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DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

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small business development
Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

FINAL MSMEs AND CO-OPERATIVES FUNDING POLICY

I, **Ms Stella Ndabeni-Abrahams, Minister of Small Business Development**, hereby publish the final Cabinet approved MSMEs and Co-operatives Funding Policy. The MSMEs and Co-operatives Funding Policy aims to provide a holistic, coordinated, and pragmatic framework for strengthening the provision of development finance for the MSME and Co-operative sectors with a view to improve access to finance for MSMEs and Co-operatives.

Enquiries regarding the contents of the MSMEs and Co-operatives Funding Policy should be submitted to Mr Collen Netsianda through electronic mail at: VNetsianda@dsbd.gov.za or hand delivered to Blended Finance Directorate, Department of Small Business Development, Block G Ground Floor, 77 Meintjies Street, Sunnyside, Pretoria.

Stella Tembisa Ndabeni-Abrahams

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MS STELLA NDABENI-ABRAHAMS, (MP)

MINISTER OF SMALL BUSINESS DEVELOPMENT

DATE: 08 January 2025

MSMEs AND CO-OPERATIVES FUNDING POLICY FOR SOUTH AFRICA

"IGNITING THE SPIRIT OF ENTREPRENEURSHIP."

small business development

Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

30 YEARS OF FREEDOM

2030 NDP

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LIST OF ACRONYMS

AFC	Africa Finance Corporation
AGSA	Auditor-General South Africa
ASISA	Association of Savings and Investments South Africa
BANKSETA	Banking Sector Education and Training Authority
BASA	Banking Association of South Africa
BDS	Business development services
CBDA	Co-operative Banks Development Agency
CBI	Co-operative banking institution
CGS	Credit guarantee schemes
CIPC	Companies And Intellectual Property Commission
DALRRD	Department of Agriculture, Land Reform and Rural Development
DDM model	District Development Model Ecosystem Facilitation Model
DFFE	Department of Forestry, Fisheries and the Environment
DFI	Development finance institution
DHET	Department of Higher Education and Training
DMA	Development Microfinance Association
DMFI	Development microfinance institutions
DoJ&CD	Department of Justice and Constitutional Development
DPME	Department of Planning, Monitoring and Evaluation
DPSA	Department of Public Service and Administration
DSBD	Department of Small Business Development
DSD	Department of Social Development
DSI	Department of Science and Innovation
dtic	Department of Trade, Industry and Competition
DWYPD	Department of Women, Youth and Persons with Disabilities
EME	Exempt micro-enterprises
ESD	Enterprise and supplier development
ESG	Economic, social and governance
EU	European Union
FASA	Franchise Association of South Africa
FIC	Financial Intelligence Centre
FoF	Fund of Funds
FSCA	Financial Sector Conduct Authority
FSP	Financial service provider
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
GIH	Grant In Health
IDPS	Investor-directed portfolio services
IFC	International Finance Corporation
IFWG	Intergovernmental Fintech Working Group

ISPESE	Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises
M&E	Monitoring and Evaluation
MEL	Monitoring, evaluation and learning
MFSA	Microfinance South Africa
MSME	Micro, small and medium enterprises
MTSF	Medium-term strategic framework
NASASA	National Stokvel Association of South Africa
NCPD	National Council of and for Persons with Disabilities
NCR	National Credit Regulator
NDP	National Development Plan
NIBUS	National Informal Business Upliftment Strategy
NISED	National Integrated Small Enterprise Development Strategic Framework
NPAT	Net profit after tax
NT	National Treasury
NYDA	National Youth Development Agency
OECD	Organisation for Economic Co-operation and Development
PSC	Public Service Commission
QSEs	Qualifying small enterprises
RDP	Reconstruction and Development Programme
RM	Malaysian Ringgit
ROSCA	Rotating savings and credit association
RFF	Rural Finance Facility
SABTIA	Southern African Business Technology Incubation Association
SACRRA	South African Credit and Risk Reporting Association
SAIA	South African Insurance Association
SAITA	South Africa Informal Traders Alliance
SALGA	South African Local Government Association
SAMAF	South African Micro Finance Apex Fund
SARB	South African Reserve Bank
SARS	South African Revenue Services
SASRIA	South African Risk Insurance Association
SAVCA	Southern African Venture Capital and Private Equity Association
SECO	Swiss State Secretariat for Economic Affairs
Seda	Small Enterprise Development Agency
SEF	Small Enterprise Foundation
Sefa	Small Enterprise Finance Agency
TEA	Total entrepreneurship activity
UIF	Unemployment Insurance Fund
WDB	Women's Development Banking

FOREWORD

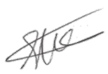
The Department of Small Business Development (DSBD) is mandated to lead and coordinate an integrated approach to promoting and developing entrepreneurship, micro, small and medium enterprises (MSMEs) and co-operatives and to ensure an enabling legislative and policy environment to support their growth and sustainability. The DSBD, in line with its mandate, has embarked on the process of developing the inaugural South African MSMEs and Co-operatives Funding Policy to create an enabling environment to support the formation, expansion and maintenance of existing small businesses. The primary objective of the policy is to provide a holistic, coordinated and pragmatic framework for strengthening the provision of development finance towards the MSME and co-operative sector to improve access to finance for small enterprises.

The MSMEs and Co-operatives Funding Policy further seeks to deepen access to finance and, in the process, reduce the level of concentration or monopolies in certain sectors of the economy, transform the ownership patterns of the economy and heighten awareness about the financial literacy challenges preventing MSMEs and co-operatives from accessing finance in both formal and informal sectors by promoting financial education focusing on small enterprises operating in unserved and underserved areas such as townships and rural areas.

The application of the MSMEs and Co-operatives Funding Policy is expected to eliminate issues related to the lack of coordination in MSMEs funding support programmes, double dipping, and ecosystem fragmentation. As part of the funding policy development process, the MSMEs and Co-operatives Implementation Plan was generated to guide the operationalisation of the funding policy. The implementation plan outlines practical steps on how to implement the funding policy, role players to be involved in various initiatives, anticipated risks and mitigating factors, as well as the intended outcomes of the funding policy.

The MSMEs and Co-operatives Funding Policy will be adopted and implemented by both the private and public sector financiers. This funding policy aims to contribute meaningfully to a vibrant and productive MSME and co-operative sector. The funding policy will be reviewed every ten years from the date of approval by the Cabinet.

Stella Tembisa Ndabeni-Abrahams



SIGNIFLOW

MS STELLA NDABENI-ABRAHAMS, MP
MINISTER OF SMALL BUSINESS DEVELOPMENT
DATE: 08 January 2025

EXECUTIVE SUMMARY

Micro, small and medium enterprises (MSMEs) are integral to South Africa's economic development. As is the case in many other developing countries, MSMEs are seen as the engines of growth and the sector that will provide the most job opportunities. The National Development Plan (NDP) envisages that 90% of the 11 million jobs will be generated by small enterprises in 2030. In the South African context, support for MSMEs also constitutes a major lever in the inclusive transformation of the economy.

The community involvement and structure of Co-operative enterprises are also key elements in bringing rural and under-developed regions in the country closer to full economic participation. Co-operative enterprises hold significant promise in enabling and empowering ordinary community members to improve local economic conditions, thus creating a pathway to greater prosperity for such communities.

The DSBD has done significant work in formulating an overarching framework for the development of the MSME sector, published as the National Integrated Small Enterprise Development (NISED) Strategic Framework. The Framework aims to provide a comprehensive blueprint for all actors engaged in MSME development by setting out clear direction, measurable outcomes and specific interventions. Pillar 3 of the NISED Strategic Framework aims to deliver effective support and service delivery (financial and non-financial) to MSMEs.

The National Treasury has also prioritised improving access to the finance ecosystem for MSMEs through one of the three pillars, namely Pillar 2: Extending access to financial services for MSMEs, which forms part of the National Financial Inclusion Policy "An Inclusive Financial Sector for All". The MSMEs and Co-operatives Funding Policy has been developed to provide policy guidelines in support of the NISED Strategic Framework and the National Treasury's Financial Inclusion Policy.

Based on an analysis of the current access to finance landscape, the funding constraints faced by MSMEs and co-operatives, and lessons from other developing countries, Policy interventions have been identified as anchors to promote financial inclusion in economies with market disparities that exclude certain groups of the population from economic participation.

The following proposals are contained in the MSMEs and Co-operatives Funding Policy:

1. Improve coordination in the MSMEs and co-operatives' access to finance ecosystem

Given the number of actors involved in this ecosystem, improving the coordination of efforts is important to increase the impact of interventions. The MSMEs and Co-operatives Funding Policy provides guidelines to improve the coordination efforts.

2. Database of small businesses

The DSBD should coordinate the aggregation of data on the small business sector across various publicly available datasets to enable a fully informed assessment of the state of the finance ecosystem. The coordination of the data aggregation will assist in gathering much-needed information on businesses in the MSMEs and co-operative sector.

3. Improve the provision of start-up capital

The DSBD should develop centralised fund structures in partnership with the private sector. The funding structures should use best practices funding models available in developing economies with limited access to finance to direct market-based start-up capital towards small businesses.

4. Targeted funding instruments for MSMEs and co-operatives

The DSBD, in partnership with other role players, should assist in determining what funding instruments are required during the life cycle of small enterprises and enable an environment in which these services can be provided to all MSMEs and co-operatives.

5. Improve business development support

Some issues relating to the financial management of MSMEs and co-operatives, such as the use of appropriate financial products and the informed interaction with financial service providers, should be addressed through improved coordination of the business development support services prevalent in the sector.

6. De-risking MSMEs' finance through credit guarantee

The DSBD should support the continued implementation of the recommendations to reform the Khula Credit Guarantee (KCG) scheme. Furthermore, the capital position of the scheme needs to be strengthened.

7. Implementation of a movable asset collateral registry

The DSBD should conduct comprehensive stakeholder engagement aimed at establishing alignment around the requirements for and implementation of a movable asset collateral registry.

8. Establish simplified business registration and legal processes for winding up MSMEs

It is recommended that South Africa, as is the case in some other jurisdictions, consider the establishment of simplified and more affordable legal processes to deal with business registration and winding up of MSME business operations.

9. Credit information systems for small businesses

The DSBD will support initiatives to promote a holistic and comprehensive solution to the credit information infrastructure problem for MSMEs and co-operatives, extending the information to include alternative information to the information currently being used.

10. Easing small businesses' cash flow constraints through timely payments and invoice factoring

The regulations enforcing timeous payment of invoices to small businesses must be codified into law. Furthermore, a liquid, transparent, and accessible invoice factoring market is required and will be enabled as part of financial sector development.

11. Affordable and appropriate insurance for small businesses, including co-operatives

The role players should conduct a comprehensive demand-side survey to inform both industry and policymakers with in-depth insights into the insurance needs of small businesses.

12. Improve and monitor MSMEs and co-operatives' access to the finance market

The DSBD should lead in ensuring that the finance ecosystem is better aligned to the needs of MSMEs and co-operatives are established and monitored. In co-operation with financial regulators, the DSBD should constantly examine the structure of the market to identify current structural shortcomings and to what extent the whole life cycle of the sector is covered to ensure that problem areas are addressed, such as the range of financial products and services.

13. Improve informal MSMEs' access to the finance ecosystem

Recognising the importance of the disadvantages informal enterprises face, the DSBD should work with other actors to improve the informal sector's use of financial services and their contribution to economic growth without requiring full formalisation and increasing the risk to the ecosystem.

14. Create an accessible funding environment for targeted groups

The role players should ensure meaningful participation of enterprises owned by targeted groups (youth, women, persons with disabilities) by constantly engaging with organisations representing them to ensure that there is alignment of demand and supply of support programmes.

15. Incorporate digital financial services in MSMEs and co-operatives' access to finance

It is recommended that the MSME sector appreciate and recognise the importance of using digital financial services in business transactions, and to protect MSMEs, regulators should take reasonable steps to ensure responsible market conduct by financial service providers.

16. Improve microfinance institution's capacity to deliver sustainable financial solutions

In order to deepen access to finance to unserved and underserved micro-enterprises, a partnership model needs to be adopted by the role players in both public and private sectors to build the capacity of a range of micro finance institutions to reach all micro-enterprise market segments in the country, including townships and rural areas.

17. Improve co-operatives' access to finance

Dedicated funding instruments should be developed focusing on the entire co-operative lifecycle. The minimum capital requirements imposed by the Prudential Authority constrain co-operative banking institutions' (CBIs) use of funds for growth purposes. While these requirements have been instituted to ensure greater stability, the requirements must be reviewed in light of the realities that co-operative banking institutions face.

1. POLICY CONTEXT

South Africa's development policy framework has long recognised micro, small and medium enterprises (MSMEs) [1] as a core engine of inclusive economic growth and employment creation. As such, the development of MSMEs has been a key anchor of successive policy documents, beginning with the Reconstruction and Development Programme (RDP) in 1994, moving to the New Growth Path in 2010, and the current National Development Plan (NDP) Vision 2030.

The 1995 National Strategy for the Development and Promotion of Small Business: White Paper strategically focused on MSMEs and identified several constraints facing small enterprises. [2] These included the legal and regulatory environment, access to markets, access to finance, the acquisition of skills and managerial expertise, access to appropriate technology, the tax burden, access to information and advice and access to quality business infrastructure in poor areas or poverty nodes, all of which remain relevant today.

The enactment of the National Small Business Act of 1996 provided for the implementation of the White Paper by providing guidelines to state organs for promoting small businesses in South Africa and giving effect to establishing several implementation structures. This included the National Small Business Advisory Body and the Ntsika Enterprise Promotion Agency – which were reorganised into three entities: the Small Enterprise Development Agency (Seda), [3] the South African Micro Finance Apex Fund (SAMAF) and the Khula Enterprise Finance Limited. In 2012, the SAMAF and the Khula Enterprise Finance Limited merged into the Small Enterprise Finance Agency (Sefa). [4]

In an effort to promote a diversified pool of economic enterprises, in 1997, the South African Government established a Co-operative Policy Task Team. This Co-operative Policy Task Team was mandated to draw learnings from the co-operatives sector in the country and other jurisdictions and discuss main policy issues relating to co-operative [5] enterprise development, promotion and support. The work of the Co-operative Policy Task Team led to the establishment of a task force spearheaded by the Co-operative Development Unit of the Department for Trade, Industry and Competition (dtic).

In 2004, through the DTI established task force, the government's vision to develop and promote co-operative enterprises was outlined in the National Co-operative Development Policy and adopted by the Minister of Trade and Industry. This was followed by the enactment of the Co-operatives Act in 2005. In order to develop an implementation strategy that would enable the government to realise the objectives of the Co-operatives Act, a baseline study on co-operatives was conducted in 2009. The study identified best practices that could be adopted in developing a co-operative strategy for South Africa, which subsequently led to the publication of the Integrated Strategy on the Development and Promotion of Co-operatives in 2011.

In 2014, a new dedicated Ministry of Small Business, the DSBD, was established to lead and coordinate an integrated approach to promoting and developing entrepreneurship, MSMEs and co-operatives. The ministry was developed to ensure an enabling legislative and policy environment to support their growth and sustainability in recognition of the importance of small businesses in the South African economy and considering the fragmented approach taken by the government in developing the sector.

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[1] Micro enterprises are defined as enterprises with less than 10 employees and an industry dependent turnover of between ZAR5m to ZAR20m; small enterprises are defined as enterprises with more 10 to 50 employees and an industry dependent turnover of ZAR15m to ZAR80m and medium enterprises are defined as enterprises with 50 to 250 employees and an industry dependent annual turnover of ZAR35m to ZAR220m, Schedule 1 of the National Small Enterprises Act of 2019.

[2] In this policy document the use of the term "small enterprises/businesses" as a collective noun refers to all MSMEs and co-operative enterprises.

[3] Seda is an agency of the South African government responsible for the provision of non-financial business development and support to South African MSMEs, www.gov.za.

[4] Sefa is an agency of the South African government responsible for the provision of development finance to MSMEs and co-operatives that are not able to attract commercial credit, www.sefa.org.za.

The MSME and co-operative sector lauded the establishment of the DSBD as a step in the right direction for dedicated and coordinated MSMEs and co-operatives support. The establishment of the DSBD led to an increased number of entrepreneurs, MSMEs and co-operatives seeking support from the government through the range of support programmes developed by the DSBD. This increase in demand for support has put significant pressure on the limited public sector resources available. The lack of resources has led to the Cabinet approving the development and implementation of specific interventions by the DSBD through the Medium-Term Strategic Framework (MTSF 2019-2024) for unlocking further funding support interventions for the MSME and co-operative sector in the form of MSMEs and Co-operatives Funding Policy.

Previously, the DSBD commissioned an evaluation of the Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises (ISPESE) to assess the government's efforts towards MSME promotion and support and to recommend additions and amendments to the strategy. The evaluation identified challenges in the implementation of the strategy and provided a theory of change for the MSME ecosystem in South Africa. The findings of the evaluation and recommendations were translated into the Draft Incubation and Business Development Services Policy (IBDS), which is aimed at fostering a business development support services market in South Africa that is coherent and delivers equitable, accessible and quality services to small enterprises and co-operatives, and the National Integrated Small Enterprise Development (NISED) Strategic Framework published by the DSBD in 2022. The framework aims to provide a comprehensive blueprint for all actors engaged in MSME development by setting out clear direction, measurable outcomes and specific interventions. Pillar 3 of the framework aims to deliver effective support and service delivery (financial and non-financial) to MSMEs.

Concurrently, the National Treasury has, through its draft policy document, An Inclusive Financial Sector for All, prioritised the financial inclusion of MSMEs. The policy supports the responsible extension of credit to MSMEs by building on the recommendations outlined in the 2020 MSME Access to Finance Action Plan. One of the three pillars underpinning the National Financial Inclusion Policy outlines this.

As such, this MSMEs and Co-operatives Funding Policy has been crafted to address the joint objectives of Pillar 3 of the NISED Strategic Framework and Pillar 2 of the National Treasury's Financial Inclusion Policy whilst taking into consideration work previously done in the promotion and support of small businesses.

