

Final Report

Longitudinal Study on SMMEs and Co-Operatives in South Africa: 2021



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Abbreviations

7NDP	7th National Development Plan
AI	Artificial Intelligence
BEIS	Department of Business, Energy and Industrial Strategy
BRICS	Brazil, Russia, India, China, South Africa
COVID-19	Coronavirus 2019
DSBD	Department of Small Business Development
DTIC	Department of Trade, Industry and Competition
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
ILO	International Labour Organisation
NDP	National Development Plan
PPE	Personal Protective Equipment
QLFS	Quarterly Labour Force Survey
SARS	South African Revenue Service
SEDA	Small Enterprise Development Agency
SF	Solidarity Fund
SMME	Small, Medium and Micro Enterprises
SSA	Sub-Saharan Africa
UIF	Unemployment Insurance Fund
UK	United Kingdom

1. Section 1: Introduction

The South African National Development Plan¹ (NDP) describes the government strategy for reducing inequality, eliminating poverty and stimulating growth of the South African economy. Small, Medium and Micro Enterprises (SMMEs) and co-operatives form an integral part of this strategy, with the sector being viewed as a tool for increasing employment and empowering the previously disadvantaged groups of South Africa.

The onset of the COVID-19 pandemic has compromised the attainment of many of the goals laid out in the NDP, with a large impact on the South African economy and on small business in particular. While reducing unemployment is one of the primary objectives of the NDP, South Africa saw a significant decrease in employment as a result of COVID-19. In May 2020, 43% of business in the country fired workers as a result of the pandemic².

Within this context, it has become more important than ever to understand SMMEs and co-operatives, their needs and challenges faced, and the opportunities that exist to support their growth. This literature review will summarize the current state of SMMEs and co-operatives in South Africa. Thereafter, we will review the impact of COVID-19 on the sector and seek to understand the impact of government support programs on small business and co-operatives. The review concludes with a discussion on the challenges and opportunities that exist for the small business sector.

The overall purpose of this study is to:

- Assess the impact of government support programmes aimed at the cohort of SMMEs and co-operatives
- Uncover inhibitors and opportunities for growth for the development of SMMEs and co-operatives
- Assess the performance of SMMEs and co-operatives within the South African economy

¹ The Presidency, 'National Development Plan 2030: Our Future - Make It Work', 2012.

² The World Bank Group, 'Country Profile: South Africa', *COVID-19 Business Pulse Survey*, 2021

- To get a longitudinal profile of SMMEs and co-operatives in the South African economy

1.1. Research objectives

The primary aims of the study is to provide credible and consistent longitudinal data on Small, Medium and Micro Enterprises (SMMEs) and co-operatives from 2021 to 2023 and to assess the following:

- a) A comparative analysis of the developments, trends, and performance of SMMEs and Co-operatives in relation to that of the South African economy. This should include a particular focus on:
 - the impact of COVID-19 on SMMEs and co-operatives;
 - the contribution of SMMEs and co-operatives to employment;
 - the informal sector
- b) An analysis of the impact of government support to SMMEs and co-operatives in relation to the National Development Plan's (NDP) goals of reducing inequality, unemployment and elimination poverty. This evaluation should include an investigation into the impact of government support in response to the COVID-19 pandemic.
- c) Create a longitudinal profile of South African SMMEs and co-operatives through the collection of consistent data, including variables such as turnover, imports, employment creation, and formalization, among others.
- d) Understand the inhibitors and opportunities to growth for South African SMMEs, and the presentation of proposed solutions to the challenges faced. This investigation should consider the role played by COVID-19 and proposed solutions should include both the recovery and post-recovery period.

1.2. Methodology

A mixed methodology approach was used for this research, comprising of a review of existing literature, qualitative interviews with experts and stakeholders in the small business sector, a survey with small business owners, and benchmarking case studies.

1.2.1. Literature review

A review and analysis of the literature was conducted, including a review of secondary data sources such as Statistics South Africa (StatSA). The literature review aims to:

- Understand the inhibitors and challenges to growth for SMMEs and co-operatives.
- Understand the opportunities for growth for SMMEs and co-operatives.
- Understand the impact of COVID-19 on SMMEs and co-operatives, including barriers and opportunities for growth created by the pandemic.
- Establish trends in the small business sector emanating from the state of the South African economy and the policy environment for supporting the small business sector.

1.2.2. Benchmarking case studies

Three case study countries were selected for a benchmarking exercise, which aimed to inform the research design for this project. This exercise comprised two components: first, gaining insights into the most effective means of designing and conducting a longitudinal study, and second, benchmarking South Africa's performance with regards to the small business sector against other, comparable, countries. These case studies were then used to assist with the formulation of an approach for this longitudinal study, borrowing from best practises established through this benchmarking exercise.

1.2.3. Primary data collection

The primary data collection followed a three-step process. First, expert interviews were conducted. The findings from these interviews were used to develop a survey to be conducted with small business owners. A second round of expert interviews was then conducted to add further nuance and detail to the research.

Expert interviews

Experts from three different focus groups were interviewed:

- Experts with particular insights into the experience of co-operatives
- Experts with particular insights into the experience of the informal sector

- Experts with particular insights into the implementation of interventions/programmes for small business support

These focus groups were selected based on the gaps in the existing research, allowing for deeper understanding to be gained in areas where desktop research was lacking. Table 1 gives a summary of the distribution of these interviews in each round.

