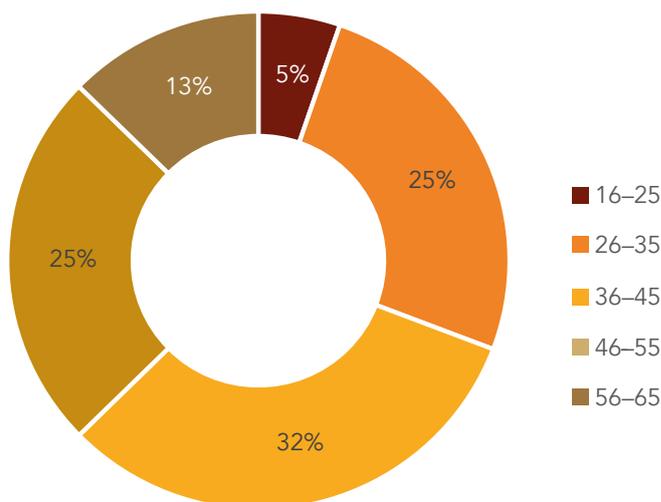
Figure 7: Proportion of business owners by age group (2016)

Figure 8 compares the education distribution of business owners to that of South Africa's total working age population.[25] The results indicate figures similar to what one would expect in a developed country, with a relatively high percentage (21%) of business owners having a tertiary education; higher than the proportion for the population as a whole. However, these figures drastically distort the true profile of such business owners, as illustrated by Figure 9.

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25 The education distribution was derived from the QLFS dataset which assigns seven levels of schooling: (1) no schooling; (2) some primary, which encompasses completion of any grades from 0 to 6; (3) completed primary which indicates completion of grade 7; (4) Some secondary which includes completion of any grades from 8 to 11 or completion of NTC levels I or II or the completion of a certificate or diploma without the completion of grade12; (5) Secondary which includes the completion of grade 12 or NTC III; (6) Higher education, which includes all certificates, diploma's and degrees and the completion of grade 12 or the completion of a higher diploma; and finally (7) other. In this study, "Primary or less" refers to those who have some primary education or completed primary education, as defined here. Similarly, "Secondary or less" refers to those who have some secondary education or completed secondary education, as defined above. "Tertiary" refers to those who are grouped as 'Higher Education' above and the "Other" category was not considered.
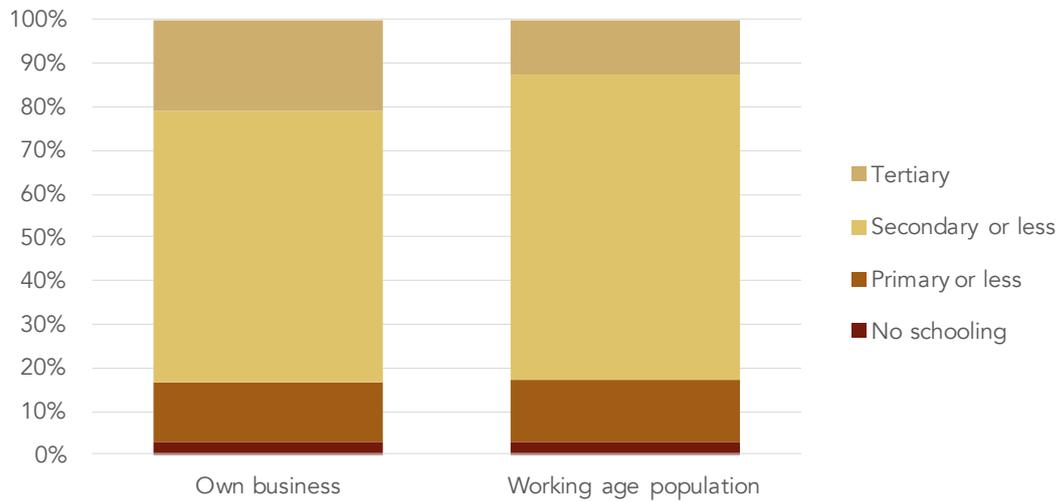
Figure 8: Education distribution of business owners compared to working age population (2016) (Data: QLFS)

Figure 9 illustrates that the education of business owners' changes, dramatically, based on population group. The date shows, quite clearly that there is a substantial difference in educational attainment between population groups – black South Africans accomplish lower levels of education than do white South Africans. These differences are equally prevalent among business owners: while roughly 56% of white business owners have a tertiary education; only 12% of black business owners have the same. Instead, a majority of business owners in the previously disadvantaged population groups have achieved only secondary education levels. Furthermore, whilst the proportion of business owners with tertiary education for each population group exceeds that same proportion for the population group as a whole, it is interesting to note that black South Africans are the only population group for whom the proportion of business owners with primary education exceeds the proportion within the total population. This may be because those with secondary or higher levels of education are able to find work, whilst those without are forced to establish other sources of income.
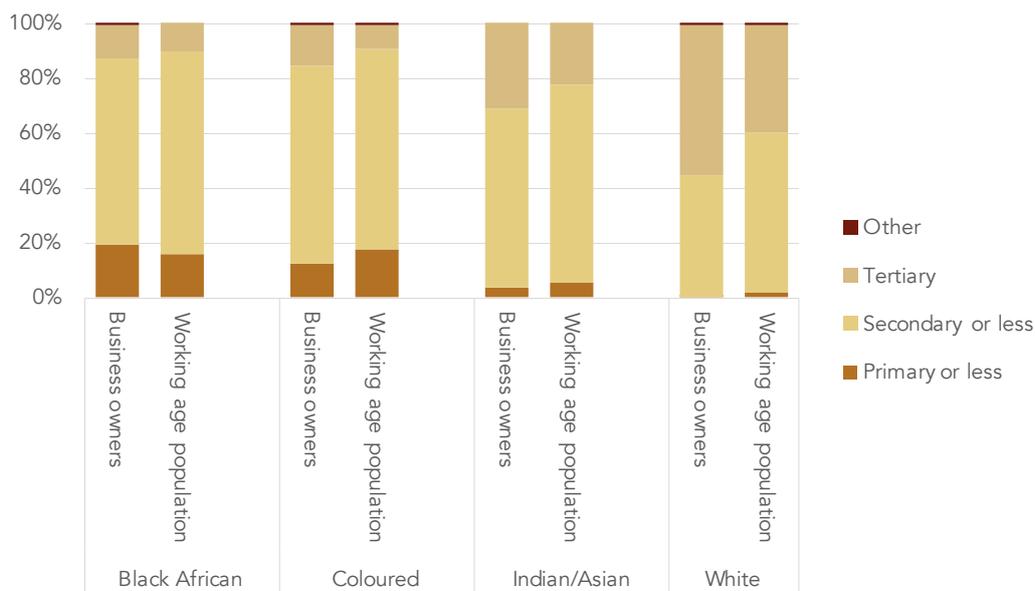
Figure 9: Distribution of education of business owners by population group (2016) (Data: QLFS)

More detailed analysis considers the proportion of necessity-driven versus opportunity-driven entrepreneurs in each population group. The data shows that black and coloured business owners have slightly higher proportions of necessity-driven business ownership (see Figure 10). This indicates a positive correlation between groups with relatively lower educational levels and those with higher necessity-driven entrepreneurship.
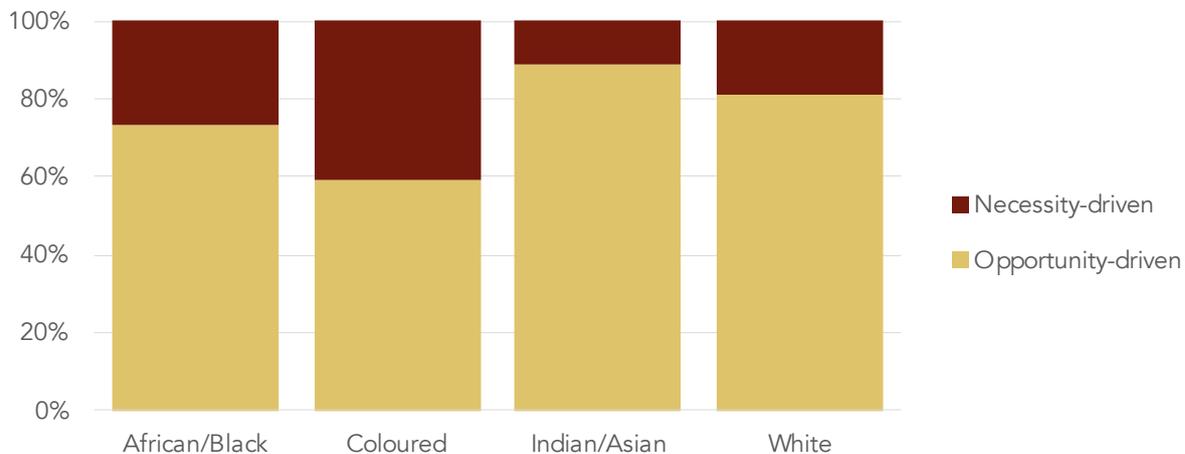
Figure 10: Entrepreneurship types by population group (2016) (Data: GEM)

In considering the involvement and performance of vulnerable groups in small business ownership, it is important to consider the proportion of women-owned businesses. This is presented in Figure 11. As can be seen, despite significant government efforts to encourage female entrepreneurship and female owned businesses, the gender divide remains persistent. In fact, when compared to the 2004 figures (DTI, 2005: 56), the distribution has remained roughly the same and, in some instances, even worsened to further favour men. Furthermore, with the exception of the Indian/Asian population groups, this gender divide remains relatively consistent across all population groups (at roughly 70% men).
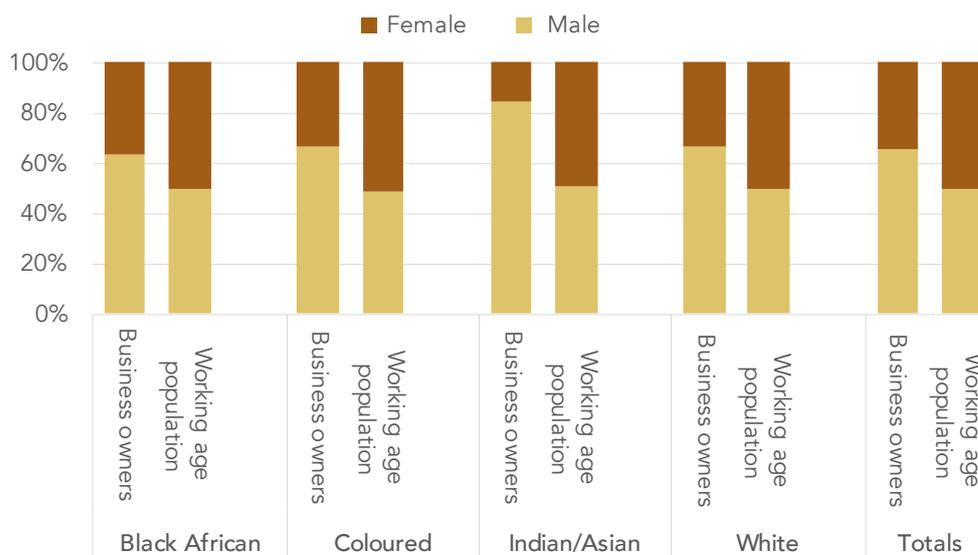
Figure 11: Comparative gender distribution of business owners by population group (2016) (Data: QLFS)

There are some reasons to be uncertain about these estimates. A number of researchers have suggested that women have a higher tendency to combine informal self-employment with formal employment (DTI, 2004). The QLFS would thus define these women as being formally employed, instead of self-employed. This implies that the share of SMME owners that are females will be downwardly biased. Table 10 shows a slight downward trend in the businesses owned by women since 2008 (10.3 percentage points). This decrease is concerning, given the policy focus on empowering women and women-owned enterprises.

Table 10: Evolution of gender distribution in business ownership from 2008–2016								
	Men (%)				Women (%)			
	2008	2010	2014	2016	2008	2010	2014	2016
Black African	52.7	57.1	58.2	63	47.3	42.9	41.8	37
Coloured	73.4	79.4	72.8	68	26.6	20.6	27.2	32
Indian/Asian	83.2	81.6	83.7	83	16.8	18.4	16.3	17
White	66.9	73.2	72.4	68	33.1	26.8	27.6	32

(Data: QLFS)

The effects of Apartheid can still be clearly seen, in terms of business ownership, as a disproportionate 19% of all business owners are white, as illustrated in Figure 12. Figure 13 considers this same distribution for 2008 to investigate changes in this distribution over time. The results are optimistic, as the proportion of black-owned businesses has increased by almost 17%, with a decrease of 21% in white-owned businesses. However, even this is a distorted view, as can be seen by Figure 14 and Table 11.

Black African   Coloured   Indian/Asian   White
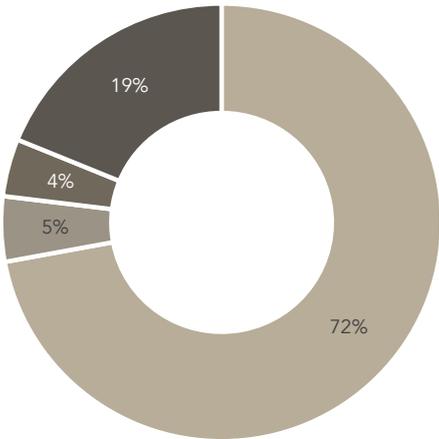
Figure 12: Business owners by population group (2008) (Data: QLFS)
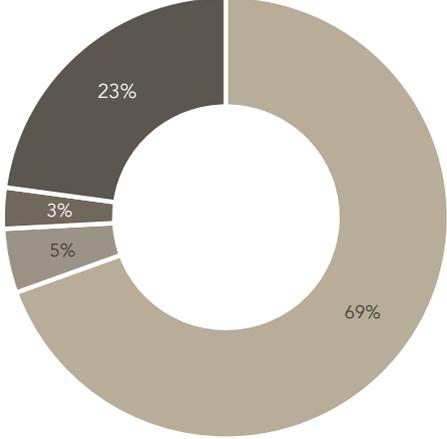
Figure 13: Business owners by population group (2016) (Data: QLFS)

Figure 14 compares business owners by population group in the formal and informal sectors. Once this distinction is made, we discover that 47% of business owners in the formal sector are white, whilst 87% of business owners in the informal sector are black African. This translates to 1.5 million black-owned businesses, with only 250 thousand of these operating in the formal sector. These results suggest that barriers to entry, such as costs and low skill levels, which are similarly defined along racial lines (see Fourie, 2016), prohibit the black African population from entering the formal sector. Table 11 shows a small but positive increase in the proportion

of black-owned businesses in the formal sector since 2008. Similarly, the proportion of white-owed businesses in the formal sector has had a slight decline. Although these are positive indicators, it the informal sector is still clearly dominated by black-owned enterprises and the distribution of enterprise ownership in the formal sector is not reflective of the country's over-all population group profile.

Business owners in the informal sector by population group (2016)

Business owners in the formal sector by population group (2016)

■ Black African   ■ Coloured   ■ Indian/Asian   ■ White
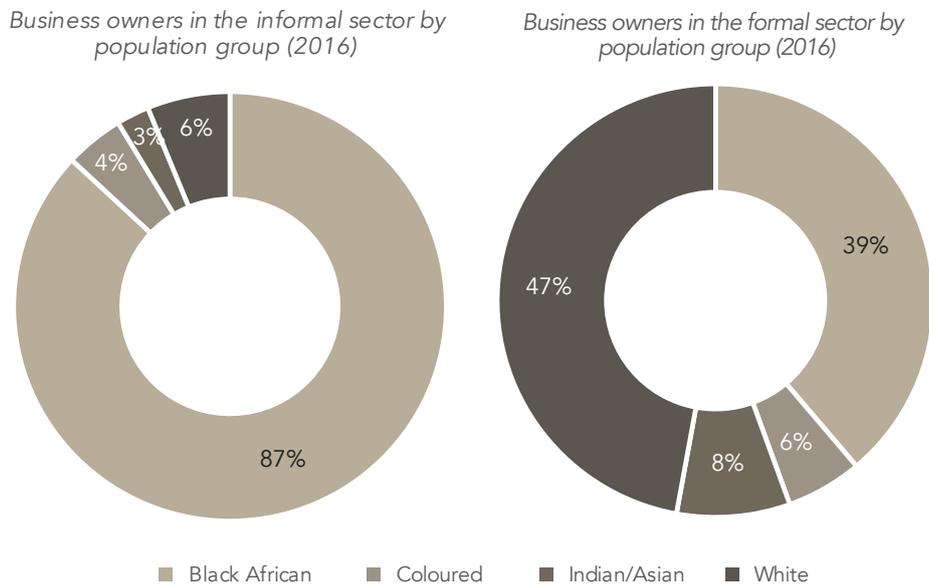
Figure 14: Business owners by population group and sector (2016) (Data: QLFS)

Table 11: Population group distribution of business owners by sector – 2004 and 2016								
	Formal Sector (%)				Informal Sector (%)			
	2008	2010	2014	2016	2008	2010	2014	2016
Black African	29.9	29	34.5	37.9	89.8	89.4	90.4	86.8
Coloured	5.4	4.6	7.7	5.3	4.3	3.9	3.0	4.6
Indian/Asian	6.8	8.5	7.6	8.0	1.1	1.5	2.2	2.5
White	57.9	57.8	50.1	48.8	4.8	5.2	4.5	6.2

(Data: QLFS)

3.5 CHARACTERISTICS AND DISTRIBUTION OF THE SECTOR

This section investigates the geographic location of business owners in South Africa, as well as the distribution between the formal and informal sector. The first consideration in this analysis is the distribution between rural and urban areas, presented in Figure 15. The QLFS dataset defines three geographical types: urban, farms and traditional. For the purpose of this analysis, farms and traditional geographic areas were combined to establish the number of SMMEs operating in rural areas. The graph illustrates that the distribution of SMME owners follows closely along the population lines for each population group with slightly more business owners residing in urban areas than within the total population group. On a whole, roughly 68% of business owners live in urban areas. This high degree of urbanisation is important for policy considerations regarding transport and infrastructure. The figure includes the distribution between urban and rural for business owners in each population group in 2008 and indicates that there have been almost no changes in this distribution over time.
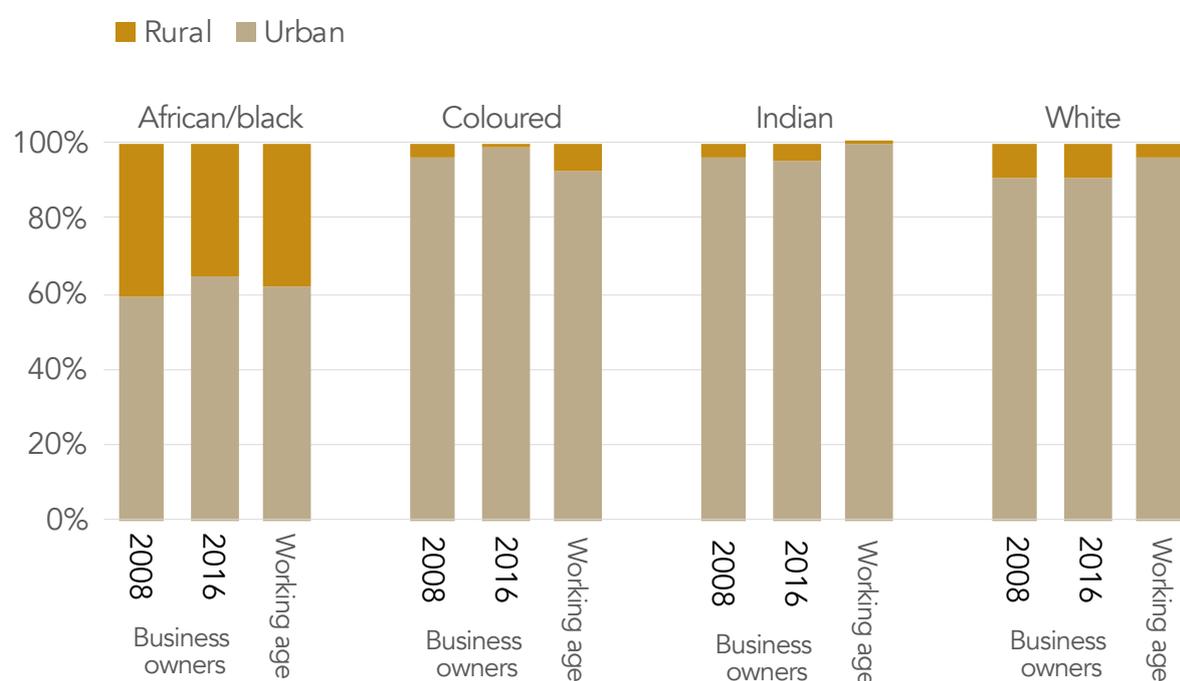
Figure 15: Distribution between urban and rural by population group (2008 and 2016) (Data: QLFS)

This geographic distribution can also be considered along provincial lines to establish which provinces have the largest concentration of SMMEs. This analysis concludes that Gauteng has the largest proportion of SMME owners, with 34%, followed by KwaZulu-Natal (see Figure 16). These numbers are roughly in line with what can be expected, given population densities and provincial contributions to GDP. Somewhat surprisingly, given its small population[26] the Free State makes up 4% of business owners, with the Northern Cape representing the lowest proportion, at 1%.

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26 Stats-SA (2017d) reports that the Free State is the country's second-smallest province with regards to population size.
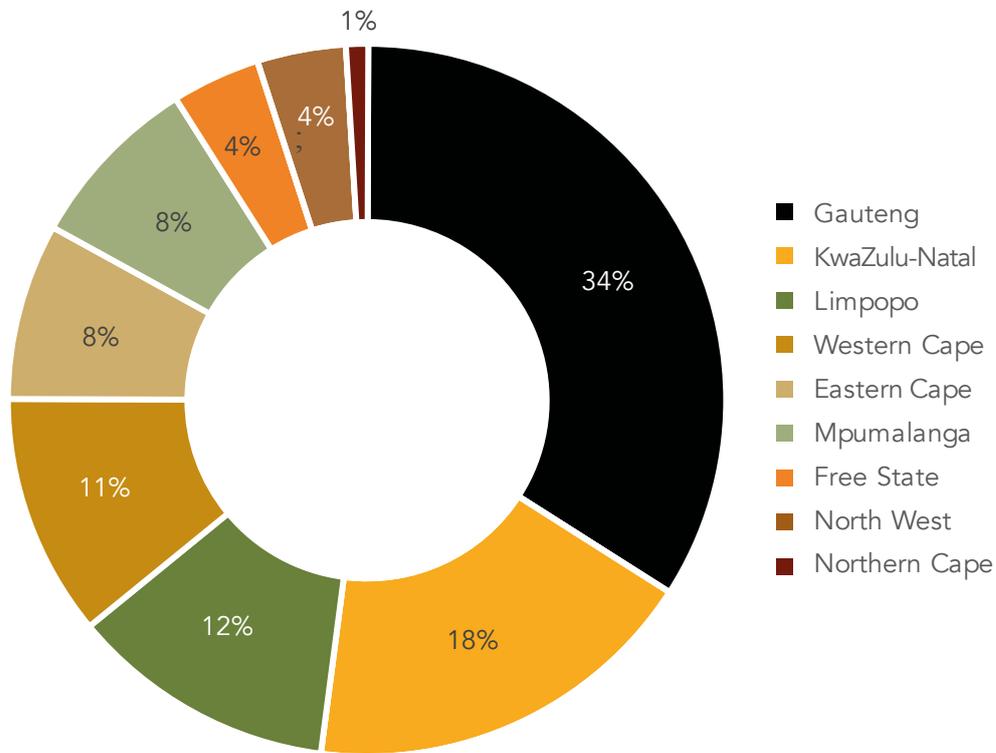
Figure 16: Provincial distribution of SMME owners (2016) (Data: QLFS)

Figure 17 presents this distribution for 2008 and shows that the proportion of business owners residing in Gauteng, the Western Cape and Limpopo has increased since 2008. More specifically, Limpopo saw the largest increase in business owners (36.79%) while the Northern Cape saw the largest decline (29.3%), as indicated by Table 12.
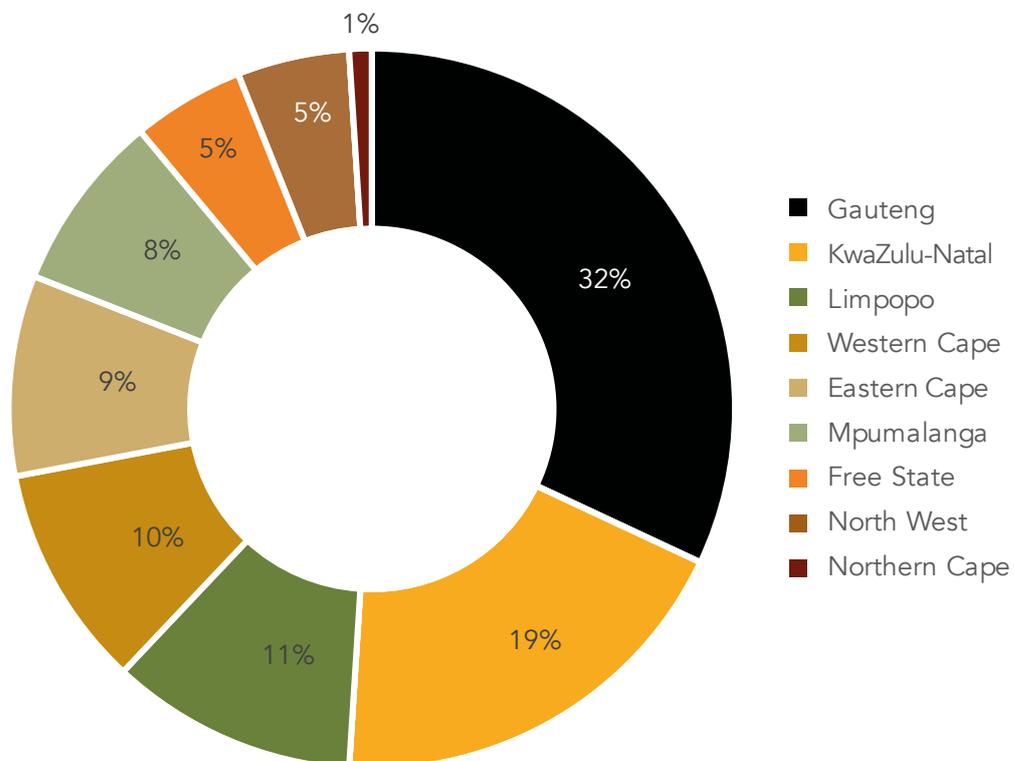
Figure 17: Provincial distribution of SMME owners (2008) (Data: QLFS)

Table 12: Percentage change in provincial distribution of smme owners since 2008	
Western Cape	7.61
Eastern Cape	-16.97
Northern Cape	-28.93
Free State	-16.63
KwaZulu-Natal	-8.31
North West	-14.20
Gauteng	5.93
Mpumalanga	-6.04
Limpopo	36.79

(Data: QLFS)

Figure 18 illustrates the distribution of SMME categories[27] across the formal and informal sectors. The informal sector is dominated by micro-enterprises, with 2.4 million individuals employed by micro enterprises in this sector compared to only 656 thousand in the formal sector. Comparatively, there are almost no medium and large enterprises in the informal sector, suggesting that once businesses reach a certain size, entering the formal sector is a necessity. This, again, highlights the necessity of considering the formal and informal sectors in different ways when developing SMME policy.
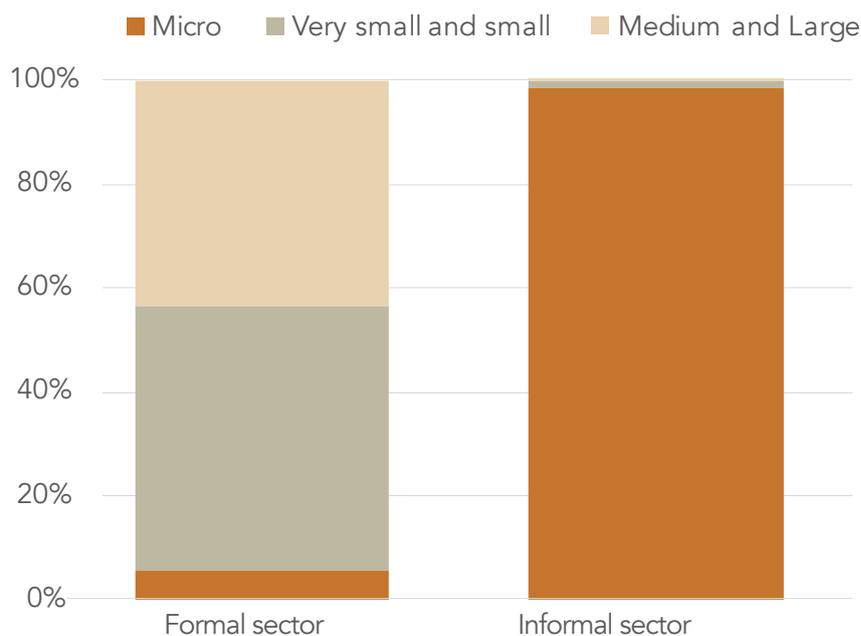
Figure 18: Distribution of SMMEs by sector (2016) (Data: QLFS)

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27   These estimates are based on the size categories discussed in Chapter One (Section 1.2.2) and methodology discussed in this chapter (Section 3.2). For details on the specific number of businesses in each category, refer to Table C1.

Further analysis indicates that micro enterprises predominantly operate in the informal sector, while very small, small and medium enterprises tend towards formality (see Figure 19). Given GEM's findings on necessity-driven entrepreneurship (see Table 7), these findings are largely predictable. It is interesting to note that, in 2013, the Survey of the Employed and Self-Employed (SESE) reported that 9.4% of Non-VAT Registered businesses payed Income Tax. This statistic was used as an estimate to indicate the number of informal businesses, which operate in the formal sector (SESE, 2014:3).
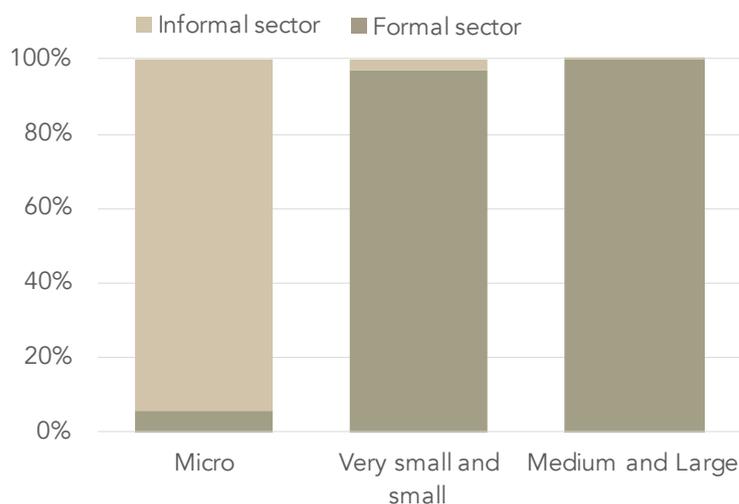
Figure 19: Distribution of formality by enterprise size (2016) (Data; QLFS)

Tables 13 and 14 describe the evolution of the size distribution of SMMEs in the formal and informal sectors respectively. The tables indicate that the share of micro and very small and small enterprises decreased in the formal sector (by 1.95 and 4.66 percentage points respectively), with the share of medium and large enterprises increasing by 6.61 percentage points since 2008. In contrast, the share of medium and large enterprises decreased by 0.3 percentage points in the informal sector, with these enterprises being replaced by micro enterprises and very small and small enterprises remaining unchanged.

Table 13: Evolution of the size distribution of SMMEs in the formal sector					
	2008	**2010**	**2014**	**2016**	**Percentage point change since 2008**
Micro	7.82	6.68	5.69	5.87	-1.95
Very small and small	54.93	50.97	48.71	50.27	-4.66
Medium and large	37.25	42.35	45.60	43.86	6.61

(Data: QLFS)

Table 14: Evolution of the size distribution of SMMEs in the informal sector					
	2008	**2010**	**2014**	**2016**	**Percentage point change since 2008**
Micro	98.41	98.09	98.28	98.44	0.03
Very small and small	1.46	1.77	1.62	1.46	0
Medium and large	0.13	0.14	0.11	0.10	-0.03

(Data: QLFS)

3.5 CONTRIBUTION OF SMMEs TO THE SOUTH AFRICAN ECONOMY

In order to estimate the contribution of SMMEs to employment by industry and category size, the number of full-time employees in each category and industry is calculated. Data constraints mean that it is impossible to distinguish medium enterprises from large ones and, as such, the two are grouped together. Using these calculations, it is possible to conclude that, in total, micro, small and very small enterprises account for the employment of over 8.5 million individuals, decreasing by almost half a million since 2008.

The estimates by industry are as expected, with SMMEs dominating in construction and wholesale, retail and tourism categories. Mining and electricity, gas and water have the lowest proportion of SMMEs, likely due to the high start-up costs of these industries. Similarly, agriculture and manufacturing have particularly low levels of micro enterprises, likely due to the labour-intensive nature of the work. In total, micro enterprises contribute just under 30% to employment, with very small and small enterprises contributing roughly 38% and medium and large enterprises contributing roughly 32%. In total, micro enterprises employ a little over 3 million individuals, while very small and small enterprises employ slightly more than 5.6 million individuals.
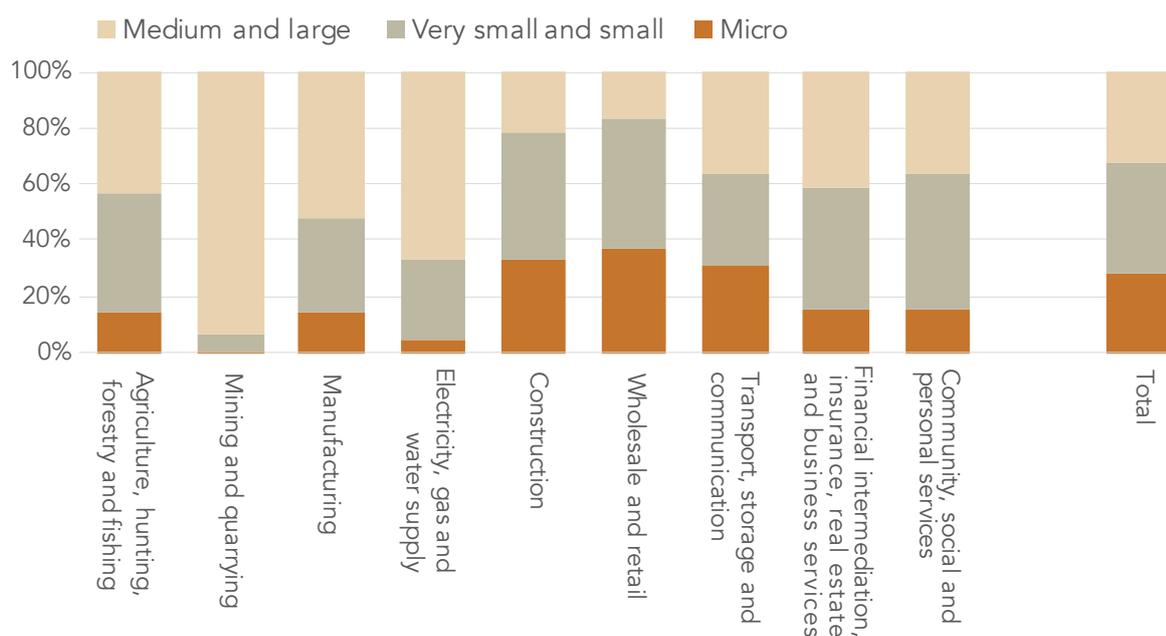
Figure 20: Employment distribution of SMMEs by industry (2016) (Data: QLFS)

Further investigation is presented in Table 15, which reports the percentage changes in employment distribution of SMMEs by industry since 2008. The construction industry saw the largest increase in micro enterprises (86.35%), with mining and quarrying representing the largest decline, of 73.13%, for this same size category. Mining and quarrying saw a similar decline in very small and small businesses, with the share of this size category decreasing in all industries between 2008 and 2016. Medium and large enterprises grew substantially in this period, with electricity, gas and water supply increasing by a staggering 102.41%. Only construction and wholesale and retail trade saw minor declines of 7.51% and 5% respectively.