Specifically, the MSMEs and Co-operatives Funding Policy seeks to provide a holistic, coordinated and pragmatic framework for strengthening the provision of development finance towards the MSME and co-operative sector to improve access to finance for MSMEs and co-operatives.

[5] A co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise, International Co-operative Alliance's Statement of Co-operative Identity, 1995.

Table 1: Policy objective, impact statement, outcome and outputs

Policy objective	To provide a holistic, coordinated, and pragmatic framework for strengthening the provision of development finance for the MSME and co-operative sectors to improve access to finance for MSMEs and co-operatives.		
Impact	Transformed and sustainable MSME and co-operative sector, contributing meaningfully to economic growth, job creation, poverty alleviation and reduction of inequality.		
Outcome	Effective support and services are delivered for MSME growth, both financial and non-financial.		
Outputs	Improve coordination in the MSMEs and co-operatives' access to the finance ecosystem	Database of small businesses	Improve the provision of start-up capital
	Targeted funding instruments for MSMEs and co-operatives	Improve business development support	De-risking MSMEs and co-operatives' finance through credit guarantee
	Implementation of a movable asset collateral registry	Establish a simplified legal process for business registration and winding up of MSMEs and co-operatives	Credit information systems for small businesses
	Easing small businesses' cash flow constraints through timely payments and invoice factoring	Affordable and appropriate insurance for small businesses, including co-operatives	Improve and monitor the MSMEs and co-operatives' access to finance market
	Improve informal MSMEs' access to the finance ecosystem	Create an accessible funding environment for targeted groups	Incorporate digital financial services in MSMEs and co-operatives' access to finance
	Improve microfinance institution's capacity to deliver sustainable financial solutions	Improve co-operatives' access to finance	

1.1 Definition of micro, small and medium enterprises (MSME)

1.1.1 Definition of an MSME: An international perspective

Defining an MSME is a challenging exercise. The term MSME comprises an array of definitions globally. [6] In order to define MSMEs, countries use indicators such as the asset value of the company, annual turnover and the number of people employed. A standard global definition of MSME does not exist. The MSMEs are defined differently in the legislation across countries because the dimensions of micro, small and medium companies are relative to the size of the domestic economy. [7] The Organisation for Economic Co-operation and Development defines an MSME as a company employing up to 249 persons, with the following breakdown: micro (1 to 9), small (10 to 49) and medium (50 to 249).

[6] Sitharam, S., & Hoque, M. 2016. Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. Problems and perspectives in Management, 14(2), 277-288.

[7] Organisation for Economic Cooperation and Development. 2017. Enhancing the contributions of MSMEs in a global and digitalised economy.

Table 2: The European Commission defines MSMEs using the following three variables [8]

Enterprise category	Employees	Turnover	Balance sheet
Micro	0 to 10	<Euro 2 million	<Euro 2 million
Small	10 to 50	<Euro 10 million	<Euro 10 million
Medium	50 to 250	<Euro 50 million	<Euro 43 million

In Asian countries, like Malaysia, a business is classified as an MSME based on sales turnover or full-time employees. [9] A business operating in the manufacturing sector is classified as an MSME if its sales turnover is less than RM50 million, with full-time employees of no more than 200 workers. A business operating in other sectors, including services, is deemed an MSME if its sales turnover is less than RM20 million with full-time employees not exceeding 75 workers. Each MSME definition uses different criteria and indicators which vary across industries and countries. Given this background, it is apparent that there is no universal definition of an MSME.

The complexity of determining a definition for MSMEs is further compounded by the sectors within which such businesses operate. In labour-intensive sectors such as manufacturing, mining and construction, the number of employees could result in a company being incorrectly classified and under-serviced, should a definition based on the number of employees be adopted.

1.1.2 Definition of an MSME: A South African perspective

The South African definition of an MSME, as per Schedule 1 of the National Small Enterprise Act (Act No. 102 of 1996), considers the number of employees per enterprise category plus the annual turnover categories. The National Small Enterprise Act defines a small enterprise as a "separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the schedule and classified as a micro, small or medium enterprise by satisfying the criteria mentioned in columns 3 and 4 of the schedule".

Schedule 1 of the National Small Enterprise Act (Act No. 102 of 1996) was amended in 2019 to incorporate the new turnover threshold values, account for inflation and define small enterprises using two proxies (the total full-time equivalent of full-time employees and total annual turnover) and consolidate very small and micro-enterprise categories (DSBD, 2019). Given the above background, the definition of various categories of businesses as outlined in the amended Schedule 1 of the National Small Enterprise Act (Act No. 102 of 1996) is as follows:

Column 1	Column 2	Column 3	Column 4
Sectors	**Size or class of enterprise**	**Total full-time equivalent of paid employees**	**Total annual turnover**
Agriculture	Medium	51-250	< 35.0 million
	Small	11-50	< 17.0 million
	Micro	0-10	< 7.0 million
Mining and quarrying	Medium	51-250	<210.0 million
	Small	11-50	<50.0 million
	Micro	0-10	<15.0 million

[8] European Commission. 2021. Annual Report on European SMEs. Digitalisation of MSMEs performance review.
[9] Auzzir, Z., Haigh, R., & Amaratunga, D. 2018. Impacts of disaster to MSMEs in Malaysia. Procedia Engineering, 212, 1131-1138.

Column 1	Column 2	Column 3	Column 4
Sectors	**Size or class of enterprise**	**Total full-time equivalent of paid employees**	**Total annual turnover**
Manufacturing	Medium	51-250	<170.0 million
	Small	11-50	<50.0 million
	Micro	0-10	<10.0 million
Electricity, gas and water	Medium	51-250	<180.0 million
	Small	11-50	<60.0 million
	Micro	0-10	<10.0 million
Construction	Medium	51-250	<170.0 million
	Small	11-50	<75.0 million
	Micro	0-10	<10.0 million
Retail, motor trade and repair services	Medium	51-250	<80.0 million
	Small	11-50	<25.0 million
	Micro	0-10	<7.5 million
Wholesale	Medium	51-250	<220.0 million
	Small	11-50	<80.0 million
	Micro	0-10	<20.0 million
Catering, accommodation and other trade	Medium	51-250	<40.0 million
	Small	11-50	<15.0 million
	Micro	0-10	<5.0 million
Transport, storage and communications	Medium	51-250	<140.0 million
	Small	11-50	<45.0 million
	Micro	0-10	<7.5 million
Finance and business services	Medium	51-250	<85.0 million
	Small	11-50	<35.0 million
	Micro	0-10	<7.5 million
Community, social and personal services	Medium	51-250	<70.0 million
	Small	11-50	<22.0 million
	Micro	0-10	<5.0 million

[8] European Commission. 2021. Annual Report on European SMEs. Digitalisation of MSMEs performance review.
[9] Auzzir, Z., Haigh, R., & Amaratunga, D. 2018. Impacts of disaster to MSMEs in Malaysia. Procedia Engineering, 212, 1131-1138.

2. SOUTH AFRICAN MSME LANDSCAPE

2.1 Micro, small and medium enterprises (MSMEs)

2.1.1 Market landscape

The FinScope Micro, Small and Medium Enterprises (MSMEs) Survey South Africa conducted in 2020 found that South Africa has an estimated 2.6 million entrepreneurs, 46% of whom are women, and run 3.2 million MSMEs. [10] Of these entrepreneurs, 37% are young business owners. The estimated number of MSMEs aligns with previous studies, such as the FinScope MSME Survey South Africa 2010, which found 2.8 million MSMEs, [11] the 2019 StatsSA QLFS report, which found 2.5 million MSMEs and the 2016 Global Entrepreneurship Monitor (GEM) report, which found 2.9 million MSMEs in South Africa. [12] In fact, according to these estimates, the level of entrepreneurship and the number of MSMEs in South Africa have remained fairly stable over the last decade.

As per the NDP, MSMEs are at the forefront of addressing poverty and creating much-needed employment. South Africa's MSMEs currently contribute 40% to the gross domestic product (GDP). The majority (84%) of MSMEs operate in personal services (e.g., hairdressing, landscaping, auto repair) or wholesale/retail trade sectors where there are limited opportunities for value addition and, by extension, limited impact on GDP. The MSMEs in South Africa are largely (54%) micro-enterprises and operate on an informal basis. Only a third (37%) of South African MSMEs are formally registered with the Companies and Intellectual Property Commission (CIPC) and/or other government registration channels, such as the local municipalities, and of those formally registered only a third (30%) are registered for tax. However, those formally registered MSMEs are a significant driver of the economy, contributing over ZAR2.9 trillion to GDP.

The South African MSMEs provide 87% of employment opportunities in the country, with owners comprising 20% of this employment figure. [14] Research conducted by FinFind [15] found that while MSMEs contribute between 2 and 3 million formal full-time jobs in South Africa, a significant portion of these can be attributed to the entrepreneurs identifying as employed by the enterprise. This phenomenon is even more prevalent in the micro and informally run businesses. This is confirmed in the research report MSME Voice commissioned by the International Finance Corporation in 2020, which found that rising unemployment is the key driver for most people to pursue informal self-employment opportunities.

The majority of the South African MSMEs, as depicted in Figure 1, are either in the start-up or growth phase of the business development life cycle. Many do not make it past these two phases, as 70% of businesses in South Africa fail within five years. [16] The high rate of business mortality is of concern given the sector's envisioned contribution towards the country's inclusive economic growth goal. The Global Entrepreneurship Monitor (GEM) South Africa Report 2021/2022 indicated that Total Entrepreneurship Activity (TEA) has increased from 10.8% in 2019 to 17.5% in 2021. [17] The new business ownership rate almost doubled from 3.7% in 2019 to 7.3% in 2021. A concerning trend is that the business discontinuance rate has increased from 4.9% in 2019 to 13.9% in 2021. A large portion (27,4%) of businesses exited due to the COVID-19 pandemic. A small percentage (6%) of businesses exited for positive reasons, such as an opportunity to sell.

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[10] FinScope MSME Survey South Africa. 2020. FinMark Trust.
[11] FinScope MSME Survey South Africa. 2010. FinMark Trust.
[12] Global Entrepreneurship Monitor, 2016/2017.
[13] FinScope MSME Survey South Africa 2020, FinMark Trust.
[14] FinScope MSME Survey South Africa 2020, FinMark Trust.
[15] MSME Access to Finance Report, FinFind, 2019.
[16] Small Business: How to Survive and Thrive, TGS South Africa, 2020.
[17] Global Entrepreneurship Monitor, 2021/22.

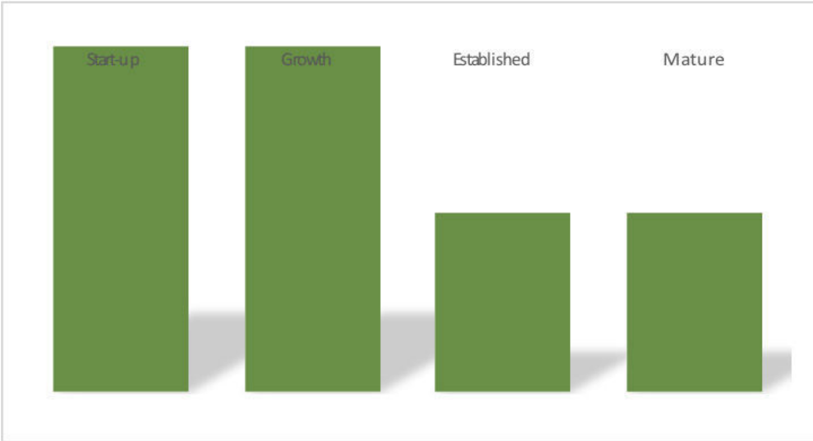

Figure 1: Business lifecycle

Source: FinScope MSME Survey South Africa 2020

While the MSME sector has grown over the years, several hurdles have been identified that impede the sector from having a greater impact on GDP growth and employment creation. Entrepreneurs surveyed in the FinScope MSME Survey South Africa 2020 highlighted hurdles encountered in access to finance (73%), access to markets (32%), and regulatory red tape (28%) [18] as the biggest impediments to starting and running a business.

2.1.2 Financial inclusion landscape

The MSMEs in South Africa are not financially served to the same extent as the individuals. The FinScope MSME Survey South Africa 2020 found that 84% of South African MSMEs were financially included, [19] with 81% being formally served. [20] However, the level of formal financial inclusion is largely attributable to the use of financial products and services by business owners in their personal capacity instead of that of the business. This financing practice is consumption and not production driven, perpetuating the perception and strategic intent to keep developing countries as consumers and not producers for economic growth.

South African business owners use the full spectrum of financial products (see Figure 2). Nonetheless, the usage level varies between different financial products. The use of transactional accounts is the highest (80%) among MSMEs relative to the other product categories. Of the 80% of business owners using transactional accounts, 70% indicated using their personal accounts for business purposes. This can be expected given the high prevalence of sole proprietorships and informally run businesses. The use of personal transactional accounts for business purposes by MSMEs in South Africa is concerning, as transactional accounts are deemed the anchor product for participating fully in the financial system. Thus, MSMEs' ability to acquire other financial products and services may be limited due to operating in their personal capacity. The businesses could otherwise have access to business development support services, and it is thus imperative to make MSME owners aware of the advantages of separating personal and business aspects.

[18] FinScope MSME Survey South Africa. 2020. FinMark Trust.
[19] Financially included refers to business owners who have/use both formal and informal financial products and/or services for business purposes.
[20] Formally served refers to business owners who have/use formal financial products and/or services provided by a formal financial institution (bank and/or non-bank).

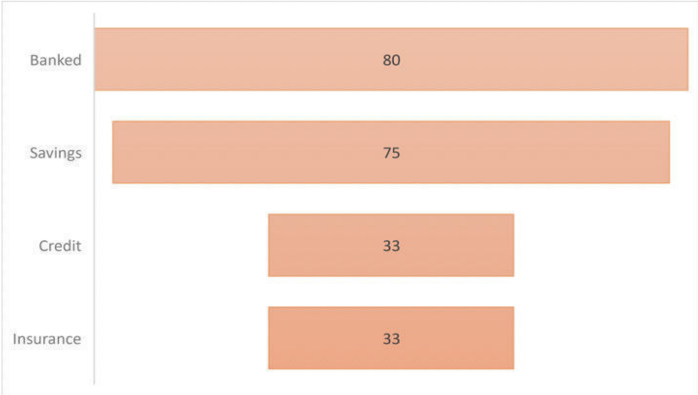

Figure 2: MSMEs' financial inclusion landscape in percentages (%)

Source: FinScope MSME South Africa, 2020

The ability to make and receive payments is deemed as a gateway to the beneficial use of financial services. Although South African MSMEs have access to and use a transactional account, this usage does not translate to the use of digital payment functions for such accounts. Most (+60%) MSMEs make and receive their payments in cash. This erodes the benefits that can be derived from the use of digital payments, which, according to a study conducted by IZA World of Labour, includes an increase in business profitability as digital payments allow for more efficient and cost-effective financial transactions. [21]

Adopting a saving culture is important for MSMEs as it creates a cashflow buffer during lull periods and allows for asset accumulation for further investment in the business in other periods. According to the FinScope MSME Survey South Africa 2020, three-quarters of the business owners surveyed reported saving for their business, with most of these savings held by banks and only a few (4%) savings occurring through the informal savings market. Savings in the MSME sector are more prevalent among formal enterprises, small and medium businesses, and the industrial sector, [22] with the informal and micro businesses lagging.

Insurance provides a cushion against costly and unforeseen events and insurance is therefore important for MSMEs. However, only a third (33%) of South African MSMEs report having some form of insurance coverage for their business. Most of such coverage is the statutorily required workman's compensation or coverage required by financiers over financed assets with other business insurable risks not covered by MSMEs. Respondents to the FinScope MSME Survey South Africa 2020 indicated that the biggest reason for not covering insurable risks is the high cost of premiums and lack of knowledge about risks and insurance products. It is also likely that the low insurance penetration can also be attributed to the high rates of informality within the MSME sector. The development of appropriate, easy-to-understand and conveniently delivered insurance products for the MSME sector requires a concerted effort to improve the situation and reduce operational risk for the sector.

Lack of funding has been identified as one of the contributing factors to the lack of growth in the MSME sector. According to the FinScope MSME Survey South Africa 2020, only a third (33%) of businesses reported accessing credit. This aligns with estimates from the World Bank, [23] which primarily focused on established formally run businesses and indicated that only a third of formal MSMEs accessed credit.

[21] IZA World of Labour. 2017. How digital payments can benefit entrepreneurs.
[22] FinMark Trust. 2020. FinScope MSME Survey South Africa.
[23] World Bank. 2007. Enterprise Survey.

Small businesses not accessing credit are compounded by a significant number of entrepreneurs who conduct their business affairs through personal bank accounts. Applying for financing in their personal capacity further limits access to financing for entrepreneurs, as many will not meet financier underwriting requirements. Many of these entrepreneurs will also not have accumulated sufficient fixed assets to pledge as surety. This constrains MSMEs from accessing the necessary credit to invest in and grow their businesses.

Micro-finance often plays a key role in consumer and MSME financing in developing countries. Such institutions typically have the advantage of local knowledge and community involvement, allowing more beneficial market engagement. However, in South Africa, microfinance plays a relatively minor role in MSME financing. This situation requires further analyses and possible policy interventions to address the challenges sustainably.

The provision and use of digital financial services (DFS) have increased significantly over the last decade. This is also evident in the MSME market, where digital payment services, online lending and investment services are available from many new and existing financial service providers. In addition, new types of services are being offered, such as peer-to-peer and crowd-funding access to capital services, as well as digital cross-border remittances and payments.

In addition, service providers, like banks, have converted existing services to digital services and added new services to extend their digital offerings. Digital financial services generally promise an expanding range of easily available services, often available at a lower cost than traditional ones. However, the lack of or the reduced instance of human interaction during the acquiring process leaves consumers, including MSMEs, vulnerable to unfair business practices and often results in a lack of understanding of the risks and true costs of digital services. This must be countered by greater and more effective oversight by financial service regulators, particularly market conduct regulators.