Table 1: Expert interviews conducted

	Number of interviews	Focus area distribution
Round 1	8	3x Co-operative experts 3x informal sector experts 2x intervention design and implementation experts
Round 2	11	3x co-operative experts 4x informal sector experts 4x intervention design and implementation experts

Quantitative survey

A quantitative survey was conducted with 714 small business owners. A detailed breakdown of the sampling strategy for the survey is included in the Appendices. The sample was stratified by size category, province, and area of operations (i.e., urban, rural, and township). Co-operatives were over-samples relative to their contribution to GDP. This was done in order to ensure that the survey sample contained enough co-operatives to enable statistical analysis of the differences between co-operatives and SMMEs.

Table 2 gives a summary of the sample size achieved for each size category of enterprise, disaggregated by province.

Table 2: Survey sample

Micro	Small	Medium	Co-operative	Total
-------	-------	--------	--------------	-------

Eastern Cape	40	8	5	4	65
Free State	34	4	2	4	44
Gauteng	233	37	21	36	327
KZN	65	6	14	9	94
Limpopo	32	3	7	5	47
Mpumalanga	30	5	3	2	40
North-West	21	2	1	2	26
Northern Cape	6	2	1	1	10
Western Cape	84	13	6	8	111
Total	545	80	60	67	700

SMMEs and co-operatives were identified using a database provided by the DSBD, with surveys conducted telephonically.

1.3. Limitations of the study

- **Limited existing research specific to co-operatives in South Africa.**

Although SMMEs have been widely studied in South Africa, there is limited research available that is specific to co-operatives: a total of 13 studies on South African co-operatives were identified that were published between 2017 and 2021. Of these, 6 considered only co-operatives in particular

provinces³ and a further 4 considered only co-operatives operating in particular industries⁴, leaving only 3 studies on co-operatives as a whole in South Africa⁵.

Furthermore, because co-operatives make up a small portion of the small business sector, those studies that include co-operatives when examining the sector as a whole tend to have small sample sizes for co-operatives in particular (between 4 and 15 co-operatives in the studies listed), resulting in difficulties establishing the generalizability of these findings. This study aimed to overcome this challenge by interviewing experts on co-operatives and ensuring to include questions specific to co-operatives in these interviews. Furthermore, the survey over-sampled co-operatives in order to allow for more generalizable findings from the survey data.

³ Nhlanhla Kenneth Buthelezi, 'Factors Influencing the Operational Performance of Co-Operatives in South Africa: A Case Study of UThukela District Municipality'; Mthokozisi Lungisani. Mkhize, 'The Role of Sense of Community in Promoting Community Based Entrepreneurship in Rural KwaZulu-Natal, South Africa : An Exploratory Study of Agricultural Co-Operatives.', 2017 <<https://researchspace.ukzn.ac.za/handle/10413/16253>> [accessed 12 December 2021]; S. Zantsi, 'Why Do Agricultural Co-Operatives Fail to Attract Youth and Create Rural Employment? Evidence from a Case Study of Zanolhanyo in Butterworth, Eastern Cape', *South African Journal of Agricultural Extension (SAJAE)*, 49.1 (2021), 183–97 <<https://doi.org/10.17159/2413-3221/2021/v49n1a10785>>; B. E. Cisse and S.O. Shisanya, 'Transforming Smallholder Agriculture through Cooperatives for Improving Households Food Security at OR Tambo District Municipality, South Africa', *African Journal of Agricultural Research*, 14.34 (2019), 1878–82 <<https://doi.org/10.5897/AJAR2019.13530>>; M. Bruce Diale, 'The Factors That Led to the Collapse of Agricultural Co-Operatives in Sekhukhune District of the Limpopo Province', 2018 <<http://ulspace.ul.ac.za/handle/10386/3308>> [accessed 12 December 2021]; T. S. Ngomane and M. P. Sebola, 'Women in Agricultural Co-Operatives for Poverty Alleviation in Mpumalanga Province : Challenges, Strategies and Opportunities', *OR Tambo International Airport*, 2019 <<http://ulspace.ul.ac.za/handle/10386/2713>> [accessed 12 December 2021].

⁴ Sizwe Mkwana and others, 'Supplier Development Funding: Evaluating a Funding Model for South African Manufacturing Co-Operatives' <<https://www.researchgate.net/publication/318795614>> [accessed 12 December 2021]; Sizwe Mkwana and others, 'Exploring the Secondary Co-Operative Model in the Supply of Fabric to Primary Sewing Co-Operatives' <<https://www.researchgate.net/publication/318795466>> [accessed 12 December 2021]; Linda Godfrey and others, 'Co-Operatives as a Development Mechanism to Support Job Creation and Sustainable Waste Management in South Africa', *Sustainability Science* 2017 12:5, 12.5 (2017), 799–812 <<https://doi.org/10.1007/S11625-017-0442-4>>.