Table 15: Percentage change in employment distribution of SMMEs by industry since 2008			
	Micro	Very small and small	Medium and large
Agriculture, hunting; forestry and fishing	10.50	-18.74	30.61
Mining and quarrying	-73.13	-88.04	95.03
Manufacturing	-12.71	-29.33	44.46
Electricity, gas and water supply	-28.69	-57.92	102.41
Construction	86.35	-23.07	-7.51
Wholesale and retail trade	13.71	-7.54	-5.00
Transport; storage and communication	30.55	-47.79	100.01
Financial intermediation; insurance; real estate and business services	20.18	-23.53	35.97
Community, social and personal services	33.14	-18.94	21.22

(Data: QLFS)

Investigation into the evolution of SMME contributions to employment since 2008 illustrate that, although the share of micro enterprises increased by 9.7% since 2014; there remains a 3.5% overall decrease since 2008 (see Figure 21). Similarly, the share of small and very small enterprises has seen an impressive increase of 6.2% since 2014; however there remains an overall decrease of 2.9% since 2008. Overall, the share of large and medium enterprises has growth since 2008.
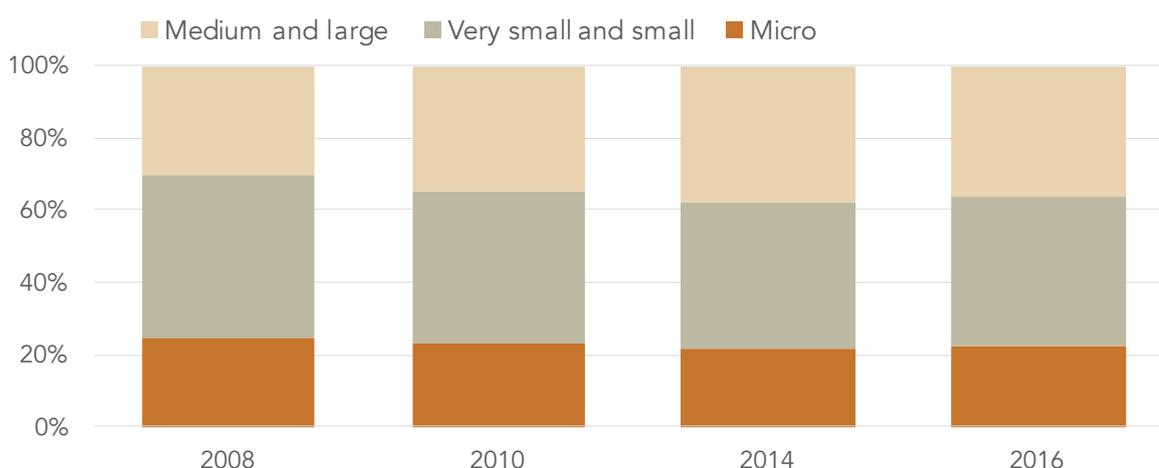
Figure 21: Evolution of SMMEs Since 2008 (Data: QLFS)

Figure 22, below, indicates that medium and large business dominate the South African economy, with these enterprises contributing 54% to the South African GDP. Construction, Wholesale, Retail and Tourism were the best performing industries for SMMEs. In these industries, micro enterprises contributed a total of 53.13% and very small and small industries contributed a total of 52.45% to GDP. Mining and Quarrying and Electricity, Gas and Water Supply are the industries in which SMMEs contributed the lowest proportion to GDP.
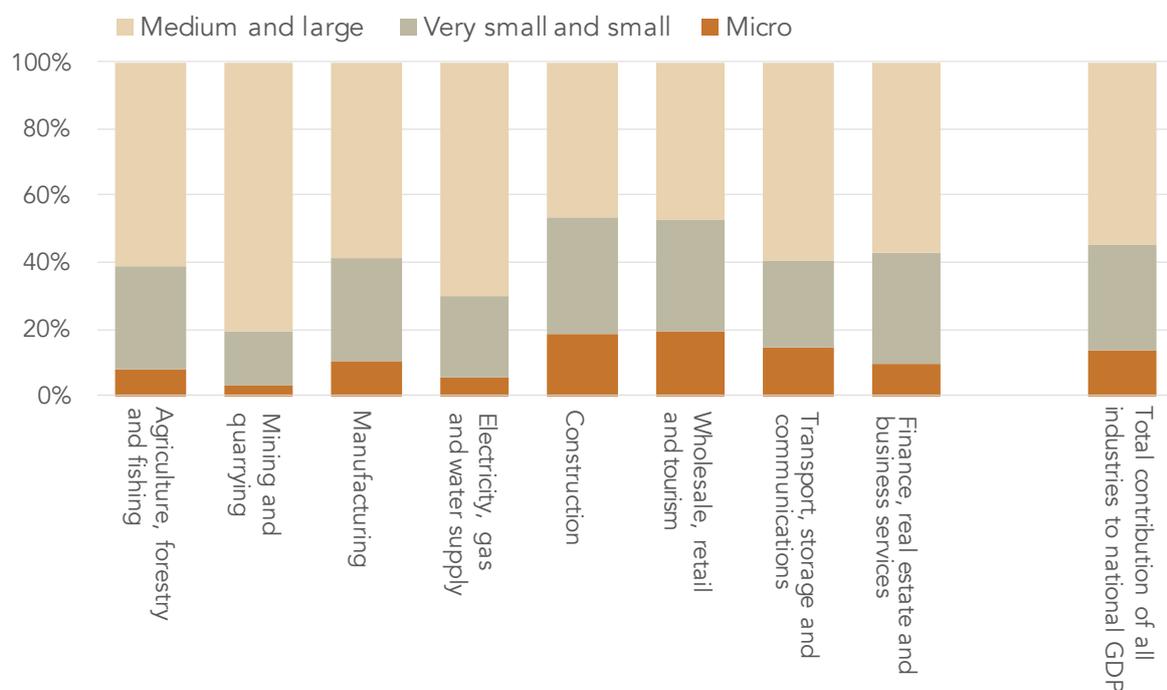
Figure 22: Contribution of SMMEs to GDP by industry (2016) (Data: Stats-SA GDP and QLFS)

Furthermore, micro enterprises have increased their contribution to the GDP of the construction industry by 81.28% since 2008 (see Table 16). The largest decline has been in Mining and Quarrying, with a decrease of 24.91%. As with employment, the contribution of very small and small enterprises to GDP has declined for every industry, with the decline the most severe in Mining and Quarrying. Conversely, medium and large enterprises have increased their contribution to the GDP of Mining and Quarrying by 29.86%. This size category has seen positive changes in almost all industries, with slight declines in Construction (8.32%) and Wholesale, Retail and Tourism (0.22%).

Table 16: Percentage change in contribution to GDP from 2008 to 2016			
	Micro	Very small and small	Medium and large
Agriculture, forestry and fishing	11.19	-4.50	1.21
Mining and quarrying	-24.91	-51.98	29.86
Manufacturing	0.32	-16.83	11.77
Electricity, gas and water supply	-21.01	-37.95	30.90
Construction	81.28	-10.36	-8.32
Wholesale, retail and tourism	10.44	-4.76	-0.22
Transport, storage and communication	29.38	-22.75	8.30
Finance, real estate and business services	18.85	-11.39	4.99

(Data: own calculations from Stats-SA GDP data and QLFS)

Table 17 shows a 15.12% increase in the overall contribution of micro sized enterprises to South African GDP since 2008. This is in conjunction with a 12.44% decrease in the contribution of very small and small enterprises; as well as a 5.96% increase in medium and large enterprises. These increases in micro enterprises are encouraging, although this positivity must be met with concern over the declines in very small and small enterprises. These shifts reinforce the

GEM (2017) data on business discontinuance, which suggested that South Africans are starting businesses but unable to continue them or grow them from the early stages.[28] Should this prove to be true, there are large policy implication for increasing employment through enabling micro enterprises to grow. It is important, at this juncture, to note that aggregate contributions of SMMEs as a sector to GDP are impossible to estimate. This is because the available data does not allow distinctions between medium- and large-sized enterprises. Furthermore, there is currently no reasonable means of estimating the number of medium-sized firms in South Africa, preventing a suitable estimate from being derived. However, the combined contribution of micro, very small and small firms is 31%, which amounts to roughly R1.4 billion.

Table 17: Evolution of SMME relative contribution to GDP by size category					
	2008	2010	2014	2016	% change since 2008
Micro	12.39	13.03	13.48	14.27	15.12
Small and very small	38.57	38.89	33.17	33.77	-12.44
Medium and large	49.04	48.08	53.35	51.96	5.96

(Data: Own calculations, using the Abedian method discussed in Appendix C, from StatsSA GDP data and QLFS)

CONCLUSION

This chapter presented an overview of the SMME sector in South Africa. It compared key statistics from 2016 to those in 2008, 2010 and 2014. The analysis concludes that the sector remained relatively stable over this time period, particularly with regards to the contribution in terms of employment and the characteristics of the business owners operating in the sector. There has been little movement towards increasing the involvement of vulnerable groups in business ownership, although there has been an increase in the proportion of black-owned formal sector businesses. The encouraging increases in micro-enterprises' contribution to GDP since 2008 is tempered by the almost equal decrease in the contribution of very small and small enterprises. With the available data, it is difficult to determine the precise causes of the specific changes that the sector has seen. Chapter Six considers the findings of the primary data collected for this review, in order to try and establish potential causal relationships in this regard. On the whole, it would appear that the strenuous economic and regulatory environments in South Africa during 2016 may have negatively impacted the growth of the sector as a whole.

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28   Unfortunately, the CIPC does not make data available on the rate of business discontinuance in South Africa, which prevents comparison between the GEM data and South African government statistics

CHAPTER FOUR

Government and SMME development in South Africa

4.1 INTRODUCTION

Having considered the characteristics of the SMME sector in South Africa, the review now turns to an analysis of the government agencies, which are mandated to develop the sector. This is to ensure an integrated review, which considers the challenges faced by both SMMEs and the government agencies, which work to assist them. Such an endeavour ensures that a review of the sector considers the total ecosystem in which SMMEs must operate; with the aim of establishing those areas where policies may be improved in order to effectively and efficiently build the sector. Primary among such considerations are whether the premises and policies implemented by government agencies are relevant to the sector, and whether they are implemented well and effectively.

In order to establish this, the review makes use of qualitative surveys of key stakeholders within government departments. These are designed in two parts: the first considers the experience and assumptions of such departments, whilst the second considers the effectiveness with which these departments implement their policies. With regards to the latter, the review considers two case studies – the Free State and Gauteng province – and their implementation of the state 30-day payment turnaround policy.

4.2 THE EXPERIENCE AND ASSUMPTIONS OF GOVERNMENT DEPARTMENTS

The purpose of the stakeholder interviews is to increase the understanding of the SMME development context, from the perspective of those agencies and departments, which are mandated to improve the sector. As such, the interviews focus on understanding government mandates, challenges faced by the government as well as the challenges faced by SMMEs, as understood by these agencies. Such an analysis serves to clarify the role and aims of government agencies, as well as to ascertain where government policies and initiatives diverge from SMME owners' needs.

Such an attempt is crucial to the understanding of the SMME sector and its' improvement, as many studies focus only on the needs and challenges faced by the business owners themselves. For any concrete improvements to take place, the context and circumstances of the government agencies, which aim to assist SMMEs, must also be considered. This is particularly relevant because government agencies may have a clearer long-term understanding of the environment than do the SMME owners.

The analysis finds that government agencies are significantly constrained by a lack of adequate resources and struggle with a lack of clarity and cohesiveness in their individual mandates. Furthermore, government agencies emphasise lack of funding, skills and market access as well as inhibitive legislation as the primary concerns faced by SMMEs in South Africa.

4.2.1 Data and methodology

The stakeholder engagements were conducted, primarily, in the form of telephonic interviews. These interviews followed a semi-structured format, as given in the Interview Guide (Appendix F, xviii).

Stakeholders

A total of ten (10) stakeholder interviews were conducted. Eight of these were conducted tele-phonically, while the remaining two chose to answer electronically. The stakeholders them-selves consisted of key representatives from government departments or agencies, who held one of the following positions: Acting Deputy/ Director Generals (AD/DGs) or Chief Executive Officer (CEOs).

Sampling

A list of national, provincial and departmental agencies was independently developed for involvement in the stakeholder interviews. Following contact with each of these stakehold-ers, snowball sampling occurred wherein contacted departments referred the researchers to more appropriate service providers. For instance, the Gauteng Department of Economic Development referred the researchers to the Gauteng Enterprise Propeller. In the case of the Department of Small Business Development, where different divisions are responsible for specific efforts and initiatives, the Acting Deputy Director General of each division was approached for inclusion in the research. More specifically, the Office of Incentives, Grants and Loans and the Office of Enterprise Development were interviewed within the Department of Small Business Development. Below is a table outlining the stakeholders approached for the research, with participating stakeholders marked in orange blocks:

Table 18: Stakeholders selected for interviews:	
Stakeholder category	**Stakeholder**
National	National Treasury
	Companies and Intellectual Property Commission
	Department of Small Business Development (DSBD)
	Department of Economic Development (DED)
	Department of Labour (DoL)
	Department of Trade and Industry (DTI)
	Department of Women
Department Agencies	Small Enterprise Development Agency (SEDA)
	Small Enterprise Finance Agency (SEFA)
	National Youth Development Agency (NYDA)
Provincial	Eastern Cape Provincial Department of Economic Development (DED)
	Gauteng Province DED
	Western Cape Provincial Department of Economic Development
	KwaZulu-Natal Department of Economic Development
	Gauteng Enterprise Propeller (GEP)

Limitations

Limitations identified during the course of this research exercise include:

- Unavailability of some stakeholders to participate. This resulted in low response rates for scheduling interviews.

- Non-responsiveness of stakeholders. This resulted in 10 interviews being completed, out of the 15 that were identified as key stakeholders

- The extension of the data collection time-frame, due to the above.

- An adjustment from telephonic interviews to electronic submission of the interview guide so as to increase the response rate

4.2.2 Key findings

This section considers the key findings from the qualitative stakeholder interviews in terms of their mandates, their observations on the struggles of SMMEs and the difficulties faced by government agencies themselves.

Overarching strategic mandate

The 2011 National Development Plan states that "To achieve full employment, the country needs to create about 11 million more jobs in the next 20 years". The importance of this goal was emphasised by two of the interviewed stakeholders – the Gauteng Enterprise Propeller and the Small Enterprise Finance Agency (SEFA). While these two stakeholders highlighted job creation in the context of the National Development Plan (NDP), 8 out of the 10 stakeholders mentioned combatting unemployment, or job creation, as part of their fundamental focus and mandate. As it is, SEFA highlighted that the key to achieving the NDP goal lies in targeting SMMEs with the belief that 90% of these 11 million jobs should be established in the Small Business sector.

For almost all stakeholders (exceptions are: the National Treasury, the Department of Women and the Companies and Intellectual Property Commission), building and developing SMMEs form a direct part of their strategic mandate. The Department for Small Business Development (DSBD), for instance, states that its mandate is to develop sustainable enterprises which can make meaningful contributions to employment. Similarly, SEDA stated that its mandate was to enact governments' Small Business Development Strategy. For all these agencies that have mandates directly related to SMMEs, then, the objective is to build sustainable enterprises which can contribute to the broader South Africa economic objectives.

Difficulties faced by SMMEs

With an understanding of the overarching mandate for these various government agencies and departments, it is worthwhile to consider the difficulties faced by SMMEs, as understood by these agencies. This contextualises the evolution in government mandates and structures that will be considered in the next subsection.

By far the most common concern expressed by the stakeholders was SMME access to markets, with 6 out of the 10 stakeholders listing this as a constraint to SMME development and growth. Little clarity was given on how SMMEs are denied market access. However, some stakeholders suggested that these include low levels of infrastructure, high transport and ICT costs and low levels of partnership from larger corporations.

Four stakeholders listed high compliance costs and inhibitive legislation as another barrier for SMME development. These compliance costs extended from tax compliance to labour legislation compliance, with SEFA stating that SMMEs are subject to most of the same legislative requirements as larger firms. Compliance costs with regards to labour legislation becomes particularly concerning as the high costs associated with hiring employees becomes a regulatory burden with costs too high to cover the increased productivity associated therewith. This means that SMMEs are less able to contribute to reducing unemployment, as prioritised by so many of these stakeholders, than would otherwise be the case.

Four stakeholders also mentioned lack of funding, directly, as an inhibitor to the growth and development of SMMEs. Furthermore, most of the stakeholders suggested that access to government services – including government loans – was of significant concern. In particular,

rural areas and townships suffer high transport and other costs to reach the appropriate government agency, and almost all stakeholders considered a lack of awareness of their services as an inhibiting factor to growth.

Finally, five stakeholders considered the lack of education, skills and experience of SMME owners to be a considerable constraint on growth. Skills such as legal knowledge, basic accounting and management skills and business knowledge would assist SMMEs in their efforts to gain government funding, as many of the applications received are poorly executed. Furthermore, skills such as these would contribute to the longevity and success of SMMEs, allowing them to expand and contribute greater amounts to overall employment in the economy.

These results, when compared with the findings in Chapters Four and Five, suggest that there is some misalignment between government's top-of-mind perceptions of SMME struggles and those expressed by SMME owners themselves. Whilst government departments and agencies did mention lack of access to finances as a constraint, little emphasis was placed on this whereas it was listed as the primary concern by SMME owners. Similarly, lack of access to markets was raised as the primary constraint by government officials, while this ranked relatively low in the research into SMME experiences. Government departments and SMME owners are well-aligned on the importance of inhibitive government regulation; however, little has been accomplished by the state to improve these constraints. Lack of skills is also relatively well-aligned between the two and, in this regard, government interventions have generally fared better in assisting SMMEs. Most concerning is the lack of mention by government departments of state efficiency in implementation – which research demonstrates is a significant concern for SMME owners – as well as no mention of inadequate premises for SMMEs to operate from, which was listed as the second most inhibitive factor for most businesses in the research reported in Chapter Five. These results were established by asking government agencies to list the most important concerns for SMMEs, as they understood them. In this way, governments were able to suggest those constraints that were most salient to them, while SMME owners reported their constraints based on a predefined list.

Evolution of government role

Within the context of these complex and extensive difficulties for SMMEs – particularly in relation to their contribution to employment – it becomes evident that government agencies need to consider targeted programmes within differentiated departments. By and large, this appears to be the goal, with 5 of the stakeholders having been instituted in 2014 based on changes in government departments and structures. Whilst this process of instituting specific and targeted agencies is indicative of the change in government role in itself, 8 out of the 10 stakeholders interviewed also reported changes (or evolutions) to their mandates in recent years.

In all cases, these changes in mandates are in line with the overarching mandate discussed above. As such, the change is more akin to an evolution, which strengthens and clarifies the mandate originally given to the agency or department. Only in the case of SEDA, who is mandated to supply all non-financial assistance to SMMEs in the country, did they state that their mandate was broadened to include a wider scope than originally specified. In 3 of the interviews – the CIPC, SEDA and the Western Cape DED – these changes in mandate focused on implementation of projects and programmes, with a particular focus on efficient use of technology.

Difficulties faced by government

By far, the most consistent constraint faced by government departments and agencies was a lack of adequate resourcing and budget. Of the 10 stakeholders interviewed, 7 mentioned resourcing constraints as a significant impediment to accomplishing their mandates. In its Medium Term Expenditure Framework, the National Treasury allocated R475 million to the DSBD for a period extending from the 2016/7 financial year to the 2018/9 financial year (National Treasury, 2016b). The R150 million allocated to the 2016/7 financial year in particular represents 0.000051% of South Africa's 2016 GDP. Whilst many specified budgetary allocations, these stakeholders also considered insufficient infrastructure and human resources to be of concern. SEDA, for instance, operates with 200 business advisors, resulting in each advisor being responsible for 700 businesses.

Given the relative youth of these agencies, it is unsurprising that many of them expressed concerns regarding the current systems being used to complete work. There are also concerns regarding public awareness of these departments and their programmes, where lack of awareness reduces the uptake and effectiveness of government interventions. In particular, agencies expressed concerns regarding reaching rural communities, people with disabilities and military veterans.

The complexity of the SMME context and challenges necessitates targeted and differentiated agencies and programmes. However, the lack of resources and reach within these government agencies means that there are significant difficulties in accomplishing the very targeted programmes that the agencies were instituted to execute. This complex combination of features results in a circumstance where collaborations between agencies become absolutely essential to accomplishing their goals. However, these collaborations also give rise to inter-governmental coordination difficulties.

Every agency described a host of collaborations – both between government organs and with the private sector. This list of collaborations is described in Table 23, Appendix C (xx). What is interesting to note, however, is that these collaborations are largely between external organs – such as the Department of Social Development and the Department of Tourism – rather than within the organs designated for the purpose of SMME development.

This has resulted in a host of concerns from these agencies, ranging from lack of communication between agencies to the fragmented role of government organs. Of the 8 stakeholders that are directly involved with SMMEs and their beneficiaries, 6 mentioned a "silo mentality" as prevailing among these agencies. This mentality is such where each agency operates within its own, specific mandate and fails to communicate its projects and goals to other agencies with similar mandates. In turn, this failure to communicate results in a loss of efficiency as agencies fail to learn from each other. It also produces duplication in work, an overly cumbersome bureaucratic system and loss of specialised knowledge. Finally, another concern is that such silo mentality increases corruption and increases the propensity for one beneficiary to receive multiple grants or incentives.

4.2 GOVERNMENT IMPLEMENTATION OF POLICIES: CASE STUDIES

Effective implementation of government policies is crucial to the success of SMME development agencies. The importance of effective implementation is heightened by the challenges faced by government, as discussed above. As such, this review will now consider the government 30-day payment turnaround policy, with particular emphasis on implementation in the Free State and Gauteng provinces. This case study approach allows for more detailed and nuanced analysis. The research indicates that government implementation of the 30-day payment policy has been relatively poor and, furthermore, that this late payment has significant effects on SMMEs.

4.3.1. Preferential procurement policy and state payment

In 2000, the State began implementation of a national preferential procurement policy, which instituted two points systems to guide the bidding process of government tenders (RSA, 2000). In particular, this Act was implemented so as to allow chosen groups – namely, women, the youth and SMMEs – an opportunity to compete fairly with larger firms for government tenders. In recent years, this Act has seen amendments which include government setting aside 30% of appropriate procurements to be purchased through SMMEs (National Treasury, 2017b). This policy has been implemented as a direct government intervention into creating market access and consistent customers for SMMEs, who have long complained that these factors impede their growth.

In light of this preferential procurement, government policies on payment turnaround become relevant to SMMEs. In particular, State regulation states that "unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice" (National Treasury, 2011). The National Treasury (2011:2) observes that, since 2009, adherence to this policy has been poor with certain departments "blatantly disregarding" these requirements (National Treasury, 2011). The National Treasury goes on to note that this non-compliance by government departments has particularly large effects on SMMEs, with the financial constraints imposed by such non-compliance causing many businesses to close down or retrench employees. As noted in the Instruction Note (National Treasury, 2011), these measures are "counterproductive to Government's priorities".

Efforts to correct this non-compliance included instructions for each government department to implement systems which are better able to measure the progress with the processing of each invoice, as well as to submit exception reports to the National Treasury each month, wherein all late payments and non-payments are noted and explanations are given (National Treasury, 2011). These interventions and systems appeared to have had little effect, however, with the Department of Planning, Monitoring and Evaluation being forced to establish an inter-department unit to assist in resolving non-compliance issues in 2015 (SANews, 2016).

This section considers the problem of non-compliance with the State's 30 day payment policy in the context of SMMEs. It begins with an outline of the extent of the problem and continues to inspect particular aspects thereof through an examination of the Gauteng and Free State provinces. This focus on the provincial-level is due to the fact that the implementation of government programmes – including the 30% preferential procurement policy – largely takes place at this sphere of government (DPME, 2016).

Gauteng and the Free State were selected for analysis because of their respective SMME environments. Research indicates that these two provinces have the highest degree of awareness regarding government programmes to assist SMMEs (Agwa-Ejon & Mbohwa, 2015). Furthermore, Gauteng has the largest proportion of SMME owners in the country, and the SMMEs in the province are larger than those in most other parts of the country (Agwa-Ejon & Mbohwa, 2015). This suggests that SMMEs in Gauteng are more able to compete for government tenders and will be heavily influenced by the 30-day payment turnaround policy.

The Free State, on the other hand, is a sparsely populated province, with a high rural population (REB, 2017). However, the province has been experiencing high urbanisation rates and the majority of SMMEs in the province operate in the agriculture and construction sectors (REB, 2017). Given this, the environment for SMMEs in the Free State is in direct contrast to that presented in Gauteng. Furthermore, the poor economic performance of the Free State economy means that SMMEs within the province are likely to be heavily reliant on government tenders and government-initiated opportunities.

Finally, the Free State has yet to develop a provincial policy on SMME development and, while they have implemented an SMME Development Initiative (FS-DESTEA, 2017), they do not have a central agency dedicated to SMME development. The institution of the Free State Development Corporation (FDC) has improved the provinces' support for SMMEs; however, the FDC is mandated to cover "various functions such as enterprise development, property portfolio management, investment promotion and facilitation as well as export promotion" (FDC, 2017). In contrast, Gauteng developed a dedicated SMME Policy Framework (GP-DED, 2008) and instituted the Gauteng Enterprise Propeller (GEP), which leads provincial efforts in SMME development.

The research aims to provide insight into the causes for non-compliance and the effect on SMMEs. The stark differences in the SMME and policy environments of Gauteng and the Free State enable an analysis which can identify consistent constraints to effective policy implementation across multiple departments and provincial governments.

This section begins with consideration of the extent of the problem of non-compliance at a national level and compares that to similar metrics at a provincial level. A discussion of the two provinces under consideration follows and the section concludes with broad comments on the primary enablers and inhibitors to effective policy implementation.

The research presented here was conducted through an examination of government documents and reports on the topic, as well as a series of interviews. Table 14, below, indicates details regarding the interviews conducted. As illustrated by Table 14, a number of government departments were contacted, as well as a number of SMMEs which won tenders from provincial governments in 2015 or early 2016. A total of 8 small businesses that completed work for Gauteng's provincial government were interviewed, with 5 small businesses that had completed work for provincial departments within the Free State being interviewed.

Table 19: Interview participants for case studies		
Interviewee Description/ Position	**Department/Agency***	**Interview Method**
Assistant Manager for Finance	Gauteng Enterprise Propeller	E-mail
Chief Financial Officer	Free State Development Corporation	Telephonic
5X Small businesses (Gauteng)	Department of Sports, Arts, Culture and Recreation (2) Provincial Treasury (1) Department of Social Development (2)	Telephonic
3X Medium businesses (Gauteng)	Department of Education (1) Department of Infrastructure Development (2)	Telephonic
3X Small businesses (Free State)	Department of Education (1) Provincial Treasury (2)	Telephonic
2X Medium businesses (Free State)	Department of Public Works and Infrastructure (2)	Telephonic

For small businesses that were interviewed, this refers to the provincial departments by which the businesses were contracted. For government agencies, this refers to the department/agency in which they are employed

In order to select the SMMEs, the researchers made use of publicly available information on awarded tenders in each province. Businesses that had won provincial bids were then called and the current research project explained to them. A number of questions were asked to establish the size of the business and, if the business was considered an SMME, they were interviewed informally regarding their experience with government payment systems.

4.3.2 The national context

A national review of the supply chain management systems was undertaken by the National Treasury in 2016 (National Treasury, 2017a). The review included interviews and surveys with over 7 000 government suppliers, as well as important role players such as the Black Business Council, Corruption Watch and labour unions. The review found that 34% of government suppliers are not paid on time; while 25% felt that they do not get timely and accurate feed-back on invoice disputes (National Treasury, 2017a).

It is important to note that the same review indicated that 65% of suppliers felt that access to working capital was a barrier to working for government (National Treasury, 2017a). This information is illustrative of the concerns facing SMMEs that win government tenders. Minister Jeff Radebe [29] noted that late payment from government weakens small business in South Africa through decreasing capital flows and damaging supply sources for these businesses (DPME, 2016).

Given these significant negative effects of late payment, Radebe announced the institution of a dedicated unit with the Department of Planning, Monitoring and Evaluation to investigate and remedy these concerns. In September 2016, this unit established that 14 889 invoices had been paid late (amounting to R201 million) across all departments (DPME, 2016). This represented an overall increase in late payments since September 2015, where 13 402 invoices were paid after 30 days (DPME, 2016). The unit also established that 31 out of 40 national departments demonstrated an improvement in meeting payment deadlines, with 11 departments paying all invoices on time (DPME, 2016). This indicates that select departments are responsible for the struggles in implementing the 30-day payment policy.

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29 Minister Radebe has been a Minister in the Presidency since 2014. From 2009 to 2014 he acted as Minister of Justice and Constitutional Development.

At a provincial level, the DPME unit established that 23 511 provincial payments had been paid late, amounting to R2.2 billion (DPME, 2016). The value of these late payments remained the same between 2015 and 2016, although the number of late payments had decreased by 17.8%. Eastern Cape, KwaZulu-Natal, North West and Gauteng accounted for the majority of these late payments (DPME, 2016); although no indication was given as to the percentage of invoices paid late in each province, relative to the total number of invoices received. What is particularly concerning is that Gauteng accounts for the largest provincial proportion of SMMEs (34% of the country's SMMEs operate in Gauteng)[30] and KwaZulu-Natal for the second largest proportion (18%). While the Eastern Cape and North West provinces account for far fewer (8% and 4%, respectively), they both make significant contributions to the country's SMME sector. This implies that the late payment in these provinces will have particularly devastating consequences on the SMMEs operating there, as well as the provincial economies.

4.3.3 A provincial analysis

Gauteng

Despite the considerable contribution of Gauteng to the number of provincial late payments, three out of the eight SMME owners interviewed indicated that they had no problems in their transactions with provincial departments. These three interviewees indicated that their invoices were always paid within the 30-day period and that state departments communicated well with regards to the payment process. The remaining five SMME owners indicated that their payment times varied, with all five stating that it usually took between 30 and 60 days for them to receive payment.

One respondent said that, although payments were frequently later than 30-days, they would get paid as soon as she called the department to query the payment. The respondents were asked whether government departments explained the reasons for their payments being late. Three of the five respondents who had reported late payments indicated that, when they submitted their invoices, the government department in question had run out of funds or that funding for the project for which they had been hired had not yet been cleared by the necessary authorities. All respondents stated that they had received their work with these departments through a tendering process. Given this, provincial departments should have been somewhat prepared for the receipt of these invoices and, so long as none of the invoices were disputed, it is unclear why the process of clearing funds for payment is repeated as a concern by SMME owners.

Only one respondent indicated having invoices disputed by the department by which she was employed. The SMME under consideration here is one which supplies a provincial department with catering on a weekly basis. Given the size of the business relative to the catering task, the tender was awarded to a number of SMMEs who were intended to work on an agreed upon roster so as to ensure their ability to meet the needs of the department. The respondent stated that invoices would frequently be disputed on the basis that the roster had changed and she had supplied the department on a week in which she was unscheduled to do so. The respondent claimed that she was never informed of these roster changes before the time and that, on the date of delivery, her goods were always accepted without dispute. Any concerns about her schedule were only registered once she had submitted an invoice. She did clarify that this occurrence – while frequent – was not something she experienced with every invoice submitted and, when an invoice was not disputed, she noted that they were paid within the 30-day period.

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30 See Figure 15, Chapter Three

It is interesting to note that one of the respondents is a supplier to provincial departments in Gauteng, the Free State and the North West provinces. The respondent emphasised that Gauteng was far better at paying invoices on time than either of the other two provinces and, furthermore, that the Free State fared the worst in this regard. This information is interesting because it lies contrary to that presented by Minister Radebe (DPME, 2016) and suggests that, perhaps, Gauteng's high number of late payments are simply due to a higher number of invoices received overall. This suggestion would be supported by the sentiments expressed by many of the suppliers interviewed.

The supplier interviews suggest that late payments in Gauteng are driven by poor systems and processes within state departments. This is echoed in the interview with the Gauteng Enterprise Propeller (GEP). In this interview, the GEP indicated that user departments and divisions within the agency would not clear and submit invoices to the finance department until close to – or even after – the 30-day payment period was passed. The finance department indicated that majority of the invoices they receive are paid within 30-days *of their receipt thereof* (which would explain the frequency of reports stating that invoices are paid within 30- to 60-days). However, the processes within the agency as a whole are such that the payments are late, when taken from the date on which suppliers submit them to their respective departments and contacts.

The Free State

Five SMMEs that have supplied provincial departments in the Free State were interviewed, including one supplier that fulfilled tenders in both the Free State and Gauteng. All five suppliers indicated that they were paid late. Furthermore, they all stated that late payment was the norm, although the length of time it took to receive payment varied across suppliers. Only two suppliers indicated that they were usually paid between 30- and 60-days after submitting an invoice, with the remainder indicating that payment usually occurred more than 90-days after submission.