To derive maximum benefits offered by digital financial services, financiers should implement simplified lending processes by introducing a common application form, standardised term sheet, and business plan template through the automated loan origination system to eliminate human errors, bring transparency to the process, fast-track funding decisions and increase the volume of funding to the MSME and co-operative sector.

2.2 Co-operatives

2.2.1 Market landscape

According to the Companies and Intellectual Property Commission (CIPC), there were 4,483 co-operatives registered in 2021/2022. In 2022/2023, there were 6,253 co-operatives registered. Over the past decade, research has shown that the challenges faced by MSMEs and co-operatives in South Africa have remained relatively consistent. These challenges have historically been access to finance, access to markets, a lack of skills and the struggle to find skilled staff, burdensome regulations and low levels of digital literacy. In 2022, the top three most frequently reported challenges were managing cash flow (65.8%), access to finance (63.6%) and marketing (59.3%). [24]

Most (80%) South African co-operatives are less than three years old, [25] and approximately 12,252 have been liquidated between 1965 and 2020, [26] indicating a high failure rate among these entities. The main reason for this failure is state contracts that had been promised (or expected) but did not materialise, followed by poor business management, the conflict between co-operative members, the economic recession and the resultant decrease in financial support, skills development and capacity building, all of which when coupled with competition from larger companies culminated in increased vulnerability in the sector.

[24] Mthente Research and Consulting Services. 2023.
[25] Mthente Research and Consulting Services. 2023.
[26] University of Pretoria. 2021. Co-operatives in South Africa: Towards Addressing the Skills Gap.

Although supported as a means to address the unemployment crisis and stimulate much-needed growth in the country, only 13% of co-operatives had employees. Of those with employees, most (84%) employed less than 15 individuals, while half (48%) employed between 1 and 5 individuals. Compared to global trends, this is a significantly low employment contribution where co-operatives provide jobs or work opportunities to 10% of the employed population. South African co-operatives have dual characteristics consisting of two extremes: young, emerging co-operatives and older co-operatives. The emerging co-operatives present higher vulnerabilities due to their level of business maturity. As a result, these co-operatives require support to foster their growth and enable them to achieve their full potential in contributing to the economy. On the other hand, the older, more established co-operatives have been in operation for a longer period and have shown potential for success as they have achieved positive economic gains. These co-operatives were found to require slightly different types of support, which should focus on developing more markets for them.

2.2.2 Financial inclusion landscape

No publicly available data in South Africa focuses on the level of financial inclusion among co-operatives. While datasets such as the FinScope MSME Survey South Africa 2020 indicate the level of financial inclusion for MSMEs in South Africa, this data is insufficient to draw information on the co-operatives sector. This lack of data limits the insights that can be drawn on the co-operatives sector from the perspective of access to financial services and products and therefore limits evidence-driven interventions that the government and the private sector can put in place to increase the level of financial inclusion for the sector.

2.2.3 Credit infrastructure for MSMEs and co-operatives

MSMEs and co-operatives require various forms of funding depending on the development stage and business needs. These include grant funding to support ideation[27] and development of proof of concept, seed capital to fund pre-revenue start-ups,[28] working and growth capital for established enterprises and risk capital to provide exits for entrepreneurs in matured businesses. International Finance Corporation (IFC) research estimates the need for capital in the South African MSME sector at ZAR590 billion.[29] According to the report on the South African small enterprise ecosystem published by the DSBD in 2017, the financial providers are as follows: banks, development finance institutions, microfinance institutions, non-banking finance institutions and venture capitalists, among others.

Funding for MSMEs is dominated by banks, which provide ZAR160 billion in credit to the sector while funding for co-operatives is mainly provided through the government and its development financing institutions. While a significant source of funding for the MSME sector, the risk appetite and the regulatory demands on banks lead to strict underwriting criteria for the extension of credit to MSMEs, thereby reducing the ability of entrepreneurs to access credit. As such, the majority of bank lending is directed at larger and more established businesses rather than the small and microsegments, which struggle to meet bank lending requirements. According to the Organisation for Economic Co-operation and Development (OECD), only 26% of business credit extended by banks is directed towards MSMEs, [30] with the lion's share of this going towards established medium-sized businesses.

The direct government support in the form of grants and loans amounts to ZAR17 billion. In the Financing Small Business in South Africa report, [31] the World Bank notes several opportunities to improve support to this sector provided by development finance institutions (DFIs) to align funding with the needs of MSMEs.

[27] Ideation is the stage of developing an idea that solves the problem in the process of creating a business opportunity.
[28] The stage where the opportunity has been proven that it is real and the product solves the problem.
[29] International Finance Corporation (IFC). 2018. Unseen sector.
[30] OECD. 2017. OECD Economics Surveys: South Africa.
[31] World Bank. 2019. Financing small business In South Africa: A snapshot of government support programs.

These include improved collection of data on MSMEs requiring financing and consolidation of the various funding programmes available to lower costs and simplify the funding landscape. The risk capital from private financiers other than banks amounts to ZAR55 billion. As such, the South African market provides ZAR230 billion in funding to the MSME sector. This represents a shortfall of ZAR576 billion [32] or approximately 8% of GDP.

The government is providing support for MSMEs through various initiatives to ensure that the sector grows and is sustainable. However, the Doing Business 2020 score of the World Bank shows South Africa's overall ranking dropped to 84 from 82 in 2018. [33] While South Africa's Doing Business score has not changed appreciably, the lower ranking suggests that other countries are improving their business environments faster than South Africa. South Africa thus must do much more concerning policies and regulations for meaningful change in support of MSMEs.

While notarial bonds on immovable property of significant value may serve as surety, the complex and expensive processes for registering notarial bonds make it uneconomical and unattractive for most financiers. Furthermore, many entrepreneurs will not be able to show proof of regular income at the levels financiers require for personal lending. As such, sole proprietors and informal entrepreneurs will struggle to raise financing. The lack of information on MSMEs' creditworthiness leads to financiers demanding collateral that most MSMEs cannot offer, leading to higher interest rates based on the assumed credit risk.

[32] International Finance Corporation (IFC). 2018. Unseen sector.
[33] DoingBusiness.org. https://www.doingbusiness.org/content/dam/doingBusiness/country/s/south-africa/ZAF.pdf

3. CHALLENGES TO MSMEs AND CO-OPERATIVES ACCESS TO FINANCE IN SOUTH AFRICA

3.1 MSMEs access to finance challenges

3.1.1 Early-stage financing

MSMEs at the beginning of their lifecycle typically cannot access bank financing because they do not yet have tangible assets or a revenue track record, and so they rely on personal savings or funding from friends and family. However, given South Africa's historical context, it is not likely that the majority of the population will have personal assets or the extended networks that could facilitate funding of an early-stage business. Private equity (PE), venture capital (VC), and angel investors would traditionally provide early-stage financing in mature markets.

Although South Africa has a well-developed private equity and venture capital market, the vast majority of funds are channelled into late-stage investments – less than 4% of private equity funds under management go towards early-stage investments, and venture capital funds earmarked for start-ups equate to less than 2% of funds committed to later stage investments.

Grants are an alternative to risk-based start-up funding such as private equity, venture capital market and angel investments. Grants are funds made available to entrepreneurs with no requirement for the ventures to repay the funds. As they are not meant to be repaid, the quantum of grant funding available is often small, available to a very specific subset of entrepreneurs and limited to very specific uses. Grants are made by the various arms of government as well as some non-profit private organisations.

As grants do not require repayment, they form a very attractive funding mechanism for ventures that have not established their commercial viability. Specifically, businesses in the development and start-up phases will find it difficult to secure funding on commercial terms as the viability of the business has not been established. However, the lack of repayment means that grants represent a significant drain on the fiscus. This, in addition to the very specific and tailored nature of grants, implies that grant funding is not a sustainable model for stimulating entrepreneurship on a large scale. Hence, a start-up capital financing gap in South Africa constitutes a barrier to entrepreneurship.

3.1.2 Working capital

Among many access to finance challenges faced by South African MSMEs, cash flow constraints are often cited as a significant hurdle to the survival and growth of small businesses. Due to their weak financial position, MSMEs struggle to obtain the required capital to purchase equipment, machinery, business vehicles, and to invest in day-to-day operations and service contracts. One source of cash flow challenges MSMEs face is the late payment of invoices submitted to large clients, particularly the government. National Treasury reports that national departments alone owed MSMEs ZAR415 million in invoices not paid after 30 days in the 2021 financial year. Similarly, large corporate clients often impose 60 to 90-day payment terms on smaller suppliers, creating a significant lag between when entrepreneurs must pay out cash to provide goods or services and when they receive payment. [34]

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[34] World Bank. 2014. ICCR Facilitating MSME Financing through Improved Credit Reporting,

3.1.3 Enterprise and supplier development (ESD) financing

Enterprise and supplier development programmes, with financing as a component of the programme, can play a major role in MSMEs financing. Many corporations and industries have set up such programmes and have achieved some success, albeit on a limited scale. The involvement of corporates in terms of the skills development of MSMEs is a major contributing factor to the success achieved. It is important that these programmes are assessed and that learnings are extracted to enable larger-scale deployment of the programmes.

3.1.4 South African MSME credit information landscape

A credit information system primarily serves the purpose of providing credit risk information about potential lenders. This allows credit providers to objectively assess the credit risk associated with a loan applicant and to base the credit decision and the interest rate payable on such information. Without a credit risk system, each application would require individual data gathering and analyses, which would add to the cost of the application and may result in inaccurate risk assessments. This is equally true for consumers and MSMEs.

Consumer credit information is collected from all credit providers who extend consumer credit. The South African Credit and Risk Reporting Association provides the data infrastructure for credit information data collection. South African Credit and Risk Reporting Association is a not-for-profit, voluntary association that was established in 1989. Members share credit and risk performance data of consumers (i.e. payment profiles).

The credit information data thus currently exists primarily at the consumer level. The National Credit Act defines MSMEs with assets or turnover below ZAR1 million as consumers, leading to consumer-type information being gathered for these enterprises. The credit risk of the MSME itself is often not measured. Instead, creditors assume that the creditworthiness of the owner(s) is an indicator of the credit risk of the business. For start-ups and small businesses, this is not necessarily the case. Due to lack of access to finance, many MSMEs are self-funded by the owner(s) and business cash flow is often supplemented by the owner(s) in their personal capacity. This can have a negative impact on consumer credit ratings for MSME owner(s).

According to the World Bank, even where one or more credit reporting systems are in place, these rarely include reliable and complete information on MSMEs, thus exacerbating the MSME ‘credit gap’ in many markets. Access to accurate, meaningful, and sufficient information on MSMEs for lenders enhances their ability to assess MSME creditworthiness and to make well-founded, fact-based credit risk assessments. Conversely, the absence of credit reporting service providers (CRSP) focused on MSMEs becomes a significant inhibitor to the provision of credit to small businesses.

3.1.5 De-risking of MSME financing

3.1.5.1 Partial credit guarantee schemes

A key impediment to the extension of credit to the MSME sector is that commercial lenders consider these businesses to be high-risk borrowers, particularly because many entrepreneurs have few or no assets to pledge as collateral to back the loans. In addition, few small businesses keep financial records, indicating that underdeveloped financial management controls dominate the financial performance of the business and the sector.

One mechanism for reducing the risk faced by lenders, and thus making MSME lending more attractive, is to mitigate the credit risk in part by providing a guarantee in the case of loan defaults to the lender for loans extended to MSMEs. The guarantee can be offered provided that certain guidelines for the assessing and monitoring of the loan process are met.

In South Africa, the Khula Credit Guarantee Scheme seeks to achieve this goal of implementing guarantees. The scheme is run by Khula Credit Guarantee (SOC) Limited (KCG), a wholly-owned subsidiary of Sefa. Khula Credit Guarantee is a licensed non-life insurer authorised by the Prudential Authority under the South African Reserve Bank (SARB) and is open to all commercial banks and qualifying financial intermediaries. While the Khula Credit Guarantee Scheme has been operational for 26 years, it has been under-utilised by lenders due to several weaknesses that undermined the incentives for using it. Subsequent to a diagnostic review of the Khula Credit Guarantee Scheme by the World Bank, a number of recommendations have been adopted, which have seen the Khula Credit Guarantee Scheme redesigned to address identified shortcomings with a view to increasing the guarantee utilisation rate.

3.1.5.2 Movable asset collateral registry

The issue of a lack of assets to pledge as collateral for loans is cited as a major impediment to the extension of credit to the MSME sector. While most small businesses lack the fixed property that lenders prefer to hold as collateral, they may have movable assets of some value at their disposal, such as the business's inventory, cash and cash equivalents, equipment, accounts receivable or the entrepreneur's personal assets such as furniture. A movable asset register with a supporting legal framework would provide a legal and institutional framework that will record the ownership and use of movable assets as collateral for small enterprise finance and will make it possible for credit providers to make a legal claim on such collateral, should the lender default. This then ultimately lowers the risk for lenders and enables increased lending to this market. Currently, South Africa does not have a movable asset registry, although the legal framework for registration of notarial bonds on specific movable assets is in place.

3.2 Co-operatives access to finance challenges

There is a need for differentiated financial support products for various types of co-operatives to respond to the specialised needs of the co-operatives, which will set co-operatives apart from other types of enterprises. A co-operatives development fund should be established jointly with the co-operative sector and other role players, including potential funders. The fund must provide funding to different co-operatives, such as worker-owned and user-owned co-operatives. The funding interventions within the co-operative sector must advance the principle of equity and support collaborative marketplaces for co-operatives buyers and service providers.

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[35]A movable asset registry is a register of non-fixed assets used as collateral for commercial loans. It is supported by a legal and regulatory framework to be effective.

The funding instruments for co-operatives should be administered using the following criteria as a benchmark:

- **Labour intensity:** This is an important technical requirement for an economy confronted with high unemployment levels.
- **Skill intensity:** The focus must be on low-skill intensity to combat the scourge of structural unemployment through 'learning-by-doing' and integration of education and training into economic and social activity.
- **Value addition:** This is important for the production of social surplus, which is the basis of long-run economic growth.
- **Redistribution:** The co-operatives' activities that must be prioritised are those which encourage Industrial development, are pro-poor and do not reproduce income inequality and the plight of historically disadvantaged communities.
- **Export orientation:** Prioritise funding to co-operatives operating in sectors that exhibit high export orientation because that benefits the economy through foreign exchange earnings and thus eases balance of payments problems.
- **Import orientation and penetration:** The co-operatives that operate in sectors that suffer from high import penetration and yet have a major role to play in meeting the goals of the country's growth and development trajectory must be supported through strategic trade policy intervention, technological capacity building, infrastructure and access to crucial inputs.
- **Water intensity:** Because South Africa is a water-scarce country, co-operatives must seek funding to direct them towards sustainable development activities to encourage environmentally and socially sustainable business activities. This will lead to a decline in water intensity of production over time. It will also significantly add to sustainable development and release water to be used for social needs and food production in agriculture.
- **Legislative burden and cost of compliance:** The South African legislative environment requires that businesses comply with certain laws to operate effectively and enable free trade in the value chains within which they operate. One of the challenging legislative requirements is linked to the aspects of environmental protection and management through instruments such as the need to trade and operate through a license or permit (for example, fishing rights permit, waste license, animal trading permit).

3.2.1 Enterprising co-operatives

The capital needs of co-operatives are normally financed through internal sources such as member share capital, membership fees and loans; however, such financing is not always feasible. Thus, emerging co-operatives still find it difficult to attract and retain adequate capitalisation. The member-based operation of co-operatives and their surplus-sharing method are based on their use, which makes them less attractive to venture capital and angel investors. Government entities, development finance institutions and private sector financial institutions often do not understand the structures of co-operatives, which results in limited support provided to co-operatives. Consequently, co-operatives experience difficulties retaining earnings and increasing capital requirements because existing incentives and support structures developed for MSMEs do not address the needs of co-operatives across their life cycle and sector.
According to the dti Baseline Study, only a limited number of co-operatives have accessed finance in the past two years, whether as a loan or a grant. For example, of the 159 co-operatives that have applied for loans, only 39 (24.5%) have succeeded. Similarly, of the 181 co-operatives that have applied for grants, only 61 (34%) have succeeded.

Despite various government institutions providing support to co-operatives, support rendered to the sector has been negligible, unfocused, uncoordinated and a lack of systematic and sustained targeting, resulting in inadequate and, in some instances, non-existent budget allocations dedicated to the co-operative sector.

3.2.2 Financial co-operative institutions

Financial co-operative institutions, also known as co-operative banking institutions (CBIs), are registered with the Prudential Authority, and rely on member share capital, return on investments, interest on loans and service fees to enable them to provide financial services and related products to their members. For emerging co-operative banking institutions, the reliance on available sources of income/revenue during the initial stage has proven to be a constraint on their growth. This is primarily due to limited interest income from loans being available at start-ups, which are the main source of revenue for co-operative banking institutions. The minimum capital requirements imposed by the Prudential Authority further constrain co-operative banking institutions' use of funds for growth purposes.

In order to overcome the capacity constraint that co-operative banking institutions face in employing suitably qualified staff during the crucial start-up phase, government and private entities (such as the Banking Sector Education and Training Authority (BANKSETA) and tertiary educational institutions) are approached to cover the cost of providing relevant training to staff members.

To enable the sector to grow, it needs to access sources of external funding, which it can use in a responsible manner when lending to its members. The Prudential Authority limits external borrowings to 15% of total assets. A further prudential requirement is that fixed assets may not exceed 5% of total assets. While these requirements have been instituted to ensure greater stability, it is crucial that the requirements are reviewed in light of the realities co-operative banking institutions face.