⁵ Rekan Jankie, 'Co-Operatives in South Africa and Beyond', *New Agenda: South African Journal of Social and Economic Policy*, 66.0 (2017), 43–45 <<https://www.ajol.info/index.php/na/article/view/160389>> [accessed 12 December 2021]; S Roy Gundani, Lufuno Nevondwe, and Kola O Odeku, 'The Contribution of Co-Operatives to Rural Economic Growth and Poverty Alleviation in South Africa: Lessons from Bangladesh', *Bangladesh E-Journal of Sociology*, 15.2 (2018); Julia Mantsali Modise, 'Guidelines for Sustainable Women Co-Operatives', 2020 <<http://etd.uwc.ac.za/xmlui/handle/11394/7240>> [accessed 12 December 2021].

- **Existing data does not distinguish between medium and small enterprises.**

The data available from StatSA only specifies employee categories up to 50 employees, thereafter, asking only whether the enterprise has 50 or more employees. The employment-based definition of enterprise size given by the DSBD defines medium enterprises as having up to 250 employees, depending on the sector⁶.

Given this, the StatsSA data does not distinguish number of employees in enough detail to distinguish between medium and large enterprises. The impact of this is that we cannot investigate changes in the contribution of medium enterprises to the economy, changes in the profiles of their owners or in the enterprises themselves over time. The survey data collected for this research included questions on employees and turnover with sufficient detail to distinguish all enterprise sizes. Furthermore, the database of survey respondents was drawn from only enterprises that fall within the micro- to medium size categories.

Recent changes in the definition of enterprises, limiting the comparability of the findings to previous research. In 2019 the Department of Small Business Development revised the national definitions of enterprise size, which are presented in Appendix A. These revisions are more in line with international definitions, making comparison to other countries easier. However, comparisons to previous South African research should account for the differences in definitions used. Table 3, below, shows the definitions used for this study.

Table 3: Enterprise Size

Business size	Number of employees
Micro	0 – 10

⁶ Department of Small Business Development, *National Small Enterprise Amendment Bill 2020* (Pretoria: Government of South Africa, 2020) <http://www.dsbd.gov.za/wp-content/uploads/2020/12/NSEA-Bill-2020-Government-Gazette-43981-notice-709-page-203-SKM_C65820121111220.pdf>.

Small	11 – 50
Medium	50 - 250

- **Reluctance of SMMEs and co-operatives to disclose sensitive information.**

The survey data collected had several variables where respondents showed a reluctance to give answers to questions. Most prominent among these is turnover, where fewer than 2% of respondents elected to give an answer. Other variables with low response rates include export and import as a percentage of revenue. This was due to the low percentage of enterprises that reported importing and exporting goods and services, with only 5,74% of enterprises reporting importing goods and services and only 2,94% of enterprises reporting exporting. The effect of this is that these variables had insufficient data to allow for cross-validation or sub-group analysis based on these measures.

1.4. Structure of the report

This report is structured into seven sections:

Section 1: Gives an introduction into the research project, the objectives and the methodology.

Section 2: Gives a brief overview of the global context for SMMEs and co-operatives. Thereafter, the section discusses longitudinal studies as a method for understanding the small business sector and examines three existing longitudinal studies to gain methodological insights for the research conducted here.

Section 3: SMMEs and Co-operatives in South Africa gives an overview of the small business sector in South Africa. It discusses the macroeconomic and regulatory context of the country and then presents a profile of SMME owners and the contribution of small enterprises to the South African economy. The section concludes with a discussion on three case study countries to place the South African case into a broader context.

Section 4 reviews the experiences of South African SMMEs and co-operatives, beginning with a review of the historical challenges that they face. Thereafter, the section examines the current challenges faced by these enterprises and concludes with a consideration of how the COVID-19 pandemic has impacted the small business sector.

Section 5 reviews government support for SMMEs and co-operatives and summarizes the support available for these enterprises. Thereafter, the section examines the impact of government support and concludes with a discussion on the challenges faced in the effective implementation of government support to the sector.

Section 6 considers the future of SMMEs and co-operatives in a post-recovery context. This section considers the characteristics of successful SMMEs and co-operatives and compares these to the findings from the survey to establish existing gaps in the skills, characteristics, and resources among SMMEs and co-operatives. The section continues to review the opportunities for growth within the sector and concludes with a discussion on the support that SMMEs and co-operatives will need in this post-recovery phase.

Section 7 concludes with a short summary of the ten key findings from this research and concludes with recommendations for government policies and future research.

2. Section 2: An Overview of the Global Economy

The introduction of the COVID-19 vaccine has brought with it new hope for the global economy. The World Bank⁷ estimates that global growth will reach the strongest post-recession pace in nearly a century, estimating a 5.6% growth rate in 2021. Despite this, recovery is highly uneven, with most emerging and developing market economies seeing lower growth rates⁸. Alongside increased poverty and food instability, emerging markets are facing higher trade costs and increased fiscal strain as these countries struggle to make their way back to pre-pandemic levels. In Sub-Saharan Africa (SSA), economic growth is expected to reach 2.8% in 2021 and 3.3% in 2022⁹. The agricultural sector in the region is anticipated to strengthen economic prospects and tourism is slowly increasing once more, although it is nowhere near pre-pandemic levels¹⁰.

Global employment has taken an equally large shock, with the shortfall in jobs expected to amount to 75 million in 2021 as a result of the pandemic¹¹. Concerningly, there appears to be a general pessimism among the world population about the prospects of employment recovery, with 71% of those who lost their jobs leaving the labour force altogether¹². With historically high poverty and unemployment rates, the outlook for SSA is even more dismal. Nearly 83% of the regions workers are informally employed, and reductions in working hours as a result of the pandemic amount to the equivalent loss of 22 million full-time jobs¹³.