The reasons given to suppliers regarding their late payments also varied for those operating in the Free State. One supplier, who worked with multiple departments, noted that each department had a different system and procedure to get invoices paid. This meant that invoices were frequently queried or disputed for not meeting formatting requirements – such as invoice references, addressees and other similar details. Two respondents indicated that the individual who needed to sign off on invoices within a department in order for it to be cleared to go to the finances division was often away on leave or in training. When this occurred, suppliers indicated that it would frequently take a number of weeks for them to receive feedback on their invoices.

Similarly, three respondents stated that invoices were frequently lost and that they would not be informed of this. As such, suppliers would query a late payment when the 30-day period had passed and only then be informed that the relevant department could not find the invoice and would request a new one. Four out of the five suppliers indicated that emailed queries were not addressed or answered, with one respondent stating that he "[has] to dedicate one day per week to physically go to the department and follow up on invoices. Then I need to come back to the office and spend another day calling my suppliers and explaining to them that I have to pay them late".

As with Gauteng, these interviews suggest that poor systems are at the root of late payment problems in the Free State. Given the response from suppliers, it is surprising that the Free

State was not mentioned in the speech by Minister Radebe (DPME, 2017) on the topic. The interview with the Free State Development Corporation (FDC) highlighted poor processes, budgeting constraints and poor departmental planning as the primary reasons for late payment in the province. The FDC stated that invoices need to pass through a number of people before they arrive with the financial division of the various departments and agencies. This process often takes a few weeks so that, when the invoice is received by the financial divisions, the 30-day payment deadline is very close. Furthermore, lack of planning and transparent systems means that the financial divisions within departments are not aware of up-coming payments and need to first find the funds to pay invoices. This then delays the process further.

4.3.4 Key findings

Provincial departments are very aware of the effects of late payment on SMMEs, with the representatives from the GEP and FDC listing the same effects on these businesses as the business owners themselves. These include cash flow constraints which negatively influence a business' ability to manage operating costs as well as credit ratings, as many small businesses are unable to repay loans when they are not paid in a timely manner by government departments.

Late payments also have numerous negative effects on government departments. The GEP noted that these late payments harmed the reputation of the departments amongst SMME owners so that the "government or agency seems to be inefficient and not assisting the SMMEs". The FDC noted that unpaid or late invoices reduced overall efficiency of government departments, as bureaucratic resources were being spent on projects which should already have been paid and closed. The FDC also emphasised the reputational risk to government when they fail to pay invoices on time, noting that SMMEs may stop working with government altogether if the problem persists.

Consistent feedback from both government departments and the SMME owners was that improved systems would be the most effective means of reducing payment times. The FDC argued for a fully transparent system, in which SMME owners could track the status, not only of their invoices, but also of any loans that they had taken with other government departments. Furthermore, the FDC argued that this system could include updates on the progress of projects which require suppliers to be paid, as well as the department responsible for making the payment and the particular reference details associated with both the supplier and the project. In this way, financial divisions would be alerted to upcoming payments before the invoice had been submitted, allowing them time to allocate the appropriate funds for payment in the following months. The FDC argued that such a system, if made transparent and accessible to all government departments and SMMEs, would encourage better cooperation and accountability. The GEP expressed similar sentiments, suggesting that a system be developed which would ensure that user departments submitted invoices with sufficient time for financial officers to source and make payments.

The FDC noted that, while the issue of late payments is still a primary concern, there have been large improvements in recent years. In particular, they noted that specific departments had managed significant improvements and questioned why others have not been able to do the same. Neither the GEP nor the FDC were able to identify which particular departments or divisions were performing well or poorly with regards to the payment process. In this regard, the recommendation was made to improve transparency and accountability

for all departments through clear and publicly available performance indicators. Finally, the FDC noted that making changes to the payment system in any one department or agency is a difficult task, as these systems and documents must comply with complex government regulations.

4.4 CONCLUSION

This chapter investigated the placement of government agencies in the SMME ecosystem. In particular, the analysis focused on the challenges and experiences of government agencies, along with their assumptions regarding SMMEs. Further analysis included an examination of government implementation of their 30-day payment turnaround policy. The research established that government departments and agencies struggle primarily with a lack of adequate resources, poor communication and collaboration as well as a lack of reach and awareness of their programs. Furthermore, the agencies identified a lack of funding, skills, market access and high regulatory burdens as the primary constraints to SMME development. Furthermore, the research indicated that many government departments and agencies fail to pay invoices on time; with this late payment severely affecting SMMEs who win tenders from government. The worst offending provinces are those which have the highest proportion of SMMEs in the country, intensifying these negative effects. Both SMME owners and government officials list poor systems and processes, as well as budget constraints, as the largest inhibitors to effectively implementing the 30-day payment policy.

CHAPTER FIVE

The experience of SMME and cooperative owners in South Africa

5.1 INTRODUCTION

Chapter Three investigated the basic characteristics of the SMME sector in South Africa, with specific emphasis on comparisons between the sector in 2016 and in 2008. However, that research also indicated that there is a lack of nuanced, detailed data that can be used to investigate the actual experiences of SMME owners in the country. This chapter aims to understand some of these experiences and challenges through the collection of primary data. The emphasis of the research in this chapter lies in understanding the experiences of SMME owners with regards to their motivations, infrastructure, performance, needs and challenges, and their experiences with government agencies.

5.2 DATA AND METHODOLOGY[31]

This report makes use of survey data collected specifically for the purpose of the review. Two surveys were developed – one for the formal and one for the informal sectors – so as to target questions and phrasing of questions at each sector. The surveys included questions that gave quantitative data, to allow for generalised statistical analysis, as well as spontaneous-response questions. These qualitative questions were designed to give clarity on questions which may have multiple explanations; as well as to allow the researchers to identify research areas that may have been neglected in the literature to date. A full description of the primary features of the data is included in Appendix E. Findings are reported as statistically significant or not, where statistical significance means that the differences between variables are not simply due to chance. Technical details, such as the level of this significance, are reported in footnotes throughout.

5.2.1 Formal sector

In order to establish the contributions of various variables of interest, the following methodologies were used: provincial weightings were determined through the use of Stats-SA data to determine the contribution of each province to GDP. This percentage was then multiplied by the total sample size to determine how many companies from each province needed to be included in the sample.

Determining the contribution of each industry to GDP proved to be more complex, as the database maintained by SEDA and SEFA used different SIC codes to that used by Stats-SA. Specifically, Stats-SA defined "wholesale, retail, motor trade and accommodation" as one sector, while the databases from SEDA and SEFA defined wholesale and retail separately. In the sample criteria, it was decided that each of these industries would account for the same amount in terms of their contribution to GDP and the sample size was increased to account for the change. The percentage contribution for each sector was then multiplied by the sample size to determine the number of companies included from each industry.

Weightings by enterprise size category were also determined by contribution to GDP, taken from a SEFA report. The report did not include contributions by micro enterprises. This meant that calculating micro enterprise contribution was done by taking the total contribution of SMMEs to GDP and then subtracting the contribution by small and medium enterprises to find the contribution by micro enterprises. Finally, the contribution of cooperatives to GDP was used to calculate their inclusion in the sample.

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31 Note that a confidence interval of 95% was used throughout this analysis.

Once the above sampling framework was developed, there were a number of difficulties in data collection. Provincial distributions were easy to match or get close to, but industry targets were difficult to reach. Specifically, the final sample had an under-representation for mining, wholesale trade, finance, insurance, retail and public administration industries. Furthermore, the databases provided had an over-representation of micro enterprises, resulting in an under-representation of small and medium firms in the final sample. Cooperatives were also over-represented in the sample, through trying to meet the industry and size requirements of the sample.

5.2.2 Informal sector

There was no data on the provincial contribution of the informal economies to the South African GDP. However, there is information on the number of people employed informally in each province. In order to estimate the contribution of the informal sector in each province to GDP, the median wage of the informal sector and number of people employed in each province was used. This estimate was then used to calculate the number of SMMEs in each province that needed to be included in the sample. We were, unfortunately, unable to include size in the criteria for the sample as the databases provided for the informal sector did not include a measure of size. As such, enterprises in the informal sector were randomly selected by province.

5.3 OWNERS AND THEIR BUSINESSES

5.3.1 Why do South Africans start businesses?

In consideration of the South African entrepreneurial spirit, this report investigated the motivation for individuals that started their own business, decomposed by sector. These results are reported in Figure 23, which illustrates that such motivations are significantly influenced by sector, with 34% of informal sector respondents indicating that their business was started because they were unable to find work and needed to start a business in order to survive (i.e. necessity-driven). Although the figure is larger in the informal sector, this response is also the primary motivation given for the formal sector with 26% of respondents selecting this option. In contrast, 22% of respondents in the formal sector report being motivated by noticing a gap in the market (i.e. opportunity-driven). This motivation is the second most prevalent in the formal sector, and the third most prevalent in the informal sector. It is important to note that responses in the formal sector are more evenly distributed than those in the informal sector, where necessity-driven entrepreneurship dominates more distinctly. These cross-sector differences in motivation are statistically significant,[32] confirming that, in this regard, the two sectors are distinctly different.

32   5% level of significance
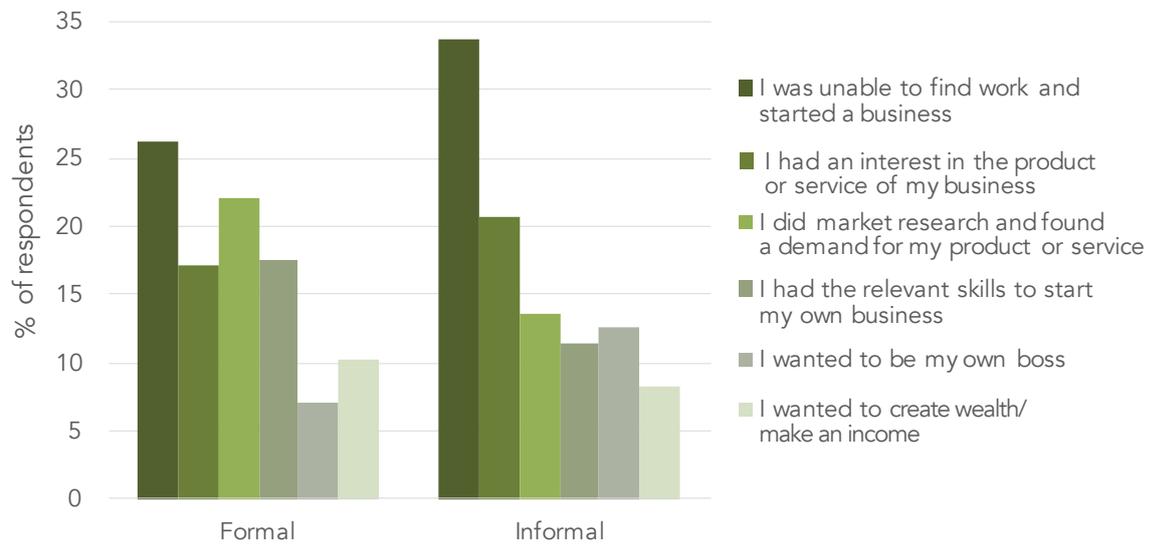
Figure 23: Motivation for starting a business by sector

Decomposition of these motivations by population group are illustrated in Figure 24. This decomposition focuses on all population groups in the formal sector and for Black individuals in the informal sector.[33] The figure shows that unemployment and survival are the predominant motivations for Black individuals, regardless of sector. In contrast, the dominant motivation for white individuals is noticing a gap in the market (31%). Black individuals in the formal sector also reported higher rates of opportunity-driven entrepreneurship than their informal counterparts.[34]
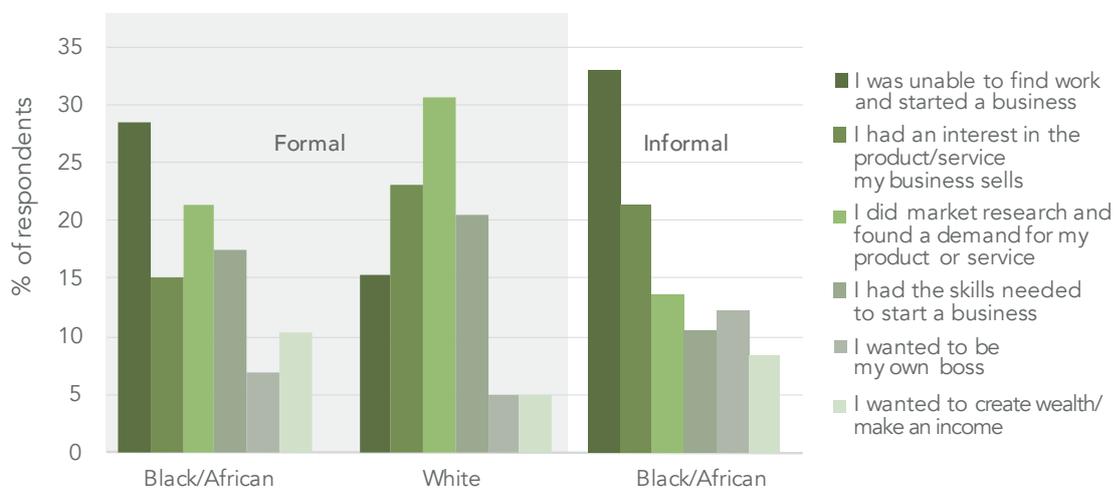
**Figure 24: Motivation for starting a business by population group and sector**

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33   White individuals are not shown in the informal sector due to their low participation in this sector

34   While these results are consistent with the research conducted by GEM (2017), the results here are statistically insignificant both across population group for the formal sector and across sectors for black individuals

Further decomposition investigates the differences in motivation for those who started a business by gender in each sector (see Figure 25). In each of the sectors, the broad profile of motivations are similar across genders – in both sectors, men and women report being unable to find work as the most prevalent reason for starting a business. These results, within each sector, are higher for women than they are for men, with women in the informal sector showing the highest proportion of necessity-driven entrepreneurship (39%). The second most prevalent motivation for each gender is also the same within each sector; with both men and women in the formal sector reporting high values for seeing a gap in the market, while men and women in the informal sector report having an interest in their product or service. This suggests that women start their businesses primarily for survival, regardless of the sector in which they operate.
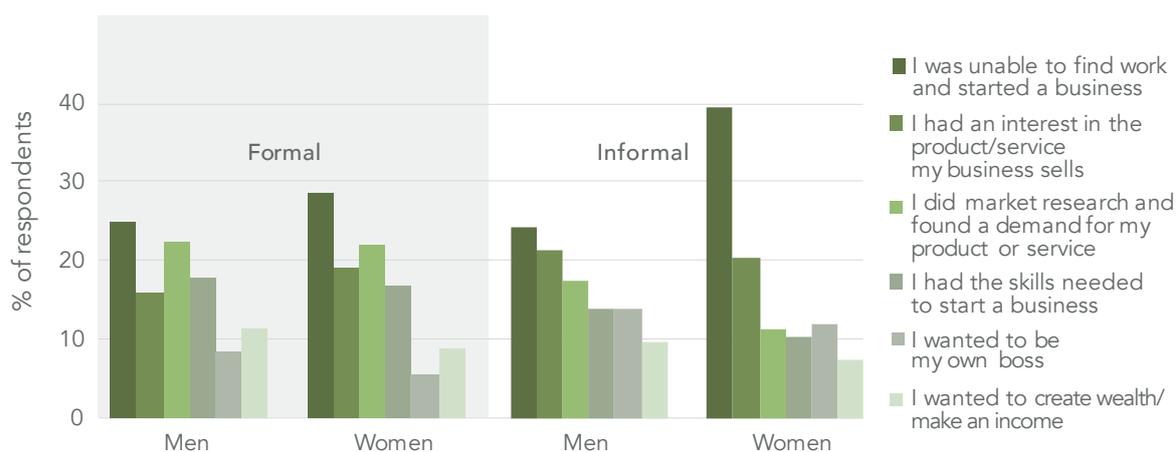

Figure 25: Motivation for starting a business by gender and sector

The analysis of motivation by age group showed that both the youth and older working cohorts were primarily motivated by necessity, regardless of sector, and that having an interest in the product or service was the second most frequent response. The differences in age groups within sectors, as well as those between the same age group across sectors, were statistically insignificant.

5.3.2. What drives South African businesses?

The SMME sector in South Africa is advocated as a means of growing the economy, improving employment and addressing inequality. In these endeavours, it is important to consider the motivation behind businesses in the country. Figure 26 illustrates these motivations – as reported by their owners – in each sector, where differences are statistically significant.[35] For both sectors, the primary business motivation is responding to the needs of society and making a profit at the same time. The secondary motivation is to contribute to the community and economy through growing the business and employing individuals. However, this second motivation is reported by a much larger proportion of informal sector respondents than formal sector respondents (42% and 28%, respectively). Similarly, a slightly larger proportion of formal sector respondents reported their business motivation as being to uplift their communities, in comparison to the informal sector (17% and 10% respectively).

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35   1% level of significance
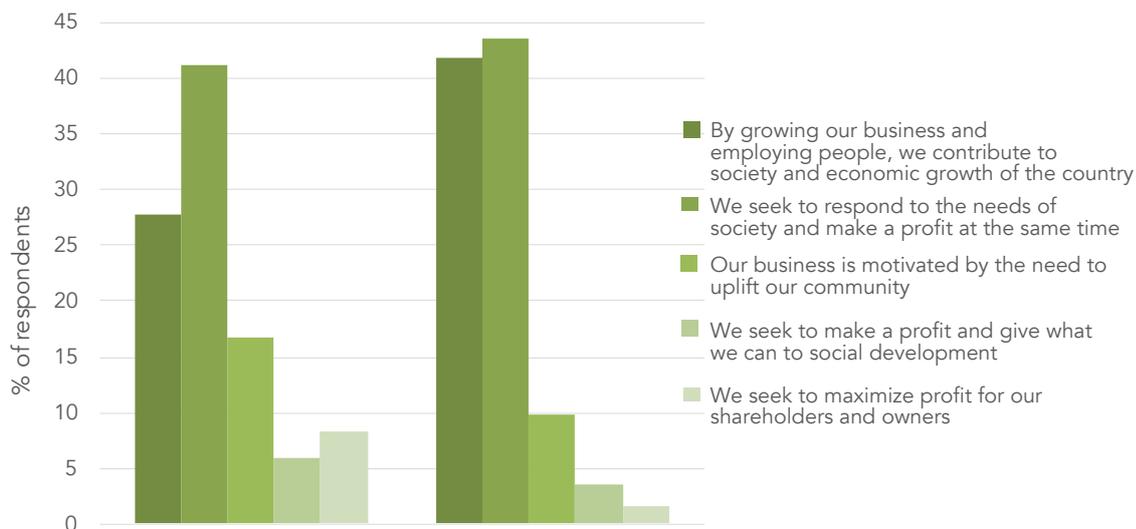
Figure 26: Business motivation by sector

As with the overall distribution across sectors, Figure 27 illustrates that the business motivations for both Black and White individuals is dominated by the desire to respond to the needs of society and make a profit at the same time. Black individuals in the informal sector also report contributing to the community and economy by growing their business as a particularly high motivator (40%), although this motivation is ranked second in all groups presented here. Black individuals in the formal sector also report this at a higher rate than their White counterparts (27% and 24% respectively), although to a lesser extent. Differences between the population groups within the formal sector are statistically significant,[36] as are the differences between Black individuals in the formal and informal sectors.[37]
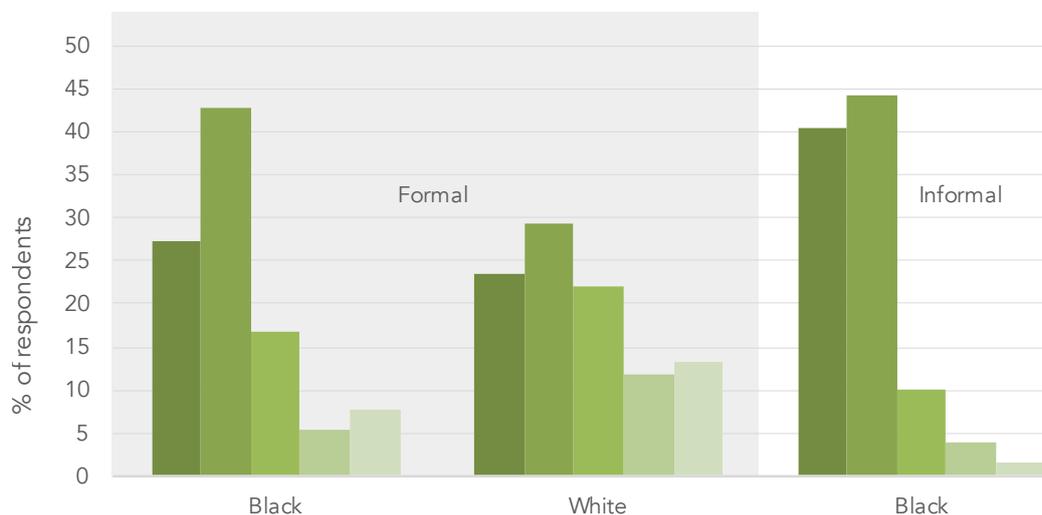
Figure 27: Business motivation by population group

Figure 28 shows the decomposition of business motivation by gender and sector. In contrast to the above, the figure compares the motivations for each gender within sectors. This is because

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36 1% level of significance
37 10% level of significance

the differences between genders in each sector were statistically insignificant. However, the differences for each gender across sectors were statistically significant. Specifically, the businesses of women in the informal sector were predominantly motivated by the desire to contribute to the community and economy (45%), whilst those operating in the formal sector were predominantly motivated by a desire to make a profit through responding to the needs in society (44%). Businesses owned by men in both sectors were predominantly motivated by the attempt to make a profit by responding to needs (49% in the informal sector and 40% in the formal sector); while contributing to the community and economy ranked second for these businesses in both sectors.
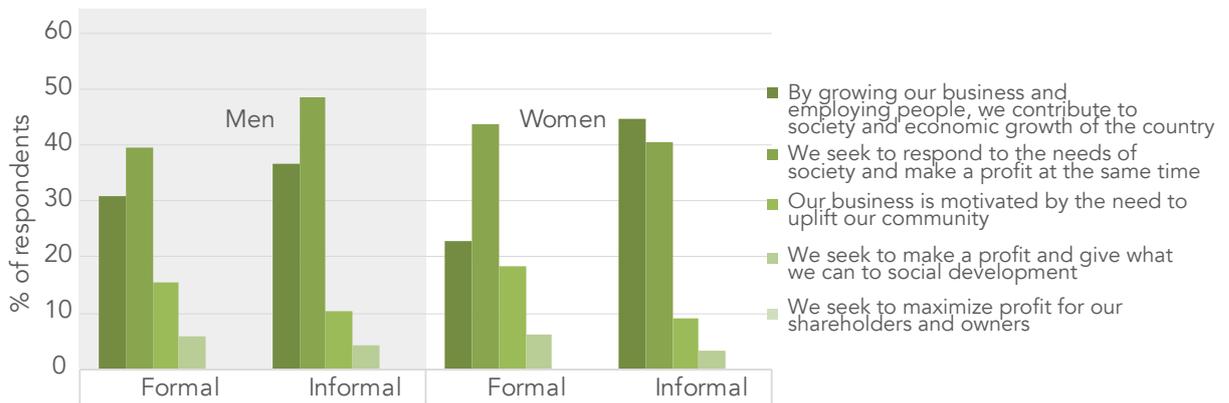
Figure 28: Business motivation by gender and sector

5.3.3 How do business owners rate their entrepreneurial skills?

Relating to the GEM (2017) analysis of entrepreneurship in South Africa, this investigation considered business owners' perceptions of their own entrepreneurial skills. This involved establishing a composite entrepreneurial skills score[38], which is presented in Figure 29. The graph reports score decompositions by sector for population group, gender and age cohort. All results between sectors are statistically significant[39]. Overall, the data shows that formal sector business owners score *much* higher in entrepreneurial skills than do their informal counterparts. In fact, there is only a 5 percentage point difference between the highest scoring groups (White individuals and men) and the lowest scoring group (36–65 year olds). Similarly, the scores for all groups in the informal sector are remarkably consistent, with only a 6 percentage point difference between the highest and lowest scoring groups (Black individuals and women, respectively).

Most notable, of course, is the stark difference in scores between the formal and informal sectors (42 percentage points for the total sample). This difference is important because lack of entrepreneurial abilities (perceived or real) may be driving the persistence of informality in the small business sector.
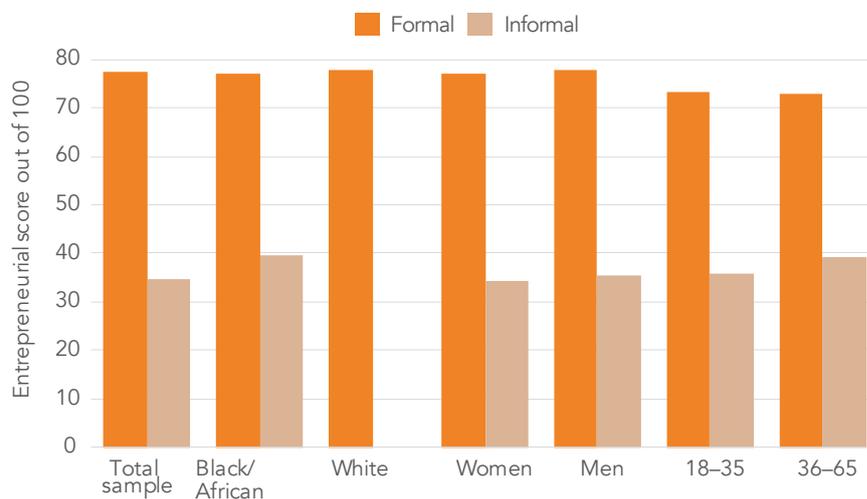

Figure 29: Entrepreneurial skills by sector

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38 The score is out of 100 and based on 11 variables that were rated on a Likert-scale.These ratings were standardised and the scores centred on the mean score for each sub-population. The 11 variables were each weighted equally when calculating the final entrepreneurial skills score.
39 1% level of significance

5.3.4 Who needs financial assistance and where do they get it?

Previous research indicates that lack of access to funding is one of the primary constraints on business ownership and development in South Africa. This conclusion is substantiated by the research conducted for this report, the results of which are illustrated in Figure 30. Specifically, this figure presents the number of respondents – by sector – who indicated that they needed funding when they started their business and within the last twelve months, as well as those who indicated that they are still repaying a loan. The findings across sectors are all statistically significant.[40] Regardless of sector, most companies required some funding to start up their business, with the informal sector showing higher rates by 6 percentage points. The informal sector needed operational funding in the last twelve months at much higher rates than the formal sector did (54% and 20% respectively). However, the formal sector reports higher levels of still repaying loans, likely because loans in the formal sector are of larger values than in the informal sector.
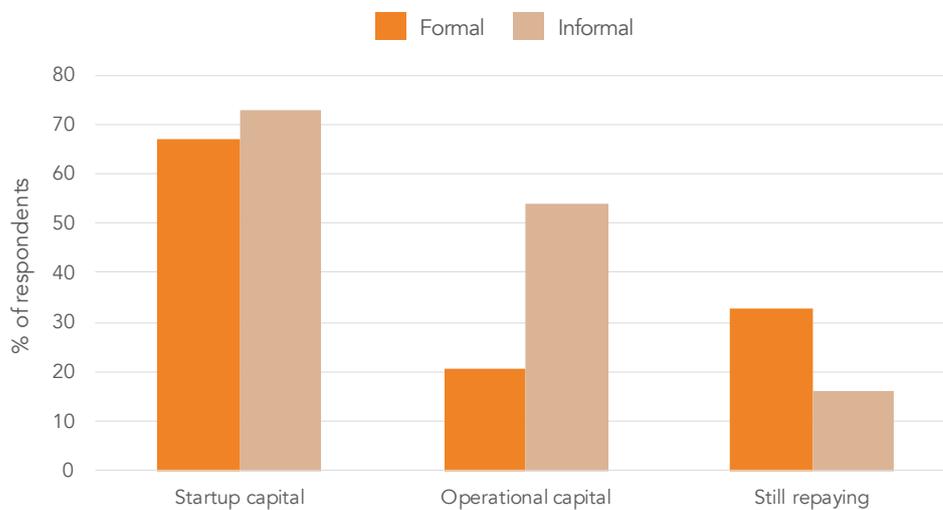
Figure 30: Funding requirements by sector

Figure 31 shows that these results are persistent across various groups of interest, including population group, gender and age. For all groups, startup funding was required most frequently. The formal sector persistently scores higher rates of still repaying their loans than does the informal sector, and the informal sector reports higher operational capital needs than does the formal sector. In all instances, the difference across sectors is statistically significant[41] at the 1% level. However, population group differences within the formal sector were insignificant for all three measures. The population difference between men and women was statistically significant[42] for startup capital but insignificant for all other measures. Finally, the differences between the youth and older working cohorts were only statistically significant for startup capital.[43]

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40 1% level of significance
41 5% level of significance
42 10% level of significance
43 1% level of significance
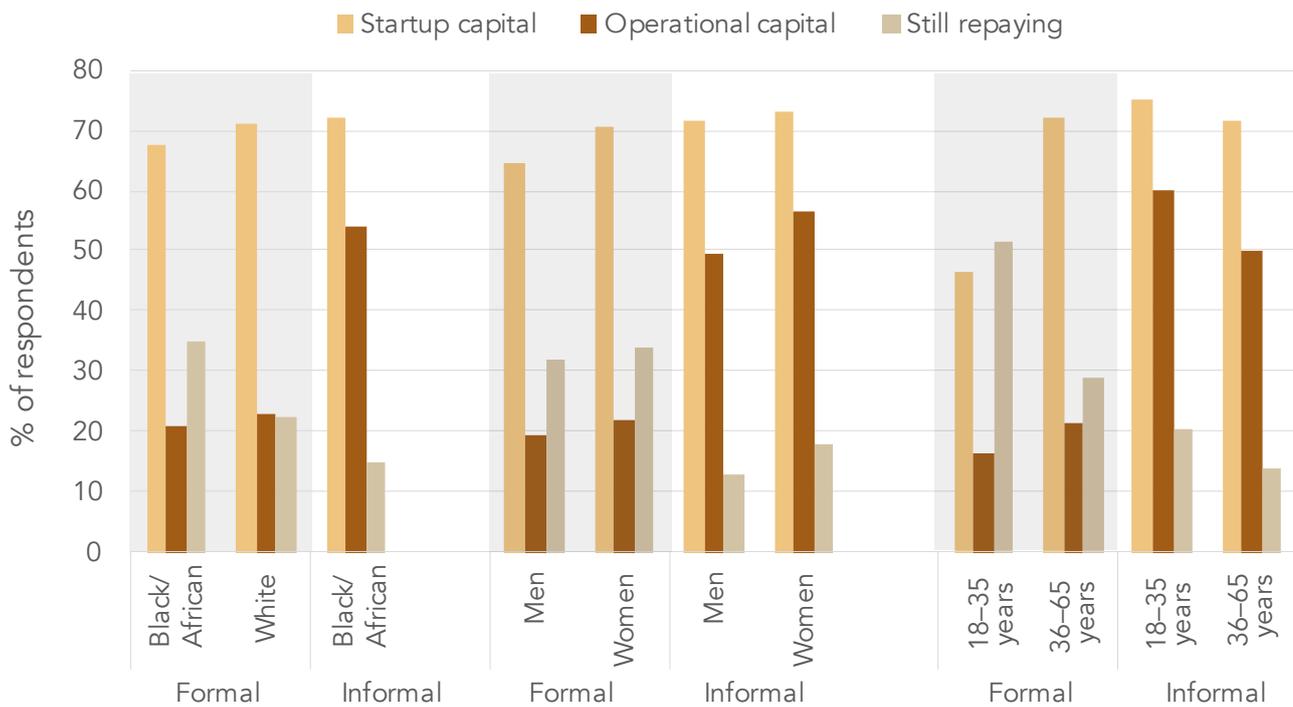
Figure 31: Funding requirements by sub-populations

Having concluded that most businesses require funding at some point in their business life cycle, the analysis now turns to an investigation of the source of this funding. Figure 32 illustrates the sources of funding reported by respondents for their startup and operational capital. The majority of respondents in both sectors sourced their funding from long-term personal savings, such as pension funds. The second most common source across both sectors and for both forms of funding was loans from family or friends. Government loans or grants also supplied a significant amount of capital in all instances. However, the difference between the use of government financing between the formal and informal sectors is stark – only 6% of informal sector businesses received operational capital from the government, compared to 21% of formal sector businesses. The difference between the formal and informal sectors is statistically significant for operational capital,[44] but statistically insignificant for startup capital. Further analysis showed that the source of funding was insignificant across the sub-populations considered in this review and, as such, the results are not reported here.