Especially at the start-up phase, some of the co-operative banking institutions performing well are supported by financially stable entities with which they have a common bond relationship, particularly if those entities have a large member base that can act as a source for deposits and funding. A common bond is a prerequisite for registration with the Prudential Authority, and non-members may not use the services of a co-operative banking institution. Only a few registered co-operative banking institutions, such as union-membership-based co-operative banking institutions, have such common bond relations. A co-operative banking institution is allowed to service both individuals and enterprise members (juristic members), depending on its business plan and the objectives of the co-operative banking institutions. Therefore, they can provide products that respond to their members' needs, which would include business-related financial products.

The co-operative banking institutions are key in extending access to finance for MSMEs and other members as they are a self-help, member-driven entity operating within a community with a common bond. The Co-operative Banking Sector Strategic Options Paper developed by the World Bank highlights that members of co-operative banking institutions perceive their co-operative banking institutions as the preferred institution to obtain financial assistance for personal and business loans. However, without proper funding and sufficient deposits from members, these institutions are unable to provide quality services to their members, including MSME members. Part of the power of co-operative banking institutions in South Africa is the ability to support businesses and to bring financial skills to local communities through the involvement of their members. Co-operative banking institutions can provide the building blocks for economic development in underserved communities and rural areas.

3.3 Microfinance sector

The first micro-enterprise credit organisation in South Africa was the Get Ahead Foundation (GAF), which disbursed its first loans in 1987 in the township of Atteridgeville, west of Pretoria. In the early 1990s, three more group-based lending organisations were launched, namely the Small Enterprise Foundation (SEF), Women's Development Banking (WDB), and the Rural Finance Facility. All these new development microfinance institutions (DMFIs) targeted the rural areas of South Africa and employed an adapted model of the Grameen Bank group lending. Despite the high level of interest and investment in the microfinance sector in other parts of the world, only five development microfinance institutions are operational in South Africa, namely the Small Enterprise Foundation, Phakamani Foundation, Siyakhula Microfinance Institutions, Get Ready Investment Holdings and Akanani Finance Company. Another 45 organisations have started operating and have had to close due to capacity issues and a longer period of time required before an organisation can reach self-sufficiency. The sponsors and investors do not have an appetite for these challenges.

In South Africa, the microfinance sector can be divided into two. Firstly, there are commercial mainstream microfinance institutions (MFIs) in the microfinance sector that focus on the provision of consumption loans to employed individuals. These commercial mainstream microfinance institutions require an applicant to present a payslip or other proof of employment. Secondly, there are development microfinance institutions (DFIs) in the microfinance sector that lend to self-employed individuals operating micro and small enterprises that are too small or informal to access loans from formal financial institutions. The development of microfinance institutions is the focus of the MSMEs and Co-operatives Funding Policy.

The microfinance sector in South Africa has advanced 254,971 loans as of 30 September 2021, representing a loan book of ZAR754 million. Loans were advanced to women (99%), youth (20%) and persons with disabilities (1%). The average loan size is ZAR2,957. The number of loans disbursed by the current development microfinance institutions is 3.5 million, valued at ZAR8.4 billion, with an average loan size of ZAR2,400. Microfinance institutions serve businesses that include tuckshops or spazas, fruit and vegetable vending, catering and baking, beverages, traders in nuts and meat, traders in new and used clothing, dressmakers, hair salons and room rentals. Despite the good progress reported by the microfinance sector, the sector is experiencing several challenges that can be grouped into the following categories: client market challenges, institutional challenges and environmental challenges.

3.3.1 Client market challenges

The density of micro-enterprises in South Africa is less than in other developing countries, both in urban and rural locations, which means it is more expensive to reach them. Micro-enterprises in South Africa have lower business and technical skills in relative terms. There is increasing competition between micro- enterprises and formal businesses, with new malls and retail chains expanding in townships and smaller towns. The arrival of foreign nationals with entrepreneurial experience and access to financing networks has also created competition for local micro-enterprises.

3.3.2 Institutional challenges

South Africa is experiencing a serious shortage of skilled individuals experienced in micro-enterprise lending methodologies and global best practices. This is exacerbated by the fact that most microfinance institutions have not had access to technical assistance from global experts in the field. Consequently, they have had to learn the lessons from scratch.

The operating cost ratios for microfinance institutions in South Africa are high compared to other African countries, and the country's microfinance institutions have the highest salary burden ratios globally. Donors and investors are not investing sufficient funds in the microfinance sector, and this has led to the closure of various micro-enterprise finance initiatives due to a lack of sufficient funding or patient capital.

3.3.3 Environmental challenge

In light of the perceived high level of crime in South Africa, microfinance institutions cannot collect loan repayments in cash. This means that all transactions must be channelled through the banking system, resulting in high transaction costs for the microfinance institutions and their clients. The judicial system in South Africa effectively prohibits micro-enterprise lenders from taking movable assets as collateral, either through a pledge or through an asset finance agreement, due to the cost and time frames involved in obtaining a judgment through the magistrates' courts.

This has created a challenge wherein almost no lending is extended to micro or small enterprises requiring loan sizes between ZAR25,000 and ZAR100,000. [36]

Box 1: Supporting MSMEs through microfinance
Bangladeshi professor Muhammed Yunus started the Grameen Bank in 1979 after successfully lending his own money to about 500 women across a selection of villages after observing the impact and good repayment rates. • In 1983, Grameen Bank pioneered the centre group lending methodology serving 58,000 borrowers. The government then passed an ordinance transforming the project into an independent specialised bank for the poor, owned 40% by the borrowers and 60% by the government. • In 2006, Grameen Bank had serviced 6.2 million borrowers (97% women) with an average loan balance of \$77 and 6.9 million savers with an average savings balance of \$31. Grameen Bank has continued to grow since then and government ownership has declined over time. • In 2017, Grameen Bank had 2,568 branches serving 81,400 villages, 93% of all villages in Bangladesh. • By the end of 2019, 16 million micro-enterprises were serviced by the Grameen Bank with loans worth \$7 billion. [37]

[36] Development Microfinance Association. 2019. Financial Inclusion Policy Position Paper.
[37] Grameen Bank. 2020. Annual Report.

4. POLICY PROPOSALS

Given the above background, the MSMEs and Co-operatives Funding Policy seeks to amplify Pillar 2 of the National Treasury Financial Inclusion Policy by implementing the following interventions that are aimed at improving the access to finance ecosystem for MSMEs and co-operatives. In particular, improving the manner in which the various actors in the ecosystem relate to each other, broadening the range of financing instruments available to MSMEs and co-operatives, improving access to credit by building an appropriate credit infrastructure for MSMEs and co-operatives, promoting the use of transaction account and payments services for MSMEs and co-operatives and encouraging the design and uptake of suitable insurance for MSMEs and co-operatives:

4.1 Improving coordination in the MSME and co-operative access to finance ecosystem

As with all ecosystems with several actors involved, coordination to achieve maximum impact is a perpetual challenge. Coordination can become complex when some of these actors are independent organisations with specific statutory mandates. It is therefore proposed that coordination for the MSME and co-operatives' access to the finance ecosystem is formalised and that this effort is led and operationalised by DSBD, in close conjunction with the National Treasury.

This coordination should recognise that actions are required at different levels, be it a national, a particular industry segment or a particular element of a value chain level. Appropriate platforms should be established, with clear and approved mandates and with all relevant stakeholders involved. Agreement on objective and appropriate measures of success should form part of the operations of these platforms.

At a national level, it will not always be possible to formulate a single programme to which all actors can contribute, although that might be the case in some cases. However, all actions contemplated by the different actors must be brought to the platforms and considered by all participants to ensure that, as far as possible, such actions support the overall objective of improving the ecosystem and that unintended consequences can be avoided.

The members of the national coordination forum should at least include the DSBD (and its agencies), National Treasury, dtic, DSD, SARB, FSCA, NCR, CBDA and ICASA, BASA, ASISA, SAIA, MFSA and the Department of Agriculture, Land Reform and Rural Development which are organisations representing MSME and co-operative enterprises and the general business sector.

The nature and objectives of the desired co-operation should determine the structure of coordination platforms for specific segments or value chains. In these instances, the feasibility of aggregating the demand for goods and services and aggregating the supply of MSME goods and services should be investigated and operationalised where possible.

The improved coordination can be implemented through partnerships with other ecosystem role players. The partnerships can be useful in leveraging resources, defragmenting the MSME sector and removing duplication of efforts. The benefits of partnerships are as follows:

- Sharing of resources: Partnerships enable the MSME and co-operative sector to pool resources to benefit small businesses with limited capital.
- Sharing of risks and rewards: Concluding partnership agreements with others would allow MSMEs and co-operatives sector to share risks and rewards associated with the joint business activities.
- Complementary skills: The partnerships in most cases involve parties with diverse skill sets. Skill diversity contributes to the project's success by mitigating the knowledge gaps of the individual partners.
- Economies of scale: Partnerships can lead to economies of scale and enable cost-sharing.
- Learning and growth: Partnerships provide opportunities for learning and growth due to shared experiences and knowledge exchange. This can lead to improved productivity and innovation.
- Building credibility: Partnering with reputable institutions leads to a positive reputation, crucial for building trust with clients and other stakeholders.
- Access to networks: Partnerships provide access to each other's networks, clients and suppliers. This can open a pipeline of new business opportunities for the parties involved.
- Support system: Partnerships provide cost-effective professional support and enable partners to navigate challenging situations seamlessly.

Increasing finance for MSMEs in South Africa requires a multifaceted approach that addresses both supply-side and demand-side constraints. The DSBD should consider concluding a social contract with the private sector to deepen access to finance and alleviate the prevailing fiscal constraints the government faces in the medium term. A social contract will lay the basis for the societal mobilisation effort for crowding in investment for small business development. In this way, the government and the private sector can address credit rationing in relation to MSME funding.

4.2 Database of small businesses

In South Africa, there is a lack of reliable data on small businesses. Obtaining an accurate count of the number of MSMEs and co-operatives covering the informal and formal sectors is a challenge. A reliable estimate of the number of MSMEs and co-operatives must be established to inform resource allocation and programme design. The National Department of Small Business Development will develop a dedicated portal to obtain information about MSMEs operating in the country. The Portal will comply with the provisions of the Protection of Personal Information Act. To incrementally build a reliable database of MSMEs and co-operatives, DSBD will coordinate the aggregation of all publicly accessible small businesses. This will include small business data gathered via the CIPC's BizPortal site and tax data gathered by SARS, and information provided by local actors such as Municipalities, including local economic development offices, ward councillors, industry associations (South African Informal Traders Alliance, and Business Chambers, among others), membership- based organisations, business development providers (including professional bodies) and any other relevant stakeholders.

More importantly, DSBD will leverage the extension of financing to the MSME sector as a mechanism for gathering data on the sector. Data on businesses receiving financial support through the various publicly supported financing facilities will be added to the small business database. DSBD will also engage the Banking Association of South Africa and other representative bodies and regulators in the provision of similar data for businesses receiving private-sector financing. The database will thus provide a view of MSME activities in the country. In addition, the DSBD, in partnership with other role players, should constantly conduct national surveys of the MSME sector that will, among other benefits, give a reasonably accurate account of the informal and formal MSMEs.

The database of small businesses will encourage transparency in the funding landscape and assist development finance institutions and other financiers in reporting about their financial inclusion activities, enabling access to finance to eligible MSMEs and co-operatives. The financiers should create their own databases that feed into the main database to be created by DSBD. The integration of various databases into the main database would make it easier for the main database to be updated accordingly.

If possible, the main database can be split into various sectors such as retail, manufacturing and others for ease of accessibility and fund allocation if needed.

It is crucial that sufficient data is gathered in all these data-gathering exercises to enable gender-disaggregated analysis. Without such specific insights, the development of policy interventions to address gender issues and the design of specific initiatives will be insufficiently informed. It has been shown in several other jurisdictions that addressing gender imbalances requires gender-specific actions.

4.3 Improving the provision of start-up capital

MSMEs in the startup phase struggle to access finance from formal financial institutions and are therefore forced to rely on family and friends to fund their businesses. In order to stimulate start-up capital for MSMEs in the economy, the following strategies should be put in place:

- Implement targeted subsidised lending programmes to achieve greater financial inclusion, especially for youth, women, disabled, township, and rural communities.
- Enhancing financial literacy and business management skills among MSME owners to improve their creditworthiness and their ability to access finance.
- Alternative sources of financing such as venture capital, angel investors, crowdfunding, and fintech platforms should be promoted to complement the traditional lending provided by banks.
- Increasing tax credits for investment towards MSME finance.

The South African entrepreneurs cite a lack of start-up capital as a significant hurdle to establishing new ventures. While direct monetary support from the government will be required to assist entrepreneurs with start-up capital, grant funding and other direct means of support are not sustainable at scale. As such, it is imperative that policymakers establish risk-based vehicles that crowd private sector institutional support for funding start-up ventures using a developmental approach that reduces the cost of funding in the form of interest rates that facilitate greater access to funding for rural and township businesses. A start-up is defined as a new company that has been incorporated for less than five years or a new enterprise, be it for-gain or not-for-gain, and be it private, public, NPO or otherwise, and where the difference from other early-stage businesses and entrepreneurial ventures is the intention to position and manage the start-up to achieve above-average growth.

4.3.1 Option 1 for funding start-ups

The first option for funding start-ups is developing a funding model aimed at stimulating private sector institutional support for directing risk-based capital towards MSMEs to address the dearth of early-stage capital flowing to MSMEs. There is an opportunity for DSBD to leverage the best practices funding models implemented locally and globally to create a central fund in partnership with private sector players. The benefit of such a model is that it would allow highly tailored interventions in the start-up ecosystem. For example, this central fund could request funding proposals (RFP) for funds that invest in early-stage ventures in strategic industries (i.e., health tech and others) and then partner with established local and/or international fund managers with the requisite expertise to direct capital to deserving ventures. This central fund could also be utilised, if necessary, to provide funding other than start-up funding should that become a necessity.

The type of finance MSMEs require for starting a business is often a grant that enables them to kickstart their venture. The challenge most MSMEs face at the early stages of their development is access to capital. When these MSMEs approach funding institutions, collateral is often required, the funding instrument offered is rigid, and the funding process is cumbersome.

Venture capital is a financing option for innovative MSMEs seeking to commercialise their offering. South Africa has a robust and developed start-up ecosystem. It benefits from significant consumer and business markets, a pool of sophisticated entrepreneurial talent, a strong corporate sector, and developmental finance institutions. This ecosystem provides a fertile ground for venture capital investment, with startups across various sectors seeking funding and support for growth.

Venture capital funds pool and manage money from investors seeking equity stakes in small enterprises with strong growth potential. Venture capital funds mostly acquire stakes in small enterprises that need equity financing at various stages. The financing is often in the form of early-stage seed capital used to develop a concept or design product, support initial production, acquire capital assets, and/or fund expansion of productive capacity.

Venture capital funds provide small enterprises with equity finance. In turn, their managers add value through participation in the enterprises' management. The fund managers usually seek some control over the enterprises by taking an adequate equity stake to enable them to sit on the board of directors, participate in the decision-making process, or reserve the right to replace management. The following categories of venture capital are used in South Africa: [38]

- **Pre-seed:** Funding is mostly in the form of grant money. This earliest stage of funding comes so early in the process that it is not generally included in the funding rounds.
- **Seed capital:** Funding provided before the investee company has started mass production/distribution to complete research, product definition or product design, as well as market tests and creation of prototypes.
- **Pre-Series A:** A mid-round between Seed and Series A, provided to a company that has achieved some traction in the market and now needs capital to prove that the business fulfils a specific market need. In South Africa, Pre-Series A involves deals where the startup is not yet big enough to enable a Series A round and typically involves a 10% to 25% equity stake.
- **Series A:** Post-revenue companies with proven market relevance need capital to take a strong strategy for turning the business into a successful and profitable enterprise. This was referred to in previous surveys as Later-stage capital. Equity ranges between 10% and 15%.
- **Series B:** A type of private equity investment (often a minority investment involving less than 10% equity) in relatively mature companies primarily looking for capital to expand and improve operations or enter new markets to accelerate business growth. This was referred to in previous surveys as Growth capital.
- **Buyout capital:** Financing provided to acquire a company, typically purchasing majority or controlling stakes.
- **Rescue/Turnaround:** Financing made available to an existing business that has experienced financial distress and is looking to re-establish prosperity.
- **Replacement capital:** Minority stake purchased from another private equity investment organisation or from another shareholder or shareholders.

Venture capital funds in South Africa are estimated to be 232. Venture capital funds typically aim to provide financial and non-financial support to drive the growth of early-stage companies. The South African venture capital industry has several funds with various strategic objectives, strategic focuses and investment approaches. Some common strategic approaches used by venture capital fund managers in South Africa include the following:

- **Sector-specific venture capital funds:** These typically specialise in investing in specific sectors or industries, such as technology startups, healthcare innovations, renewable energy, or other emerging sectors.
- **Sector-agnostic venture capital funds:** These do not have sector preference but focus on other criteria, such as scalability and impact. However, there will normally be specific exclusions, such as sin industries.

[38] World Bank Group. 1996. Venture Capital Funds in Emerging Markets-Lessons from International Finance Corporation Investments.

- **Social impact venture capital funds: T**hese funds prioritise investments with a strong social or environmental mission. They aim to generate both financial returns and positive social or environmental outcomes.
- **Stage-focused venture capital funds:** These funds apply the stage of maturity as a key criterion, such as some funds focus solely on later-stage financing and growth capital, while some may exclusively offer seed capital. Other funds may allocate capital to two or more maturity stages in varying proportions depending on the funds' preferred capital weighting and risk appetite.

The South African venture capital asset class had ZAR9 billion invested in 1,205 active deals at the end of 2022. The largest proportion of active deals involved ZAR1 million to ZAR5 million transactions. [39] The source of the venture capital funding is a combination of private and public sector capital, with the public sector accounting for 22.7% or ZAR1.83 billion of active venture capital deals. The overall portfolio of active deals in the South African venture capital market has increased by 21.4% from that held at the end of 2020. There are five types of investors supplying capital to the South African venture capital market: [40]

- **Independent funds:** Funds managed by fund managers are where third-party investors are the main source of capital, and no investor holds a majority stake.
- **Angel investors:** High-net-worth individuals who inject funding for start-ups in exchange for ownership equity or convertible debt.
- **Captive funds:** Funds in which one shareholder contributes most of the funding, typically where a corporate or parent organisation allocates funds to captive funds from its own internal sources.
- **Captive corporate:** Funds primarily sourced from a corporate entity, such as a listed company.
- Captive government: Funds sourced from a government department or public entity.
- **Captive other:** Funds sourced from family or relatives.