Within this context, it becomes increasingly important to understand the role of SMMEs and co-operatives in the global economy, and to understand the barriers and opportunities to growth for small enterprises. This section presents an overview of the global context for SMMEs and co-operatives.. The section concludes with a review of longitudinal research design and the methodological learnings taken from these.

⁷ World Bank Group, *Global Economic Prospects, June 2021* (Washington D.C., 2021) <<https://doi.org/10.2307/j.ctt183pb3w.5>>.

⁸ World Bank Group, *Global Economic Prospects, June 2021*.

⁹ World Bank Group, *Global Economic Prospects, June 2021*.

¹⁰ World Bank Group, *Global Economic Prospects, June 2021*.

¹¹ Markus Müller, *World Employment and Social Outlook Report, Trends 2021*, 2012.

¹² Müller.

¹³ Müller.

2.1. The Global context

SMMEs and co-operatives have a crucial role to play in economies across the world. Most commonly cited as being a key source of employment, SMMEs also contribute to innovation and help to stabilize economies and incomes¹⁴. Accounting for 95% of businesses across the globe and accounting for around 90% of employment, the development of SMMEs is a strategic priority for most governments¹⁵. In high-income countries, SMMEs account for over 55% of GDP, with this value increasing to 60% in low-income countries and as much as 70% in middle-income countries.

While the experience of SMMEs across the globe are vastly different, there remain consistent constraints to their successful contribution to the socio-economic goals envisioned for them. Access to global markets and knowledge are barriers for SMMEs even in developed countries, with poor physical and ICT infrastructure being significant barriers in the developing world¹⁶. Digitization has been viewed as a tool for improving SMME access to markets and reducing operational costs from as early as 2017, but digital adoption and proficiency is historically lower among SMMEs than their larger counterparts¹⁷. These challenges have been compounded by COVID-19, with the pandemic increasing the importance of digitization while SMMEs are generally poorly prepared for the adoption of new technologies.

Regulatory burdens have continued to be listed as a primary obstacle to the growth of SMMEs across the globe, alongside lack of financing¹⁸. While there is no single formula for creating a business and regulatory environment that best supports SMMEs and co-operatives, learnings over decades of research do point towards some foundational elements that provide a stable environment for SMMEs. Regardless of region,

¹⁴ OECD, 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy', in *Meeting of the OECD Council at Ministerial Level* (Paris, 2017), pp. 7–8 <<https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf>>.

¹⁵ Murat Bayraktar and Neşe Algan, 'The Importance Of SMEs On World Economies', in *International Conference on Eurasian Economies 2019*, 2019, p. 56–61 <<https://doi.org/10.36880/c11.02265>>.

¹⁶ OECD, 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy'.

¹⁷ OECD, 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy'.

¹⁸ OECD, *Small Businesses, Job Creation and Growth: Facts, Obstacles and Best Practices*, OECD, 1996 <[https://doi.org/10.1002/1098-240X\(200006\)23:3<246::AID-NUR9>3.0.CO;2-H](https://doi.org/10.1002/1098-240X(200006)23:3<246::AID-NUR9>3.0.CO;2-H)>.

income level or degree of development, there are five key traits of a supportive business and regulatory environment for SMMEs and co-operatives. These traits are described in Table 4¹⁹ below.

Table 4: Five elements of a supportive regulatory and business environment for SMMEs and co-operatives²⁰

Political and economic peace and stability	The fundamental importance of peace and stability cannot be overestimated. Political and economic instability and high crime levels act as deterrents to investment in small businesses, as well as increasing the costs and risks associated with starting a business. For small businesses, in particular, stability is important for their ability to predict and plan business costs and potential sales. Without the larger cash flows and access to finance available to larger firms, sudden changes in costs result in small enterprises being unable to meet their obligations.
Crosscutting strategy for SMME development	The promotion of SMMEs needs to take into account both the ability of governments to implement supportive policies, as well as the ability of SMMEs to implement competitive business strategies. Because of the unique needs of SMMEs and co-operatives, and the difficulty in reaching micro enterprises – who are often informal – a crosscutting strategy for small business development becomes especially important. Limited government resources and the high degree of support needed by the small business sector combine to create an environment where optimized support and strategies become especially important.
Open dialogue and partnerships between stakeholders	Numerous studies have shown that policies aimed at supporting SMMEs are most successful and sustainable when they include public, private and civil society partnerships. The inclusion of all stakeholders ensures that policies best address the needs of SMMEs while being implementable in a sustainable manner.

¹⁹ OECD, 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy'.

²⁰ OECD, 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy'.

Strong physical infrastructure and business services	Physical infrastructure in the form of roads, the provision of basic needs (water, sanitation, electricity), internet access and the delivery of business services are required to enable small enterprises to manufacture their products, access markets and gain knowledge to ensure competitiveness. Given that small enterprises are already more likely to struggle with access to markets, strong infrastructure becomes increasingly important for the small business sector. This infrastructure reduces the costs associated with delivering goods and services, as well as opening opportunities for enterprises that would otherwise be excluded from the economy.
Active enhancement of women's ability to participate in the economy	Insofar as SMME policies aim to reduce poverty in developing countries, studies indicate that women's economic involvement contributes the largest to this objective. Targeted initiatives that aim to include women as small business owners encourage a stronger SMME sector that is more versatile, better able to absorb labour, and more capable of decreasing poverty.