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44 1% level of significance
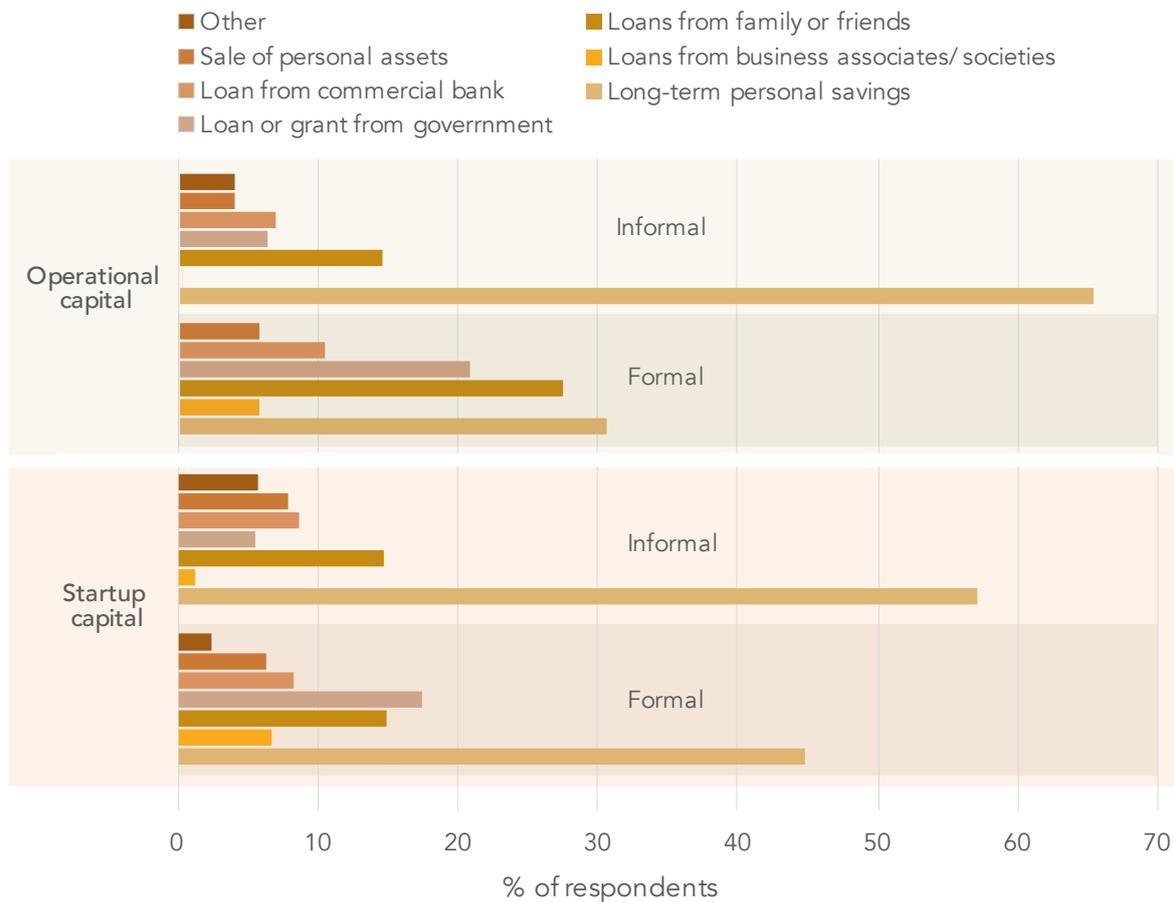
Figure 32: Sources of funding

The research conducted included a spontaneous-response question to establish why respondents needed to source additional funding in the last twelve months. The results indicate that, in the formal sector, business expansion (31%), buying or building premises and equipment (31%), and operating costs (23%) are the largest contributions to the need for additional funding. Business expansion appears to be motivated by poor performance and a desire to increase the range of products and services or the area that a business can service in order to increase overall revenue. Similarly, poor cash flow means that many businesses are not able to cover their operational costs and ensure that their families are fed and clothed, making this the third most common response in this qualitative analysis.

Individuals in the informal sector report needing to buy more stock as the most common (36%) reason for having needed to get additional funding in the last twelve months. Buying equipment and expanding the business were each reported by 28% of the respondents as the primary reason for needing to get funding within the last twelve months. Similar to the formal sector, these expansions appear to be largely driven by poor business performance and a desire to improve business standards or reach. A relatively large proportion of respondents (8%) mentioned concerns regarding premises as an indirect factor influencing their need to get additional funding (e.g. "getting machinery and a place to rent").

Among those respondents who mentioned lack of funding to buy stock or input materials, a number mentioned that government tenders had not paid them on time, which contributed to their cash flow problems. Respondents also mentioned that many of their community members and clients do not pay for services when they have been rendered, due to the high levels of unemployment and poverty in these communities. Respondents indicated that they

are hesitant to lose customers by refusing service without payment upfront, or by 'black list-ing' repeat offenders. However, this lack of payment from their clients is a source of significant concern and frustration.

5.3.5 What premises do small businesses use?

Figure 33 indicates the business premises used by small businesses by sector (1% significance). It shows that the predominant premise used by businesses is their own homes. Interestingly, both the formal and informal sectors report relatively high usage of commercial spaces. The research included a spontaneous-response option wherein many informal sector respon-dents indicated that they rented space from which to operate. These spaces were reported by respondents as commercial spaces; however, the majority of these respondents indicated that they rented containers which were repurposed into shops or workspaces for the purpose of business operations.
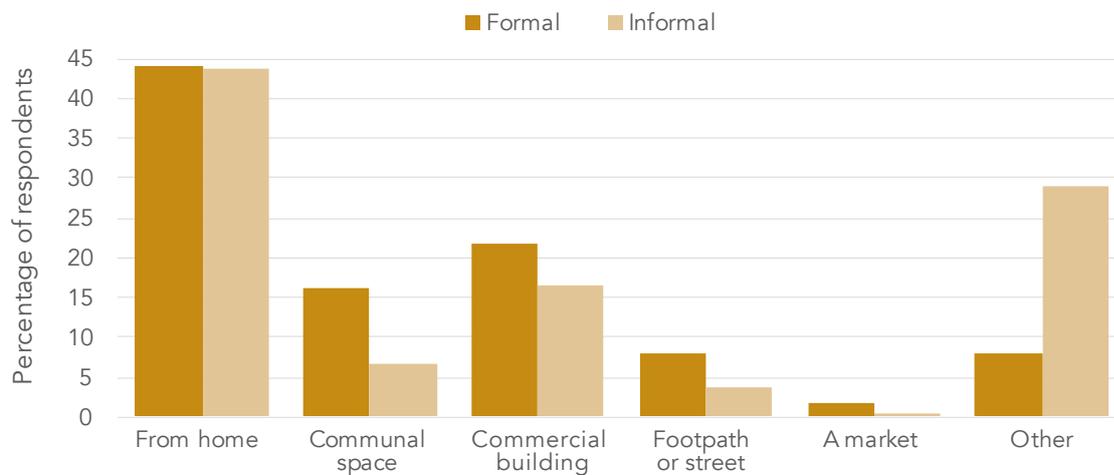
Figure 33: Business premises by sector

Further investigation illustrated that the high degree of home-based businesses is not driven by a particular size category, as this is the most common premise across all categories[45] (see Figure 34). Differences in premises were not statistically significant, regardless of whether size classification was self-reported, by number of employees or by index.
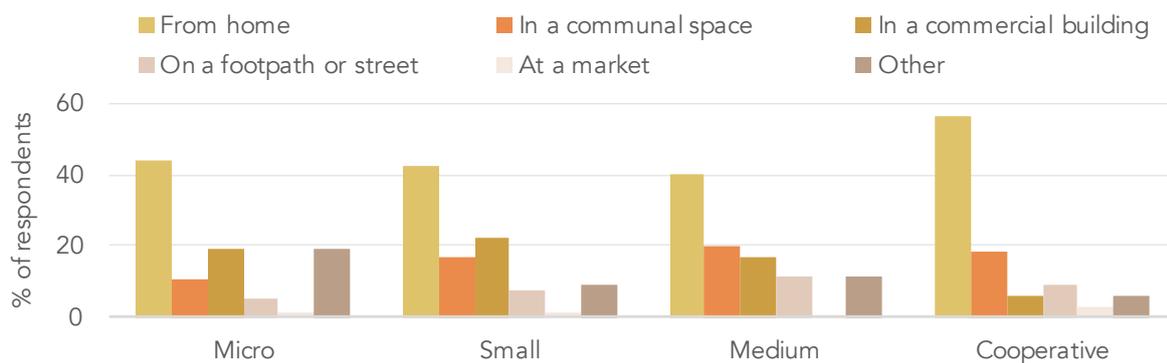
Figure 34: Business premises by size category

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45 The size categories used here are based on an index which weighted individual responses when asked their business' size with responses when asked the number of employees. This was done because the research found very low correlation (16%) between reported enterprise size and size classification by number of employees. In particular, reported size was biased upwards from the size classification by number of employees. An index was used to account for potential size classification by revenue (which may be different to number of employees), for which there was no measure included in the data.

Figure 35 shows that almost all businesses use ICT equipment of some sort, with smartphones being the most frequently used ICT (used by 68% of all businesses). Most businesses also report having regular access to basic infrastructure, such as a toilet, running water, tarred roads and electricity. Electricity was reported as the most inconsistent in availability, with the informal sector reporting particularly high degrees of volatility (23% stated that they only have access to electricity 'occasionally'). This result persisted when tested according to premises. In this investigation, it was found that those businesses which operated from home were more likely to have inconsistent access to electricity[46], while the same finding was not statistically significant for any other premise. Access to tarred roads was the scarcest item, with 72.5% of all respondents indicating that they had access to tarred roads when operating their business. Differences in access to infrastructure across sub-populations, sizes and sectors were not statistically significant. However, the lower degrees of ICT equipment use in smaller business were statistically significant.[47]
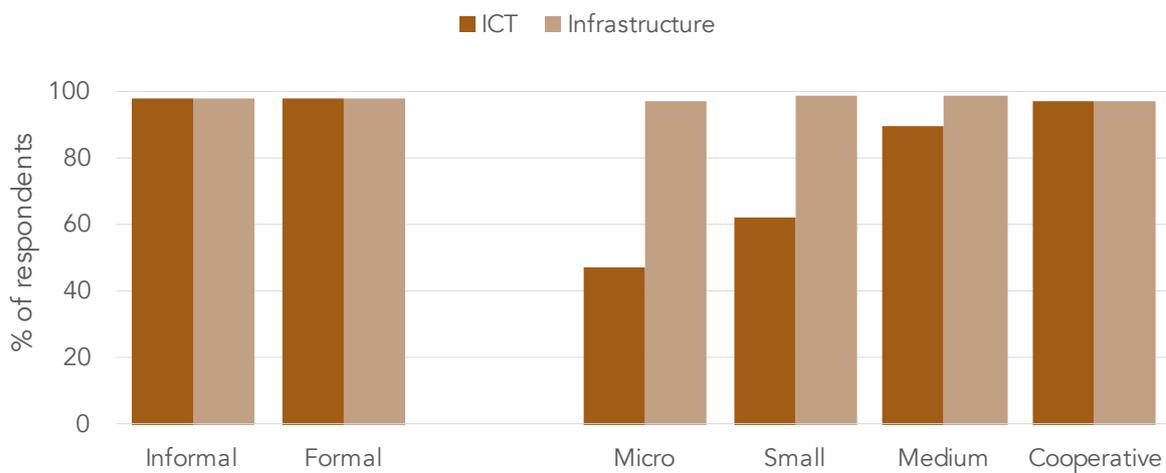
Figure 35: Access to and use of infrastructure and ICT equipment

One operational consideration for small businesses includes the costs associated with transport and storage. The vast majority (50%) store their goods at home and report that this transportation back and forth is largely due to high levels of crime in the area. A further 28% of informal businesses store their goods where they work and a surprisingly large number – almost 11% – store them in a rented space. These rented spaces include in formal sector stores near where they operate or in containers belonging to neighbours and friends. There were no statistically significant differences between the storage options for businesses in different size categories. There were also no statistically significant differences between storage options for businesses operating from various premise types, indicating that these results are not driven by the place from which a business operates.

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46 5% level of significance
47 1% level of significance
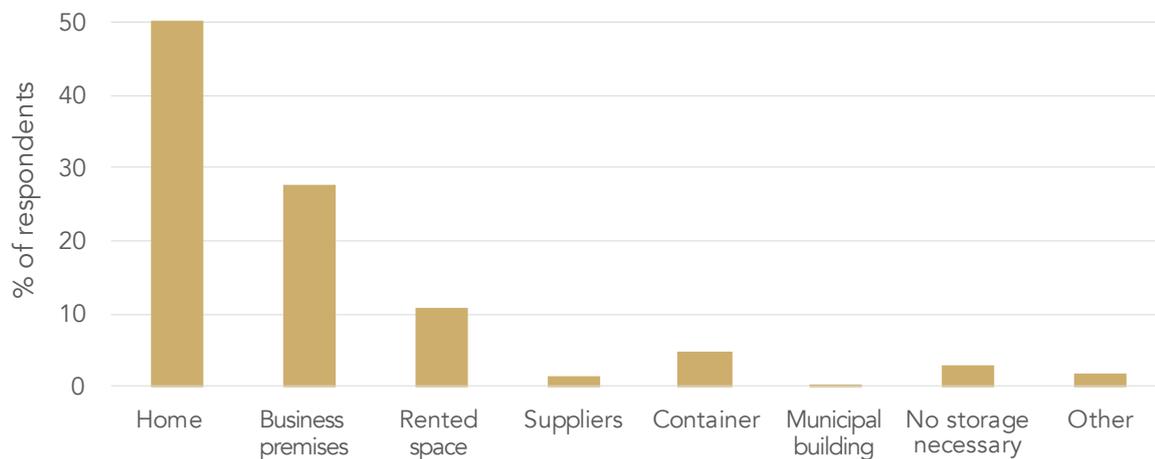
Figure 36: Where informal businesses store their produce/goods

5.3.6 Who do small businesses sell to?

Lack of access to markets has frequently been mentioned as a constraint on business development. In order to investigate this, the report now considers the differences between the clients of businesses operating in the formal and informal sectors. These results are reported in Figure 37. Businesses operating in the formal sector predominantly sell to small businesses and to individuals walking past, while those in the informal sector predominantly sell to individuals walking past their shops or stalls. The formal sector also sells more to government and municipalities than does the informal sector, although government clients are outranked by almost all other clients.
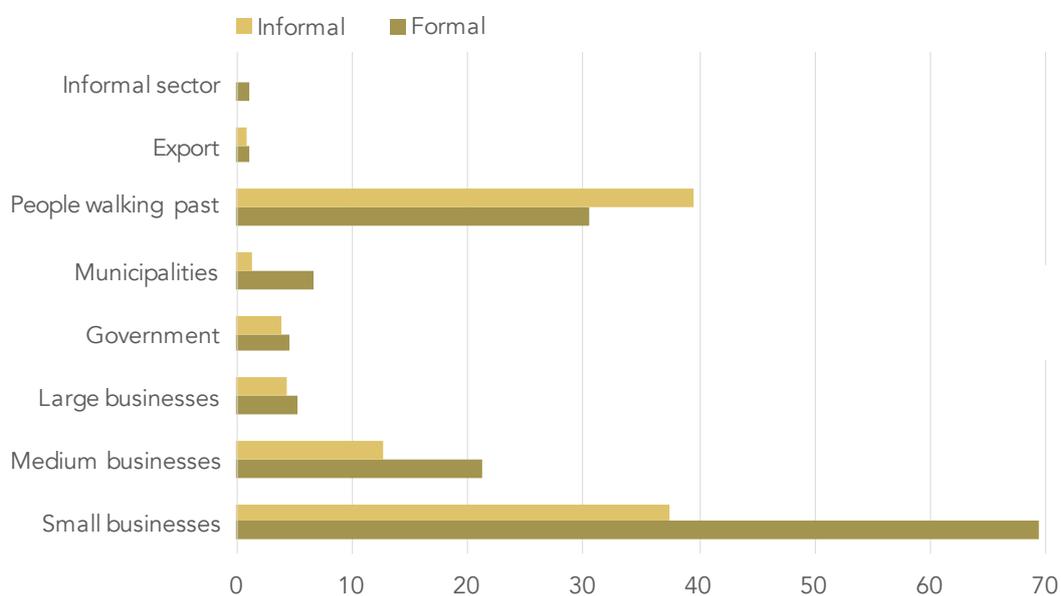
Figure 37: SMME Clients by sector

In a similar vein, this investigation expands on its findings through an analysis of the clients of SMMEs in South Africa by sector and size category (see Figure 38). As above, the formal sector sells more to other businesses than does the informal sector; with smaller businesses selling mostly to individuals and other small businesses. As these enterprises move up in size, they begin to sell to medium and large firms. Interestingly, in the formal sector, a relatively

consistent percentage of firms sell to government and municipalities regardless of the enter-prise size. In the informal sector, all size categories sell to small firms at relatively high rates. Micro enterprises, however, sell predominantly to individuals walking past and small enter-prises sell predominantly to medium enterprises. Small and micro-enterprise in both the formal and informal sector appear largely excluded from selling to government or municipal-ities. While this is to be expected in the informal sector, as government requires some form of business licensing or registration in order to do business with government, the exclusion of micro-enterprises in the formal sector remains an area which policy can target.
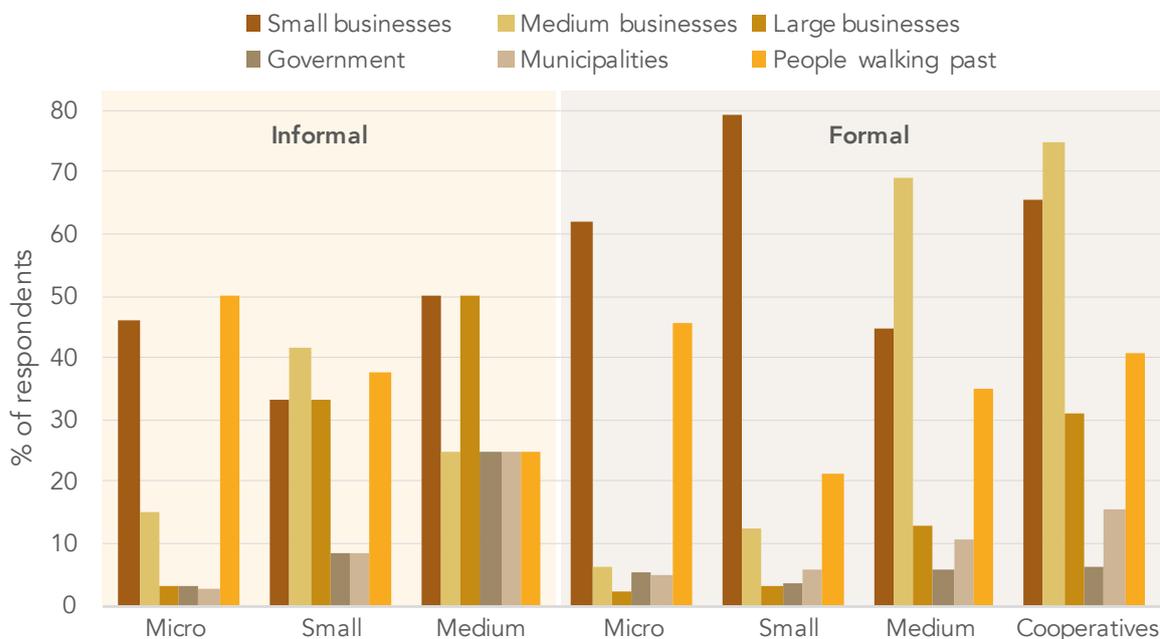
Figure 38: SMME clients by size category and sector

5.3.7 Who sells to government?

With the preferential procurement policies discussed in Chapter Four of this review, it is inter-esting to consider which sub-populations and business types sell to the government. Figure 39 gives some indication of these figures. It shows that more men report selling to govern-ment than do women and older cohorts sell more to government than do the youth. Given the procurement process, which awards higher points for Level 1 BBB-EE accreditation than lower-level or non-compliant enterprises, it is not surprising that Level 1 accredited compa-nies sell more frequently to government than do others. In fact, they sell as much to govern-ment than all other levels (including non-compliant) combined. However, these results were not found to be statistically significant. With one exception: the lower level of government sales by women compared to men was statistically significant[48]. However, the inability of women and youth to access government as a client is an important failing of current policy implementation.

Figure 39 also shows the percentage of respondents in each population group that received assistance with government tender applications. Overall, those who received assistance with

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48 5% level of significance

tenders also reported higher sales to government, with the finding statistically significant[49] at the 5% level. Women and black-owned enterprises report higher levels of assistance with tender applications whilst older cohorts report the same. In spite of this, older age cohorts and women report *lower* levels of government sales than their counterparts. Statistically, no sub-population was more likely to receive assistance with tenders. Furthermore, the relationship between receiving such assistance and vulnerable sub-populations (women, the youth and black South Africans) was statistically insignificant in each instance. This suggests that assistance programmes for tender applications can be improved through better targeting for vulnerable groups.
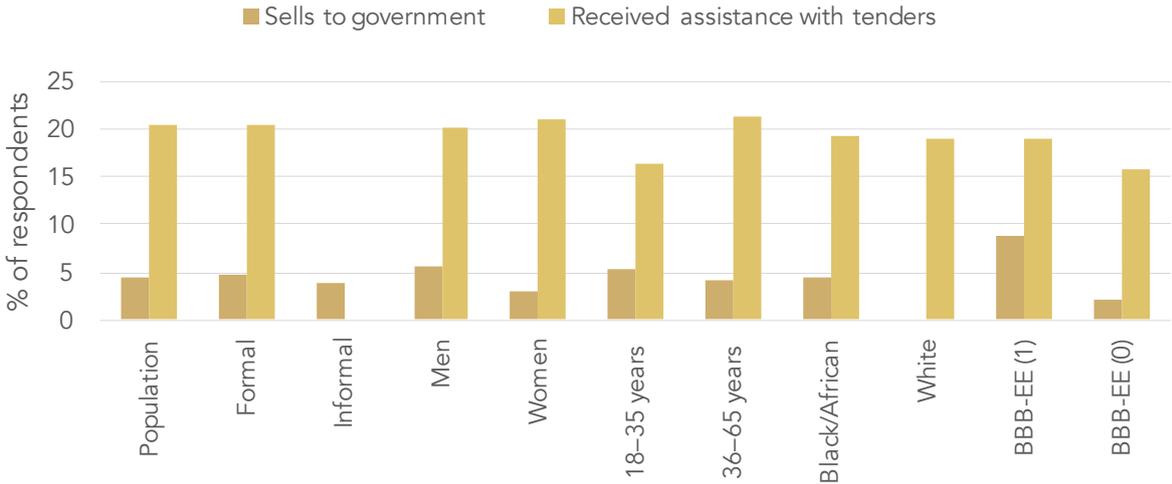
Figure 39: Government suppliers compared to those receiving assistance with tender applications

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49   5% level of significance

5.4 BUSINESS PERFORMANCE

5.4.1 Employment

The NDP specifies that SMMEs are intended to increase employment in South Africa. They are also intended to assist with economic development and growth. In order too measure the success of SMMEs in this regard, the performance of SMMEs is measured in terms of both employment and revenue. Figure 40 shows that the formal sector reports its performance in employment being either constant or fluctuating over the last twelve months. Furthermore, it indicates that more formal sector businesses report increasing employment than those that report decreasing employment. The informal sector follows a similar pattern, with higher degrees of fluctuation than that displayed in the formal sector. These minor differences across sectors are statistically significant.[50]
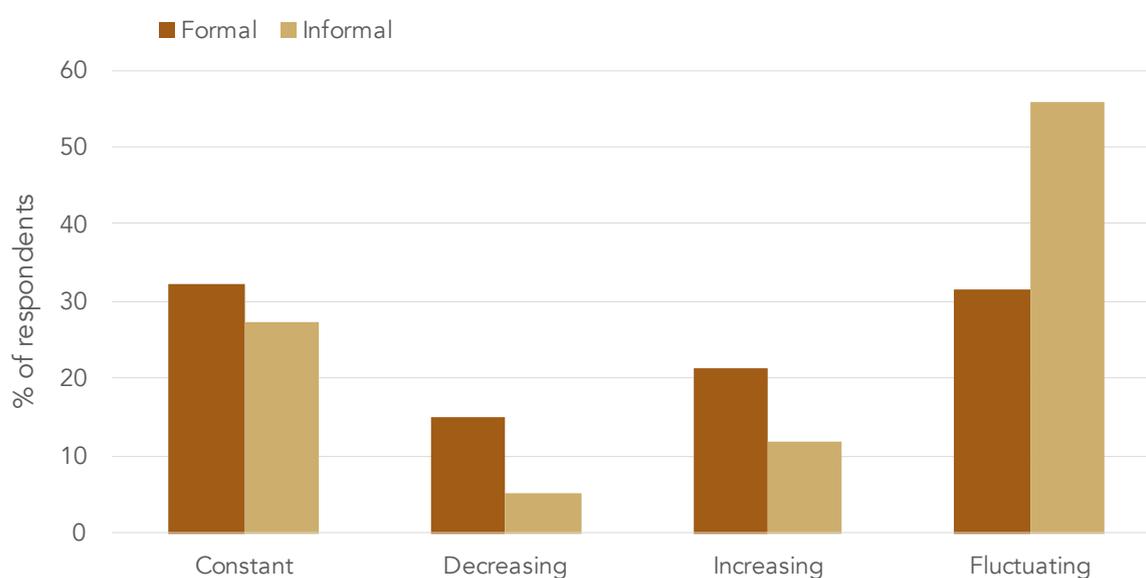
Figure 40: Performance in terms of employment

When considering these differences across size categories, we find that performance differences are significant at a 1% level. Figure 41 illustrates these differences and shows that micro and small business report fluctuating employment in both the formal and informal sectors, while larger enterprises report fluctuating or increasing employment. Furthermore, 92.35% of the respondents in the informal sector said that they would employ more people if they could. The results for medium enterprises in the informal sector are not shown because of the low number of respondents in this category.

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50 1% level of significance
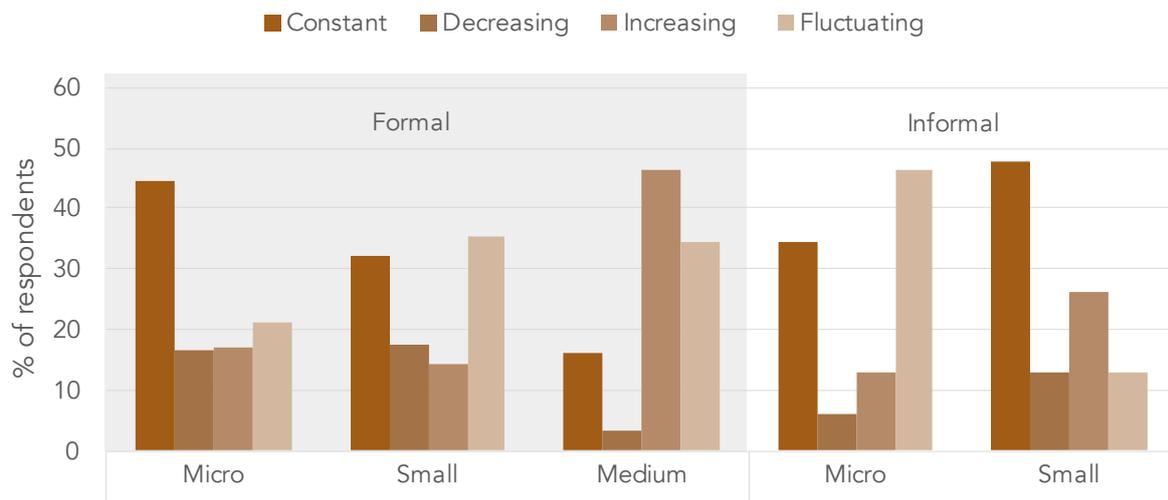
Figure 41: Performance in terms of employment by size category

5.4.2 Revenue

Investigating the performance of these business in terms of revenue reveals similar results. Figure 42 shows that, as with employment, the majority of respondents indicated that their revenue has been fluctuating over the past twelve months, with the informal sector reporting relatively high degrees of increasing revenue. In the informal sector, this performance is dominated by volatility, with some respondents indicating constant or decreasing revenue. Differences across sectors are statistically significant.[51]
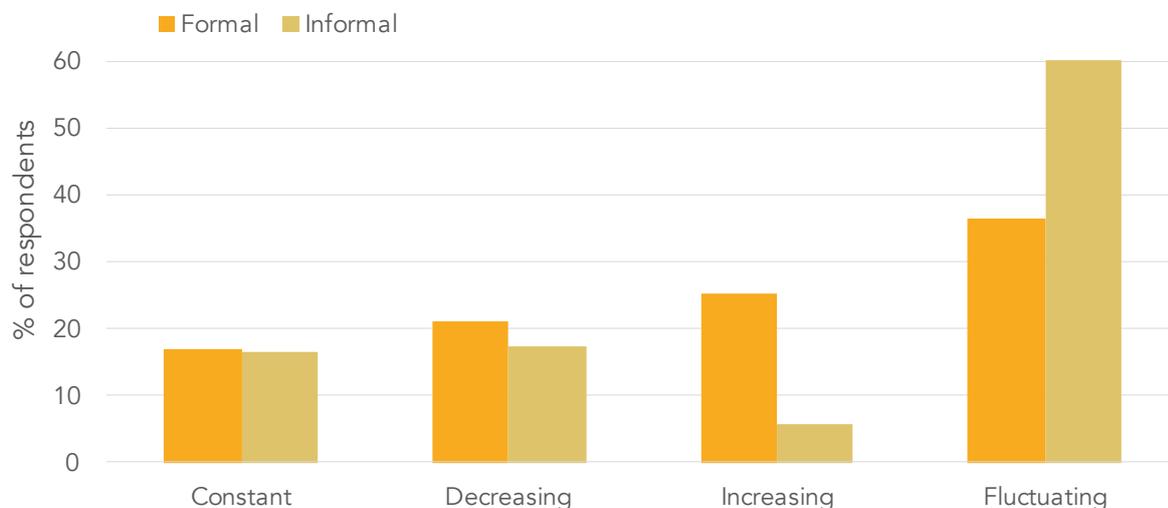
Figure 42: Performance in terms of revenue by sector

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51   1% level of significance

Across the whole sample, smaller firms show higher degrees of volatility in revenue with larger firms and cooperatives indicating predominantly increasing revenue. Differences in size categories are statistically significant.[52] Figure 43 shows the performance of micro and small enterprises by sector. The differences between medium enterprises and cooperatives which operate in the formal and informal sector are statistically insignificant across sectors, so only the results for smaller enterprises are shown here. The graph shows that smaller firms report higher degrees of volatility and more likely to report decreasing revenue. Furthermore, the formal sector shows higher levels of constant and increasing revenue than does the informal sector. Results are statistically significant.[53].
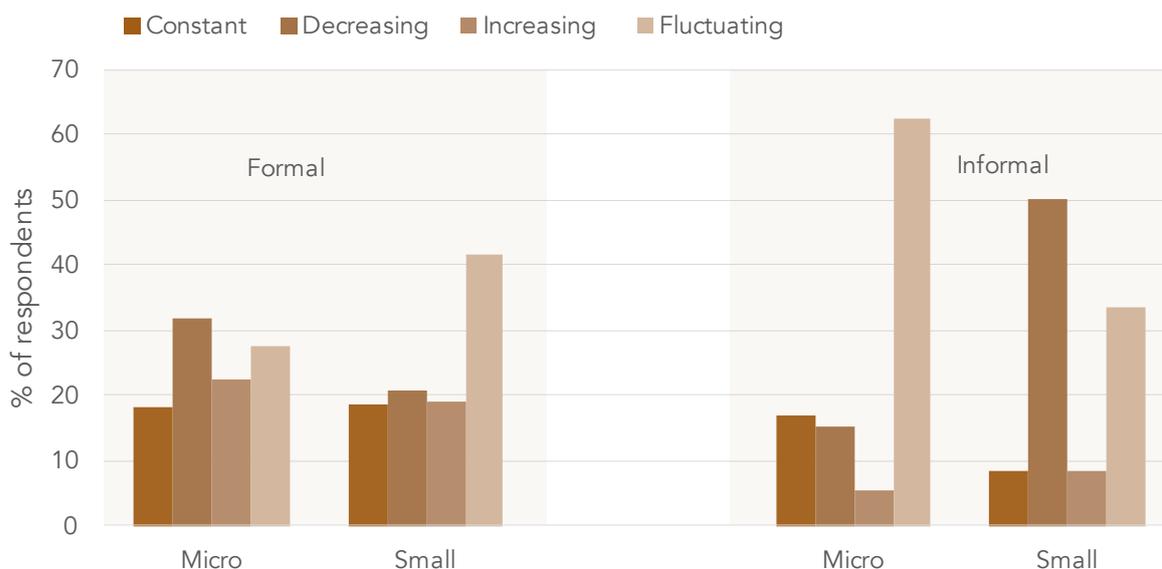
Figure 43: Performance in terms of revenue by size category

The relationship between performance in terms of revenue and employment varies across sectors and size categories[54]. In the formal sector, revenue is slightly more stable and more likely to be increasing than is employment. In contrast, the informal sector reports a much larger likelihood for decreasing revenue than for decreasing employment. The relationship between revenue and employment performance is strongest for medium firms, where both measures are more likely to be increasing in performance. In contrast, micro and small firms report a weak relationship between the two measures, with revenue more likely to be decreasing.

The relationship between performance in terms of revenue and employment varies across sectors and size categories. There is only a 34.1 correlation between revenue performance and employment performance in the formal sector, with revenue more stable and more likely to be increasing than employment. In the informal sector, there is only a 9.5 correlation between the two, with both employment and revenue fluctuating significantly and revenue more likely to be decreasing. The correlation between the two is 62.97 for medium firms, with them reporting higher degrees of improved performance in both measures. Micro and small firms show only a 15.6 correlation between the two with revenue reported as decreasing more frequently while employment is reported as fluctuating or constant.