Figure 3 shows the venture capital funding contribution by investor type as follows: [41]

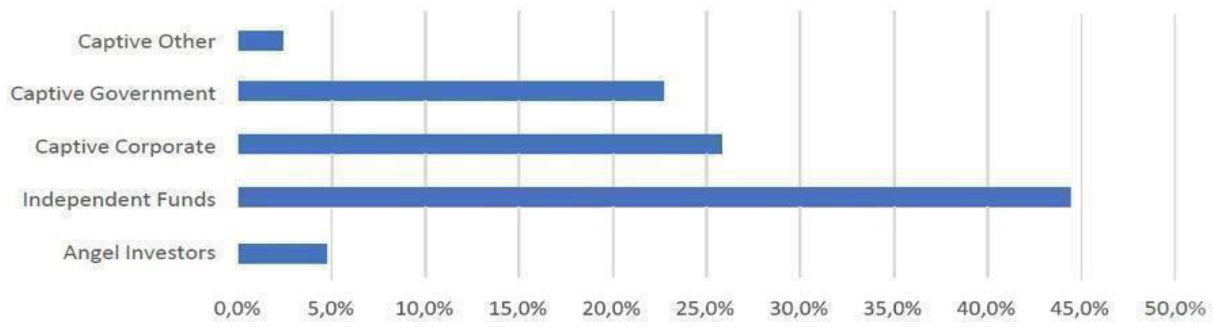

Figure 3: Venture capital funding contribution by investor type

The South African Venture Capital Association uses the same sector classification framework as the National Venture Capital Association of America (NVCA). The sector classification scheme used by the association has served as the Southern African Venture Capital and Private Equity Association (SAVCA) benchmark for several years and is still in use as the guideline for managing industry categories. This helps maintain consistency, allowing for meaningful year-on-year comparisons, standardisation and global comparisons. Capital distribution by sector is shown in Figure 4.

[40] SAVCA. 2023. Venture Capital Industry Survey.
[41] Southern African Venture Capital and Private Equity Association. 2022.

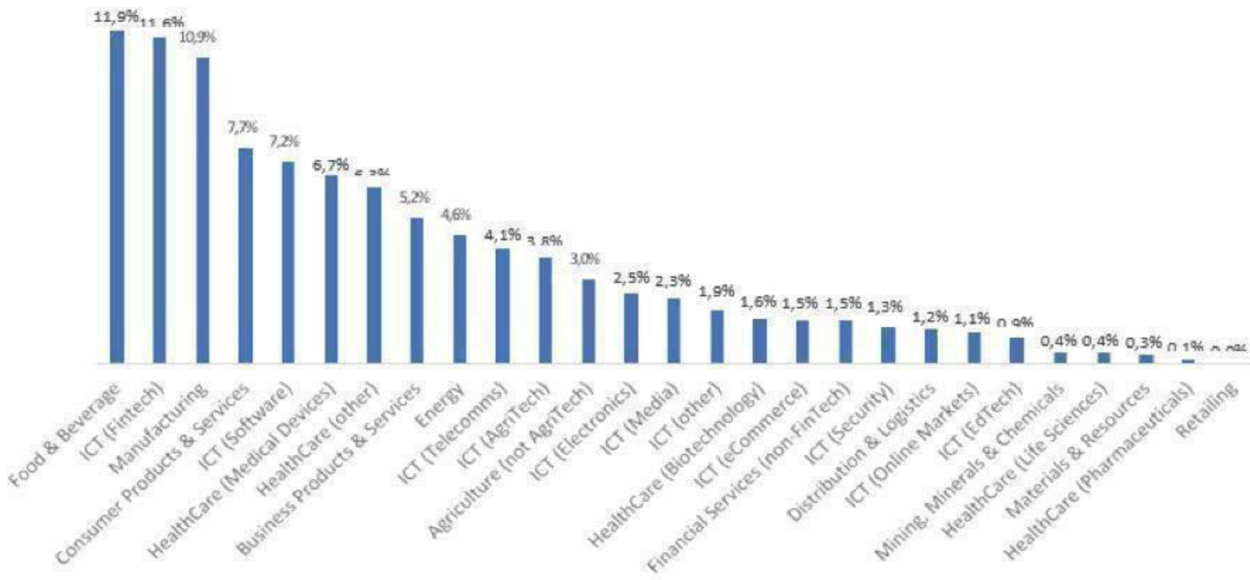

Figure 4: Capital distribution by sector

The South African Venture Capital Association recognises seven investment stages in the South African venture capital market: seed capital, early-stage capital, late-stage capital, growth capital, buyout capital, rescue capital and replacement capital (arranged from low to high maturity stage). However, maturity levels from growth capital upwards refer to relatively mature companies that belong more to the private equity asset class than the venture capital asset class. In any case, the first three stages (seed, early-stage, and late-stage) fall well within the venture capital asset class, accounting for more than 55% of the deal value.

The contribution per each of the investment stages is shown in Figure 5. As can be seen from Figure 5, there is a disproportionately low allocation to seed capital (less than 5%) in relation to early-stage (over 30%). This is concerning as seed-stage ventures serve as a deal pipeline to early-stage investors.

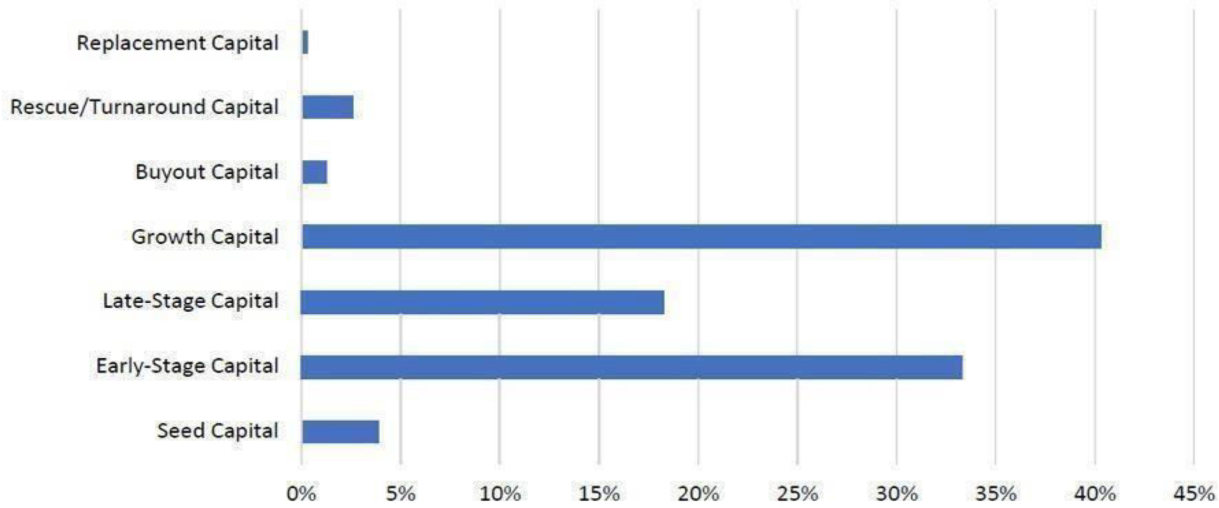

Figure 5: Contribution by venture capital deal Stage 5 (SAVCA, 2022)

Scarcity of capital at the seed stage may lead to weak deal flow for early-stage investors and late-stage investors by extension (a knock-on effect). Therefore, there is a need for additional venture capital funds that have a specific focus on seed capital. However, there is a relatively high failure rate of startups at the seed capital stage, mainly due to lack of access to markets, lack of access to capital, as well as poor governance and/or operational soundness. In South Africa, very few programmes/initiatives currently appear to adequately address these gaps. Therefore, effective capacity-building programmes and a collaborative approach between the private sector, public sector, and financiers are needed to promote access to markets and capital for startups and small businesses in South Africa. Therefore, a venture capital investment vehicle needs to focus on seed capital and foster effective capacity building and good governance in startups. Ideally, such an investment vehicle should have a dedicated technical assistance allocation and capacity-building function aimed at driving operational soundness, market readiness and investor readiness in the targeted ventures.

4.3.2 Option 2 for funding start-ups

The second option for funding start-ups is establishing a fund of funds (FoF). The Code Series 400 of the BBBEE Act stipulates that measured entities must spend 2% of net profit after tax (NPAT) towards supplier development and 1% of net profit after tax (NPAT) on enterprise development for black owned or at least 51% on black-owned exempt micro-enterprises (EMEs) and qualifying small enterprises (QSEs). However, these allocations are not necessarily deployed in full in a particular year. The fund of funds can be capitalised using underspending from the 1% allocated to the enterprise development component. Care must be taken to ensure that this is only implemented in case of access to finance market failures and not as an alternative to finance markets.

Mechanisms must be developed and established to incentivise the private sector to invest in the fund of funds and manage the fund. The implementation of the fund of funds will be guided by a clear framework that stimulates sector small business growth aligned to industrial policy and innovation that focuses on pre-seed and early-stage funding for MSME development.

4.4 Targeted funding instruments for MSMEs and co-operatives

The MSME sector should not be treated as a single homogenous market as it consists of MSMEs with different financial needs. For instance, entry-level enterprises consist of informal enterprises with no distinction between business and individual personal financial needs. In most cases, the personal account is combined with a business account, and this attracts risks to the business owner from budget management and cash flow perspectives. In light of the fact that most informal MSMEs blur the line between business and individual, alternative lending models should be developed to support personal lending for business purposes.

This means that a suitable funding mix is required to address the funding needs of various MSMEs, including those operating in the informal sector. The design and features of the funding product must match the exact funding needs of MSMEs. Seda and Sefa, as well as other agencies, should develop support mechanisms for MSMEs at different stages of development to improve programme targeting, quality and relevance of support programmes. [42]

The DSBD is currently providing funding to small enterprises through various funding instruments such as the Township and Rural Entrepreneurship Programme, Business Viability Programme, Small Enterprise Manufacturing Programme, Co-operatives Development Support Programme, Informal Micro Enterprise Development Programme and Shared Economic Infrastructure Fund. The financiers must implement a combination of loans and grants funding (blended finance) to lower the cost of borrowing and improve affordability on the part of the MSMEs and co-operatives.

[42] Annual Review of Small Business and co-operatives in South Africa, 2016/2017

The return on investment on the grant component can be measured through developmental impact (i.e., through jobs facilitated, the contribution of small enterprises to tax revenue, inclusion of targeted groups, and contribution to economic transformation and growth). Regarding small enterprises with predictable cash flow patterns, pure loans can be advanced to them.

The World Bank has comprehensively analysed the various funding mechanisms available to MSMEs. [43] The DSBD will build upon this by developing a single government-wide portal which will direct MSMEs to the most appropriate funding programmes.

The DSBD, development finance institutions, and other financiers should design and implement sector-specific funding support programmes rather than apply a blanket approach. For example, with the seasonal agriculture sector, dedicated funding instruments that meet the funding needs of farmers should be made available, as is the case with other industries with consistent and predictable cash flow patterns. The funding institutions should also consider expanding funding support interventions for green industries and other types of enterprises, including social enterprises.

The funding institutions should institutionalise purchase order finance to assist MSMEs with short-term finance. Due to the nature of purchase orders, the financiers must implement quick turnaround times when funding applications, reviews, approvals and disbursements to avoid MSMEs losing business opportunities. When processing requests for finance for purchase orders, the financiers need to take into account the practical business activities in which the purchase orders take place within seven working days. The financiers need to be proactive with measures to effect purchase order finance. Purchase order finance is crucial for the viability and survival of MSMEs.

Another funding option is the cession of contracts. Cession refers to transferring the rights of a service provider in terms of a contract to a third party. The main right involved is the right to be paid for services rendered. While the appointed bidder remains the service provider (MSME) that continues to render the services, the MSME may transfer its right to be paid for the services rendered in terms of the contract to a third party that has provided a bridging finance facility to the MSME involved. This means that the service MSME renders the services to an organ of State, while the organ of the state pays for the services rendered to a third party in most cases a financial institution. [44] However, reasonable care should be exercised to minimise the risk of abuse of the cessions through fraudulent activities such as fronting and imposition of unfair contractual terms. The measures that can be put in place include concluding cession agreements with the registered financial service providers or state-owned funding institutions and accepting only written requests for cession of contracts from service providers or MSMEs accompanied by the cession agreement.

In order to complement the existing funding support interventions, the public sector, in partnership with the private sector, should strengthen and formalise the supplier development programmes implemented by national retailers so that small suppliers can access market opportunities. The industry players should commit to formal ongoing programmes to develop MSMEs and co-operatives. The supplier development programmes should include the following commitments: Provision of patient capital and capital expenditure, linking MSMEs to large retailers or producers with access to crucial infrastructure, such as storage and logistics, provision of business development support and financial management support to emerging small businesses.

[43] Mapping of access to capital for early stage MSMES in South Africa, 2019.
[44] National Treasury Instruction No. 8 of 2022/2023: Application of assignments and cession of contracts resulting from Procurement.

The examples of the supplier development programmes in place are as follows: Pick n Pay supplier development programme enables businesses to enter the retail market by providing a shelf space in Pick n Pay retail outlets. The programme also provides mentorship and business development support to small and emerging businesses that supply Pick n Pay with goods. On the other hand, through its supplier development programme, Woolworths targets emerging black-owned and women-owned businesses that seek to enter the Woolworths supplier database. Massmart also established a supplier development fund worth ZAR200 million in 2012 to be rolled out over five years. The successful supplier development programmes can be replicated to provide MSMEs with the required financial resources. An assessment of the impact of enterprise and supplier development programmes, particularly those that have combined access to finance with training and development as well as increased access to markets through procurement, would be helpful in understanding the remaining gaps and therefore funding opportunities.

When applying to various financial institutions for funding, the MSMEs experience red tape and cumbersome credit application processes, increasing the cost of accessing finance. Funding institutions should introduce a common funding application form, standardised term sheet, and business plan template that all financiers can use. This will ensure uniformity in the credit application process, enabling financiers to refer the misdirected funding applications to the relevant development finance institutions or financiers without requesting a different set of application documentation from the MSME involved. It will also not be necessary to refer the funding application back to the applicant (MSME) for onward transmission to the applicable financier. The financiers may need to agree on the appropriate funding application referral framework.

Another factor that contributes to financial exclusion is the high (cost of borrowing) interest rates, which increase the running costs and overheads for MSMEs, especially start-ups. This leads to financial unsustainability for MSMEs and high exit or mortality rates. The development finance institutions should address this matter through the provision of loans to MSMEs at developmental rates using the developmental impact indicators (scorecard) to determine the appropriate pricing structure. The government must consider establishing an MSME-focused bank to address access to finance challenges facing MSMEs.

4.5 Business development support (BDS) [45]

The business development support services sector is strictly speaking not part of the access to finance policy and requires a policy and implementation plan dedicated to business development services. However, its development is mentioned here because aspects of business development support services are crucial to the access and beneficial use of financial services, particularly access to finance. The section is not intended to be a complete description of the sector but rather of the sector elements most pertinent to access to finance.

Successful funding applications are preceded by technical assistance support, a key area in business development support that must be offered as a product in the Small Enterprise Development and Finance Agency (SEDFA). Technical assistance in pre-investment support is a financial instrument that contributes to a healthy bankable pipeline and unlocks funding opportunities for MSMEs. Therefore, investment in infrastructure and support services for MSMEs, including business incubators, mentorship programmes, and market access initiatives, is essential for creating an investible pipeline for MSMEs.

It is generally recognised that the first three to five years of a new business are the most difficult and risky. While, for various reasons, many start-ups typically go it alone during this early phase of their existence, evidence shows that small and medium-sized enterprises that receive business development support, which includes quality guidance and support from practitioners or advisors with specific expertise, knowledge and skills, reap significant benefits in terms of their early survival, later growth and development.

[45] Business development support (BDS) is defined as services that improve the performance of the enterprise, its access to markets, and its ability to compete. Included in the scope of business development support is a range of business services.

The business development support ecosystem in South Africa comprises various role players, such as development finance institutions, incubators, government institutions, corporates, centres for entrepreneurship, business advisors, among others. In light of the growing unemployment rate, the small business sector should onboard unemployed accounting and business management graduates to render business development support services under close supervision to small enterprises, especially those operating in underserved and underserved areas (townships and rural), to increase reach and impact.

This has the potential of creating a good quality pipeline of small enterprises with investment potential, as is the case with the business development support provided by Nilepreneurs (Box 2).

Box 2: Supporting MSMEs through appropriate business development support (NilePreneurs)

NilePreneurs is an Egyptian national initiative funded by the Central Bank of Egypt and the Egyptian Banking Sector. NilePreneurs has been supporting Egypt startups and MSMEs in the domains of manufacturing, agriculture and digital transformation since 2019 by applying various innovation instruments. The initiative was first piloted at Nile University, has expanded to four other universities, and continues to grow.

The initiative provides advisory support services and implementable financial and non-financial solutions to improve the entrepreneurial environment and help MSMEs. NilePreneurs has five pillars that target business needs, tackle existing business problems and give them innovative solutions.

NilePreneurs five pillars are:

- NP Learn offers a learning journey for entrepreneurs through mentorships, idea hackathons and digital platforms providing best practices from industry experts under three main programmes.
- NP Innovate supports startups and MSMEs in pushing new innovations to the market by providing them with the right expertise in engineering to create new products or re-engineer others.
- NP Incubate incubates innovative startups in strategic sectors in Egypt in collaboration with a wide network in the entrepreneurial ecosystem. It supports these start-ups from the ideation phase until commercialisation.
- NP Compete enables start-ups and MSMEs to improve their market performance and achieve their growth goals by providing technical support and enabling innovation management and technology transfer.
- Khalik Digital allows MSMEs to transform their current business models into advanced ones using digital technologies to create new products and services and help them appear on various new channels.