In addition to the above, the *Global Competitiveness Index* presents a “detailed map of the factors and attributes [of economies] that drive productivity, growth and human development²¹”. The four pillars²² included as basic requirements for a stable business environment are described in Table 5²³ below.

Table 5: Basic requirements included in the Global Competitiveness Index²⁴

Pillar	Component	Description
Institutions	Public institutions	Includes property rights, intellectual property protection, ethics and corruption, judicial

²¹ Klaus Schwab, *The Global Competitiveness Report 2019*, 2019.

²² This map is presented as a framework, encompassing 12 pillars, which follow the stages of development within countries. The pillars are grouped into three types: basic requirements, efficiency enhancers and innovation and sophistication factors.

²³ Schwab.

²⁴ Schwab.

		independence, government regulation and spending, security, terrorism and the business costs of crime and violence.
	Private institutions	Includes corporate ethics, and the accountability of private institutions, such as the strength of auditing standards, the protection of minority interests and the strength of investor protection.
Infrastructure	Transport infrastructure	Includes the quality of roads, railroads, ports and air transport infrastructure.
	Electric and telephonic infrastructure	Includes the quality of electrical supply, and the availability of mobile telephones and internet access.
Macroeconomic environment		Includes government budget balance, national savings, inflation, government debt and country credit rating.
Health and primary education	Health	Includes the incidence and impact of malaria, tuberculosis, and HIV/AIDS, as well as infant mortality and life expectancy rates.

	Primary education	Includes the quality of primary education and enrolment rates.
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This review of the global contexts lends additional nuance to this study by presenting a framework within which the South African case should be evaluated. While the role and experiences of SMMEs and co-operatives across the globe are vastly different, Table 4 and Table 5 present some universally important factors for the successful development of the small business sector. The research presented in this report is discussed with these factors in mind, acknowledging where South Africa has strengths and weaknesses in each of these foundational characteristics for successful small business development.

2.2. Longitudinal research studies on SMMEs and Co-operatives

This section explores longitudinal research and investigates three longitudinal studies on SMMEs and co-operatives as a benchmarking exercise for reference in this research project. The section begins with an explanation of longitudinal studies, their objectives and types of studies, and goes on to explain the objectives of the case studies in particular. Thereafter, the section reviews three longitudinal studies conducted within the small business sector to establish methodological learnings for the study at hand. It concludes with summary recommendations for the design and implementation of the present study.

2.2.1. Longitudinal study objectives and design

Deschenes²⁵ defines the objectives of longitudinal studies as being “to quantify trends in human behaviour, to describe the progression of life events, to identify patterns of behaviour change, to test theory, and to justify interventions to prevent human and societal ills”. Of course, this definition focuses on the individual and some adaptation is needed for consideration of SMMEs and enterprises. While the unit of measurement in Deschenes’ definition is not relevant to this study, it highlights the types of research questions that longitudinal studies can establish. When applied to SMMEs, these objectives can be re-stated to apply to the outcomes of interest for this study, as described in the table below:

²⁵ E.P. Deschenes, ‘Longitudinal Research Designs’, in *Measurement Issues in Criminology*, ed. by K.L Kempf (New York: Springer, 1970), pp. 283–91 <<https://doi.org/10.1163/156854270X00165>>.

Table 6: Objectives of longitudinal studies as applied to the small business sector

Deschenes' definition	SMME application
To quantify trends in human behaviour	Quantify trends in: <ul style="list-style-type: none"> • SMME growth • SMME challenges and opportunities • SMME needs • SMME behaviour in terms of strategies, coping mechanisms, technological uptake, and support initiatives
To describe the progression of life events	To understand and describe the progression of SMMEs and co-operatives in terms of: <ul style="list-style-type: none"> • Turnover • Employment • Formalization • Growth
To identify patterns of behaviour change	To identify changes in SMME behaviour and contexts, especially with regards to: <ul style="list-style-type: none"> • Uptake of technology • Uptake and impact of government support initiatives, especially as they apply to the growth of SMMEs and co-operatives • Triggers or predictors of changes in behaviour, strategy and decision-making
To test theory	To observe the variables of interest that have been studied with regards to SMMEs and co-operatives

	and establish whether findings from existing research remain true.
To justify interventions to prevent human and societal ills	To establish the impact and effectiveness of government interventions and initiatives to support SMMEs and co-operatives.

With these objectives in mind, longitudinal studies are – by definition – comprised of repeated observations of the same individuals or enterprises over time. So far as possible, the variables under consideration and collected within the study should remain consistent to allow for comparison across the study and the participants in the study should remain the same.

There is, however, some variation in how these studies may be conducted. The table below summarizes the four primary types of longitudinal studies that can be conducted.

Table 7: Types of longitudinal studies

Type	Description
Trend studies	Used to examine changes over time among samples that are representative of a general population.
Panel design	Two or more waves of data collection, using the same variables and the same sample.
Cohort design	Participation in the study is defined by membership in a particular group, and the same population is studied although the sample may differ from one time to the next.
Time-series design	A series of measurements at periodic intervals used to measure the impact of specific changes.