52   5% level of significance
53   1% level of significance
54   Specific correlations are given in Table C3, xix

5.4.3 Has it become easier or more difficult to run a business?

Chapter One considered the current context and environment for SMMEs in South Africa at present. This investigation considered the economic context and attempted to establish the ease with which South Africans can do business in the country. The chapter concluded that the current economic context places significant strain on SMMEs. This conclusion is supported by the primary investigation conducted for this report. Figure 44 shows that the majority of respondents in both sectors indicated that doing business has gotten more difficult over the past five years. In the formal sector, the proportion of respondents who selected constant ease of doing business and easier business conditions are roughly the same, with less than a percentage point difference between them, while the informal sector has more respondents reporting that business has gotten easier over the past five years. These differences across sectors are statistically significant.[55] Figure 45 shows the differences across enterprise sizes and sectors. However, these differences are not statistically significant across size categories. Furthermore, no significant differences could be found between population groups, age cohorts or genders.
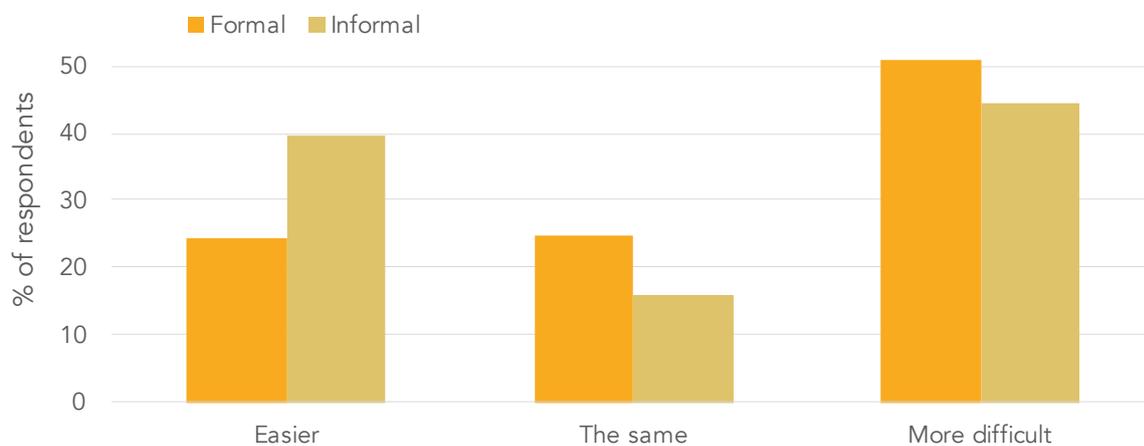
Figure 44: Ease of doing business over five years
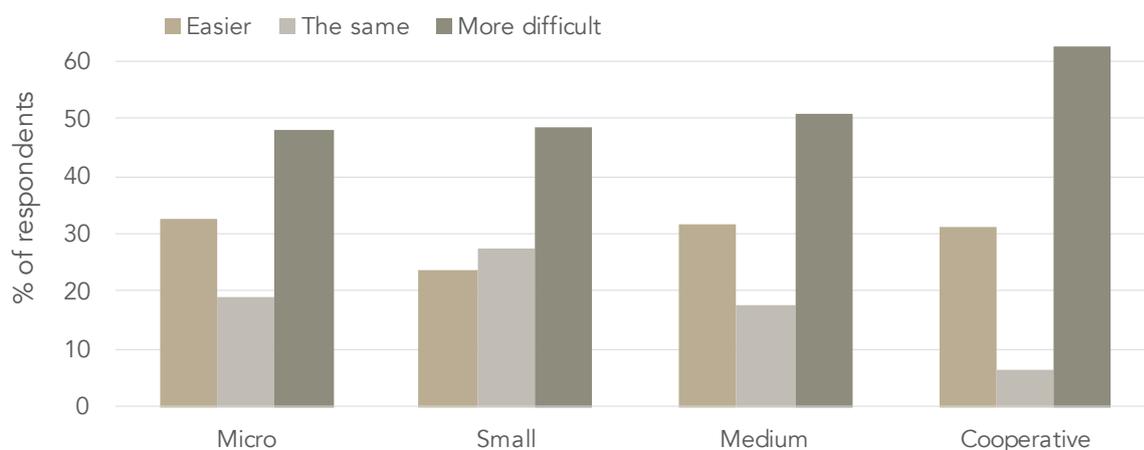
Figure 45: Ease of doing business over five years by size category

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55   1% level of significance

5.5 THE CHALLENGES FACED BY SMMEs

5.5.1 What made starting a business difficult?

The methodological framework used for this review assumed that there is a relationship between the assumptions that governments make about SMME experiences, the real experiences of these businesses and the effectiveness of government policies. This relationship includes an understanding that the experiences of SMMEs can (and should) change over time. As such, this report investigates the current challenges faced by SMMEs, with particular emphasis on considering the changes in these challenges over time. Figure 46 shows the challenges faced by enterprises operating in the formal sector (results for the informal sector are discussed below). Inconsistent cash flow and increasing operating costs were reported as the biggest challenges to starting a company, with inconsistent demand for goods also being reported frequently. There are, however, differences in the reported struggles by enterprise size: smaller enterprises report inconsistent cash flows as their primary start up challenge, with larger enterprises reporting increasing operating costs most frequently. There were no significant differences in these costs for demographic characteristics of the owners but the differences across enterprise sizes were statistically significant.[56]
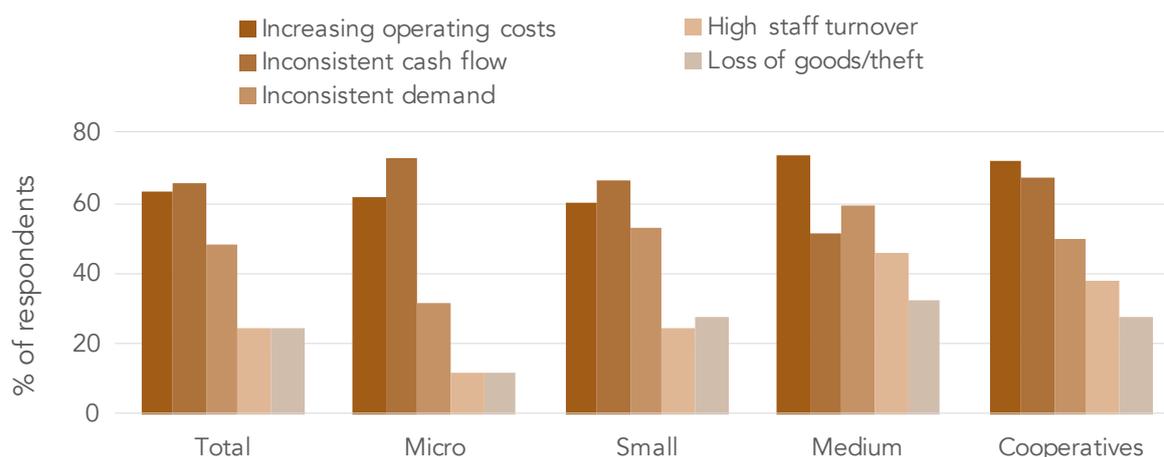
Figure 46: Start-up challenges in the formal sector

In the informal sector, respondents were asked a spontaneous-response question to determine which aspects they struggled with the most when they were starting their businesses. Responses varied significantly, with many respondents supplying a number of start-up challenges. As one respondent stated, "you just don't know where to begin". By far the most common challenge was start-up capital, which was reported as a challenge by 39.5% of respondents. A lack of equipment was the second most commonly mentioned challenge (16%); followed by a lack of clients (13%) and a lack of marketing knowledge (10.5%).

Other challenges that were frequently mentioned in the informal sector include excessive competition (5%); inadequate premises (6%); lack of skills (5%) and inadequately trained staff (5%). About 3% of respondents complained that transport costs were too high – both to operate and to access stock. A number of respondents stated that crime and corruption

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56 1% level of significance

hampered their operations when they started (2%) and a further 2% stated that access to water or electricity was limited when they started their businesses. Difficulties with licensing or government regulations was mentioned by 1.2% of respondents and, finally, 5% of respondents referred to a fear of failure and a lack of support as things which they found challenging when they began their operations.

5.5.2 What's difficult right now?

While it is vital to understand the challenges that constrain business start up, there is an emphasis on SMME potential to contribute to the growth of the South African economy. As such, operational difficulties and growth barriers are important considerations. Figure 47 shows the results of such an investigation by reporting the current challenges reported by both the informal and formal sectors. In both sectors, lack of capital was reported as the most prominent challenge, with lack of premises also being reported frequently. Inadequate administrative and management skills were reported as a challenge by 34% of the formal sector and 29% of the informal sector. These differences are statistically significant.[57, 58]
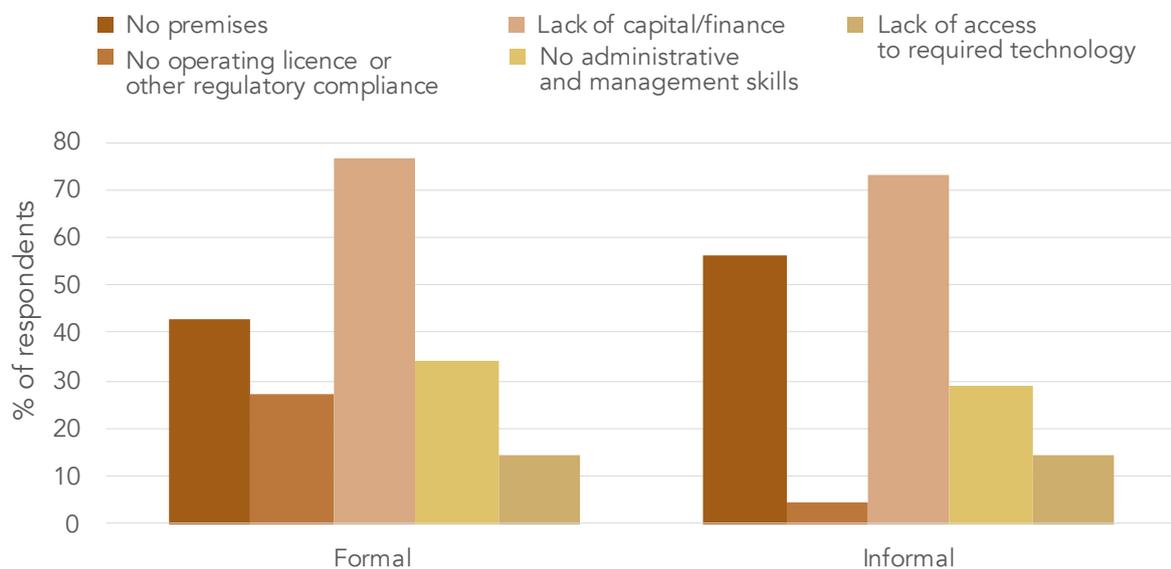
Figure 47: Current challenges by sector

In order to improve the understanding of these constraints and how they influence the attainment of state NDP goals for vulnerable groups, this report investigates the differences in challenges faced by sub-populations (see Figure 48). Lack of premises was reported as a higher problem for black business owners than for white, with a 5% level of significance. Women also reported lack of access as a bigger concern than men do, with 5% significance level. Older cohorts reported lack of licence or struggles with regulatory compliance at higher rates than the youth, with 10% significance. Furthermore, older age cohorts report a lack of administrative and management skills as well as a lack of access to technology than do the youth, with a 1% level of significance.

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57 1% level of significance

58 It is important to note that these are not the only challenges which are faced by SMMEs. In particular, operating and employment costs were not included as options in the survey question and doing so may have changed the results
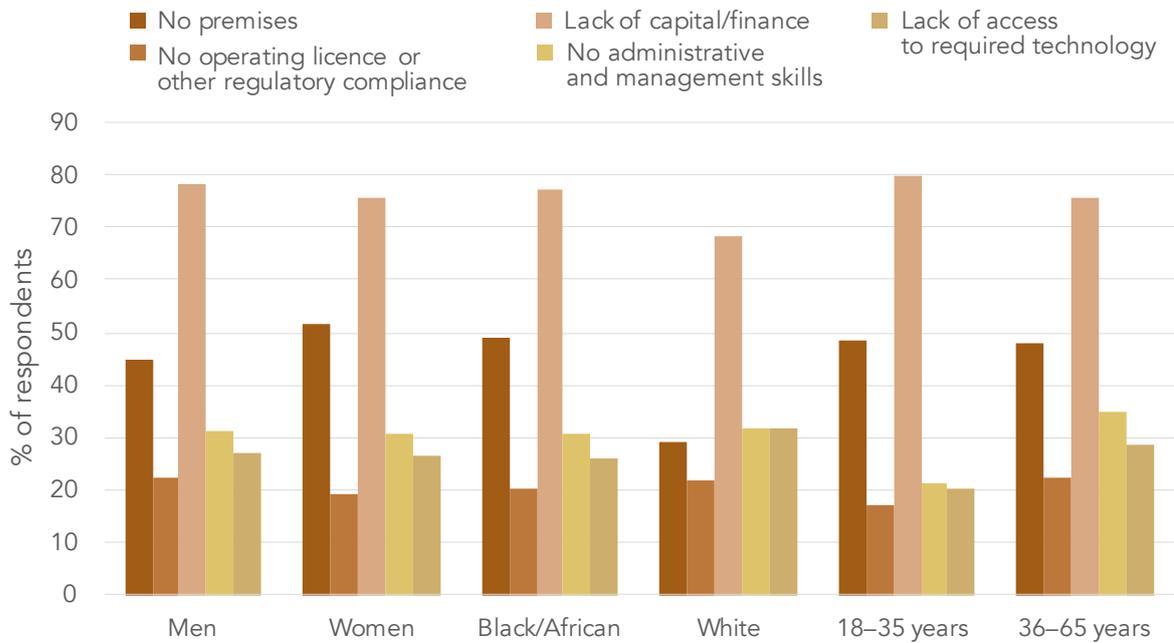
Figure 48: Current challenges by sub-populations

Both sectors show relatively persistent impediments to business growth, as indicated in Figure 49 below. Respondents were asked to rank their top five factors that inhibit growth. These results were then converted to an overall score. The figure reports the results from this computation. The computed score is out of 50 with higher numbers indicating that a given factor is considered a larger impediment to growth. Both sectors report lack of access to capital and finance as the most inhibitive factor, with a large margin between it and the second highest impediment.

The primary inhibitive factors in the formal sector are ranked as (1) lack of access to capital; (2) lack of market to expand to; (3) lack of skilled staff; (4) local economic conditions; and (5) cost of labour. In the informal sector, these are ranked as: (1) lack of access to capital; (2) lack of market to expand to; (3) increasing competition; (4) lack of skilled staff; and (5) crime and corruption. The differences between the two are statistically significant[59]. However, it is interesting to note that there is a significant degree of persistence between the two, with lack of capital, lack of market to expand to and a lack of skilled staff being reported as significant concerns for both groups.

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59   1% level of significance

Figure 49: Weighted score for impediments to growth

If SMMEs are to increase their contribution to South African growth, it is important that these enterprises are able to grow from the nascent stage into sustainable businesses who are able to employ more individuals. Therefore, this report investigates the impediments to growth for SMMEs, with Figure 50 indicating that these impediments differ significantly across size categories.[60] In particular, smaller enterprises list lack of finance as their primary impediment most frequently. In contrast, medium enterprises and cooperatives list the cost of labour as their largest impediment. This is consistent with the evaluation of costs, given in the following sub-section.
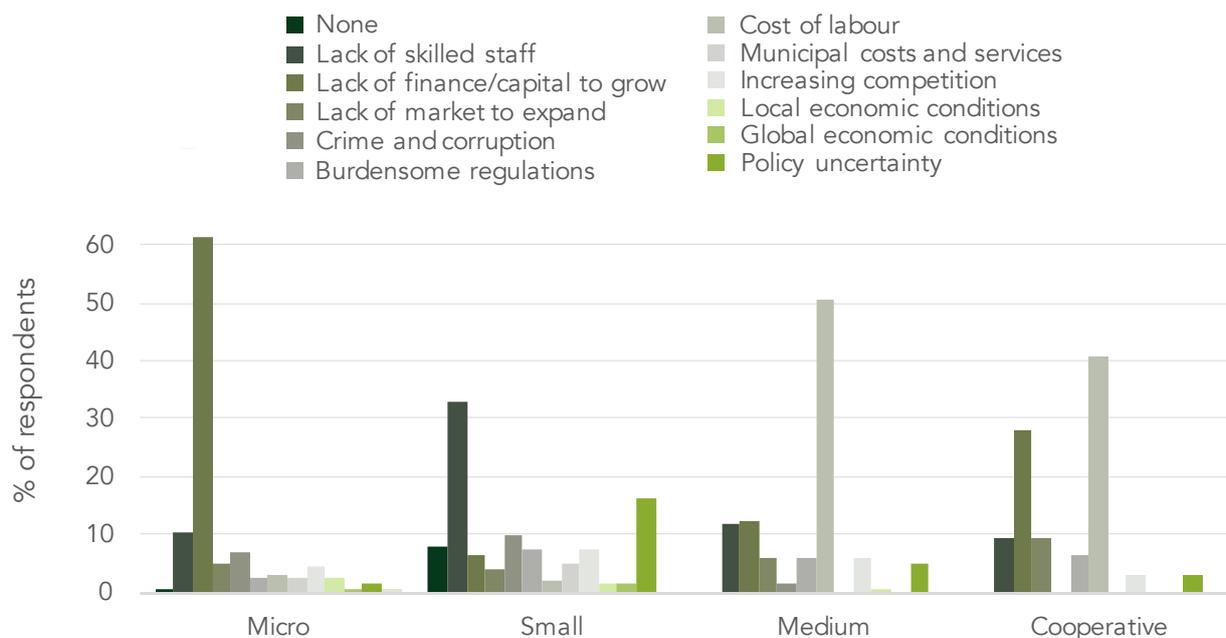
Figure 50: Highest impediment to growth by size category

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60 1% level of significance

Figures 51 to 53[61] show the highest impediment to growth indicated by respondents, decomposed into population group, gender and age cohort. Black business owners indicated that lack of access to finance was their primary impediment, with labour costs and lack of skilled staff placing second and third. White business owners also stated that lack of finance was their highest impediment with labour costs and lack of skilled staff being mentioned frequently. White business owners also listed policy uncertainty as a significant concern. Men and women both listed lack of access to finance as their primary impediment with labour costs and lack skilled staff being mentioned frequently. Women listed concerns over policy uncertainty more frequently than men did. Finally, the youth and older cohorts listed capital as their primary impediments to growth, with the youth stating that lack of access to staff was the second highest impediment and policy uncertainty was the third. Older cohorts stated that labour costs were the second highest impediment and lack of skilled staff the third.

Figures 51 to 53[62] show the highest impediment to growth indicated by respondents, decomposed into population group, gender and age cohort. Black business owners indicated that lack of access to finance was their primary impediment, with labour costs and lack of skilled staff placing second and third. White business owners also stated that lack of finance was their highest impediment with labour costs and lack of skilled staff being mentioned frequently. White business owners also listed policy uncertainty as a significant concern.
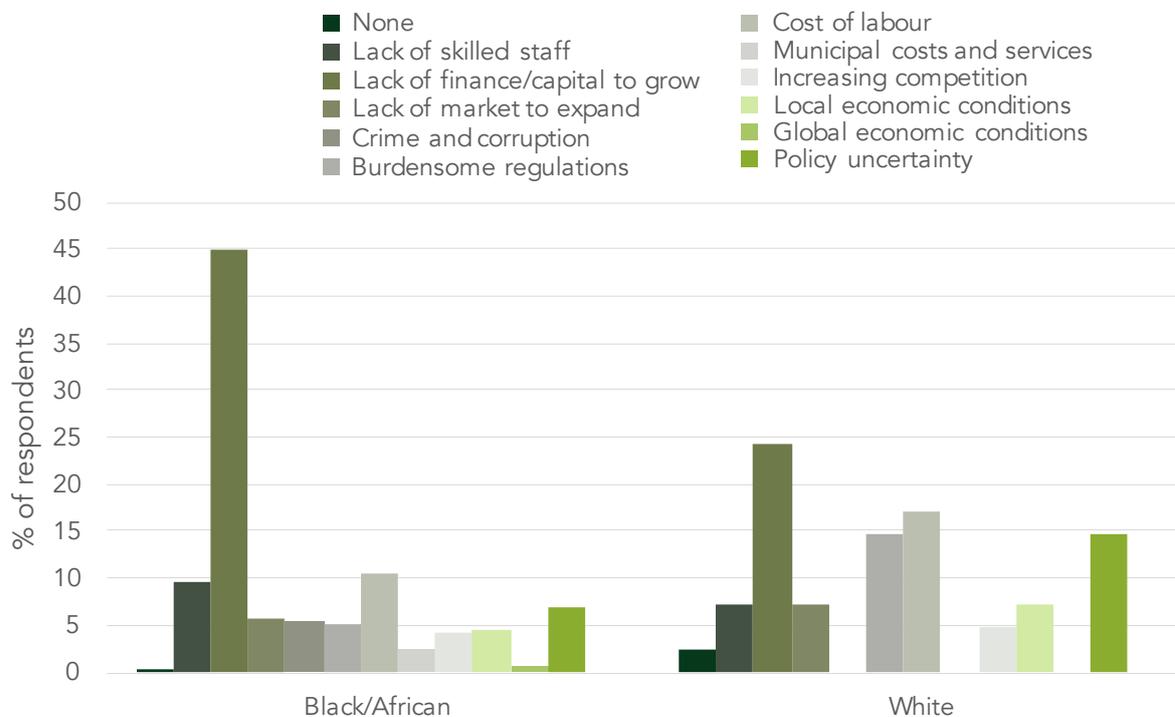
Figure 51: Highest impediments to growth by population group

Men and women both listed lack of access to finance as their primary impediment with labour costs and lack skilled staff being mentioned frequently. Women listed concerns over policy uncertainty more frequently than men did.

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61   Differences between population groups were significant at the 5% level, age cohorts at the 1% level and gender at the 1% level
62   Differences between population groups were significant at the 5% level, age cohorts at the 1% level and gender at the 1% level
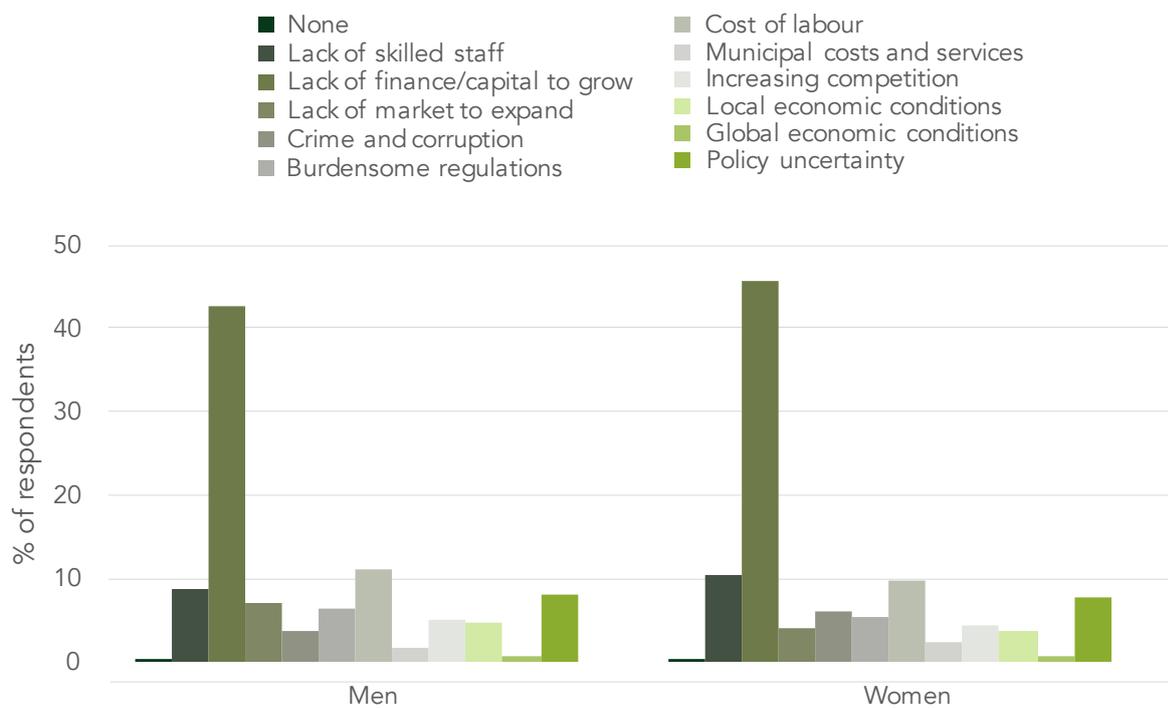
Figure 52: Greatest impediments to growth by gender

Finally, the youth and older cohorts listed capital as their primary impediments to growth, with the youth stating that lack of access to staff was the second highest impediment and policy uncertainty was the third. Older cohorts stated that labour costs were the second highest impediment and lack of skilled staff the third.
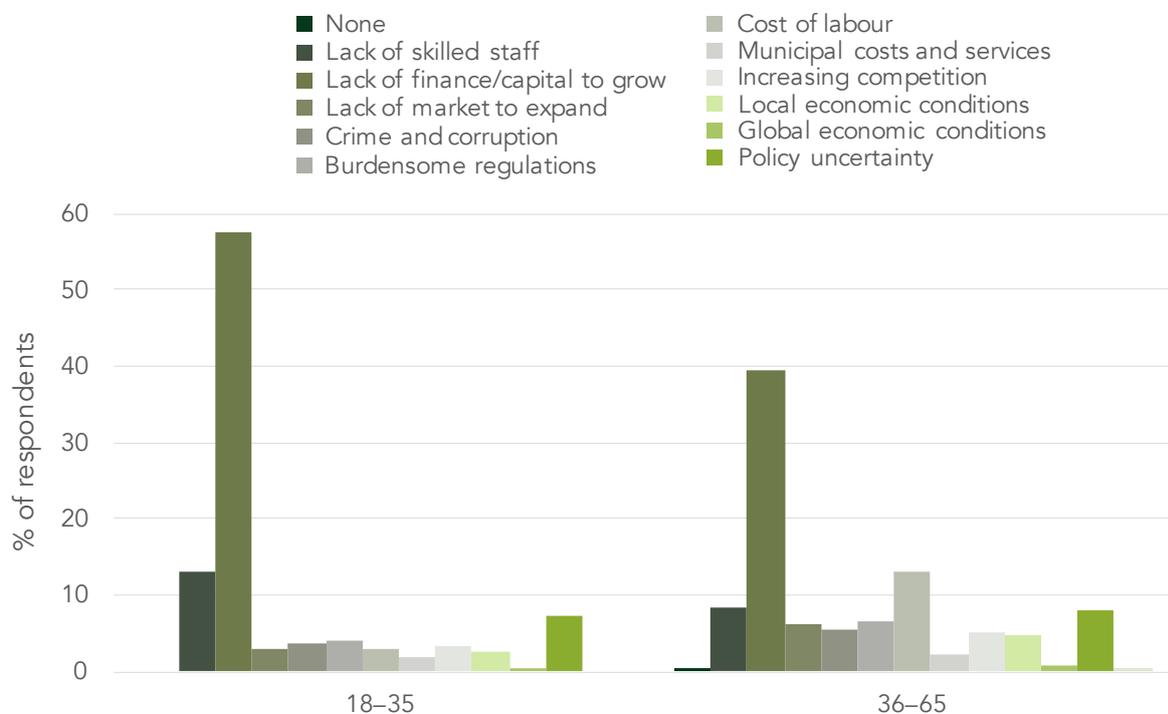
Figure 53: Highest impediments to growth by age cohort

5.5.3 What are the highest costs for businesses?

Figure 5 argued that SMME development could be assisted and strengthened through the reduction of business costs in the country. Understanding the highest costs experienced by the SMME sector could assist the state in reducing the appropriate costs. Figures 54 and 55 illustrate the percentage of firms in the formal and informal sectors that reported capital, operational and employment costs as their highest costs. While both sectors ranked capital costs as their highest expenses most frequently, the formal sector ranked employment[63] and operational[64] costs higher than did the informal sector. The informal sector ranked capital costs higher than the formal sector did, on average. There were no statistically significant differences across demographic characteristics of owners. 93% of business owners in the informal sector stated that they would employ more people if their business grew. The findings here suggest that this statement may be the result of optimism or a failure to realise the extent of employment costs.

■ Employment costs   ■ Operational costs   ■ Capital costs

Figure 54: Formal sector highest costs

Figure 55: Informal sector highest costs

Figure 56: Micro-enterprises highest costs

Figure 57: Small enterprises highest costs

Figure 58: Medium enterprises highest costs

Figure 59: Cooperatives highest costs

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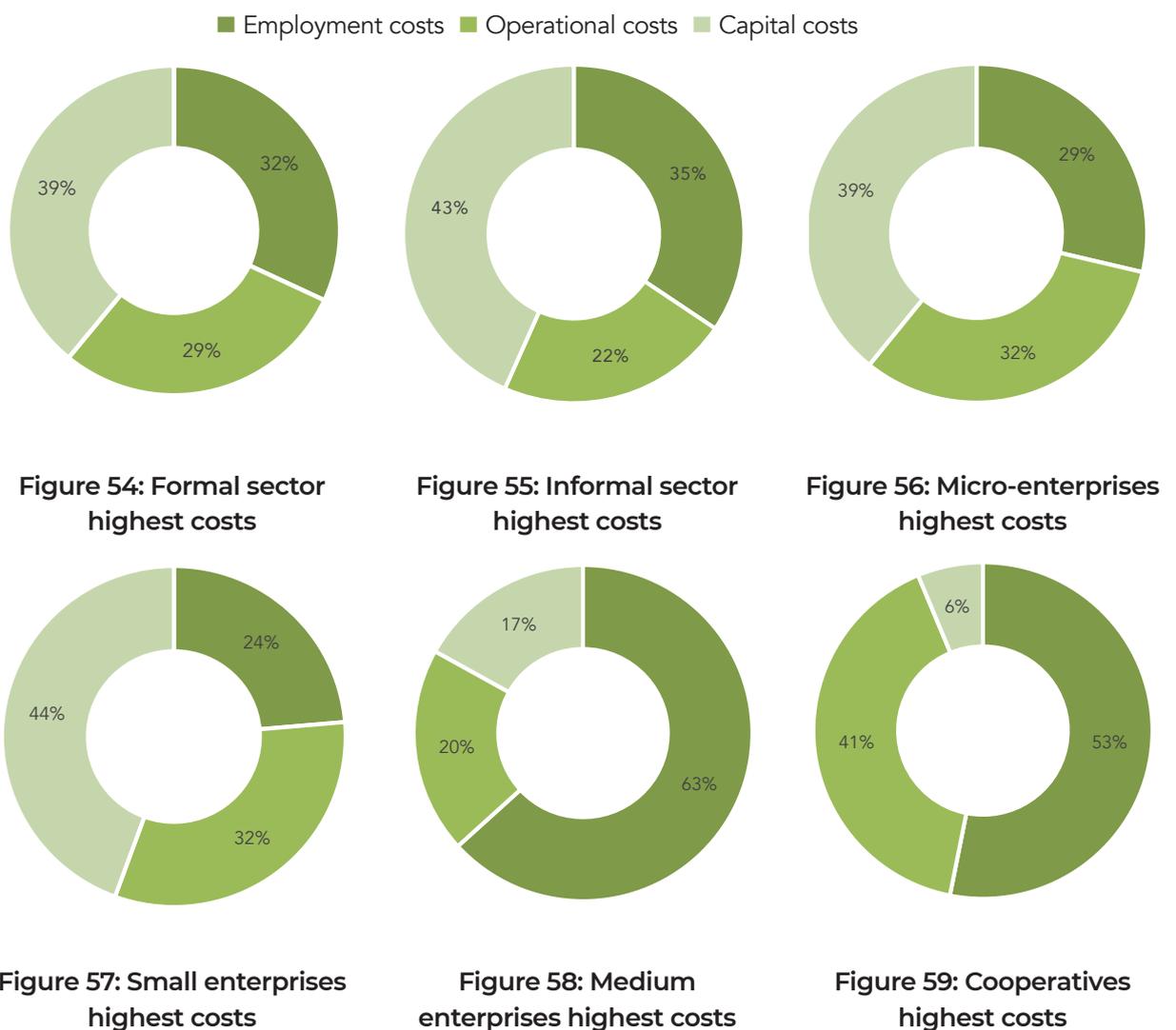
63   1% level of significance
64   5% level of significance

Figures 56 to 59[65] above illustrate the highest costs reported by SMMEs based on size category. Micro and small enterprises report capital costs as their highest expenses, while medium enterprises and cooperatives report employment costs as their highest costs. This is in line with the findings on impediments to growth, where medium enterprises and cooperatives reported cost of labour as the highest impediments, while micro and small firms listed access to finance as theirs.

5.5.4 What prevents businesses from formalising?

Formalisation of small businesses can assist them in growing and developing, as it should give them access to better clients, more government assistance and higher capital investment. Despite this, there are a large portion of businesses who remain operating in the informal sector and, as such, this report investigated the reasons for businesses not formalising. This was done through respondents being asked to rank the biggest barriers to formalising a business from 1 to 5. These rankings were converted into a score out of 50 and the results, for both sectors, are illustrated below.

The results are relatively consistent, with both sectors reporting paying taxes as the biggest barrier to formalising. In the informal sector, not knowing how to register scored highly, as did the process of acquiring a business licence and the perception that there are too many procedures to formalisation. The formal sector reports on barriers to formalising are of particular interest as these businesses have already been through the process of formalisation. As such, their reports rely more on the actual experience of formalising and less on perceptions thereof. The formal sector noted procedures as a barrier as well as the cost and the length of time taken to formalise. Differences between the sectors were statistically significant.[66]
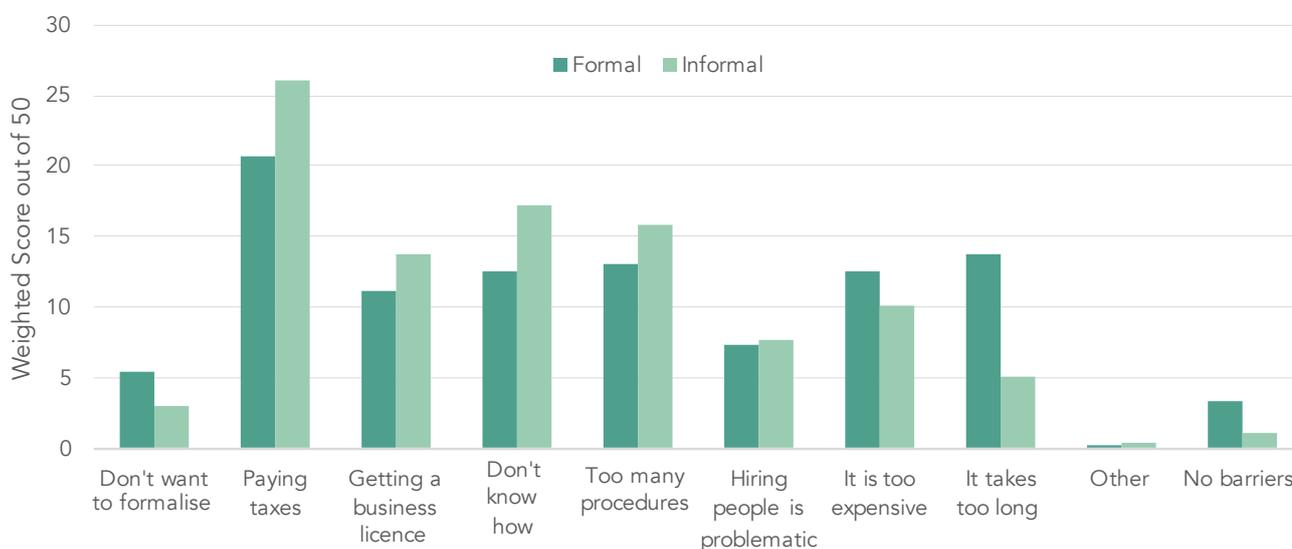
Figure 60: Barriers to formalising

There were no statistically significant differences in the barriers to formalising by demographic characteristics of business owners. However, differences in these barriers by size category were statistically significant.[67] Specifically, medium-sized enterprises and cooperatives scored paying taxes more highly than did micro and small enterprises, although it was the highest

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65   All findings significant at a 5% level
66   1% level of significance
67   1% level of significance

scoring barrier for all size categories. Smaller size categories scored procedural barriers and lack of knowledge very highly while larger enterprises (medium and cooperatives) noted that hiring people is problematic in the formal sector. All size categories scored the expense of formalising as a significant barrier.
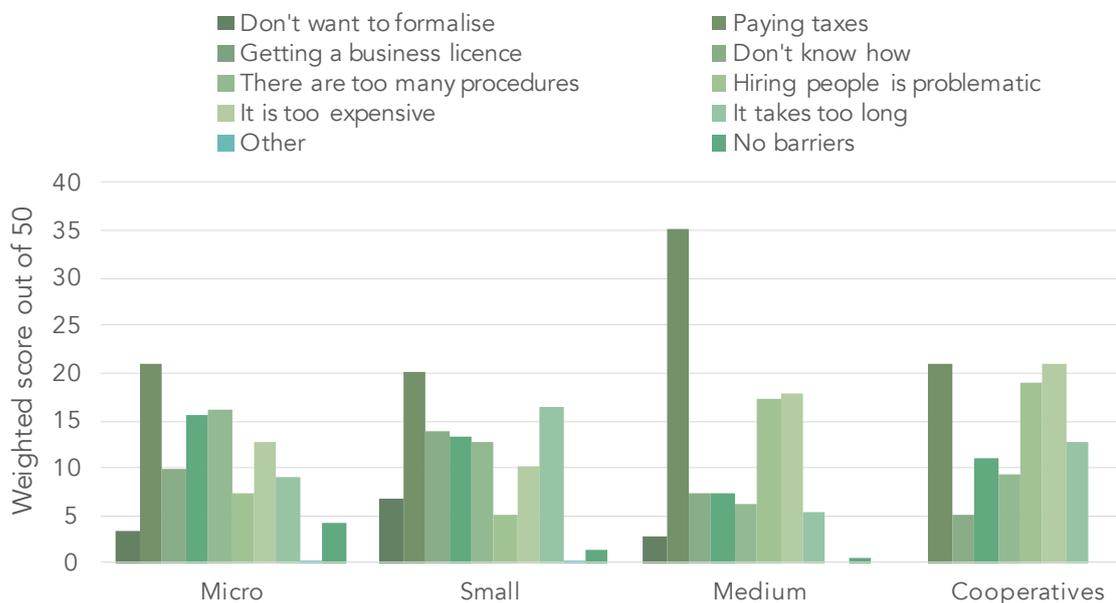
Figure 61: Barriers to formalising by size category

In the spontaneous-response questions, the survey invited respondents to comment on their biggest reasons for not formalising. In this research, many respondents said that they needed advice on filling in paperwork and completing the registration process. In particular, they emphasised that there were technical questions to which they did not know the responses. This is an important comment as it would be easily solved through adequate support and simplified systems. In both the formal and informal sectors, a number of respondents indicated that they were in the process of registering but they had heard no feedback from the CIP. Furthermore, one respondent in the informal sector commented that he "wanted to register but … was robbed by someone in government". Respondents in the informal sector also frequently mentioned that they struggle to find the time to complete the paperwork involved with registering, as they have numerous business and family commitments which override registration as a salient priority. In the formal sector, a number of respondents indicated that they first want to establish their businesses and ensure that the business itself is viable and profitable before undergoing and committing to the costs of the registration process.