Currently, small enterprises' financial readiness is hampered by various factors such as gaps relating to entrepreneurship support structures, lack of coordination among business support programmes, limited tailoring of entrepreneurship support and other challenges relating to the development of entrepreneurship skills.

Access to finance is not useful if the MSMEs and co-operatives cannot manage their finances or a business is not able to use borrowed funds productively. As such, access to finance should be intertwined with skills and access to markets, which jointly make up a broader support environment. [46] In other words, all businesses need to understand how to draw and live within a budget, to borrow responsibly, to avoid being over-indebted and to make informed choices between different financial products. [47]

A number of MSMEs and co-operatives lack the requisite financial skills and struggle with financial planning and management. Poor bookkeeping or documentation is a major contributor to most MSMEs and co-operatives not receiving funding from lenders. The absence of proper bookkeeping and documentation creates serious problems for both MSMEs and lenders.

Good quality financial record keeping among MSMEs in South Africa is reported to be low. [48] This is partly attributable to the fact that MSMEs do not have the requisite accounting system to generate records, or that MSMEs prefer to remain unknown to evade paying tax. The FinScope MSME Survey South Africa 2020 revealed that about 46% of small businesses keep financial records, and the balance is attributable to micro and informal businesses that do not keep records of their business transactions. This is a source of concern as it can potentially deprive MSMEs of an opportunity to access funding from financiers.

Most MSMEs and co-operatives who are eligible for funding are still unable to secure the finances they need due to the lack of financial readiness. This also means that they are unable to produce the documents that funders require for assessing bankability and affordability for the purposes of approving funding applications. The documents typically include but are not limited to bank account details, up-to-date management accounts, current financial statements, budgets and business plans.

In some instances, MSMEs and co-operatives do not know who the funders are, what type of funding is available, which funding types fit their needs and the qualifying criteria. Consequently, MSMEs and co-operatives apply for products that do not match their needs. DSBD could play a role by making information available on the type of products (and classes of providers) appropriate for each situation.

There is a need to deepen financial literacy by improving synergies between business support institutions such as Seda and other business development service providers with a view to promoting financial education to MSMEs and co-operatives. Seda and other business development service providers should institutionalise the practice of assisting MSMEs and co-operatives with pre-funding support (compliance, directing small businesses to the relevant financiers, and matching funding to business needs, among others).

The pre-funding support will assist in ensuring that the potential funding applicants are made aware of the information requirement of various financiers throughout the entire application process up to the approval stage.

Prohibitive requirements where these are found should be addressed with the relevant regulators. Financial institutions [49] should assist by encouraging MSMEs to open business accounts by creating a more seamless account opening process. Financial institutions should offer financial literacy as a value-added service linked to a business account package. A South Africa Financial Literacy Strategy should be developed to curb or reduce financial illiteracy. The DSBD and the Department of Basic Education should work together to ensure that business management is integrated into the school curriculum.

[46] The unseen sector: A report on the MSME opportunity in South Africa, 2018.
[47] Strategy for Financial Literacy in Uganda, 2013.
[48] Makina, D., Fanta, A. B., Mutsonziwa, K., Khumalo, J., & Maposa, O. 2015. Financial access and MSME size in South Africa. Occasional Paper, 001-2015.
[49] Financial institutions are institutions established to conduct financial transactions such as deposits, loans, investments and partially include banks, microfinance and insurance companies.

Business development support services are particularly important in addressing some of the issues youth entrepreneurs face. As the youths are hardest hit by unemployment, with 64% of those aged 15 to 24, and 42% of those aged 25 to 34 unemployed, youth entrepreneurs should be equipped to start and run their enterprises. Some of the issues that the youth face more than other groups is a lack of knowledge about business in general and how to go about structuring a business plan. Enhancing the school curriculum would be a good start, but business development support providers should be encouraged to focus on youth outreach programmes through basic business literacy programmes. Mentorship programmes, especially during the initial few years, would welcome additions to support for youth entrepreneurs.

4.6 De-risking MSMEs and co-operatives finance

4.6.1 Partial credit guarantee scheme

Partial credit guarantee schemes (CGS) are aimed at providing credit providers with some cover in the case of loan defaults for those transactions covered under such a scheme.

In South Africa, the Khula Credit Guarantee (KCG) Scheme was established in 1987 to provide indemnity to enable MSMEs and co-operatives to establish, expand or acquire new or existing businesses in circumstances where they would not, without the support of an indemnity cover, qualify for such financing in terms of the participating financial institution’s MSME lending criteria. Khula Credit Guarantee assists MSMEs and co-operatives in obtaining financing from financial institutions, namely commercial banks, non-bank financial institutions, corporations with enterprise and supplier development (ESD) programmes, and other lenders of incidental credit.

The Khula Credit Guarantee addresses the market failure emanating from lack of funding by commercial banks by providing commercial lenders a guarantee in the case of loan defaults for loans made to qualifying MSMEs and in the process making lending to small businesses less risky for creditors. Khula Credit Guarantee increases access to and provides finance to MSMEs and co-operatives that are perceived to be high risk and do not ordinarily qualify for finance from commercial banks.

The World Bank conducted a diagnostic review of the scheme. To date, Sefa and Khula Credit Guarantee management team have been working towards implementing some of the recommendations from the diagnostic to improve the operations of the scheme.

The DSBD will continue to support the implementation of the Khula Credit Guarantee diagnostic recommendations, which include a stop-loss mechanism, risk-based pricing structure, clearly defined claim payout process, and diversification of the product range and industries. Following the implementation of some of the recommendations of the diagnostic review, the Khula Credit Guarantee portfolio performance since inception in terms of taken-ups has increased to ZAR1.9 billion. It is recommended that these efforts continue, and that consideration be given to implementing the remaining World Bank recommendations. The DSBD and Sefa will continue to solicit funding to re-capitalise the scheme from both the national government and international development finance institutions’ partners to ramp up the use of the Khula Credit Guarantee.

4.6.2 Movable asset collateral registry

As mentioned above, MSMEs often lack sufficient fixed assets to offer as collateral to lenders but may well have movable assets that could be offered, which will increase MSMEs’ access to available finance. Some developing countries, such as Ghana, Zambia, Malawi and Nigeria, have adopted such an arrangement and have achieved significant success.

In 2015, the World Bank conducted a diagnostic study in an effort to assist the South African government in developing a credit infrastructure that supports MSMEs. The World Bank analysed how the use of a modern centralised collateral registry could be implemented in South Africa and what legal framework would be required should such a reform be introduced. The diagnostic found that there is merit for a secured transaction reform as this could potentially increase funding to MSMEs.

It is recommended that this effort be prioritised and that DSBD drive efforts towards establishing a movable asset collateral registry in South Africa. To push this agenda item forward, DSBD should hold extensive stakeholder consultation with all credit providers to establish alignment between industry and policy makers and identify a roadmap for the introduction of this mechanism. This will feed into the development of a law to support the implementation of the movable asset registry and establish the operational infrastructure for such a scheme.

4.7 Establishing simplified business registration and legal processes for winding up MSMEs

As part of the natural life-cycle of business, some enterprises will be in a position where business processes have to be legally terminated. Legal processes for winding up businesses are quite costly, complex and can result in some MSMEs and their creditors being disadvantaged. It is therefore recommended that South Africa, as is the case in some other jurisdictions, consider the establishment of simplified and more affordable legal processes to deal with the winding up of MSME business operations. This will benefit both the business owners and creditors, as an expedited and less costly process will result in reduced resource wastage.

As part of this review, the readmission of owners (directors) of wound-up MSMEs should also be considered. The nature of MSMEs is such that the incidence of business failure is higher than that of corporates, so this factor should be taken into consideration so that genuine entrepreneurs are not unnecessarily excluded from pursuing business opportunities.

There is a need for streamlining regulatory processes to reduce administrative burdens to facilitate easier access to finance for MSMEs. This can be achieved by simplifying and speeding up the registration and licensing of MSMEs in the process, reducing administrative burdens and costs associated with compliance. The start-ups with an annual turnover of less than ZAR100 million need to be exempted from regulatory burden and taxes for a certain period of time from the date of company registration. There is a need to simplify the registration and administration of Pay As You Earn (PAYE) and Value Added Tax (VAT) for start-ups to allow them to insert the taxes into the structural growth of the business. The capital gains tax exemption should be given to investors who are injecting capital into the start-ups' businesses to attract capital to the start-ups. [50]

4.8 Credit information systems for small businesses

The lending models of the development finance institutions have adopted a profit-orientated approach and in some instances impose strict criteria for successful loan approvals. This has resulted in the current funding system not operating optimally. The lending models tailored to meet the needs of the MSMEs and co-operatives are required while at the same time ensuring that the lending criteria are not burdensome to small enterprises.

There is a need for the development of dedicated credit information systems for MSMEs and co-operatives, as well as models and risk assessment tools, to make finance accessible to MSMEs and co-operatives. Development finance institutions should align MSMEs and co-operatives' risk assessment and credit models with their developmental mandate.

[50] SIMODISA. 2021. South Africa Start-up Act Position Paper (September).

Through the business credit information project spearheaded by SACRRA, the industry started an initiative to collect business data to bridge the gap in the sector. This project, though, has not received much traction since its implementation due to lack of funding. Through closed-loop initiatives, the sector has started to explore initiatives to share MSME data, including alternative types of information for risk assessment purposes. This indicates a need for the credit providers to use other data types, particularly when assessing MSMEs. Initiatives in this regard will need to be synthesised and coordinated to ensure that one common solution with support from all stakeholders is adopted and implemented.

The National Credit Regulator (NCR), with the support of the World Bank, is implementing an alternative data project, as was done in Chile (Box 3), which explores ways in which alternative data can be used to advance lending to unbanked segments. This is a particularly important project for MSMEs, who predominately use personal accounts to lend for business purposes, as noted earlier in the document.

Box 3: Using alternative data for credit scoring (MSME scores in Chile)

Equifax Chile launched the predictor inclusion score, a risk score derived from encrypted mobile usage data, in February 2017. When Equifax receives a credit inquiry from an unbanked person who may work for a micro-enterprise or small business, it checks its traditional credit database and if no record is found, it then (with consumer consent) queries the telecommunications database using the mobile number for matching. Equifax returns a score on exact cell phone number matches calibrated to a credit score. The score allows retailers and financial institutions to evaluate financial services requests from micro-enterprise and small business owners, many of whom lack traditional credit and financial data.

In addition to telecommunications data, Equifax is developing analytical tools based on socio-economic relationships and retail and agricultural data to supplement traditional credit data, providing new insights on this segment that allows financial institutions to make differentiated credit offers to micro-enterprise and small business owners whom they were previously unable to evaluate for credit purposes.

DSBD will partner with and support the South African Credit and Risk Reporting Association, National Credit Regulator and other bodies exploring MSME credit reporting with a view to developing a well-coordinated holistic solution, serving the whole industry and where adequate provision has been made for the inclusion of alternative data to inform credit decisions, such as digital payments data made and received by MSMEs.

Business development support services should assist MSMEs in recording accurately and using sufficient data on their business transactions to enable the enterprises to be accurately informed about their financial status. In turn, this will assist credit providers to accurately assess the risk profiles of the enterprises.

4.9 Easing small businesses' cash flow constraints through timely payments and invoice factoring

The late payments of invoices submitted by MSMEs to larger clients, be they government departments or the private sector, is a significant drag on the working capital of small businesses, which may already be in precarious financial circumstances.

National Treasury has issued Treasury Regulation 8.2.3, which provides 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 or, in the case of civil claims, from the date of settlement or court judgement". However, this currently does not carry the force of law, and it is unfortunate that many government departments routinely exceed the prescribed 30-day payment period. To encourage further compliance, the National Treasury has issued Treasury Instruction Note Number 34, which requires all government departments to submit exception reports detailing the number of invoices remaining unpaid after 30 days and the reasons thereof. Similarly, in the private sector, large clients will often force smaller suppliers to discount their invoices in return for shorter payment terms. From a policy perspective, DSBD, should work towards codifying regulations aimed at ensuring timely payment of invoices to small businesses into law.

The MSMEs are reluctant to report late payers to avoid being overlooked by dominant role players when they appoint service providers to render goods or services. The DSBD should develop an anonymous portal to enable MSMEs to report incidences of validated late payments. Late payments and related disputes should be referred to the Office of the Small Enterprise Ombud Service for further handling. The DSBD is currently developing enabling legislation for the Small Enterprise Ombud Service.

Since late payments represent unfair business practices, the DSBD should work with the Competition Commission to resolve issues relating to late payments so that an appropriate sanction can be imposed on the implicated institutions. Late payments should attract penalties in the form of interest rate charges and consequences for the officials who contributed to late payments. The Buyer Power Guidelines (2020) outline a list of unfair trading conditions, including payment terms that are longer than 30 days from the delivery date. [51]

The DSBD will seek to promote a liquid and transparent market for discounted invoices. If the public and private sector role players diligently paid MSMEs timeously, the invoice discounting market would be far less than the present. In cases where there is a long-standing relationship between the organ of State or big business and an MSME supplier, the MSME supplier should receive an advance payment from the organ of state or big business up to the maximum of 50% of the invoice amount. This has the potential to ease the cash flow of an MSME. The payment advance will eliminate the possibility of the MSME supplier sourcing expensive bridging finance from a third party to execute the allocated work seamlessly. In Kenya, the government has passed legislation favouring MSMEs regarding government tenders being awarded to them with a 10% upfront payment to alleviate liquidity (start-up finance) problems normally experienced by MSMEs when delivering on projects.

South Africa currently has an active invoice factoring market serviced mostly by commercial banks and non-bank private lenders. This however remains out of reach for most MSMEs due to limitations on the type of invoices and invoiced businesses that are eligible for factoring. DSBD will work with the industry to enable widely available invoice-backed liquidity to MSMEs at scale.

The proposed interventions should build on the work of the National Treasury and Public Service Commission on matters relating to late payments or no payment. The Public Service Commission recorded public sector late payments as ZAR3 billion in 2022.

[51] Competition Commission of South Africa. 2020. Buyer Power Guidelines.

4.10 Affordable and appropriate insurance for MSMEs, including co-operatives

South African MSMEs have significant insurable risks that represent a preventable cause for the demise of many businesses. This is particularly true for agri-based MSMEs in light of climate change and its effect on weather patterns. Insurance plays a pivotal role in many industries, such as the agriculture and automotive industries. A lack of insurance could result in the inability of MSMEs to secure finance and contracts. For instance, in the agricultural sector, small businesses are not able to access finance if they do not have the necessary insurance policies to meet the funders' requirements. During the COVID-19 pandemic, most MSMEs were forced to close doors due to losses suffered during national lockdowns because most of them did not have insurance policies to cover themselves against unforeseen business interruptions.

Entrepreneurs consistently cite high cost of premiums and lack of knowledge about risks and insurance products as reasons for low insurance penetration. It is thus clear that there is a misalignment between the demands of the MSME market and the products and services provided by the insurance industry. It is proposed that DSBD facilitate a comprehensive demand-side study to inform both the insurance industry and policy makers with in-depth insights into the insurance needs of the MSME market.

The DSBD should then partner with the Association of Savings and Investments South Africa (ASISA), South African Insurance Association (SAIA) and South African Risk Insurance Association (SASRIA) to assist the industry in developing MSME-focused products, distribution channels and consumer education strategies. This partnership should heighten awareness about the available insurance products for MSMEs and the associated costs, identify constraints for effective entry and participation of the MSMEs in the insurance market, and collectively address the barriers.

4.11 Structure of MSMEs' access to finance market

In conjunction with the National Treasury and the financial regulators, DSBD should monitor the effectiveness of the financial service structures in addressing the MSME access to finance needs. In particular, the following will be investigated:

- Ensuring that the classes of access to finance credit providers are sufficient to cover the entire MSME sector. The factors that will be taken into account are the capital adequacy requirements of the Basel models and whether a new class of bank with limited functionality (and hence risk) with lower Basel compliance (such as Basel II) can assist in improving access to finance at a reasonable cost without unnecessarily increasing systemic risk.
- Ensuring a full development finance institution for the MSME sector, ideally by repositioning Sefa to play the role of market maker, infrastructure provider, and specialist financial support functions more explicitly, thereby enabling other financial service providers to deal directly with MSMEs in a more efficient and beneficial manner. This will include the management of the partial credit guarantee scheme, the management of the start-up MSME fund mentioned earlier, coordinating the enrichment of the MSME credit information systems, actively participating in the movable asset registry and providing funding in a coordinated and structured manner to financial service providers in the MSME access to the finance sector.
- Considering the incorporation of the Co-operative Banks Development Agency (CBDA) and Small Enterprise Finance Agency (Sefa) into Seda. If feasible, this could improve support for the development of Co-operative financial institutions, including the funding of such institutions.
- The merger of Sefa, Seda and CBDA to form the Small Enterprise Development and Finance Agency (SEDFA) will enable support for financial intermediaries in the MSME access to finance space.

4.12 Stokvels: Informal MSMEs and access to finance:

The majority of MSMEs in South Africa operate in the informal space. The informal sector comprises 1.8 million MSMEs. [52] In the informal sector, MSMEs are limited in their ability to grow and contribute meaningfully to the GDP. It is also not realistic to expect all such MSMEs to move to full formality. Rather, a pathway to increased formality through financial and economic inclusion will be pursued.