For this research project, the panel design will be used. A sample of enterprises will be identified, and the same enterprises will be surveyed each year. The variables in the study will remain consistent across the

study, although new sections may be added to investigate specific changes in the business context within South Africa.

2.2.2. *Longitudinal study: South Africa*

In 2010, Isaacs and Friedrich²⁶ conducted a longitudinal study to understand the performance of SMMEs in South Africa and their contribution to the South African economy. Their study took place over a three-year period, from 2005 to 2007. Data was collected during February and March of each year. The sample consisted of 117 active businesses in the Western Cape province, with a decrease to 107 businesses by the end of the study. Enterprises were selected from the Chamber of Commerce and Industry database, along with the Western Cape Business Opportunities Forum.

The selection criteria for inclusion in the study were that the business must have been in operation for one year or longer and must employ at least one employee in addition to the owner. This employee should not be a family member. Of the 117 businesses included in the sample, 83 had five or fewer employees, making the bulk of the sample micro-enterprises. Nearly 50% of the sample had been in operation for between six and 10 years and 31% of the sample had been operating for longer than 11 years.

The study showed an attrition rate of 8,5%, suggesting that the sample used for the present study should ensure a surplus of 10% or higher in the initial sampling. This study will recruit 700 enterprises for participation. Assuming similar attrition rates, this sample should be sufficient to ensure a minimum sample of 500 enterprises by year 3.

Variables and analysis

The authors do not supply a copy of the survey administered to the participants, and a request has been made to them via e-mail for the provision of the questions. At the time of writing, no response has been

²⁶ Eslyn Isaacs and Christian Friedrich, 'SME Performance – Results from a Longitudinal Study', *Industry and Higher Education*, 24.1 (2010), 63–69 <<https://doi.org/10.5367/000000010790877335>>.

received. However, based on their analysis, some inference can be made about the content of their survey. The table below gives a summary of the variables that the study collected, as inferred from their analysis:

Table 8: Isaacs and Friedrich Study - variables captured

Variable	Categories/options
Business status	Active Closed Not contactable Dormant
Gender of owner/manager	Male Female
Number of employees	1-5 6-10 11-20 21-50 51+
Age of the business (years)	Less than 5 6-10 11-20 21-30 30+
Compliance with traditional business conventions (yes/no)	Cash control book Proper inventory control records Proactive debt management
Value of sales	(Annual amount)
Number of customers	(Annual amount)
Value of profit	(Annual amount)

With regards to their analysis, the authors summarized the business status according to the number of employees and the age of the business. The use of traditional business conventions was tabulated against the gender of the business owner-manager and the statistical t-test used to establish whether the differences between the two groups were statistically significant. The remaining variables were plotted as averages over the three years, decomposed into male and female owner-managed businesses. T-tests were not reported for these graphs.

Although this study was not nationally representative, the methodology and findings from the study still present valuable learnings for our study discussed here. For instance, the authors found that participants were reluctant to share the value of their sales and profits, resulting in a smaller sample of completed answers for these variables. This suggests that, while these values should be included in our study, it is recommended that a separate measure for turnover or financial performance be included in the study as well, to ensure that some indication of the changes in these measures can be captured throughout the study.

2.2.3. *Longitudinal study: Zambia*

In 2017, Choongo²⁷ published a longitudinal study on the impact of corporate social responsibility on SME performance in Zambia. The data was collected in two waves, 12 months apart, with the first wave being conducted in 2013. Firms in this study were selected based on a size criterion, requiring that they employed between 10 and 250 individuals. Four databases were used to draw an initial population and 350 enterprises were randomly selected from the qualifying firms.

The author notes that there were significant constraints in contacting the initial 350 enterprises selected and the study then needed to follow a convenience sampling approach, which reduces the requirements for representativeness and focuses primarily on achieving the maximum sample possible. For the first wave of data collection, 221 enterprises completed the survey questionnaire, with 153 completing it in the second

²⁷ Progress Choongo, 'A Longitudinal Study of the Impact of Corporate Social Responsibility on Firm Performance in SMEs in Zambia', *Sustainability*, 9.8 (2017) <<https://doi.org/10.3390/su9081300>>.

wave. This amounts to an attrition rate of almost 31%. The author notes that attrition was the result of both enterprises losing interest in participating in the study and changes in the contact details for enterprises, resulting in them being uncontactable in the second wave of the study.

The survey questionnaire was administered telephonically in the native language of the participant and the owner-manager was the respondent in all instances. Should attrition rates in the current study mirror those in this study, the first sample of 700 enterprises would result in a loss of 217 enterprises. The final number of enterprises, then, would be 483 enterprises, although it is difficult to predict whether this attrition would occur annually. Given the significant differences in attrition rates across studies, we believe that our current sample will maintain the desired 500 enterprises by the end of the study.

Variables and analysis

Given that the focus of this study is on the impact of Corporate Social Responsibility on firm performance, several of the questions included are not relevant to our study. For this study, the author used Likert scale questions to establish firm performance, justifying this decision with the acknowledgement that SMMEs are unlikely to maintain accurate financial records, or would feel unwilling to share this data if they did.

In terms of firm performance, the study included three measures: financial performance, corporate reputation, and employee commitment. The table below summarizes the questions asked for each of these components.