5.6 USING GOVERNMENT PROGRAMMES

5.6.1 What kind of assistance do businesses want?

Having established the highest costs and barriers faced by SMMEs, this report now investigates the kinds of assistance that is desired by these businesses. This is an important investigation as it enables the researchers to determine (a) whether the desired support is consistent with the stated difficulties and (b) whether the support provided is consistent with the support most desired by business owners. In order to establish this, respondents were asked to rank desired forms of assistance from a given list.

Figure 62 illustrates the results of a weighted score (out of 50) assigned to each form of assistance for both sectors. The results show relative persistence across sectors, with both sectors listing access to capital as their most desired form of assistance. Access to better premises and assistance with marketing were also scored highly by both sectors. Skills' training was scored highly by the informal sector and assistance with administration and marketing scored high with both sectors. Interestingly, the variation between the two sectors for what they ranked as their most desired assistance was low and statistically insignificant. However, the variation in responses for desired assistance, ranked from second to fifth position, increased in statistical significance from 10% for second rank to 1% for fifth place. What this indicates is that the *most* pressing needs in each of the sectors are the same, with variations in desired assistance only presenting itself as respondents are asked to give less important interventions.
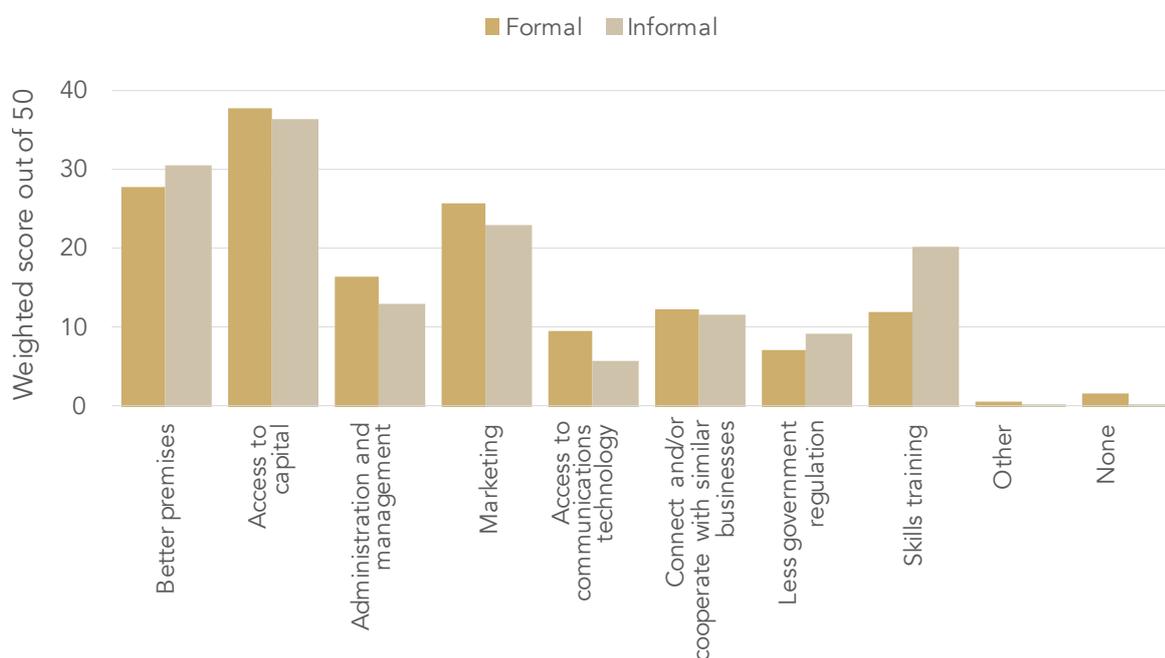
Figure 62: Assistance desired by SMME owners

Importantly, business owners in both sectors have high degrees of consistency between their desired assistance and their reported challenges. This can be seen when one considers that the formal sector reports access to finance, premises, marketing assistance and administrative skills as their most desired assistance and also state that their largest struggles are with capital, premises, administration and technology. In the informal sector, respondents stated

that they wanted assistance with capital, better premises, marketing assistance and administrative skills whilst also stating that their largest struggles are with capital, premises, administration, technology and regulation.

In the informal sector, a number of respondents commented that funding or capital is not always sufficient. Whilst they know that the start-up and operating funds are necessary, they are often uncertain on the best use of these funds,, how to manage them and how to maintain financial records. Furthermore, a number of respondents in both sectors stated that they struggle because they are unable to hire staff to assist them – both because of the lack of sufficiently skilled staff and because of the costs of employment – but they are unable to complete the necessary work to allow their business to grow without this assistance. These businesses, then, appear to be caught in a range of self-perpetuating deadlocks: they are unable to complete the work necessary to grow because they do not have access to the necessary resources, which they are only able to get if they manage to expand.

There were no statistically significant differences between demographic characteristics of business owners in terms of their desired assistance. However, there were substantial differences in desired assistance between size categories, with these differences statistically significant[68]. Figure 61 shows that all size categories stated that access to better premises were a highly desired form of assistance, with 30% of micro, 26% of small, 36% of medium enterprises and 29% of cooperatives listing this as their most desired form of assistance. Micro and small enterprises reported access to capital as their primary desired assistance more frequently than any other option,while medium enterprises reported skills training as their primarily desired assistance most frequently. Cooperatives selected assistance with marketing as their most desired assistance most frequently, while this was selected third most frequently for small and medium enterprises.
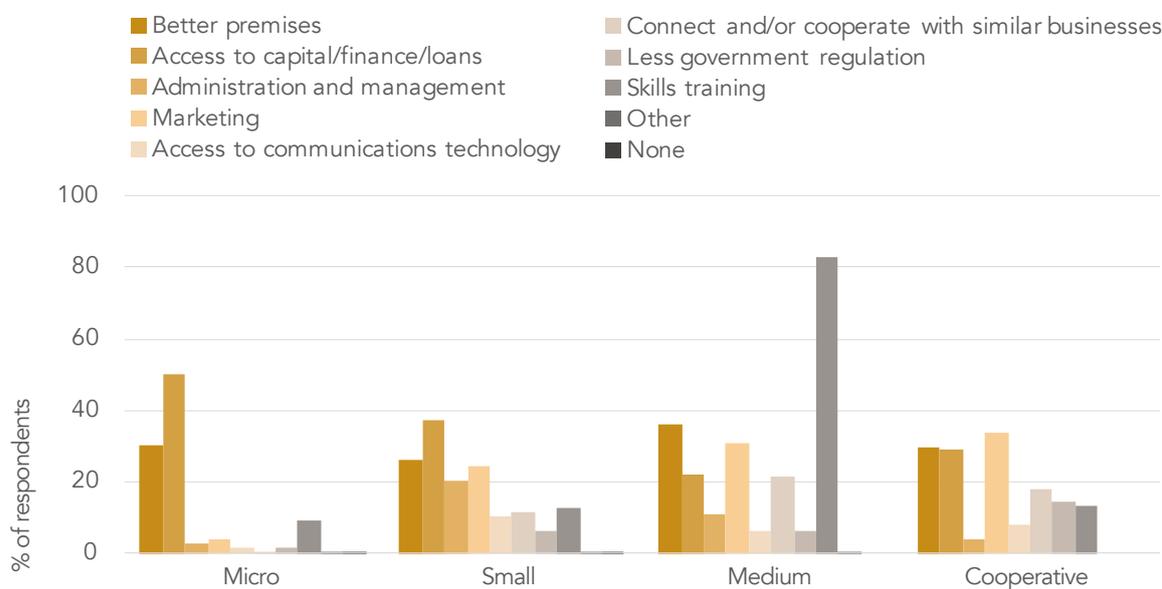
Figure 63: Assistance desired by size category

68   1% level of significance

5.6.2 What kind of assistance do they get?

Section 5.6.2 investigated the desired assistance by SMME owners, as well as their self-reported challenges and costs. This can now be compared to the assistance that these companies are receiving. Figure 64 illustrates the percentage of respondents in each sector who received government assistance. In the formal sector, financial assistance was most prevalent, while this was the least prevalent form of assistance received in the informal sector. Various forms of training, including training in administration and management, was the most prevalent form of assistance received by those in the informal sector. The informal sector also received substantial assistance with business plan development and marketing, while the formal sector indicated that they received marketing assistance the least. These differences between sectors were statistically significant.[69]

When we consider the results presented above, we can observe that the formal sector stated that they most wanted assistance with capital, premises and administration and management. According to the results above, they received assistance with capital, as they wanted, but little assistance with administration and management. The informal sector indicated that they wanted assistance with capital and premises, as well as marketing, skills and administration. They received training in administration, along with other forms of training, as they wanted, but less assistance with capital and marketing.
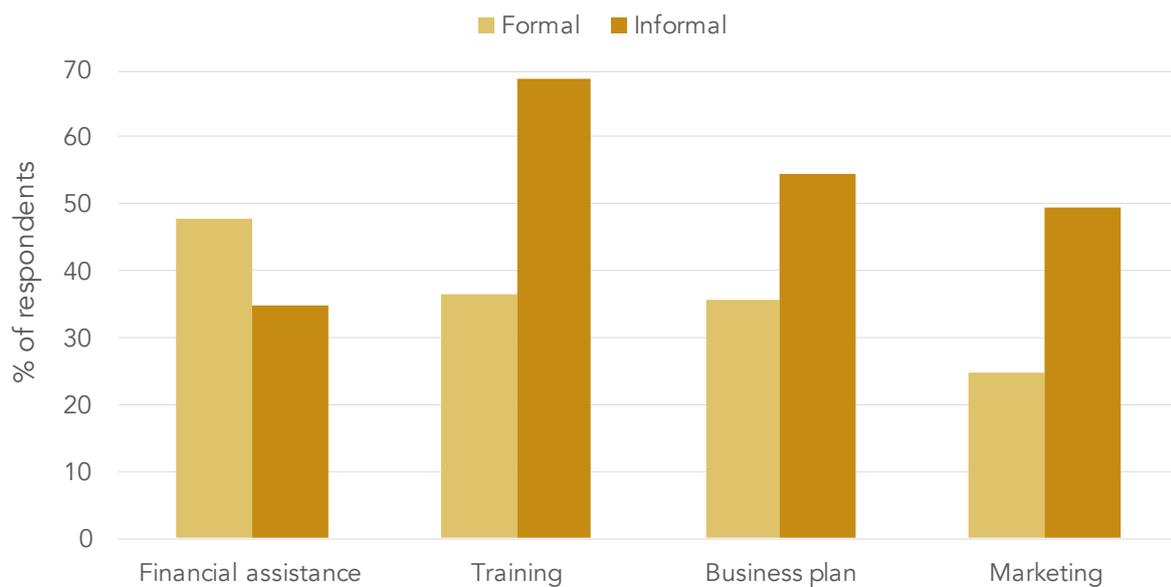
Figure 64: Government assistance received

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69   1% level of significance

5.6.3 Who gets assistance?

Government agencies have been mandated to prioritise the development of SMMEs that are owned by vulnerable groups. Figure 65 begins such an investigation through presenting an indication of which sub-populations receive government assistance. With regards to financial assistance, no demographic characteristic showed statistically significant differences. In fact, population group remained insignificant across all forms of assistance. Government policies to assist women-owned businesses appear to be targeting the group well, with women more likely to have received training, marketing assistance and assistance with business plans than men are[70]. However, the attempts to develop youth-owned enterprises are less well targeted, with older age cohorts more likely to receive all forms of assistance, except financial.[71]
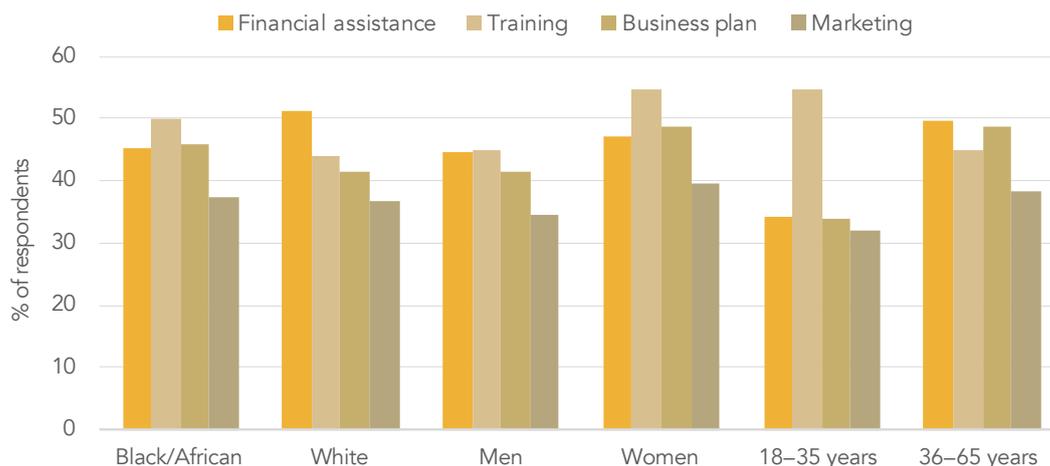
Figure 65: Assistance received by sub-populations

Figure 66 illustrates the decomposition of assistance received by size category. For all forms of assistance, medium enterprises and cooperatives are more likely to receive assistance. This finding is statistically significant[72] for all types of assistance. Micro enterprises are most likely to receive training and assistance with business plans, while all other enterprise sizes are most likely to receive financial assistance.
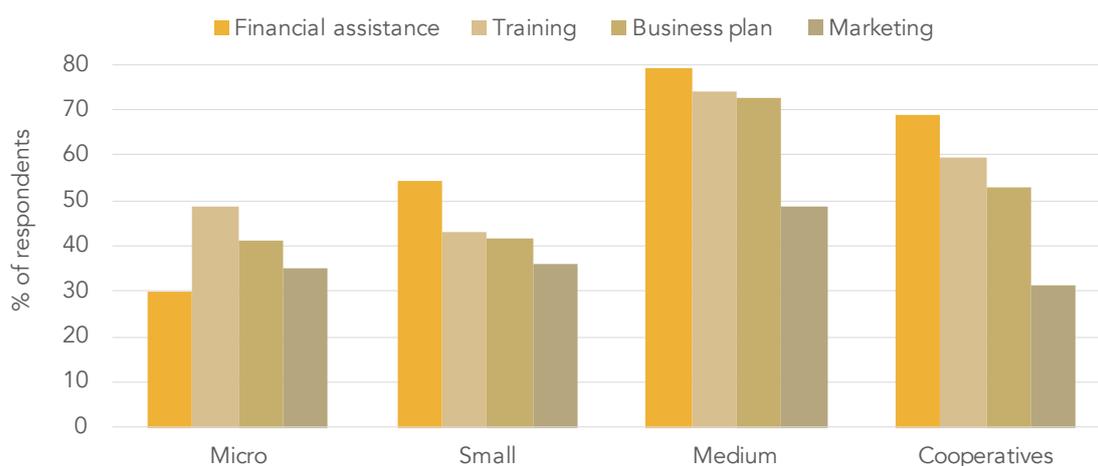
Figure 66: Assistance received by size category

70   Significant at the 1% level
71   Significant at the 1% level
72   1% level of significance

5.6.4 Where do businesses get assistance?

Although state assistance plays a vital role in the SMME ecosystem, it is not the only channel through which SMMEs are able to get assistance. Figure 67 shows whether SMMEs received assistance from government or the private sector, decomposed into sectors. The results indicate that the majority of financial assistance and training is provided by the private sector, with the exception of training given to the informal sector who received 50% of their training from the government. Government also provided slightly more financial assistance to the formal sector than to the informal sector. These differences were statistically significant.[73]
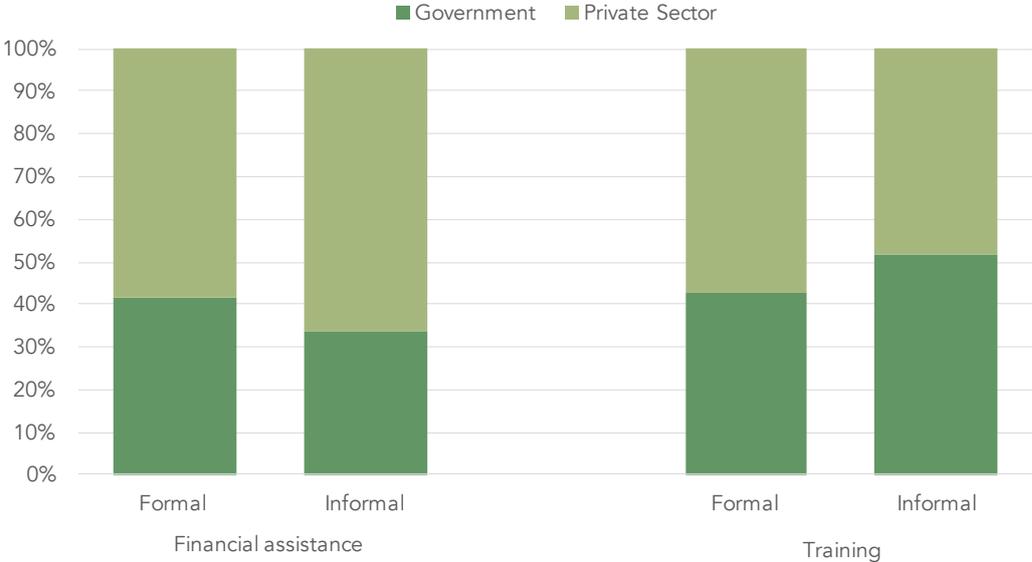
Figure 67: Assistance providers

Smaller firms received more assistance from government than did larger firms, relative to assistance provided by the private sector. Government also provided more assistance in the form of training than financial assistance. These differences across size categories are statistically significant.[74]
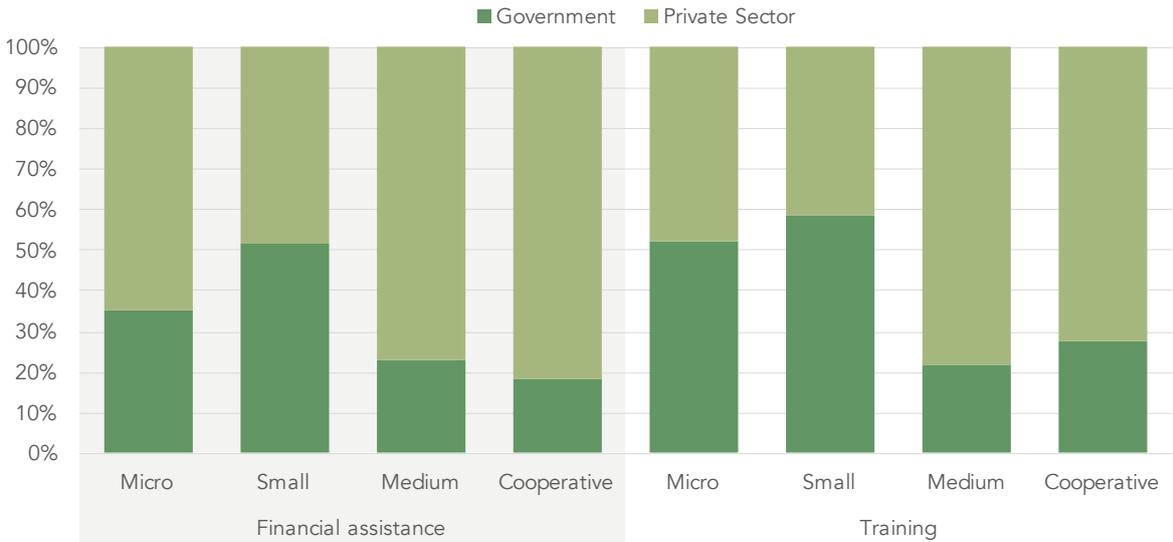
Figure 68: Assistance provider by size category

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73   1% level of significance
74   1% level of significance

5.6.5 What do businesses owners think of government programmes?

This review has argued that the effectiveness of government policies is dependent on the effectiveness of these policies. Further considerations include the public knowledge of available assistance and, importantly, public perceptions on the effectiveness of these programs. Tables 20 and 21 reports the percentage of respondents in the formal and informal sectors, respectively, who report believing that government would assist their business and who know what kind of assistance is available. 60.75% of respondents in the formal sector report both knowing what kind of assistance is available and believing that government will assist them. Furthermore, 21.17% believe that government will help but do not know what kind of assistance is available, suggesting that there is some barrier preventing them from finding this information. This is echoed in the perceptions in the informal sector where none of the respondents knew what kind of assistance was available but where 89.54% of respondents believed that government would assist them.

Such high faith in government abilities represents a promising opportunity for government departments, which should not be wasted. Failing to deliver adequate and quality assistance to these business owners will result in high levels of disappointment and may make business owners less likely to respond to future programmes and interventions. Given this, it is important for government agencies to deliver now, whilst confidence is still high, and to use these positive perceptions to build further momentum.

Table 20: Perceptions of government assistance in the formal sector			
		Knows what kind of assistance is available	
		Yes	No
Believe government will help	**Yes**	60.75	21.17
	No	4.74	13.34

Table 21: Perceptions of government assistance in the informal sector			
		Knows what kind of assistance is available	
		Yes	No
Believe government will help	**Yes**	0.00	89.54
	No	0.00	10.46

With regards to the effectiveness of these programmes, this report investigated whether or not SMMEs find government assistance to be beneficial. Figure 69 shows that most respondents found government assistance to be beneficial. Similarly, Figure 70 shows the score out of 100 that respondents gave to government programmes. The score is weighted and centred around the mean and indicates that respondents scored government higher in the formal sector than in the informal sector. However, in the qualitative responses, respondents complained that turnaround times for applications were too long and that non-financial assistance programmes were too difficult to access. In particular, respondents stated that government should bring support and training initiatives to communities, where business owners would have to give up less time to make use of such assistance programmes. Finally, respondents suggested that government programmes were designed for businesses in the start-up phase and that, once businesses were more stable, the information supplied was too simplified to be particularly useful.
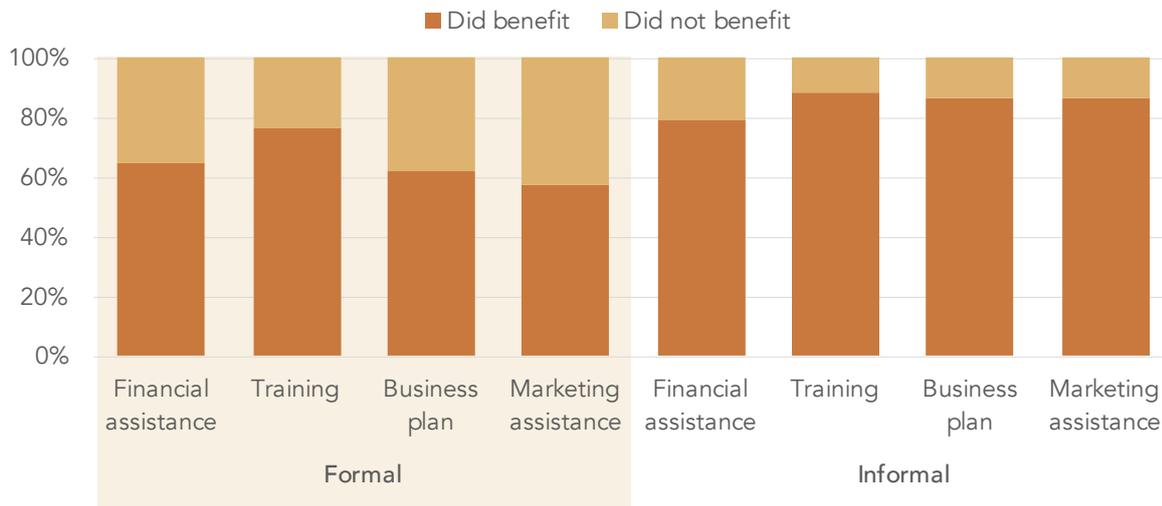
Figure 69: Did businesses benefit from government assistance?

An analysis of the qualitative data indicates that respondents in both sectors find government programmes to be inaccessible, both in terms of timing and placement. A number of respondents reported the desire for government programmes to move into the community, where they would be more accessible to poorer communities. Furthermore, many noted that government programmes – especially training – were too infrequent and simplistic.. Finally, respondents reported financial and consulting assistance taking too long, as well as agreements and promises from government agencies not being upheld. For instance, there were reports of individuals being promised equipment or funding and not receiving it for a number of years
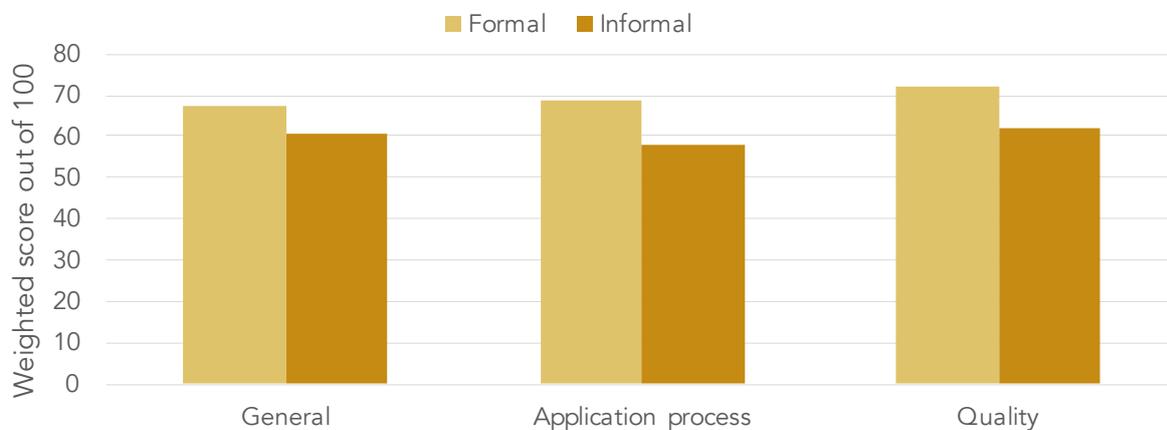
Figure 70: Weighted score of government programmes

5.6.6 CONCLUSION

The analysis presented here finds that SMMEs in the formal and informal sector have widely differing experiences and that further differences can be identified between size categories within each of these sectors. Although a large proportion of business owners report necessity-driven entrepreneurship, these rates are particularly high among vulnerable groups – including women, the youth and those operating in the informal sector. Whilst many SMMEs argue that they need additional staff and would hire additional staff, if they were able to, most report that high employment costs and regulatory compliance are inhibitive to SMMEs contributing to relieving unemployment in South Africa.

Majority of SMMEs report requiring startup funding for their businesses and many report lack of access to finance as their biggest barrier to growth. This is particularly true for vulnerable groups and those operating in the informal sector. Despite this, there is no statistically significant relationship between vulnerable groups and the likelihood of receiving financial assistance. With majority of small businesses operating from the home of the owner, business owners across the board report lack of adequate premises as a significant constraint to growth. Lack of skilled staff and lack of market access are also commonly reported. However, these challenges do differ somewhat between size categories; with micro and small enterprises more likely to report lack of access to finance as their primary challenge and medium enterprises and cooperatives more likely to report the high cost of labour as their primary challenge.

CHAPTER SIX

Review and recommendations

6.1 INTRODUCTION

The 2016 Annual Review of Small Businesses and Cooperatives in South Africa explored the SMME ecosystem in the country, with a view to establish the challenges and opportunities for SMMEs in the present economic climate. To this end, the review examined the history of state policy for SMME development, as well as the literature on SMMEs in the country to date. The Review then considered the role of government agencies and concluded with an analysis of primary data on SMME experiences of running a business, getting assistance from government and starting an enterprise. This chapter concludes this analysis by considering the potential for the SMME sector in terms of its contribution to South African GDP and employment, as well as considering the lessons learned from other African countries. The chapter considers the particular case of cooperatives in the country and, finally, it presents a set of key findings and recommendations for state policy moving forward.

6.2 ASSESSING THE CONTRIBUTIONS AND POTENTIAL OF SMMEs TO SOUTH AFRICAN GDP AND EMPLOYMENT

On of the interesting features of the SMME sector in South Africa is the difference in performance in terms of GDP and employment. As Figure 71 illustrates, changes in employment since 2010 have been less volatile and extreme than changes in SMME contribution to GDP. This supports the primary data collected for the review, which indicated that business owners have been performing worse in terms of revenue than in terms of employment.
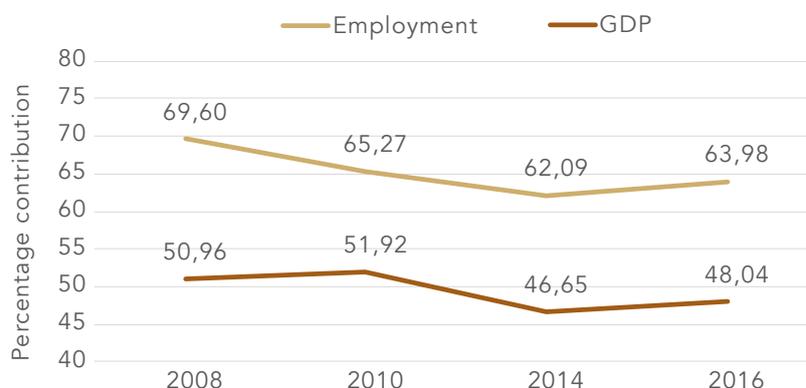
Figure 71: Contribution of Micro, very small and small enterprises to GDP and employment since 2008 (Data: QLFS & Stats-SA GDP)

Although overall contribution of SMMEs to GDP and employment have declined since 2008, there has been some recovery in both measures since 2014. Having observed these changes, it becomes pertinent to try and establish why such changes have occurred – and why the overall decrease in GDP occurred despite slight increases in the number of SMMEs in the country. Figures 72 and 73 shed some light on these changes, with Figure 72 illustrating that the decreasing share of SMME contributions to GDP occurred as South Africa's GDP growth rate – and GDP per capita growth rate – declined. In fact, the decrease in SMME contribution to GDP appears to be small relative to the decline in GDP growth rates, with the slight 2016 recovery in the sector occurring despite a continued decline in economic growth.
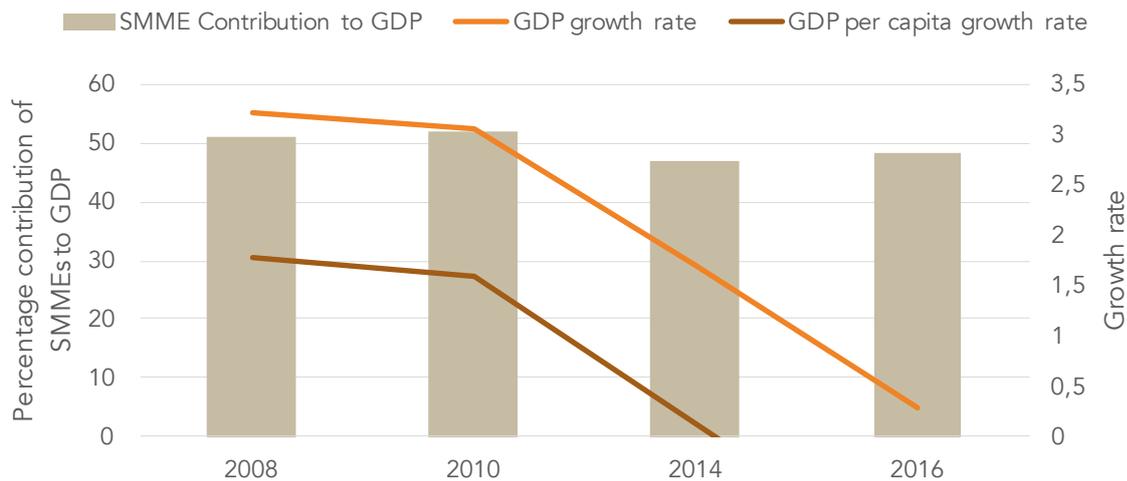
Figure 72: Changes in GDP since 2008 (Data: World Development Indicators, QLFS & Stats-SA GDP)

Similarly, Figure 73 illustrates that the contribution of SMMEs to employment in South Africa, follows similar trends to those in unemployment. Specifically, as unemployment in the country as a whole increases, so the contribution of SMME to employment decreases. This suggests that the same factors which limit employment on a national level, limit the employment capabilities of SMMEs themselves. Furthermore, this also suggests that there is very little informal employment occurring within SMMEs that is not captured by the national data on unemployment. Surprisingly, however, the recovery in employment correlated with increases in inflation.
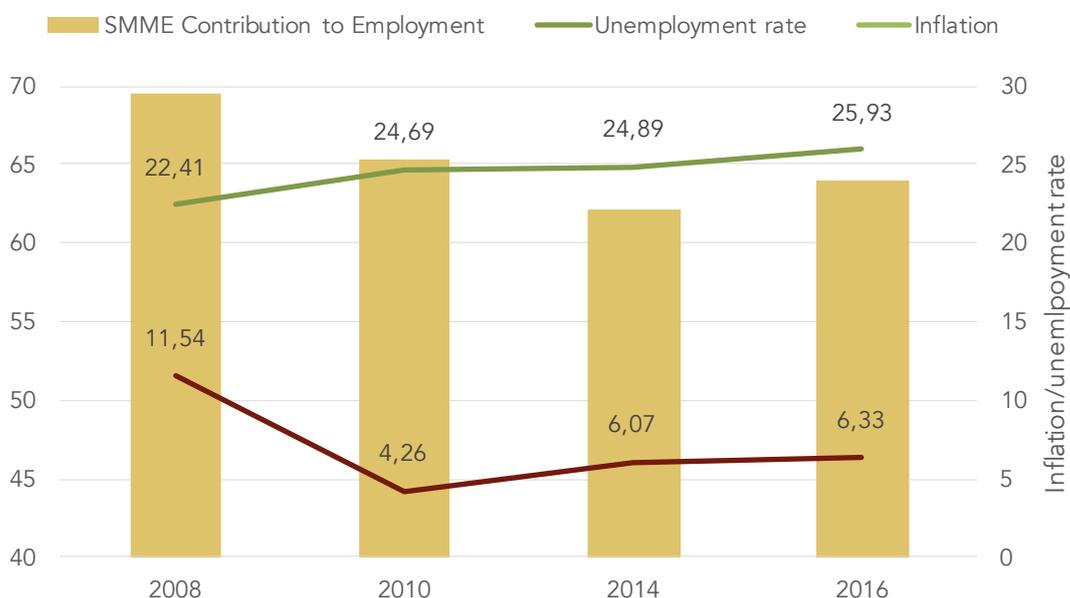
Figure 73: Employment and inflation in South Africa (Data: World Development Indicators & QLFS)

The available data makes it impossible to establish clear causal relationships and explanations for the changes in SMME contributions to the economy. However, the above figures do suggest that the sector may be somewhat more robust to change than would be expected. This robustness, then, raises further questions: what is the future potential for growth in the sector, and are present state targets appropriate?