DSBD will play a key coordinating role in this, following the broad policy interventions below:

- Increase access to finance for informal businesses by working with the National Treasury and the Financial Intelligence Centre to provide enabling guidelines to recognise informal MSMEs as enterprises in the financial system without the burden of full formalisation. In effect, a tiered approach to recognising MSMEs will be pursued.
- Improve the ability to uniquely identify informal MSMEs on a voluntary basis, working with CIPC and other authorities to establish a simple yet verifiable identification system. Such a system could be a prerequisite for all governmental support but should not enable SARS to levy taxes simply because of a basic registration. This will improve access and render government assistance more efficient.
- Include MSMEs run by identifiable migrants in this approach. In other words, if the business owner can be legally identified, such enterprises should be included in the efforts mentioned above.
- Include identifiable MSMEs in the alternative data system for credit assessment, specifically by including digital payment data from such enterprises.

In addition to the above initiatives, the role players should consider stokvels as a vehicle to reduce the funding gap in the informal sector. Stokvels, as defined by the National Stokvel Association of South Africa, are a type of credit union in which a group of people enters into an agreement to contribute a fixed amount of money to a common pool weekly, fortnightly or monthly. Universally, such a system is known as a rotating savings and credit association (ROSCA), which is a group of individuals who agree to meet for a defined period to save together.

The stokvels are not unique to South Africa. The stokvels represents a global financial system. They are also known as Chama in Swahili-speaking East Africa, Tandas in South America, Kameti in Pakistan, Partnerhand in the West Indies, Cundinas in Mexico, Ayuuto in Somalia, Hui in China, Gam'eya in the Middle East, Kye in South Korea, Tanomoshiko in Japan and Pandeiros in Brazil.

Stokvels are a type of rotating savings and credit association in South Africa that have an estimated value of ZAR49 billion and a membership of 11.5 million. The stokvels can be instrumental in providing finance for small businesses, especially as micro-loans to informal businesses.

For instance, Somali traders in South Africa use credit rotation systems to establish their businesses by clubbing their contributions together to buy goods from wholesalers at significant bulk discounts. This is partly why they can offer competitive deals among local business owners across the country. In many countries, the proceeds from stokvels are invested in MSME activities, but the situation is different in South Africa. The general trend is to use the proceeds from stokvel savings on food, household equipment, school fees, ceremonies, consumer durables and settlements of debt. [53]

Therefore, developing the stokvel industry could be key to poverty alleviation, reduction of unemployment and broadening equitable access to the ownership of the economy and capital accumulation. Various types of stokvels include savings stokvels, burial stokvels, investment stokvels, grocery stokvels, high-budget stokvels, and birthday-party stokvels. [54] MSMEs can use stokvels to access finance platforms. The stokvels can be divided into the following categories: [55]

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[53] SArko-Achemfour, A. 2012. Financing MSMEs in rural South Africa: An exploratory study of stokvels in the Naledi Local municipality, North West province. Sociology Anthropology, 3(2), 127-133.
[54] Bophela, M. J., & Khumalo, N. 2019. The role of stokvels in South Africa: A case of economic transformation of a municipality. Problems and Perspectives in Management, 17(4), r.
[55] National Stokvel Association of South Africa, 2023.

4.12.1 Rotational stokvel clubs

Rotational stokvel clubs are the most basic form of stokvel, where members contribute a fixed amount of money to a common pool weekly, fortnightly or monthly. Members receive the lump sum on a rotational basis, and members are at liberty to use the money for any purpose. The contributions are usually made in cash. However, some groups deposit funds into member's bank accounts for safety reasons.

4.12.2 Grocery stokvels

Grocery stokvel members typically contribute a fixed amount of money towards purchasing groceries at the end of the year. The stokvel buying season peaks between the beginning of November and the middle of December, and purchases are made at outlets that are geared towards bulk purchases. Although some retailers are geared for stokvel purchases, most groups purchase from wholesale and cash-and-carry outlets. Some groups save these funds in a stokvel club account, while others save directly with the outlets, who record these contributions and make stock available for collection during the buying period.

4.12.3 Burial societies

Burial societies provide an informal but reliable form of insurance to help members and their families with the costs of funerals. Burial societies also provide practical support for the family during the preparation. This is known as izandla (helping hands). As a typical stokvel, members contribute a set amount of money at regular intervals for a set benefit. Burial societies typically provide policies that cover the main group member as well as family and extended family. Most groups are 'self-underwritten' while an increasing number of groups are opting to partner with reputable insurance companies to minimise their risk.

4.12.4 Savings clubs

Savings club members contribute a fixed amount of money to a common pool on regular intervals. Each member receives a lump sum from this stokvel that is equal to their monthly contribution at the end of the cycle (usually annually). Members contributions are collected in cash, stored in a stokvel club account held at a bank. At the end of the cycle, these funds are withdrawn and redistributed to members in cash. Although the handling of cash introduces a security risk, most groups operate in this manner due to the fact that existing stokvel club accounts lack electronic money transfer capabilities.

4.12.5 Borrowing stokvels

Borrowing stokvels save money into a pool and use it to loan money to members and sub-members. Borrowing stokvels usually charge high interest rates for the sustainability and profitability of the groups operational model.

4.12.6 Investment clubs

Investment clubs are established to access opportunities that will contribute to the growth of the pooled funds. This may be in the form of interest from a bank account, buying stocks or establishing or taking part in a business venture. The period of time the money is kept in the investment varies from group to group.

4.12.7 Social clubs

Social clubs pool funds to arrange social activities. This entertainment may either take place at every meeting of the group, or the group may save regularly towards less regular social activities.

4.12.8 Multi-function stokvels

Multi-function stokvels evolve to include new functions as the bond between members is strengthened. Some groups maintain the same operational methods, while others evolve to add a savings club function. Savings and rotational clubs may add a loans function, and a grocery club may grow into a burial function for primary members. Social clubs typically transform into burial societies and investment clubs, while successful burial societies eventually invest their surplus funds.

4.13 Create accessible funding environment for targeted groups

Access to finance for targeted groups (youth, women, persons with disabilities) is very low. The targeted groups should be provided with the necessary funding support to equip them to start and run businesses. This will assist the targeted groups in meaningfully participating in all economic activities, owning productive assets, and creating opportunities for self-employment and the employment of others. The DSBD has designed and implemented funding instruments for persons with disabilities and youth (Amavulandlela, Youth Challenge Fund). There is no dedicated funding instrument(s) for women-owned small enterprises. It is proposed that a Women's Enterprise Fund be established to cater for small enterprises owned by women.

The role players should ensure meaningful participation of enterprises owned by targeted groups (youth, women, persons with disabilities) by constantly engaging with organisations representing the organisations to ensure that there is alignment of demand and supply of support programmes.

4.14 Monitoring of the MSME access to finance market

The monitoring, evaluation and learning (MEL) mechanisms for the programme as a whole are described in Section 5 of this document. A complementary function is to monitor the scope of service provisioning by all financial service providers, including Fintechs. This will allow DSBD to assess what needs in the small business sector are not being met or are being met inadequately, enabling DSBD to inform small businesses as to what is available and for use with what purpose. This monitoring will also enable DSBD to interact with policymakers and financial regulators to address market concerns. A regularly conducted demand-side survey will be one of the tools used for this monitoring function.

4.15 Incorporating digital financial service provisioning in MSME and co-operative access to finance

The funding institutions should consider digitising their funding application processes to address the issue of prolonged lead times. The timeframe for assessing funding applications and the granting of funding constitutes a significant challenge to MSMEs, especially in instances where capital is required on an urgent basis for working capital or for buying raw materials to service a contract. This challenge if not addressed will cause MSMEs to lose contracts due to long turnaround times on the side of financiers in processing funding applications and disbursing funds to MSMEs.

The digitisation of funding application processes will enable borrowers to complete the entire loan application process, receive the loan, and make repayments online. The application process for digital lending is simple and convenient, and it can be completed online with just a few clicks. Once the borrower has submitted their personal information and the necessary supporting documents, the loan application is processed and approved within a few hours. A practical example is a system used by banking institutions in the country to underwrite loans for individuals and businesses. The loan amount is transferred directly into the borrower's bank account after approval. Digital lending is gaining prominence due to the widespread availability of smartphones in South Africa.

The continuous development of fintech in recent years was found to be instrumental in achieving inclusive finance. South Africa has a small and rapidly growing fintech industry comprising 224 fintech companies. [56] The South African fintech sector comprises various segments: payments, lending, savings, deposits, insurtech, investments, capital raising, business-to-business tech providers, financial planning and advisory services.

The largest portion of the fintechs is located within the payment segment, which aligns with international fintech trends where payment solutions dominate the fintech landscape. The number of fintechs is anticipated to increase through support from the innovation hubs and the increasing adoption of technology in financial services. To date, ZAR665.9 billion was advanced in both the consumer and MSME credit markets. [57]

MSMEs using fintech derive benefits such as remote receipts of payment, processing of payments to suppliers, purchasing airtime, buying raw material and performing other business activities without leaving their business premises for hours. This is done because transactions are concluded while the business transaction parties are in different locations. [58] From the above, it is evident that fintech enables seamless facilitation of MSMEs transactions and improves their cashflow since most small enterprises experience difficulties in collecting receivables.

The presence of virtual money products available on various platforms was found to be contributing meaningfully to the sustainability of MSMEs. Therefore, fintech was found to have the potential of mitigating against most financial constraints experienced by MSMEs. Fintech can act as a supplementary service to the ones offered by the mainstream financiers to reach MSMEs operating in underserved and unserved places such as rural areas where the majority of people have limited access to banking services. It should be noted that network connectivity plays a huge role in the digital space.

According to the National Treasury, access to mobile services is well established among MSMEs and the use of mobile payment should meaningfully benefit MSMEs. Therefore, mobile payment capabilities cater for the financial needs of MSMEs in the form of alternative data for credit information on which financial institutions can base their credit assessments or lending decisions. Transactional records stored on MSMEs' cellular devices can be used to increase their creditworthiness. [59]

Digital financial services (DFS) play an increasing role in financial service provisioning in South Africa and globally. While such financial services, either in the form of fintech services or digital services offered by established financial service providers (FSPs) can play a major role in increasing access to financial services and finance, there are also significant risks involved in digital financial services.

The DSBD will play a key role in monitoring such services and ensure that the financial regulatory authorities are aware of the services, that adequate data is available to assess the market presence and penetration of the services and that any concerns regarding the market conduct of such providers are identified and referred to the Financial Sector Conduct Authority (FSCA). Where necessary, DSBD, in conjunction with regulatory authorities, should initiate steps to ensure that digital financial services are provided fairly and transparently and that such services meet identified needs in the MSME sector.

[56] Genesis Analytics. 2019. Fintech Scoping in South Africa.
[57] Rand Merchant Bank. 2019. The SA Fintech in motion report.
[58] Tengeh, R.K., & Talom, F.S.G. 2020. Mobile money as a sustainable alternative for MSMEs in less developed financial markets. Journal of Open Innovation, 6(163): 2-21.
[59] National Treasury. 2020. An Inclusive sector for all.

4.16 Improve microfinance institutions' capacity to deliver sustainable financial solutions

Microfinance institutions operate in a difficult environment that negatively impacts their ability to provide viable financial services to their clients. The issues that hamper the performance of the microfinance sector include a serious shortage of skilled individuals experienced in micro-enterprise lending methodologies and global best practices for the sector, lack of patient capital from donors or financiers causing sustainability issues, managerial and operational capacity issues of the development microfinance institutions, high business discontinuance rate, limited reach and impact due to their small number. There are only five microfinance institutions: Small Enterprise Foundation, Phakamani Foundation, Siyakhula Microfinance Institutions, Get Ready Investment Holdings and Akanani Finance Company.

In order to create access and cheaper funding costs for MSMEs, consideration should be given to stimulating a greater diversity of institutions, such as microfinance institutions and community banks, via the strengthening of wholesale lending channels. The wholesale lending channel represents a cost-effective distribution channel to reach informal and micro-enterprises in rural and township areas via group lending methodologies (the Grameen Bank approach). Simplified regulatory procedures should be developed to encourage these institutions that promote local investments, such as stokvels in MSME lending.

Establishing a microfinance fintech platform to stimulate the microfinance environment and to render the following services:

- Provide a centralised digital institutional infrastructure that can stimulate the growth of a variety of microfinance institutions based on the government's district development model.
- Capacity building and institutional support to create long-term sustainability.
- Mobilise corporate social investment (CSI) funds for informal and micro-enterprise financing and poverty alleviation.
- Stimulate sector-focused micro-enterprise development programmes to create economies of scale and alignment with other levels of government planning, such as investor-directed portfolio services (IDPS).
- Bulk-buying programme using big data for negotiations with manufacturers and wholesalers.
- Organising informal and micro-enterprises to co-operate and leverage opportunities towards better growth opportunities for businesses.

4.17 Implementation of a movable asset collateral registry

The use of immovable property as collateral was found to be associated with greater access to commercial bank loans. This presents a serious challenge to MSMEs since the banks' preferred collateral is not aligned with the assets composition of small enterprises, which mainly consists of short-term assets in the form of inventories, receivables, insurance policies, and cash deposits. [60]

In order to address this matter and unlock funding opportunities for the MSME sector, a movable asset collateral registry is required. The DSBD should conduct a comprehensive stakeholder engagement to establish alignment around the requirements for and implementation of a movable asset collateral registry. This should lead to the development of enabling legislation for the operationalisation of the movable asset collateral registry in South Africa and the provision of operational infrastructure for such a registry.

[60] Oko, J. A., Sule, A. I., & Udoekanem, N. B. 2022. An examination of the factors influencing commercial banks' acceptance of real property as collateral for loans in north-central Nigeria. Journal of Property Research and Construction, 5(1): 16-27.

5. POLICY TO IMPLEMENTATION

In order to realise the policy objectives, DSBD will collaborate with relevant sector role players across the private and public sectors to coordinate public and private sector support with a view to gain consensus on key access to finance issues to be addressed. This will lead to the establishment of a coordination forum (MSME working group), which will be established through the National Treasury's Financial Inclusion Sub-Working Group and will, at a minimum, comprise MSMEs and co-operatives representatives, development finance institutions, academia, financial service provider representatives, industry bodies such as business chambers, business accelerators, incubators and business development service providers, as well as the Banking Association of South Africa (BASA), Development Microfinance Association (DMA), Microfinance South Africa (MFSA) and Southern African Venture Capital and Private Equity Association (SAVCA).

The DSBD will chair the coordination forum. It will oversee the implementation of the MSMEs and Co-operatives Funding Policy and use monitoring, evaluation and learning (MEL) information to make adjustments to the funding policy and funding support programmes.

5.1 Monitoring, evaluation and learning (MEL)

The funding interventions should constantly be evaluated for their effectiveness to scale up those programmes that are performing well and change or terminate those that do not perform well. Currently, there is no uniform and consistent approach to monitoring, evaluation, and learning on funding support interventions for MSMEs and co-operatives in the country. There should be a clear set of uniform indicators or measures to assess the performance of the funding initiatives as well as their impact on MSMEs and co-operatives.

The banking sector currently holds a vast number of unallocated resources that must be harnessed into the economy for more productive purposes, such as MSME lending. The Financial Sector Charter (FSC) sets out the voluntary initiative for broad-based Black economic transformation through providing accessible financial services to Black people and indirect investment in the economy. A key shortfall in the implementation of the FSC is its lack of transparency and accountability.

The DSBD and relevant role players must develop a reporting standard for financial institutions to report on their level of MSME lending to targeted groups and on the spatial distribution (rural and townships) of their lending. Such voluntary disclosure by the banks must be implemented for three to five years, after which consideration must be given to the regulation of disclosure. Disclosure regulation has been successfully piloted in other areas, such as the United States of America, through the Community Re-investment Act.

Reporting on MSME credit extension by lenders needs to be more transparent to enable accurate analysis of which MSME are funded and, importantly, which ones are not funded and why. The funding institutions' reports should be taken into account in environmental, social, and governance reporting. The banking institutions should be obliged to provide more granular reporting than the current reporting on MSME credit to the South African Reserve Bank. Reporting should outline the size of the business, the turnover categories and any other categories deemed to be important.

The DSBD should reduce the extent of data fragmentation by determining data needs. Two mechanisms are required: one mechanism to ensure that such data points are collected and are available to DSBD and the second mechanism of a common reporting framework for adoption by both the private and public sector financiers to measure the supply of MSMEs and co-operatives finance for identifying areas that require special attention and development. To develop these mechanisms, the DSBD should work with the regulatory authorities: South African Reserve Bank (SARB), the Financial Sector Conduct Authority (FSCA) and the National Credit Regulator (NCR).

A third continuous monitoring and evaluation (M&E) mechanism of the funding programmes is needed to inform and strengthen programme design and to deliver funding support programmes. A monitoring and evaluation and MSMEs and Co-operatives Funding Policy Implementation Plan will be developed to effectively implement the MSMEs and Co-operatives Funding Policy Implementation Plan.

A monitoring and evaluation mechanism should be established to monitor the effectiveness of the policy implementation, especially for closing the MSME credit gap. Such a monitoring and evaluation mechanism should:

- Create platforms for dialogue and knowledge sharing between policymakers, financial institutions and MSME representatives to identify challenges and explore innovative solutions to improve access to finance
- Conduct market assessments to identify gaps and inefficiencies in the MSME finance ecosystem, including underserved sectors, regions and demographics.
- Track the effectiveness of interventions aimed at enhancing MSME finance, including indicators such as loan disbursements, business survival rates, job creation and revenue growth.
- Use data-driven insights to refine policies and programmes over time, ensuring they are responsive to the evolving needs of MSMEs and contribute to sustainable economic development.

6. THE WAY FORWARD

This document is the final MSMEs and Co-operatives Funding Policy that the DSBD developed in the 2021/2022 financial year. The funding policy was released for public comments through a series of consultation sessions held in April 2023. The MSMEs and Co-operatives Funding Policy was gazetted for public comments to enable members of the public to contribute towards the contents of the funding policy. The document incorporates comments from the consultation sessions, outlines the government's objectives towards strengthening the provision of finance towards the MSME and co-operative sector and proposes an approach to the implementation of the funding policy objectives.