Table 9: Choongo study - variables captured

Component	Questions asked (answers rated as a 5-point Likert scale)
Financial performance	<p>Relative to our largest competitors, during the last year we:</p> <ul style="list-style-type: none"> • We had larger market share • We were larger in size

	<ul style="list-style-type: none"> • Our profit growth has been substantially better • Our sales growth has been substantially better • Our return on assets has been substantially better • Regarding our overall performance, during last year we performed poorly relative to our competitors
Corporate reputation	<p>During the last five years</p> <ul style="list-style-type: none"> • Our organisation has had a good reputation • Our organisation is widely acknowledged as a trustworthy organisation • Our organisation is known to sell high quality products and services
Employee commitment	<p>During the last five years</p> <ul style="list-style-type: none"> • Our employees are very committed to the organisation • The bond between the organisation and its employees is very strong • Our employees often go above and beyond their regular responsibilities to ensure the organisation's well-being

In addition to the above measures of performance, the study included control variables for the age and gender of the manager-owner, the size of the firm and the number of years that the firm had been in operation.

For the analysis itself, the author used advanced statistical techniques to establish whether corporate social responsibility was causally related to any of the changes in the measures of firm performance. Prior to running the analysis, statistical tests were conducted to ensure that the answers to each question were reliable. In particular, the convergent validity was estimated to ensure that variables which one expects to be related are, in fact, related. Discriminate validity was also estimated to ensure that each construct included in the analysis is distinct from the others.

This study provides some useful suggestions into alternative measures for firm performance that can be used to combat the reluctance of enterprises to provide figures on their annual profits or sales. Although the use of Likert scales and the subjective nature of the questions noted here have their own drawbacks, they provide useful data on business owners' perceptions of performance, which can give an indication of prevailing business conditions.

2.2.4. *Longitudinal study: United Kingdom*

The Department for Business, Energy and Industrial Strategy in the UK has been conducting longitudinal studies of SMMEs since 2007, although there have been some changes to these studies over time. In 2018, previous studies were adapted, and a single, consolidated study was designed as a panel study, with an updated sample each year. Named the *Longitudinal Small Business Survey* (LSBD), the 2018 sample consisted of 15,015 enterprises, of which 86% agreed to participate in follow-up research. For the 2019 study, 6,883 of these were interviewed between July 2019 and February 2020. In addition to these, 3,778 new participants were introduced to the study, bringing the total sample to 11,002 enterprises.

The sample was derived from two existing databases - the Inter-department Business Register for registered businesses and the Dun & Bradstreet database for unregistered businesses with no employees. Businesses were excluded if they had 250 or more employees, were dormant businesses or holding companies, those listed as "trustees of...", and those included in the study in the first 4 years.

The sample was stratified based on size category and postal code, with sizes segmented into the following:

- Zero employees
- 1 – 4 employees
- 5 – 9 employees
- 10 – 49 employees
- 50 – 249 employees

Sample sizes aimed to be representative of the size and registered status of the sector. The survey was administered as a telephonic interview and questions were adjusted each year to account for changing contexts, following consultations with key stakeholders in the industry.

Variables and analysis

One key methodological approach taken in this study was the division of the sample into cohorts. Early findings from the LSBS were that attrition rates and reluctance to participate were driven by the length of the survey and the time it took to complete. In 2015, the project team used division into cohorts to reduce the burden of participation on respondents.

This involved dividing the survey questionnaire into components; one component included all essential information and the remaining three components included information relating to a particular sub-topic (for instance, energy usage). The sample was then divided into three cohorts and each cohort was only asked the essential questions and the questions from one additional section. This reduced the sample size per section but allowed for the survey to explore numerous topics, take an adaptive and agile approach to the question design and still maintain the power of longitudinal studies in establishing trends over time.

The LSBS study comprises 15 sections, which are described in the table below.

Table 10: Department of Business, Energy and Industrial Strategy - variables captured

Section title	Description
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About the business	This section gathers general information on the business, its legal status, the locations in which it operates, the number of employees, and the gender and ethnicity of the owners.
Employment	This section gathers information on the employees of the business, including part time and full-time employees, as well as changes in the number of employees and predictions on future changes.
Exports	This section investigates the nature of exports, including the type of exports (goods, services etc.), the value of exports as a percentage of turnover, the countries exported to and whether the business imports any goods or services.
Social enterprises	This section explores the enterprise's goals and the use of their profits or surplus in achieving these goals.
Energy usage	This section asks participants about their business' energy consumption and behaviour.
Taxation	This section investigates whether businesses pay taxes, which taxes they pay, how taxes and business finances are managed, and what software is used to do so.
Obstacles	This section asks two questions on the challenges faced by businesses, presenting them with a list of challenges and an opportunity to add additional challenges not represented.
Finance	This section investigates the extent to which businesses have bank accounts, which banks they are with, their access to financing, and the value and uses of this financing.
Innovation	This section investigates innovations in goods, services and processes at the enterprise and industry level, as well as establishing the investment of enterprises into research and development.
Business support	This section investigates the sources of business support sought and used by SMMEs, along with the reasons and types of support sought, including investigating the uptake of specific local government support programmes.
Public sector	This section explores the extent to which small enterprises have done work for the public sector.

Payments	This section investigates payment structures and challenges faced by SMMEs both in making and receiving payments.
Training	This section explores the extent of training supplied to staff, and the type of training supplied.
Turnover	This section investigates the turnover of SMMEs by asking for estimated turnover values, and a turnover range. It then asks about performance in terms of turnover over the past 12 months and expected performance over the next 12 months.
Future intentions	This section explores the future plans of businesses in terms of their growth, investments, financing, training, skills and innovation.