The South African government has established a Nine Point Plan to develop the economy. This plan includes the development of SMMEs, rural businesses and township economies. These goals specify the creation of a total 11 million jobs by 2030, with 90% of these being created in the SMME sector. This amounts to 9.9 million jobs between 2010 and 2030. Unfortunately, South Africa's performance in this regard has not inspired much confidence: the number of jobs created in micro, very small and small enterprises in the country since 2010 amount to less than 1 million so far; this implies a necessary 16.7% compound annual growth rate in employment in the SMME sector to reach the 2030 goal. Furthermore, these growth patterns imply that SMMEs would be contributing close to 80% of the nation's total employment. While a high number, this is not entirely unprecedented – Muriithi (2017) reports that, in 2006, SMMEs contributed 90% to Ethiopia's total employment, with the same proportions reported for Uganda in 2015. Similarly, Kenya saw 80% of its employment being provided by SMMEs in 2013 (Muriithi, 2017).

With regards to GDP growth of SMMEs, a study of Middle East and North African (MENA) contries identified that the median contribution of SMMEs to GDP ranged from 16% for low income countries to 51% in high income countries (IFC, 2017). South Africa, then, is already close to this threshold, with a contribution of 48% in 2016. However, these figures are not necessarily limits to the contribution of SMMEs to GDP: Ghana, for instance, reached 70% of GDP from SMME contributions (Muriithi, 2017). It should be noted, however, that such estimates may not be consistent across countries as different states may use different definitions for SMMEs, as well as different data and methodologies.

Figures 74 to 76 explore the correlation between GEM's various entrepreneurship measures and SMME contribution to employment, as well as the World Bank's *Doing Business* measures and SMME contribution to employment. These figures attempt to establish some predictive relationship between entrepreneurship and ease of business measures and the improved performance of SMMEs in terms of employment. As the figures illustrate, no clear relationships exist in this regard.
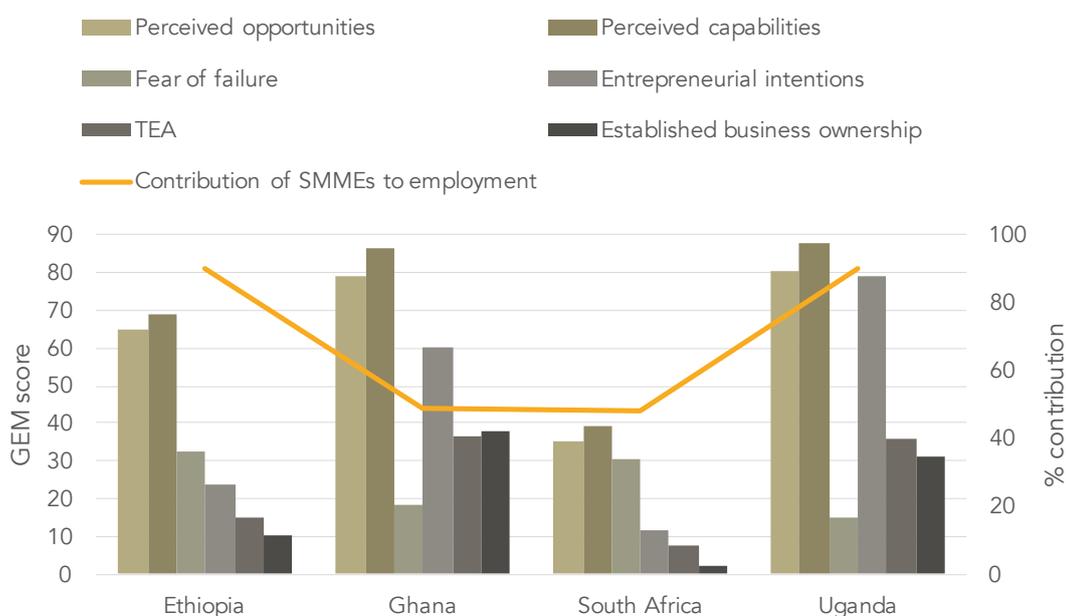
Figure 74: Entrepreneurship and employment in SMMEs
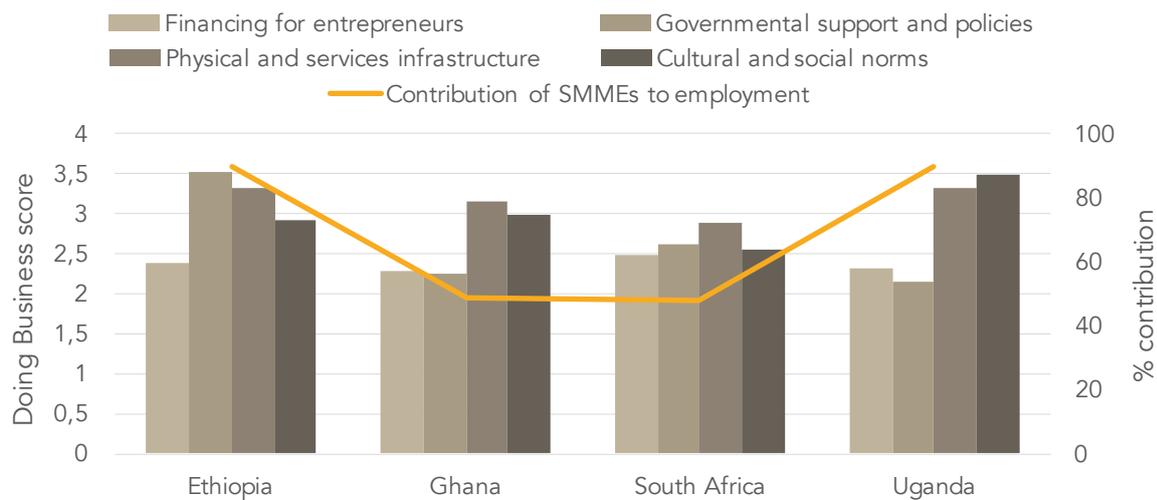
Figure 75: Entrepreneurial support and employment in SMMEs
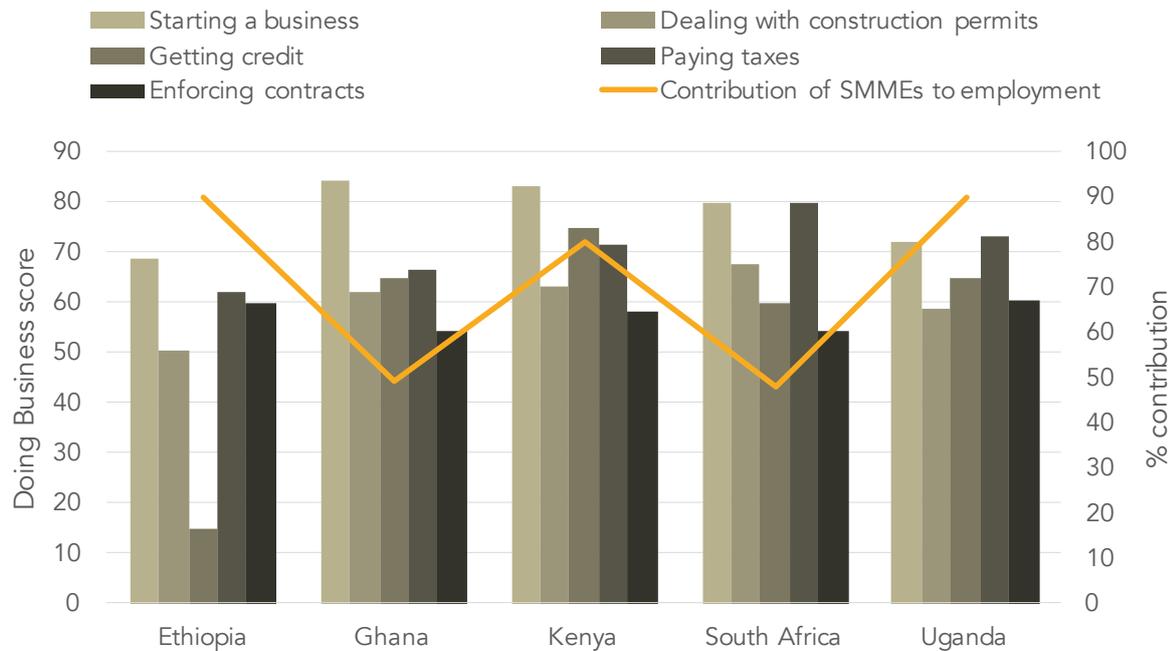
Figure 76: Ease of Doing Business and employment in SMMEs

Further investigation of the relationship between economic indicators and the performance of SMMEs in terms of employment reveals little additional information. As Figure 77 illustrates, SMME contribution to employment is increased when unemployment is lower; however, this is to be expected as the employment by SMMEs should reduce the overall national unemployment. Overall, the cross-national data suggests that each country is unique, with the SMME ecosystem in each country requiring special consideration and interventions. However, the historical data does suggest that high contributions to employment and GDP – such as the 80% contribution to employment envisioned in the NDP – are, in fact, possible by a developing African country. These lofty goals, then, should not be abandoned in South Africa. Given the results of this *review*, it becomes apparent that the SMME context is not yet

ideal for the sustainable development of SMMEs in the country. Rather than considering this an indictment on the country's progress, it should be noted that these SMMEs are performing rather well in strenuous circumstances. Furthermore, while there are a multitude of barriers preventing SMME growth, there are also a plethora of interventions that can hugely impact this ecosystem and make significant and substantial change.
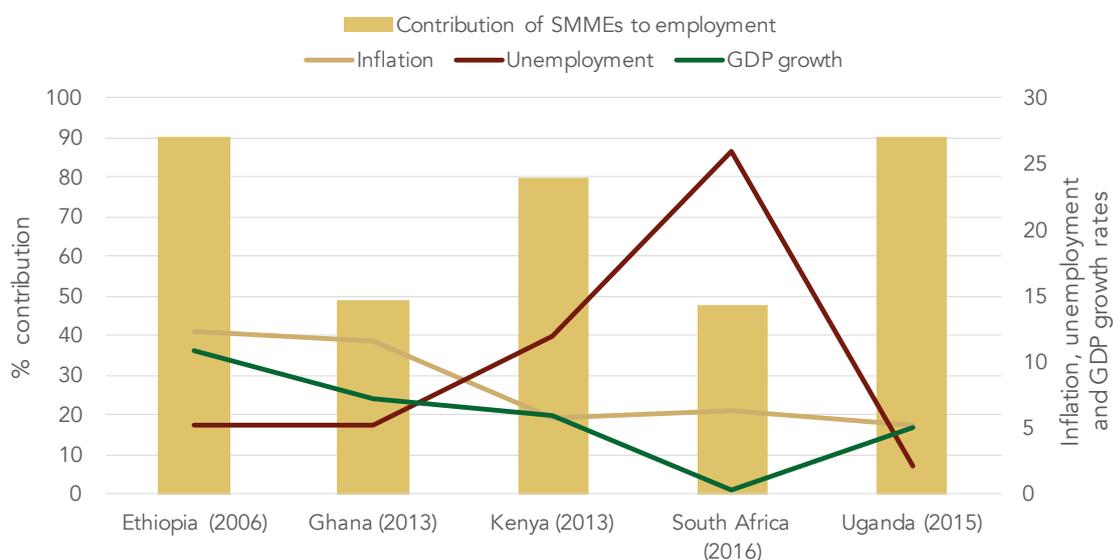
Figure 77: Economic indicators and SMME contribution to employment

When considering the South African goals for SMME contributions to the economy, then, one must conclude that they are, in fact, possible. However, it is unlikely that they will accomplished in the current economic context and under the present business constraints and challenges, as identified in this review. Despite this, there remain numerous opportunities for government to improve the experience of SMMEs and develop the sector into one which is capable of sustainable growth.

6.2.1. Lessons from Africa

Having considered this potential for the growth of SMMEs in South Africa, relative to other African countries, it is worth brief consideration of the elements in these countries that have made SMMEs so successful. In a piece for the Harvard Business Review, Ekekwe (2016) argues that many African countries saw a return of professionals from the United States of America and the United Kingdom, following the 2009 Financial Crisis. When their home countries had little work available, these professionals partnered with others in their native countries to start businesses (HBR, 2016). These businesses benefitted from the skills and knowledge that the owners brought with them from their time abroad. A study conducted by Rhodes University discovered that a large proportion of South Africans living abroad would consider returning to South Africa (Business Tech, 2013). In particular, the study noted that these individuals believed their skills would be useful in promoting growth and development in the country. However, many felt that there were insufficient incentives encouraging them to return home (Business Tech, 2013).

Furthermore, SME South Africa (2014; 2015) reports on some of the most successful interventions made by governments in Botswana and Namibia to encourage SMME growth. First among these, for both countries, was intensive financial assistance to small businesses (SME

South Africa, 2014; 2015). Importantly, the reports indicate that integral aspects of government interventions include substantive collaboration with the private sector and industry experts to establish helpful industry reforms that reduce operating costs for small businesses (SME South Africa, 2014) and the coordination of SMME support policies and general economic policies in the country to prioritise SMME development (SME South Africa, 2014; 2015).

The World Economic Forum (2013) reinforces many of these perceptions, arguing that SMME development in Africa relies on coordinated government policies, the development and encouragement of strong human capital, decreasing the costs of doing business (with particular emphasis on regulatory costs) and encouraging investment and entrepreneurship.

In the countries discussed above, the challenges faced by SMMEs were reported as very similar to those faced by small businesses in South Africa. Ghana, for instance, reports that access to finance was one of the largest challenges faced by SMMEs (Senzu, 2014). In response, government introduced small, dynamic teams of experts to assist SMMEs with developing bankable business plans that would increase their chances of obtaining loans from private financial institutions and teamed these with financial accounting manuals and training to encourage transparent and easy auditing processes for these businesses later in their business lifecycle (Senzu, 2014).

In Ethiopia, the government developed a new growth plan which emphasised the development of SMMEs and placed priority on women- and youth-owned businesses (World Bank, 2015). They then partnered with the World Bank to develop strong microfinancing institutions for these vulnerable groups and ensured that the state funding spent of SMME development targeted both the economic goals of the sector (developing and assisting SMMEs) and the socio-economic goals of the country (empowering women and the youth, decreasing poverty and increasing employment) through strictly targeted programs and interventions (World Bank, 2015).

6.3 THE CASE OF COOPERATIVES IN SOUTH AFRICA

This report was intended to ensure that the experiences of both SMME and cooperative owners were explored and that the challenges faced by both these sectors were identified. In this endeavour, the lack of data on cooperatives proved to be a significant constraint. In particular, the QLFS and GDP data available prevented a detailed analysis of cooperatives, as these could not be distinguished from other businesses. Similarly, the GEM (2017) and World Bank (2017) data does not consider cooperatives at all. As such, the size and characterisation of cooperatives and their owners was impossible to estimate. However, the CIPC does report statistics on the number of cooperative registrations. This data indicates that the sector has remained mostly stable, with an increase of 4 315 cooperatives in the country since 2008.

With regards to the experiences of cooperatives, the data indicates that they generally behave more like medium and large enterprises, than like micro and small enterprises. Specifically, they face similar challenges to the larger enterprises in the country and are significantly different from the micro and small enterprises. This is illustrated in a number of circumstances, including in Figure 34, which shows that, while all businesses in this sector operate predominantly from home, micro and small enterprises are more likely to operate in a commercial building than are medium enterprises and cooperatives, who tend to operate in communal spaces. Cooperatives also indicated ICT usage at levels that were closer to those of medium

enterprises than those of micro and small enterprises.

Cooperatives also listed increasing operating costs and inconsistent cash flow as their most pressing challenges. These were the same challenges reported by medium enterprises in this study, whilst small and micro enterprises reported these concerns in the opposite order (that is, inconsistent cash flow was listed as more pressing than increasing operating costs). This patterns remained consistent in reports on impediments to growth (Figure 50) and highest costs (Figure 56 to 59).

In summary, the most that can be said of cooperatives is that they experience challenges and business operations in ways that are largely similar to medium enterprises. Their specific challenges include high operating and employment costs. Their most desired form of assistance is marketing assistance, with access to premises and better access to finance and capital also scoring highly. Cooperatives appear to receive more assistance than do micro and small enterprises, although not as much as that received by medium enterprises (Figure 66). The sparsity of data on cooperatives (and, in fact, SMMEs in general) indicates that the government should prioritise the inclusion of these questions and concerns in the data which will be collected by the state in the near future.

6.4 KEY FINDINGS AND RECOMMENDATIONS

6.4.1 SMME experiences and challenges

KEY FINDING 1: SMMEs do not have sufficient access to finances and capital and they need these funds for different things

Almost all SMMEs, across both sectors and all size categories, report having problems accessing finances and capital.

For SMMEs operating in the informal sector, the most-cited need is access to capital in order to maintain stock or buy materials for production. This is also true for micro and small enterprises in both sectors, who report struggling to maintain efficient and consistent production or operation.

In contrast, formal sector businesses report needing these funds for equipment and premises to increase productivity. These reports are echoed by medium-sized enterprises and cooperatives, who emphasise the need for capital to establish larger premises or increase their equipment in order to facilitate growth.

RECOMMENDATION 1: The DSBD should focus its assistance on financial assistance, which is diversified to assist with various financial needs, through increasing the budget and scope of SEFA. Furthermore, SEFA and the DSBD should work with national government to consider alternative means of reducing the financial burden on SMMEs.

For instance, government can assist formal businesses through implementing tax incentives to formalisation. Such an incentive would assist formal sector businesses through reduced tax burdens but would also encourage informal businesses to formalise and, thereby, increase their access to formal-sector opportunities and assistance.

Further assistance for the formal sector can be presented through the creation of low cost, shared production and sales spaces for small and medium enterprises, which are too large to operate from home or containers but cannot afford the costs of commercial spaces.

While such an intervention need not be limited to formal sector businesses, the micro and very small businesses that are so prevalent in the informal sector. In particular, these informal businesses are more likely to need access to storage facilities, market spaces and shared production equipment that is available at lower costs.

Finally, the national government can encourage investment into SMMEs by the private sector through granting tax exemptions to financial institutions which provide SMMEs with loans, or to venture capitalists and market entities who invest in SMMEs, as was done in China (Ojeka, 2011).

KEY FINDING 2: SMMEs struggle to access acceptable operating premises

Many SMMEs – particularly micro and very small enterprises and enterprises in the informal sector – report inadequate access to premises from which to work. For these enterprises, the additional costs accrued through having to find premises, which are safe and in high traffic areas, are prohibitively high. These costs include storage costs, when small businesses must rent storage space for their goods, and transport costs, which reduce operating times and increase business costs.

In the formal sector, small and medium enterprises report inadequate space to grow in their current operating spaces. These businesses need more space for production machinery and the necessary staff to operate them.

RECOMMENDATION 2: In the long run, the DSBD can assist SMMEs by developing shared operating premises, which meet the needs of enterprises of different sizes. The development of such a 'SMME business park' would allow both SMMEs and government to access economies of scale by making use of centralised services. Provincial departments can also consider indirect mechanisms of reducing the cost of premises through introducing transport or storage initiatives, which allow SMMEs to operate from their current premises but reduce the costs of doing so.

In particular, informal businesses would benefit from access to market places and low cost storage facilities; while formal businesses would benefit from operating and production spaces that would enable them to use larger machinery and employ more staff.

KEY FINDING 3: Regulatory and legislative system is too burdensome on SMMEs

SMMEs in the formal sector currently face much of the same regulations and legislative requirements as larger firms but are less able to comply with such. For instance, the legislation on business rescue often requires small business to hire a business rescue practitioner at a cost higher than their monthly turnover. Furthermore, small business is required to undergo the same complex procedures associated with the Commission for Conciliation, Mediation and Arbitration when hiring or firing employees as are larger firms. These regulations are prohibitive to formalisation and growth as they impose too high a cost on small business. Furthermore, SMME owners indicate that having to pay taxes is an important and high barrier to formalisation.

RECOMMENDATION 3: There is a need to relax or remove the restrictive business conditions for SMMEs with regards to regulation. Although there has been little research done in South Africa in this regard, Ojeka (2011) suggests one possible means of accomplishing this by reducing the regulatory burden on SMMEs through removing tax requirements for micro enterprises. This would allow these enterprises to re-invest the funds into business growth, allowing them to mature into larger enterprises that contribute to tax revenue (Ojeka, 2011). Such a scheme would also encourage informal businesses to formalise.

KEY FINDING 4: SMMEs are unable to employ skilled staff to assist with their operations and contribute towards business growth

In the informal sector and among micro and small enterprises, SMMEs are unable to afford the employment costs associated with hiring additional staff. This prevents these enterprises from taking on larger projects or orders, which they are not able to fulfil while operating on their own.

In the formal sector, businesses are unable to find adequately skilled staff to assist with production and service delivery, whilst the informal sector is simply unable to employ additional staff at any skills level.

RECOMMENDATION 4: Government should more fully explore employment incentives in the form of staff stipends and exemption legislation, which makes it easier for SMMEs to hire appropriate staff during busy seasons or for larger projects. The Department of Small Business Development should communicate with national government, the Department of Labour and the National Youth Development Agency to leverage the existing wage subsidies – such as the youth wage subsidy – in a collaborative effort to assist SMMEs with hiring their required staff.

In the informal sector, this assistance should focus on reducing the costs associated with hiring unskilled or seasonal staff, while the formal sector would benefit from increasing the impact of existing wage subsidies on qualified and skilled workers – such as the youth wage subsidy.

KEY FINDING 5: SMMEs need to be ready to take advantage of procurement opportunities made available by government

While 30% of government spending is earmarked for SMMEs, these businesses are often not ready to make use of the various opportunities which this policy affords them. This is because SMMEs lack the staff and capital to ensure that they are able to deliver on large orders or projects. Furthermore, SMMEs that are able to make use of government training – especially in marketing – are often not able to cope with the increase in clients or the scale of the projects which they receive. Because of the structure of government assistance and the requirements on the government tender process, these constraints are most significantly felt by businesses in the formal sector while informal sector businesses are disadvantaged by these government requirements themselves.[75]

RECOMMENDATION 5: The current development of a central database under the ILO, and another under the Treasury, should be combined and used to identify appropriate SMMEs as potential government contractors and inform them of these opportunities. Such a database could be modelled on the one that was developed in Brazil, where Small Businesses

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75   In particular, the need for businesses to be formally registered before being eligible to apply for government tenders

were correctly classified (in terms of size and industry) when they registered with a central government entity (White, 2005). This process allowed government to better target policies and better track the growth of SMMEs in the country. In so doing, government contracts can be awarded to those firms who were able to fulfil them and use the opportunity to grow.

Furthermore, programmes and initiatives can then be developed with the aim of getting enterprises ready for fulfilling large tenders or projects and the success of these interventions can be monitored and evaluated through following the progress of firms on the database. Such packages can take two forms: those developed for the informal sector should be directed at getting these enterprises formalised. Those developed for the formal sector could aim to have these enterprises ready to take government tendering opportunities.

KEY FINDING 6: SMME owners struggle to cope with the risks associated with entrepreneurship

Many SMME owners report feeling afraid of failure and a lack of support from their communities. They are uncertain of where to go to find assistance and struggle to find consistent customers and clients. Furthermore, they frequently report having to sacrifice business revenue in favour of family obligations (as opposed to, for instance, buying new stock). Finally, business owners report struggling to ensure payment from clients after services have been delivered, even when contracting with government. This is reportedly due to the high levels of unemployment and poverty among their communities, and due to administrative delays and errors when dealing with government..

RECOMMENDATION 6: Government can encourage community support through strengthening awareness campaigns and incentive schemes that encourage individuals and firms to support their local small businesses. This would particularly assist small businesses in the informal sector, who are constrained by poor perceptions of their own legitimacy.

Although public perception on the values of entrepreneurship is high (GEM, 2017), there is a lack of awareness of the specific government programmes available to the public and SMME owners report low levels of customer trust and community support. Through increasing the legitimacy of these businesses in terms of public perception, government can increase market access, clientele and respect for the businesses which will assist in reducing defects on payments. This is similar to the strategy employed by Brazil's SEBRAE, which was[76] a government entity that provided non-financial assistance to SMMEs in the country (White, 2005).

The primary objective of SEBRAE is to foster an entrepreneurial spirit among SMME owners and to develop a 'self-help' attitude. It does this through offering numerous training courses and seminars. It also uses 13 television stations to broadcast a programme that uses five hours airtime per week. The show is focused on celebrating local entrepreneurs and answering common questions and challenges faced by SMMEs in the country (White, 2005). Through a similar strategy and one incorporating the use of social media and technology, the DSBD can use this experience to improve the entrepreneurial environment in SA and, in conjunction with strengthening the support role of SEDA; the DSBD can both improve the spirits of entrepreneurs and reduce the risks faced by SMMEs.

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76   SEBRAE has since been privatised and operates as an NGO

6.4.2 Government experiences and challenges

KEY FINDING 7: A comprehensive mandate with a clear focus is lacking

The multitude of agencies involved in SMME development are all responsible for various, important elements of SMME growth. This has been purposefully designed to ensure that there is a nuanced approach to government development, with specific agencies applying concentrated skills to target particular problems. However, this also results in the perception that government agencies have different, sometimes conflicting, mandates with regards to SMME development. For instance, some agencies report a focus on developing township enterprises so as to increase employment in these areas, while others report focusing on medium enterprises and enabling them to receive government tenders.   There is a need for a united, focused and holistic approach that brings all government agencies and departments in line on these goals. This implies improving the collaborative inter-department relationships.

KEY FINDING 8: Inter-department/agency collaboration with relative skill sets

Government departments and agencies are struggling under resource constraints and low levels of efficiency, due to the complex and specialised nature of their work. Such departments have had poor levels of communication and limited collaboration to date, resulting in duplication and inefficiencies.

RECOMMENDATION 7: Based on Key Findings 7 and 8, there is a need for all government agencies and departments – including those not directly involved with SMMEs – to operate within the broader goal of SMME development, with the view to increasing employment. The DSBD should strengthen its role as a centralised agency that is responsible for ensuring that all sub-divisions, provincial departments and national agencies are guided by a coherent set of tenets. Furthermore, the DSPD should improve inter-department communication to facilitate information sharing and collaboration. Such collaborations should not only occur between government departments but should extend to all state organs, including state-owned enterprises. Through improving communication and information-sharing, government departments can facilitate collaborations with other departments and state organs that have the relevant skill sets, resources and information to effectively and efficiently complete or inform projects.

KEY FINDING 9: Integration and standardisation of SMMEs development systems and processes

Lack of communication and lack of a comprehensive, overarching strategy increases inefficiencies and corruption within government agencies. This occurs through duplication of work, poor record-keeping and inadequate systems.

RECOMMENDATION 8: There is a need to standardise the bureaucratic process across departments, agencies and beneficiaries to reduce the current silo mentality. The DSBD should strengthen its ties with DPME and National Treasury to establish a task team to determine which departments and agencies have established systems and procedures that work well. Once this has been completed, the DSBD can integrate and standardise systems across departments and agencies as well as establishing consistent performance indicators for these agencies. By evaluating the systems and processes already in place, the DSBD can reduce the costs of implementing untested systems. Standardisation also allows for more efficient monitoring, feedback and evaluation of the SMMEs themselves, and ensures a consistent framework for evaluating the efficiency of the departments themselves.

KEY FINDING 10: High rate of non-payment to SMMEs as well as repayment to government bodies

SMMEs with government contracts suffer because of delayed payment while government agencies that issue loans to SMMEs struggle to get these loans repaid. This contributes to the high mortality rate of SMMEs and to resourcing constraints faced by government agencies.

RECOMMENDATION 9: The National Treasury should issue a practice note that effects a Cession of Contract. This is to ensure that the payment of SMMEs is done on time and, also, that such payment first goes towards repaying loans that the SMME may have taken by a government agency, such as SEFA. Furthermore, the DSBD should collaborate with the National Treasury and DPME to establish a clear and standardised system to improve the implementation of government's 30-day payment turnaround policy.

6.4.3 Government programmes and initiatives

KEY FINDING 11: Government agencies struggle to access SMMEs and to improve awareness of their programmes

Government agencies struggle to reach remote and niche communities (e.g. rural areas and people with disabilities). These communities then have limited access to government support services. This lack of reach is due to low awareness as well as resource constraints in setting up SMME development offices and centres in these areas. Similarly, SMME owners report that government programmes are inaccessible due to location, the time associated with accessing these programmes and the long turnover time from government departments. This lack of reach is particularly damaging for informal businesses, who are more likely to operate in rural communities and less likely to have the necessary staff to allow business owners to take time away from their businesses to make use of assistance programmes.

In the formal sector, SMME owners report that government initiatives are overly simplified once businesses have moved from the start-up phase. This makes the assistance less effective and efficient for these businesses and reduces their growth potential once they have formalised.

RECOMMENDATION 10: In order to assist informal businesses, all government agencies need to consider dynamic and innovative approaches to increase access to their services. Co-location with municipalities and mobile units can increase access to support services. This follows the example of rural areas in the United States of America (USA), which developed community referral centres to pool resources and give rural areas access to child care, child health care and maternal healthcare (Bailey & Warford, 1995). These separate entities were able to reach more people when they combined resources to both set up permanent spaces and develop mobile services. This should be teamed with a comprehensive media and awareness campaign that makes use of low-cost, high-impact strategies such as social media and other technologies. This modernises the example of SEBRAE in Brazil, as discussed above.

RECOMMENDATION 11: By developing a centralised and comprehensive database, along with standardised protocols and systems, the DSBD can decrease turnaround time for feedback and applications. The research was unable to establish any trends in current turnover times but qualitative research indicates that these vary significantly across departments. By partnering with the Department of Planning, Monitoring and Evaluation, the DSBD can investigate current turnover times and stipulate targets for feedback on applications to SMMEs and implementation of programmes and/or promised interventions. These targets can then be

used as a performance indicator for government agencies operating in the SMME development space.

Furthermore, SEDA, SEFA and provincial agencies should develop mechanisms which allow them to identify SMMEs at different stages of development so as to improve programme targeting and, thereby, improve the quality and relevance of government initiatives. In developing their SMME support initiatives, these agencies should conceptualise this support as a long-term package, which allows SMMEs to receive appropriate support at each stage of the business journey. Through developing such support packages, government agencies can conceptualise a predetermined and desired end-goal for the development of SMMEs. This allows for better quality and targeted assistance, as well as improving the ability to evaluate the effectiveness of interventions as SMMEs move through this business journey. Such initiatives will assist both formal and informal SMMEs through ensuring that they get appropriate, timely support.

KEY FINDING 12: Government initiatives are not adequately targeting highly vulnerable groups, who require both financial and non-financial assistance to succeed

The South African context means that there are certain population groups – namely, black individuals, women and the youth – who are more likely to struggle with poverty and unemployment, as well as less likely to have access to the skills and resources required for starting a business. Evidence suggests that these groups are more likely to be necessity-driven entrepreneurs (GEM, 2017), rather than opportunity-driven. In order to address the larger inequalities in the South African economy, SMME policies and interventions should be targeting these vulnerable groups, as mandated.

Despite this mandate to focus on highly vulnerable and previously disadvantaged groups the research for this review shows that these groups have no increased likelihood of receiving government assistance than do the reference groups. While women are more likely to receive training and marketing assistance, the youth are less likely to receive this assistance than are older cohorts. Furthermore, no demographic characteristic is correlated with receiving financial assistance. Furthermore, the research suggests that excessive assistance is being given to medium-sized enterprises, at the expense of micro and small enterprises. The informal sector also gets very little financial assistance from government, in comparison to the formal sector. Finally, government agencies report difficulties in accessing individuals in rural areas, who are also more likely to struggle with unemployment and poverty than their urban counterparts.