The MSMEs and Co-operatives Funding Policy was presented to the internal DSBD governance structures (MANCO and EXCO), economic sectors, investment, employment and infrastructure development (ESIEID) cluster and the Cabinet. The final funding policy was approved by the Cabinet for implementation in September 2024.

6.1 MSMEs and Co-operatives Implementation Plan

To effectively implement the MSMEs and Co-operatives Funding Policy, the proposals enclosed in the final policy were translated into an MSMEs and Co-operatives Implementation Plan, which outlines the steps that need to be taken to achieve the funding policy objectives and to provide tools to track progress and measure the impact of the policy. The implementation plan is attached as Annexure A for ease of reference. All role players were onboarded and actively participated in the process of setting high-level outcomes, outputs, and associated impact indicators to track the implementation of the policy.

The DSBD in collaboration with other government departments, regulators and industry representative bodies to establish the coordination forum in 2024, which will include:

- MSME Access to Finance Working Group.
- Co-operatives' Access to Finance Working Group.

The MSMEs and Co-operatives Access to Finance Monitoring and Evaluation Framework will be developed in 2028. The realisation of the MSMEs and Co-operatives Funding Policy objectives will also be supported by additional research papers focusing on the identified priority areas.

ANNEXURE A: MSMEs and Co-operatives Implementation Plan

Outcome: Effective support and services delivery for MSME growth, both financial and non-financial.

OUTPUT	Improve coordination in the MSME and co-operative access to the finance ecosystem.	Database of small businesses.
ACTIVITIES	• Establish a National Coordination Forum. • Conduct educational workshops on the implementation of the MSMEs and Co-operatives Funding Policy. • Create appropriate coordination platforms (crowdfunding platforms, shared information portals, work streams, etc.) for MSME access to the finance ecosystem. • Establish a project team made up of DTIC and DSBD officials to fast-track changes to the enterprise and supplier development codes. • Establish MSME access to finance work stream. • Establish small business advisory body to serve as a voice of the MSME and co-operative sector.	• Build a comprehensive database of MSMEs, including but not limited to business owners, company profiles, compliance status, financial data and information on payment behaviour. • Role players agree on a common definition of an MSME. • Municipalities to collect and share information about MSMEs and co-operatives falling within their jurisdiction. • Development finance institutions, banks and other financiers to share information about the MSMEs and co-operatives supported for inclusion into the consolidated database.
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High.	High.
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Inadequate buy-in from role players. Mitigation measures: Involve all role players in the conceptualisation and execution phases.	**Risks:** Absence of a reliable database of MSMEs and co-operatives makes planning difficult. Mitigation measures: DSBD and role players to incrementally build a database of MSMEs and co-operatives.
RESPONSIBLE INSTITUTIONS	**Lead:** DSBD **Support:** National Treasury, BASA, BBBEE Commission, Consolidated Employers Organisation, DTIC, IFWG, NCR, FIC, DSD, SARS, FSCA, CBDA.	**Lead:** DSBD **Support:** CSIR, SALGA, Consolidated Employers Organisation, DTIC, CIPC, SAITA, development finance institutions, municipalities, BASA.
TIMELINE	1 to 2 years.	1 to 2 years.
LINK TO NATIONAL PRIORITIES	ISPESE, NISED Strategic Framework.	NISED Strategic Framework.

OUTPUT	Improve the provision of start-up capital.	Targeted funding instruments for MSMEs and co-operatives.
ACTIVITIES	• Advocate for the reduction in corporate tax for tech start-ups to incentivise venture capital flows to the MSME sector. • Design a central fund to be capitalised through underspending on enterprise development component of the enterprise and supplier development allocation (3% NOPAT). • Design other funding structures to be funded through public and private sector partnerships for the benefit of the MSME sector.	• Partner with credible institutions through formal partnerships to share risks and rewards and stretch the value of money. • Conduct research on innovative funding solutions to implement evidence-based programme design. • Intensify pitch for funding initiatives in townships and rural areas. • Popularise common funding application form, standardised term sheets and business plan template. • Institutionalise purchase order finance and cession agreements. • Popularise debt restructuring options. • Advocate for the simplification of the application processes and adoption of cash flow-based lending by financiers. • Develop a referral framework for misdirected applications in partnership with other financiers. • Establish a sovereign wealth fund for the MSME sector and fund of funds using underspending on enterprise and supplier development allocation for the enterprise development component.
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High.	High.
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Limited availability of start-up capital in the MSME sector. **Mitigation measures:** Public or private sector partnerships.	**Risks:** Funding support programmes not aligned to the needs of the MSMEs and co-operatives. **Mitigation measures:** Continuous engagement with role players such as MSMEs and co-operatives and organisations representing them with a view to establish their funding needs.
RESPONSIBLE INSTITUTIONS	**Lead:** DSBD. **Support:** DTIC, DT, DSI, DFFE, DALRRD, development finance institutions, banks, venture capitalists, philanthropists.	**Lead:** DSBD. **Support:** DTIC, development finance institutions, BASA, DMA, SAITA, business chambers, academia, FASA, municipalities, MSMEs, co-operatives.
TIMELINE	1 to 2 years.	1 to 2 years.
LINK TO NATIONAL PRIORITIES	NDP and ERRP.	ERRP, National Development Plan, White Paper on National Strategy for the Development and Promotion of Small Business in South Africa.

OUTPUT	Improve business development support.	De-risking MSMEs finance through credit guarantee.
ACTIVITIES	• Implement the Incubation and Business Development Services Policy. • Increase the number of incubators and digital hubs to cover underserved and unserved areas such as townships and rural areas. • Advocate for the inclusion of financial literacy in the school curriculum. • Use unemployed commercial stream graduates to render business development support to MSMEs and co-operatives under supervision.	• Review Khula Credit Guarantee to make it more effective and responsive • Recapitalise Khula Credit Guarantee • Diversify into other sectors, such as the green economy and essential oils
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	Medium.	High.
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Limited access to business development support (compliance, pre-funding support, financial readiness, etc.).	**Risks:** A negative perception of financiers about small businesses. Low utilisation of the guarantee scheme by commercial banks exclusion of Khula Credit Guarantee from the Bounce Back Scheme. Mitigation measures: Reconfigure Khula Credit Guarantee to make it more responsive. Build strategic partnerships with BASA to promote the Khula Credit Guarantee from the Bounce Back Scheme. Find alignment with the National Treasury regarding the participation of Khula Credit Guarantee in the Bounce Back Scheme.
RESPONSIBLE INSTITUTIONS	**Lead:** Seda **Support:** SABTIA, business development support providers, DHET, academia, accounting professional bodies.	**Lead:** Sefa **Support:** DFFE, National Treasury, World Bank, DSBD, BASA.
TIMELINE	1 to 2 years.	1 to 2 years
LINK TO NATIONAL PRIORITIES	IBDS Policy.	South African Financial Inclusion Policy, NISED Strategic Framework, NDP and ERRP.

OUTPUT	Implementation of a movable asset collateral registry.	Establish simplified business registration and legal processes for winding up MSMEs.
ACTIVITIES	• Constitute inter-ministerial steering committee. • Conduct sensitisation and knowledge promotion activities for key stakeholders to secure buy-in. • Revise and update the 2015 diagnostic report on secured transactions in movable assets in South Africa. • Develop and adopt a road map for reforming the legal and institutional frameworks for modernising the movable asset financing regime in South Africa, including the establishment of a collateral registry. • Develop and implement an action plan for the design and deployment of a modern, electronic, movable asset collateral registry. • Deploy a modern electronic movable asset collateral registry (the timeline for this will be 2025).	• Review of the Companies Act. • Establishment of separate winding-up processes for MSMEs in various stages of the business life cycle.
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High	Medium
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Lack of immovable assets preferred by lenders as collateral limits MSME's access to finance. **Mitigation measures:** Develop enabling legal and institutional frameworks for movable assets financing. Implement the South African movable asset collateral registry.	**Risks:** No buy-in from industry and the legal fraternity. **Mitigating measures:** Extensive consultation with relevant stakeholders in the development of a concept paper and agreement on standard definitions.
RESPONSIBLE INSTITUTIONS	**Lead:** DSBD **Support:** NT, World Bank (International Finance Corporation), BASA, IFC, DoJ&CD, NCR, DTIC, SECO.	**Lead:** CIPC, SARS, High Court of South Africa, Law Society **Support:** DSBD, NT, development finance institutions, BASA.
TIMELINE	1 to 2 years.	3 to 5 years.
LINK TO NATIONAL PRIORITIES	South Africa Financial Inclusion Policy, NISED, NDP and ERRP.	National Business Act.

OUTPUT	Credit information systems for small businesses.	Credit information systems for small businesses.
ACTIVITIES	• Expand credit information sharing through onboarding of small credit providers (including co-operatives). • Promote the adoption and usage of alternative data. • Support business credit reporting.	• Expand credit information sharing through onboarding of small credit providers (including co-operatives) • Promote the adoption and usage of alternative data. • Support business credit reporting.
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High	High
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Absence of credit information on MSMEs, especially small and micro-enterprises limits access to finance their growth and development. **Mitigation measures:** Enhance the credit reporting system to enable small credit providers (including co-operatives) to report information to credit bureaus and pilot data-based lending products. Promote digitisation and reporting of information by small credit providers (including co-operatives).	**Risks:** Absence of credit information on MSMEs, especially small and micro-enterprises limits access to finance their growth and development. **Mitigation measures:** Enhance the credit reporting system to enable small credit providers (including co-operatives) to report information to credit bureaus and pilot data-based lending products. Promote digitisation and reporting of information by small credit providers (including co-operatives).
RESPONSIBLE INSTITUTIONS	**Lead:** NCR **Support:** NT, DSBD, World Bank, SARB, SECO, BASA, SACRRA.	**Lead:** NCR **Support:** NT, DSBD, World Bank, SARB, SECO, BASA, SACRRA.
TIMELINE	1 to 2 years.	1 to 2 years.
LINK TO NATIONAL PRIORITIES	South African Financial Inclusion Policy, NISED Master Plan, NDP and ERRP.	South African Financial Inclusion Policy, NISED Master Plan, NDP and ERRP.

OUTPUT	Easing small businesses' cash flow constraints through timely payments and invoice factoring.	Affordable and appropriate insurance for small businesses.
ACTIVITIES	• Develop the South African National Late Payment Strategy and Implementation Plan. • Lobby Auditor-General South Africa (AGSA) to audit and raise findings on compliance with Treasury Regulation 823. • Validated late payments should be reported to the Small Enterprise Ombud Service and Competition Commission for further handling.	• Promote insurance policies as safeguards to protect businesses against unforeseen circumstances. • Together with the insurance sector, develop affordable and appropriate insurance products for small businesses • Conduct periodic insurance needs analysis for MSMEs and co-operatives • Conduct educational workshops about small business insurance. • Heighten awareness on how to use insurance policies as security for loans
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High	High
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Retaliation by dominant players that may be faced by MSMEs that report late payments. Lack of access to finance to sustain MSME and co-operatives growth. **Mitigation measures:** DSBD should consider creating an anonymous reporting portal that allows MSMEs to report late payments and share their experiences. Promotion of innovative asset-based (cashflow) lending, including supply chain financing.	**Risks:** Business closure and loss of capital invested in small businesses in the event of disasters, theft or fire. Limitations of the range of insurance products available to MSMEs. **Mitigation measures:** Insurers will perform demand and supply-side research and implement evidence-based insurance products, as well as constant monitoring, evaluation, and re-assessment of the insurance products to ensure that they are relevant and responsive to the needs of MSMEs.
RESPONSIBLE INSTITUTIONS	**Lead:** Small Enterprise Ombud Service **Support:** Competition Commission, PSC, DPSA, DPME, NT, World Bank, AGSA, PSC, municipalities, private sector institutions.	**Lead:** South African Insurance Association **Support:** DSBD, NT, business chambers, SASRIA, MSMEs and co-operatives, SAITA.
TIMELINE	1 to 2 years.	1 to 2 years.
LINK TO NATIONAL PRIORITIES	NDP and ERRP, NISED.	Financial Inclusion Policy.

OUTPUT	Improve and monitor the MSMEs and co-operatives access to the finance market.	Improve informal MSMEs access to the finance ecosystem.
ACTIVITIES	• Strengthen monitoring and evaluation by requesting financiers to report on granular details about their funding interventions. • Track the supply and demand for MSME and co-operatives funding. • Raise awareness about MSMEs and co-operatives goods and services that are in demand. • Host co-operatives Investment summit.	• In partnership with the banking sector, roll out workshops outlining the benefits of separating personal bank accounts from business account. • Develop evidence-based financial and non-financial support programmes for the informal sector. • Advocate with relevant financial institutions for relaxation of the stringent requirements for accessing financial support. • Create strategic partnerships with municipalities in alignment with the revised District Development Model Ecosystem Facilitation Model (DDM model). • Engage microfinance institutions to conduct a comprehensive review of microlending practices. • Provision of incentives that will increase formalised savings and investments within the informal business sector (e.g., stokvels and burial societies). • Formalising banking services for the informal business sector through cell phones and other related technology • Review of the National Informal Business Upliftment Strategy (NIBUS).
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High	High
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Fragmented reporting on funding activities for MSMEs and co-operatives on the side of financiers. **Mitigation measures:** All funding interventions must be reported to a central place, preferably DSBD, annually and evaluated for quality, relevance and impact every three years.	**Risks:** Lack of proper coordination pertaining to funding activities at the local government level. **Mitigation measures:** Implement funding support interventions through the DDM model.
RESPONSIBLE INSTITUTIONS	**Lead:** DSBD. **Support:** DPME, private sector, SARB, development finance institutions, BASA.	**Lead: S**AITA, other organisations representing the informal sector **Support:** NASASA; DSBD, Seda development finance institutions, BASA, FSCA, NT
TIMELINE	1 to 2 years.	2 to 5 years.
LINK TO NATIONAL PRIORITIES	High.	NIBUS, South African Financial Inclusion Policy.

OUTPUT	Incorporate digital financial services in MSME access to finance.	Create an accessible funding environment for targeted groups (youth, women, persons with disabilities).
ACTIVITIES	• Digitise funding application processes to improve turnaround times. • Conduct educational workshops on innovative digital payment services.	• Ensure meaningful participation of enterprises owned by targeted groups in all funding interventions by constantly engaging with organisations representing them to align demand and supply of support programmes. • Raise awareness about available funding instruments through educational workshops with organisations representing designated groups and their members. • Prioritise the provision of pre and after-investment support to designated groups. • Increase outreach initiatives.
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High.	High.
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Low adoption of technology by MSMEs and co-operatives. **Mitigating measures:** Promote fintech solutions to the MSME and co-operative sector in partnership with IFWG.	**Risks:** Low uptake of MSMEs and co-operatives funding support programmes by designated groups. **Mitigating measures:** Establish partnerships with organisations representing designated groups.
RESPONSIBLE INSTITUTIONS	**Lead:** IFWG. **Support:** SARB, NCR, Competition Commission, National Treasury, FSCA, SARS, FIC.	**Lead:** DWYPD. **Support:** NYDA, DSBD, Blind SA, Deaf SA, Albinism Society of SA, NCPD.
TIMELINE	1 to 2 years.	1 to 2 years.
LINK TO NATIONAL PRIORITIES	Financial Inclusion Policy.	Women Financial Inclusion Framework, ERRP, 2019-24 MTSF.

OUTPUT	Improve development microfinance institutions' capacity to deliver sustainable financial solutions.	Improve Co-operatives Access to Finance.
ACTIVITIES	• Develop a network of microfinance intermediaries to service micro-enterprises. • Build an IT platform that provides the operating framework for microfinance institutions, which micro-entrepreneurs can access funding opportunities. • Prioritise allocation of patient capital to microfinance intermediaries for lending to micro-enterprises • Advocate for the recognition and classification of microfinance as a crucial and scarce skill. • Develop funding support interventions focusing on stokvels and burial societies.	• Conduct demand-side research to establish cooperative funding needs. • Develop strategies for the promotion and positioning of co-operative banks as alternative sources of funding for co-operatives. • Implement financing models focusing on preformation up to the exit stage of the co-operatives.
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	High.	High.
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Unsustainable microfinance institutions result in funding gaps in the informal and micro-enterprises, especially small enterprises operating in townships and rural areas. **Mitigating measures:** Establish, capacitate and capitalise a new network of retail intermediaries to service the unserved and underserved market segment that is served by the microfinance institutions.	**Risks:** Mismatch between demand and supply of funding products to the co-operative sector. **Mitigating measures:** Constant engagements with role players in the co-operative sector to inform evidence-based programme design.
RESPONSIBLE INSTITUTIONS	**Lead:** DSBD **Support:** DMA, SEF, PF, SMI, GIH, AFC, Sefa, NASASA, DTIC, National Treasury.	**Lead:** DSBD **Support:** NT, CIPC, CBDA, development finance institutions.
TIMELINE	1 to 2 years.	1 to 2 years.
LINK TO NATIONAL PRIORITIES		Co-operatives Banking Sector Strategy.

OUTPUT	Monitoring, Evaluation and Learning (MEL).	
ACTIVITIES	• Monitoring and evaluation of all funding interventions to check their effectiveness and relevance with a view to scaling up programmes that are performing well and changing or terminating those that do not perform well. • Funding institutions to provide periodic reports about their funding activities (including economic, social and governance (ESG) reporting).	
PRIORITYHIGH: 1 TO 2 YEARS MEDIUM: 2.1 TO 5 YEARS LOW: 5.1 TO 10 YEARS	Medium.	
IDENTIFIED RISKS AND MITIGATING MEASURES	**Risks:** Financial support interventions not responsive to the funding needs of the MSMEs and co-operatives. **Mitigating measures:** Monitoring and evaluation exercise to be conducted on the funding programmes to inform, strengthen programme design and delivery of funding support programmes. Lessons learned are documented for learning and continuous improvement purposes.	
RESPONSIBLE INSTITUTIONS	**Lead:** NPC. **Support:** DSBD, DPME, NT.	
TIMELINE	5 to 10 years.	
LINK TO NATIONAL PRIORITIES	NISED Strategic Framework.	