RECOMMENDATION 12: The DSBD should improve its implementation guidelines and requirements, which prioritise previously disadvantaged groups. Furthermore, the Department should investigate why current allocations and guidelines are not being effective in reaching their target groups.

KEY FINDING 13: Government targeting and differentiation should focus on size categories and sectors

The research indicates that most SMMEs struggle with similar problems and constraints (access to finance, access to premises, marketing and market access). However, the prevalence and manifestation of these problems affect different sectors and size categories in unique ways.

For instance, most firms in the formal sector struggle with access to adequate premises. However, for medium firms this is because they need larger premises to increase production

and employment, while small firms struggle with the costs associated with finding safe premises that are close to their residences.

RECOMMENDATION 13: When developing their targeted approaches to SMME policies and projects, government agencies should design their policies and programmes based on the differences experienced by the different sectors and different size categories. This can be accomplished by agencies identifying broad concerns and developing specific solutions for each relevant group. This will allow for a degree of specialisation and minimise the research and development resources required to improve government initiatives.

6.5 RECOMMENDATIONS ON IMPROVING THE EFFECTIVENESS OF GOVERNMENT PROGRAMMES

This review has indicated that government struggles with inadequate resources. This means that a full array of targeted and diversified programmes and incentives will be difficult to implement, as each new programme requires additional time, knowledge and staffing resources. This environment requires that government departments focus on changes which will have wide-ranging effects. Given the turbulent past of the SMME development sphere in government – with frequent changes and alterations to governing bodies and existing agencies – the research suggests that the current environment lacks cohesion and consistency.

As such, it is important to note that government effectiveness in developing SMMEs will be vastly improved by consolidating and standardising information, systems and procedures. Eight of the fourteen key findings in this report indicate that SMMEs would benefit from the development of a shared database, which is able to track SMME development, programme use and assistance and tender applications. Furthermore, a centralised database will allow government agencies to investigate the effectiveness of non-financial support programmes by considering the growth of SMMEs who made use of these programmes relative to those who did not. Finally, such a database could reduce the financial burden on government agencies by ensuring that loans are repaid, in part, through the revenue generated for SMMEs who win government tenders and bids.

As such, improving and standardising government systems and procedures, as well as allowing for centralised tracking of SMMEs, will positively impact the SMMEs themselves – through more effective programmes, faster turnaround times, better targeting and consistent feedback – as well as government departments operating in a complex sphere.

6.6 RECOMMENDATIONS FOR FURTHER RESEARCH

The investigation completed in this review attempted to establish the experience of SMME owners in South Africa at present. This included a detailed analysis of the full SMME ecosystem, with the investigation examining government roles and challenges as well. In this endeavour, a number of difficulties arose, which limited the depth and nuance of answers available for specific questions. These limitations were mainly focused on government, vulnerable groups and the experience of cooperatives. In particular, the lack of detailed data on SMMEs and cooperatives prevented a detailed consideration of the particular challenges that are faced by these sub-groups. It is, therefore, recommended that future research include focus group discussions with women business owners, as well as the youth and cooperative owners. These

discussions should try to establish the difficulties faced by these groups that are unique from those experienced by business owners in South Africa in general.

6.7 CONCLUSION

In closing, this review has presented an analysis of the SMME sector in South Africa for 2016. The review has determined that the challenges faced by SMMEs have been persistent over time, with lack of access to finances and premises as well as low market access and burdensome regulations severely inhibiting SMME development. The review considers the SMME environment in a holistic manner, considering also the constraints and challenges faced by government entities mandated to support these enterprises. The finding is that these agencies remain disconnected, with poor systems and procedures and little leadership on a national scale. This reduces the positive impact of government programmes on SMMEs and results in inefficiencies in government programme development and implementation. The review recommends standardised systems and protocols to monitor government effectiveness and increase efficiency. Furthermore, it recommends the development of a standardised database to encourage collaboration and improve programme targeting. Finally, it recommends that financial assistance to SMMEs be increased through both direct means – in the form of loans and grants – as well as indirect means – through subsidising or provision of high cost necessities, such as staff and premises, to SMMEs.

Furthermore, this research has indicated a number of areas that require additional investigation. This includes the effective targeting of government policies based on sector and enterprise size, as well as research into the reasons for targeted groups – such as the youth and women – not receiving additional support in comparison to the reference groups, despite government initiatives to focus support. Further research should also be conducted into current systems used by government departments and agencies so as to identify which systems are functioning well. Special attention should be placed on effective targeting, tracking of SMMEs and their applications and turnaround time for feedback and assistance. Investigation into this area should be conducted with the aim of building on those systems which have worked effectively in certain departments so as to standardise these systems across all agencies.

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APPENDIX A

Table A1: Defining small businesses

Sector or sub-sector	Size or class	Total full-time equivalent of paid employees	Total annual turnover (Rm)
		Less than:	Less than:
Agriculture	Medium	100	5.00
	Small	50	3.00
	Very small	10	0.50
	Micro	5	0.20
Mining and quarrying	Medium	200	39.00
	Small	50	10.00
	Very small	20	4.00
	Micro	5	0.20
Manufacturing	Medium	200	51.00
	Small	50	13.00
	Very small	20	5.10
	Micro	5	0.20
Electricity, gas and water	Medium	200	51.00
	Small	50	13.00
	Very small	20	5.10
	Micro	5	0.20
Construction	Medium	200	26.00
	Small	50	6.00
	Very small	20	3.00
	Micro	5	0.20
Retail and motor trade and repair services	Medium	200	39.00
	Small	50	19.00
	Very small	20	4.00
	Micro	5	0.20
Wholesale trade, commercial agents and allied services	Medium	200	64.00
	Small	50	32.00
	Very small	20	6.00
	Micro	5	0.20
Catering, accommodation and other trade	Medium	200	13.00
	Small	50	6.00
	Very small	20	5.10
	Micro	5	0.20
Transport, storage and communications	Medium	200	26.00
	Small	50	13.00
	Very small	20	3.00
	Micro	5	0.20
Finance and business services	Medium	200	26.00
	Small	50	13.00
	Very small	20	3.00
	Micro	5	0.20
Community, social and personal services	Medium	200	13.00
	Small	50	6.00
	Very small	20	1.00
	Micro	5	0.20

(From DTI, 2004: 33)

Table A2: World Bank Doing Business Project – 2017 Rankings* Sub-Saharan Africa

Indicator	South Africa	Angola	Botswana	Mozambique	Namibia	Seychelles	Swaziland	Tanzania	Zambia	Zimbabwe
Ease of doing business	74	182	71	137	108	93	111	132	98	161
Starting a business	22	28	32	24	38	26	33	25	15	44
Dealing with construction permits	11	13	3	1	6	27	9	22	8	44
Getting electricity	5	34	11	32	10	15	25	1	23	30
Registering property	12	37	3	13	40	2	18	22	28	15
Getting credit	10	45	11	38	9	23	14	6	2	13
Protecting minority investors	1	6	5	18	4	13	20	35	10	11
Paying taxes	2	23	6	19	9	3	8	29	4	24
Trading across borders	25	43	3	10	17	5	1	40	31	26
Enforcing contracts	16	47	21	46	11	20	40	3	22	37
Resolving insolvency	2	44	4	5	12	3	11	14	8	30

This table shows rankings for a select number of Southern African Development Countries (SADC). These rankings are relative to all countries in Sub-Saharan Africa

Appendix B

Table B1: Critical policies and strategies for SMME development

Name of policy, strategy and programme	High-level description of policy, strategy and programme
National Strategy for the Development and Promotion of Franchising in South Africa (released In 2000)	The strategies' objectives are to (DTI, 2005:19): ■ Promote the contribution of franchising to, among other things, the economic empowerment of historically disadvantaged entrepreneurs through increasing their participation in franchising ■ Create an entrepreneurial culture through franchising ■ Create an environment conducive for the growth of franchising ■ Promote linkages between big and small enterprises in order to stimulate the creation of new franchise enterprises.
The Micro-Economic Reform Strategy (released in 2002)	This strategy complements the government's small business development strategies and policies because it is based on the same principles, such as Broad Based Black Economic Empowerment (BBBEE), gender equity and prioritising job creation in economically marginalised areas. It also highlights the need to support SMMEs in tourism, agriculture, Information and Communication Technology (ICT), cultural industries and export goods' (HSRC, 2009: 26), as part of interventions to target growth sectors. Initiatives to promote these sectors include (HSRC, 2009: 26): ■ Introducing new small enterprise support services ■ Consolidating and coordinating existing support services ■ Developing technology, human resources and infrastructure (i.e. transport, telecommunications and energy) ■ Improving access to finance and markets.
The Broad-Based Black Economic Empowerment (BBBEE) Legislation of 2004	This legislation supports the government's small business promotion policy on two levels. First, increasing the number of previously disadvantaged people who own or control an enterprise, in general, and also in strategic sectors. Second, increasing the proportion of ownership and management of economic activities vested in community enterprises and cooperatives. The Legislation identified a few initiatives to achieve the above objectives. According to Mushangau (2014), the most important components are direct empowerment (i.e. centred on-management and ownership), human resource development (i.e. skills development and employment equity) and indirect support (i.e. enterprise support and preferential procurement). In the case of small business promotion indirect support is the most important component because it can: ■ Create demand for services and products from large companies and government institutions through preferential procurement ■ Improve the skills of business' owners and the productive capacity of their business, when corporates and SOEs offer supplier development programmes to ensure more BEE enterprises are created and enable them to meet purchasers' requirements ■ Provide new financing mechanisms and amend existing ones to serve the needs small business better
The Accelerated and Shared Growth Initiative (released in 2006)	The initiative's focus area is reducing the divide between the formal economy and the so-called second economy. Small business promotion is recognised as a vehicle to close the gap between individuals in these two economies by increasing employment and reducing poverty. Interventions pertinent to SMME development include the following (HSRC, 2009: 27) ■ Eliminating and easing constraints/ burdens identified in the regulatory environment for small and medium-sized businesses, such as tax administration (SARS) and Labour laws (Department of Labour) ■ Improving access to procurement opportunities and finance (particularly venture capital), ■ Easing of cash flow constraints through timely payments for enterprises doing business with the government ■ Prioritising the growth of SMMEs and BBBEE friendly sectors, such as tourism and business process outsourcing

Name of policy, strategy and programme	High-level description of policy, strategy and programme
Industrial Policy Action Plan (released in 2007)	The Accelerated and Shared Growth Initiative informed the National Industrial Policy Framework. Government adopted this framework in 2007. It was the government's first 'comprehensive statement' expanding its approach to industrialisation and industry policy (DT, 2007). The Framework (2007) laid the blueprint for collaborative engagement with the government and other stakeholders (i.e. social partners from business, labour and civil society) to improve the industrial capacity of South Africa, in terms of moving into value-added activities; diversifying the industrial base; promoting a more labour-intensive industrialisation path; and increasing the manufacturing sector's contribution to the economy (e.g. GDP, job creation, patents, greater economic participation of the historically disadvantaged and marginalised regions). The first Industrial Action Plan (IPAP) provided detailed actions and timeframes to implement industry policy, in this case the Framework (2007) and Cabinet endorsed it in 2007. To date, there has been eight Industrial Policy Action Plan iterations. They are principally informed by the vision of an equitable society envisaged in the National Development Plan, the programmatic perspectives set out in the New Growth Path, and core objectives remain as set out in the National Industrial Policy Framework of August 2007: These iterations have raised ' the pressing need for structural change in the economy to break out of commodity dependence and move to a more diversified base in which increasing value-addition and export-intensity come to define South Africa's Growth trajectory. They have also implemented instruments to increase the pace of this structural change, which impact the government's initiative to create a more enabling environment for SMMEs. Examples include Strengthening public procurement to support the local manufacturing sector; industrial financing and incentives; minimising regulatory and red tape barriers (i.e. registering a business online with CIPRO).
The National Industrial Policy Framework (released in 2007)	The framework promotes a broad-based industrialisation path with greater levels of participation of historically disadvantaged people and marginalised regions in the mainstream, industrial economy. The promotion of SMEs is positioned as one vehicle to achieve the aforementioned objective. Subsequently the framework encourages 'the development of entrepreneurs in viable small enterprises through the diversification of the economy, particularly into new labour-absorbing and value-adding tradeable goods and services' (HSRC, 2009:28). The framework also suggests programmes which should include support for BBBEE in alignment with the core objectives of growth, equity and employment creation established through ASGISA.
The New Growth Path (released in 2011)	The purpose of the New Growth Path (NGP) is to place South Africa on a less-capital intensive economic growth model, because this growth model has contributed towards income inequality. The policy proposes interventions to make South Africa's growth path more labour intensive, equitable and create decent jobs. Interventions focus on changing the economy's structural dynamics. In terms of small business promotion, the following interventions in the NGP are important (DTI, 2005 and DTI, 2008): ■ Using advances in technology to fast-track access to financial services through savings products, cash transfers, and access to micro-credit and to incremental housing finance to enable home-based enterprise activity ■ Increasing the enforcement of the Competition Act of 2003 as a means to address issues of market access and the spread of power and benefits in value chains, to enable greater SME participation and employment creation ■ Broadening transformation to include both ownership and address issues of power and distribution in value chains ■ Better alignment of social, economic, infrastructure and land use planning to increase efficiency, 'crowd in' economic opportunities and promote dynamism, including within residential neighbourhoods ■ Greater promotion of enterprise and small business development and entrepreneurship, and eliminating unnecessary red tape ■ Greater emphasis on BBBEE as a vehicle to integrate people into the economy (i.e. BEE moves beyond a small group of black investors).

Name of policy, strategy and programme	High-level description of policy, strategy and programme
National Development Plan, 2011	The objective of the National Development Plan is 'to eliminate poverty and reduce inequality by 2030 in South Africa' (NDP 2011:24). To realise this objective, South Africa's principal challenges are 'rolling-back poverty and inequality through raising living standards to the minimum-level, which involves a combination of increasing employment, higher incomes through productivity growth, a social wage and good-quality public services.
	Although the entire NDP is relevant to SMME development, the most important section is the one dealing with 'faster and more inclusive economic growth'. Job creation is placed at the cornerstone of creating a more inclusive economy. The NDP (2011: 39) set a target of 11 million jobs by 2030 and it stipulates interventions that will be implemented to reach this target, and they affect the effectiveness of the government's SMME ecosystem and SMMEs' ability to participate in the economy. These interventions are listed below: (NDP, 2011, 39 &40):
	■ Improving economic policy coordination and implementation
	■ Building partnerships between the public sector, business and labour to facilitate, direct and promote investment in the economy, especially labour-intensive sectors
	■ Raising competitiveness and export earnings through better infrastructure and public services, lowering the costs of doing business, improving skills and innovation, and targeting state support to specific sectors
	■ Strengthening the functioning of the labour market to improve skills acquisition, match job seekers and job openings, and reduce conflict.
	■ Improving access to basic infrastructure, such commercial transport, energy, telecommunications and water, while ensuring their long-term affordability and sustainability.
	■ Reducing the cost of regulatory compliance, especially for small- and medium-sized firms.
	■ Facilitating the development of a larger, more effective innovation system, closely aligned with firms that operate in sectors consistent with the growth strategy.
	■ Providing support for small businesses through better coordination of relevant agencies, development finance institutions, and public and private incubators.
	■ Strengthening financial services to bring down their cost and improve access for small- and medium-sized businesses.
	■ Improving the productivity of labour: increase skills through better education and vocational training; strengthening dispute resolution institutions; and reviewing regulations and standards for small and medium enterprises; addressing public sector labour relations. .

Table B2: Overview of Implementing Agencies/Divisions for SMME Policies 1995 – 2003

Responsible department	Implementing Agencies and/or Divisions
Department of Trade and Industry	■ Centre for the Promotion of Small Business ■ The Enterprise Organisation and Trade and Investment South Africa ■ The Enterprise and Industry Development Division ■ Enterprise Development Unit ■ Ntsika Enterprise Promotion Agency (established 1996) ■ Khula Enterprise Finance Limited (established 1996) ■ National Empowerment Fund (established 1998) ■ Industrial Development Corporation ■ Umsobomvu Youth Fund (established 2001) ■ National Manufacturing Advisory Centre (established 1997)) ■ Community Public Private Partnership Programme
Department of Science and Technology	Godisa Trust
Department of Labour	Sector Education Training Agency (SETA) [77]
Department of Agriculture	Micro Agricultural Financial Institute of South Africa and Land Bank[78]
Parastatal Agencies	CSIR, Development Bank of Southern Africa, South African Bureau of Standards, National Manufacturing Advice Centre (established in 1997), Manufacturing Advice Centres

[77] Although the Ntsika Enterprise Promotion Agency (including the Local Business Service Centre network) and the National Manufacturing Advice Centre were the main providers of skills development programmes, the Sector Education and Training Agency (SETA) network also provided small business focused technical, entrepreneurial and business training.

[78] The Land Bank is one of few agencies that has historically supported the agricultural cooperative sector, and provides a comprehensive range of retail and wholesale financial products and services designed to meet the needs of commercial and developing farmers and agriculture-related businesses.

Table B3: Multi-Stakeholder SMME development and promotion ecosystem

Policy focus area	Stakeholder group	Stakeholder programme/ contribution
Regulation and Compliance	National government	DTI led programme to simplify regulatory and compliance requirements for small enterprises through a system of regulatory impact assessments, to reduce or eliminate unintended consequences of laws and regulation (especially labour laws affecting job creation).
		DTI led programme, but implemented through Treasury and the South African Revenue Service, to introduce measures that reduces the administrative and cost burdens on small enterprises.
Access to Finance	National government and private sector	South African Micro-Finance Apex Fund to provide access to micro-loans and support to mobilise social capital.
		The Thuso Mentorship Scheme provides business plan development and other advice to small enterprises seeking access to the Credit Guarantee Scheme.
		The National Empowerment Fund provides start-up and growth financing products to BEE enterprises, predominately.
		The Industrial Development Corporation provides sector-focused financing products for small business development and black economic empowerment.
		Various departments and institutions provide sector-focused support, such as the Land Bank and Micro-Agricultural Finance Institute of South Africa.
		Khula Enterprise Finance Limited has partnered with major banks to provide small business finance under the Khula Credit Guarantee Scheme.
Business Development Services	Public sector – three tiers of government and private sector	SEDA provides access to business development services nationally through various partnerships, such as with the Gauteng Enterprise Propeller, Limpopo Business Support Agency and the Western Cape's Red Door.
		Municipalities provide support through their Local Economic Development Programmes and public-private partnership based incubation centres.
		The major banks have collaborated to establish Sizanani to offer advisory services to small business clients. Individually, banks have also established a variety of support mechanisms for small business clients.
		Certain large corporations have developed and implemented their own in-house programmes, such as the youth enterprise support programmes of South African Breweries (SAB Kickstart), Anglo-Zimele and Shell Petroleum (Shell LiveWire).
Demand for SMME Products and Services	National government and private sector	The DTI and the National Treasury are creating a mechanism to increase the proportion of public procurement that is awarded to small enterprises through the National Procurement Programme. The programme uses an integrated support framework to link preferential procurement with skills development, enterprise development and certain elements of corporate social investment (grant programmes) (DTI, 2005:38).
		The National Business Initiative established a linkage programme to facilitate SMMEs integrating in large corporates value chains.
		Private sector created the Corporate Small Business Development Forum to increase preferential procurement opportunities for SMMEs.
Youth Enterprise Development	National government	The Umsobomvu Youth Fund provides financial and business development support to youth-owned enterprises and facilitates procurement opportunities with public and private sector entities.

Policy focus area	Stakeholder group	Stakeholder programme/ contribution
Support for Women-owned Enterprises	Public sector and industry associations	South African Women Entrepreneurs Network is an advocacy network that ensures policies and strategies are gender sensitive.
		Technology for Women in Business supports the use of science and technology in the advancement and competitiveness of business through innovation.
		Sector Specific Bodies: South African Women in Construction, Women in Oil and Energy South Africa) and South African Women in Mining Association.
Incubation and Technology Acquisition and Transfer Services	National government	SEDA Technology Programme provides access to incubator and technology support centres and access to funding for technology and technological services.
		SEDA has established the South African Business and Technology Incubation Association which encourages support of incubation best practice in South Africa through links with counterparts elsewhere in the world.
		Tshumisano Trust has established technology stations located at universities to facilitate the transfer of technology between tertiary institutions and small enterprises.
Productivity Enhancement Measures	National government	The National Productivity Institute (a joint initiative between the Department of Labour and SEDA) trains small enterprises in productivity concepts such as entrepreneurship, life skills, economics and productivity improvement.
		The Tourism Enterprise Programme (a joint initiative between The Business Trust and the Department of Environmental Affairs and Tourism) provides sector-specific small business development support that uses peer leaning to transfer business skills from successful small enterprises to other small enterprises.
		The Vuk'uphile initiative, which is part of the Expanded Public Works Programme under the Department of Public Works builds capacity of emerging contractors to fulfil labour intensive construction work through formal institutional training and experience on construction sites.
		The Department of Minerals and Energy's Small-Scale Mining Board provide a range of services to support small scale mining.
		SETAs are implementing small business skills development programmes.
Research Services	Ngos and universities	Established centres for entrepreneurship and small business teach courses and provide research.
		Research and thought leadership is used to evaluate the performance of small business initiatives and refine them accordingly, a good example is the Global Entrepreneurship Monitor survey conducted by UCT.

Source: Mthente (2017) from HSRC 2009: 22-26, DTI, 2003 and DTI, 2008.

APPENDIX C

Calculating SMME contribution to GDP using the Abedian method

The Abedian method assumes GDP is comprised of two parts: total employee compensation and gross operating surplus. In order to calculate SMME contributions to GDP, each of these parts must be calculated and summed together, to achieve total contribution to GDP. This relationship is shown in the two relationships below. In order to make the calculation, we begin by calculating the total employee compensation. This allows us to calculate the Gross Operating Surplus from total GDP.

- We begin by adding together GDP statistics for all four quarters of 2016 in order to obtain a total Gross Value Added for the calendar year. This is done by industry to allow for more accurate calculations of total contribution to employment.

Next, we calculate the total employee compensation:

- The number of employees for each industry and size category (calculated in Section 5) is multiplied by the average remuneration in that industry, as given by StatsSA.

- This results in a table that describes the employee compensation for each size category, within each industry.

- These estimates are then summed across industries in order to obtain the total employee compensation by size category

Next, we calculate the Gross Operating Surplus:

- The employee compensation values described above are now summed across size categories to obtain a total employee compensation value for the economy as a whole.

- This value is then subtracted from the total GVA of the economy to obtain the total Gross Operating Surplus

We then allocate the Gross Operating Surplus to SMMEs:

- The Gross Operating Surplus is then distributed across size categories according to weights. These weights make assumptions about the level of profitability for each size category and are as follows:

  o 0.05 micro; 0.25 very small and small; 0.7 medium and large

- This calculation then gives the assumed Gross Operating Surplus per size category

Finally, we calculate contribution to GDP by size category:

- The total employee compensation by size category and the Gross Operating Surplus by size category are then added together to obtain the total contribution to GDP for each size category.

The limitations of this methodology include the assumption that the average remuneration per employee is the same across all size categories, which is likely not the case. Furthermore, it is currently unclear whether the assumptions regarding the profitability of each size category are accurate. However, this paper has kept with this methodology in order to maintain comparability across reports.

Table C1: SMMEs by size category, industry and sector from QLFS

BY INDUSTRY

	2008				2010				2014				2016			
	Micro	Very small and small	Medium and large	Total	Micro	Very small and small	Medium and large	Total	Micro	Very small and small	Medium and large	Total	Micro	Very small and small	Medium and large	Total
Agriculture, hunting, forestry and fishing	66048.3	315624.65	170556.775	552,229.73	41353	232118.225	143180.35	416,651.58	100843.15	313691.05	257455.375	671,989.58	111059.325	390282.85	338981.475	840323.65
Mining and quarrying	896.475	23487.75	22450.3	46,834.53	1862.075	15906.45	18313.65	36,082.18	6677.475	30664.975	370995.525	408,337.98	2160.625	25183.625	392679.1	420023.35
Manufacturing	181862.675	549201.2	414317.5	1,145,381.38	166593.2	403501.875	299783.525	869,878.60	240592.9	545083.55	890929.225	1,676,605.68	218922.85	535210.65	825337.95	1579471.45
Electricity, gas and water supply	3547.775	22466.825	13701	39,715.60	1864.725	16342.8	12387.675	30,595.20	4995.425	32305.975	78622.05	115,923.45	6864.9	25651.2	75253.775	107769.875
Construction	168213.675	557987.775	220426.65	946,628.10	158747.975	475139.3	172260.425	806,147.70	355174.95	528032.725	254065.425	1,137,273.10	444257.25	608399.4	288954.4	1341611.05
Wholesale and retail trade	922630.425	1356555.3	483307.15	2,762,492.88	860778.975	1197348.45	457167.55	2,515,294.98	1102006.225	1351053.375	554833.775	3,007,893.38	1137669.1	1360167.675	497929.075	2995765.85
Transport, storage and communication	135053.775	301449.5	102785.125	539,288.40	130935.45	289699	86697.45	507,331.90	241729.375	260241.175	349048.925	851,019.48	276561.7	246874.525	322453.95	845890.175
Financial intermediation, insurance, real estate and business services	149023.575	653465.225	343816.525	1,146,305.33	124549.425	606816.4	303179.675	1,034,545.50	274598.125	796188.5	818109.8	1,888,896.43	330020.225	920814.725	861387.35	2112222.3
Community, social and personal services	216098.7	1026658.625	579028.7	1,821,786.03	190208.875	957179.85	538746.125	1,686,134.85	465226.775	1472306.975	1382924.5	3,320,458.25	535460.825	1548791.85	1306237.175	3390489.85

BY SECTOR

	2008				2010				2014				2016			
	Micro	Very small and small	Medium and large	Total	Micro	Very small and small	Medium and large	Total	Micro	Very small and small	Medium and large	Total	Micro	Very small and small	Medium and large	Total
Formal	825,479.25	5,794,872.73	3,929,447.48	10,549,799.45	662,914.85	5,056,125.08	4,201,507.03	9,920,546.95	618,645.75	5,294,761.18	4,956,483.43	10,869,890.35	656,649.20	5,626,940.18	4,908,807.80	11,192,397.18
Informal	2,347,196.43	34,839.93	3,046.13	2,385,082.48	2,145,787.10	38,704.60	3,062.88	2,187,554.58	2,173,403.58	35,730.20	2,357.78	2,211,491.55	2,406,327.63	35,668.40	2,537.08	2,444,533.10

Table C2: Comparison of business registration to business discontinuance

	Number of registrations	Business discontinuance rate	Number of businesses discontinued	Number of businesses continuing to operate	Percentage change in number of businesses
2013	240 781	3.9	9 390.46	231 390.54	N/A
2014	236 673	3.9	9 230.25	227 442.75	-0.017
2015	317 498	4.8	15 239.9	302 258.96	0.329
2016	374 844	4.5	16 867.98	357 976.02	0.184

(Data: own calculations from CIPC and GEM data)

Table C3: Correlation between business performance in terms of revenue and employment

	Formal Sector	Informal Sector	Medium Firms	Micro and Small Firms
Correlation	34.1	9.5	62.97	15.6
Which measure performs better?	Revenue	Employment	Revenue	Employment

APPENDIX D

Case study interview guide:

Introduction

My name is [insert name] and I am calling on behalf Mthente Research and Consulting Services. Mthente is a research-driven consulting firm that specialises in Monitoring & Evaluation and Impact Assessment.

We have been contracted by SEFA (the Small Enterprise Finance Agency) to carry out a I am calling to interview you with regard to *2016 Annual Review of SMMEs and Cooperatives in South Africa* for the Department of Small Business Development and I am calling to conduct an interview with you as the representative of the [name of entity] to gain your input.

All the information share will be treated with the strictest confidence and that comments/input provided will furthermore be anonymised during data analysis

Background questions

1. How long have you been with [name of entity] and serving in your current position?
2. When was the [name of entity] established?

Understanding the problem

1. Are you aware of the government's 30 day turnaround policy on payments to SMMEs?
2. As you understand it, how should this policy be implemented?
3. To what extent do you think this policy is implemented effectively? Are you aware of large deviations from/ problems with implementing this policy?
4. As far as you know, where or how does this policy break down? In what ways/ by which department is it not adequately implemented?
5. In your opinion, what aspects of the policy implementation are currently working well?

Effect on the SMME sector

1. What is the intention of the policy? How do you believe it assists SMMEs?
2. What are the effects on SMMEs if the policy breaks down or is not implemented effectively?

Impact on government

1. What are the effects on your department/ agency if the policy breaks down or is not implemented effectively?
2. What would you like to see change about the policy or the way in which it is implemented?

Recommendations

1. In your opinion, what is the biggest challenge/inhibitor to effectively implementing the policy?
2. In your opinion, what would be the biggest enabler to allow the policy to be implemented effectively?

Interview closure

Have I missed anything important in relation to the government's 30 day payment turnaround policy that I should take note of?

APPENDIX E

Table E1: Description of survey data

	FORMAL SECTOR	INFORMAL SECTOR
SIZE CATEGORIES		
Micro	246	364
Small	497	24
Medium	132	4
Cooperative	32	0
PROVINCES		
Eastern Cape	100	47
Free State	55	18
Gauteng	292	134
KwaZulu-Natal	177	60
Limpopo	83	25
Mpumalanga	78	40
Northern Cape	29	4
North West Province	63	25
Western Cape	163	42
GENDER		
Men	544	145
Women	363	247
AGE		
18 - 35 years old	182	117
36 - 65 years old	710	265
POPULATION GROUP		
Black/African	781	372
Coloured	68	16
Asian/ Indian	19	2
White	39	2

Table E2: Entrepreneurial skills scores

		Spot trends	Implement ideas	View of failure	Adaptability	Risk taking	Environment admires entrepreneurship	Have planning and management skills	Access to assets	Able to use a network	Hard skills	Soft skills	Entrepreneurship score
Formal		79.12	78.76	73.75	77.78	76.66	79.34	77.52	74.34	77.65	78.39	79.07	77.48814
Informal		26.19	28.62	53.67	26.23	33.61	16.83	34.76	63.34	33.30	42.21	24.11	34.80614
Formal	Black/African	78.84	78.46	73.57	77.54	76.26	79.03	77.09	74.02	77.51	78.29	79.15	77.25075
	White	79.56	81.12	74.21	78.95	77.61	79.28	79.77	74.96	75.98	77.51	77.51	77.86098
Informal	Black/African	26.43	81.12	54.36	26.12	33.76	16.52	34.82	63.08	33.37	42.68	23.97	39.65864
Formal	Women	78.69	79.44	72.67	77.01	76.29	79.66	76.44	74.73	78.51	78.21	77.91	77.23314
	Men	79.34	79.02	74.46	78.27	76.91	79.13	78.20	74.10	77.07	78.52	79.77	77.70785
Informal	Women	26.54	25.98	53.91	25.08	34.72	16.42	34.10	62.75	33.64	40.54	23.50	34.29096
	Men	25.64	32.61	53.35	28.13	31.63	17.55	35.93	64.35	32.65	44.94	23.95	35.519
Formal	18 - 35	73.83	74.80	72.05	74.32	73.69	73.54	74.98	64.74	74.11	75.09	76.62	73.43313
	36 - 65	80.36	26.34	74.23	78.65	77.35	76.49	78.21	71.11	78.53	79.15	79.65	72.7334
Informal	18 - 35	27.51	33.01	50.36	31.77	35.97	19.05	35.60	64.74	32.09	35.52	28.03	35.78699
	36 - 65	25.22	79.74	55.59	23.58	32.47	17.44	34.44	62.16	33.21	43.70	22.32	39.07925

APPENDIX F

Government Agency Interview Guide:

Introduction

My name is [insert name] and I am calling on behalf of Mthente Research and Consulting Services. Mthente is a research-driven consulting firm that specialises in Monitoring & Evaluation and Impact Assessment.

We have been contracted by SEFA (the Small Enterprise Finance Agency) to carry out a I am calling to interview you with regard to *2016 Annual Review of SMMEs and Cooperatives in South Africa* for the Department of Small Business Development and I am calling to conduct an interview with you as the representative of the [insert agency] to gain your input.

All the information share will be treated with the strictest confidence and that comments/input provided will furthermore be anonymised during data analysis

Background Questions

1. How long have you been with [name of entity] and serving in your current position?
2. When was the [name of entity] established?
3. What was the strategic motivation behind the establishment of your department/entity?
4. How has your department/entity institutionally evolved over time?
5. And how has this evolution/change impacted on the original strategic mandate of your department/entity, if at all?

Development of the SMME/cooperatives sector

1. Tell me more about your department/entity's development efforts/initiatives to develop and support the small business sector? Do these efforts/initiatives cater for businesses in the informal sector and/or cooperatives more specifically as well?
2. In relation to your department/entity's efforts/initiatives, which other key government departments/entities are you collaborating/working with? How has that collaboration been working? Has it been fruitful in terms of reaching intended objectives?
3. If your department/entity is currently not collaborating/working with any other government departments/ entities
4. Why is this the case?
5. Which government departments/entities do you think you should be collaborating/working with?
6. And in your opinion, what can be done to initiate, foster, and sustain such a collaboration?
7. On a strategic level, has the nature of your department/entity's development and support efforts/initiatives changed over time?
8. If yes, how have they changed and why do you think this is the case?
9. To what extent has the historical evolution of your department/entity impacted on the evolution of these development and support efforts/initiatives?
10. And if no, should your department/entity be considering changing the nature of these efforts/initiatives? How do you think they could change and why do you think they should change?
11. What groups of individuals/communities have been the main beneficiaries of your department/entity's development and support efforts/initiatives?
12. Are there groups of individuals/communities who should be benefiting from your department/entity's development and support efforts/initiatives but are currently not?
13. Why do you think that these groups/communities are currently not able to benefit from your department/ entity's development and support efforts?
14. What is your department/entity doing to reach these groups/communities? And how successful have these efforts been?

Challenges experienced by the SMME sector

1. What are some of the core challenges experienced by your department/entity in the implementation of its efforts/initiatives to develop and support your existing group of beneficiaries?

2. [Probe specifically about intergovernmental co-ordination across departments/entities that support small businesses if not already mentioned]

3. Based on your department/entity's engagements with your existing group of beneficiaries, what are some of the core challenges they experience in their own efforts to grow and sustain their businesses?

Recommendations

1. In your opinion, which stakeholders or role players should be doing what in order to:

2. Support your department/entity's specific development and support efforts/initiatives to grow and support the SMME sector?

3. Support the growth and sustainability of the country's SMME sector more broadly?

Interview closure

Have I missed anything important in relation to the growth, development, and sustainability of the SMME sector that I should take note of?