Several things are noteworthy about the survey questionnaire described above. First, it is clear that the cohort strategy is a necessary action to ensure completion as the questionnaire itself is extremely long, comprising multiple sections and components for consideration. Second, much of the study focuses on the future intentions and predictions of SMMEs, with a strong emphasis on innovation, expected growth and skills training. Third, there is a very small focus on the uptake and usage of government support programmes. Where these are included in the study, the study asks only about uptake and gives little consideration to usefulness or effectiveness, suggesting that this component is studied in some other way unrelated to this particular questionnaire.

2.2.5. *Learnings from existing studies*

From a research design perspective, there are several recommendations that can be made on the process and design of the survey questionnaire. First, given the high levels of attrition observed in all the longitudinal studies discussed above, survey length should be carefully considered. From the BEIS experience, dividing the survey into cohorts and identifying limited questions to be asked of all participants has been a successful strategy in reducing attrition and improving survey completion.

Second, the discomfort expressed by small enterprises in discussing turnover, sales and profits should be carefully considered, especially in the developing world context. The UK was the only country which did not

explicitly report struggling to access this data, but the longitudinal studies conducted in South Africa and Zambia are far more likely to be representative of the experience faced in this research project. Given the high degree of informality in the country and the struggles that South African enterprises face with taxes and government bureaucracy, it would be unwise to rely on self-reported turnover or sales data. Instead, we should consider an approach similar to that taken by Choongo²⁸ and establish perceptions of improvements or decreases in firm performance, as well as considering additional variables as a proxy measure of firm performance.

Third, the survey should carefully investigate the components of SMME experiences that would assist them in the future and would ensure or increase their competitiveness. This should include an investigation into digitization and innovation but should take the South African context into consideration and aim to establish a roadmap for advancing digitization among SMMEs in the country.

Finally, the research should consider focusing on the root causes for the struggles that SMMEs and co-operatives face, rather than simply asking what these challenges are. Historical evidence points to a consistent set of challenges and investigating the root cause would assist in designing innovative solutions to the underlying cause. For instance, if lack of funding is a challenge, it is important to understand what problem the funding is intended to solve. It may be that SMMEs are facing challenges in collecting payments, or cash flow constraints in buying raw materials, or – even – simply that their business models are currently not profitable. Each of these causes can be tackled with different solutions that do not rely solely on giving SMMEs access to credit or grants. The same can be said for many other challenges faced, including taxation, bureaucracy, finding skilled staff and compliance with labour legislation.

3. Section 3: SMMEs and Co-operatives in South Africa

The section aims to give context to the small business sector, in order to ensure that the current small business landscape is clearly understood when considering the results from the primary data collection. The

²⁸ Choongo.

section reviews the existing data on SMMEs and co-operatives in South Africa, beginning with an overview of the sector as a whole. Thereafter, the section gives a description of SMME owners in South Africa, disaggregated by population group, age group, gender and education levels. We then present the contribution of SMMEs to the South African economy, measured through contribution to employment and GDP. Finally, a comparison is then done between South Africa and three case study countries, namely India, the United Kingdom and Zambia.

3.1. The economic context

The following section gives an overview of the South African business environment for SMMEs and co-operatives. It begins with a review of the macroeconomic environment, focusing on employment and economic growth, and continues to a brief discussion of the regulatory context in which small enterprises operate. Finally, the section concludes with a discussion on the state of entrepreneurship in South Africa and the business environment more specifically.

3.1.1. The macroeconomic environment

Unsurprisingly, 2020 was a difficult year for South Africa. March 5th, 2020, marked the first positive case of coronavirus (COVID-19) in the country. By the 27th of March, the country was in a complete national lockdown. These strict measures would only begin to be eased mid-way through the second quarter, with the economy gradually re-opening to Level 1 – the least restrictive lockdown phase – in September 2020²⁹. The country would continue to fluctuate between levels into 2021.

Economically speaking, the impact of the pandemic has been severe, as evidenced by the GDP growth rate over 2020 in which South Africa saw its largest economic decline since 1946. Positive economic growth in the third and fourth quarters of 2020 were not enough to overcome the impact of the Level 1 lockdown, resulting in a year-on-year decrease in economic activity of 7% from December 2019 to December 2020³⁰.

²⁹ 'COVID-19 Timeline 2019-2020', *South African History Online*, 2020.

³⁰ StatsSA, *Gross Domestic Product Quarter 4: 2020 Results*, 2021

This decline hit all industries but one: agriculture saw a growth rate of 13,1% in 2020³¹. Despite agriculture's strong growth, formal employment in the sector decreased significantly. While formal jobs in the non-agriculture sectors increased by 76 000 over the course of 2020, total formal jobs in South Africa decreased by 5,8% year-on-year by December. The impacts of the pandemic are still clear in the economy, with quarter-on-quarter employment decreasing by 0,1% between September and December 2020. In fact, the unemployment rate in December 2020 was the highest it's been since 2008, hitting 32,5% in the fourth quarter³².

Despite this, the final quarter saw an increase in total earnings paid to employees, along with basic wages and salaries and bonus and overtime payments. These quarter-on-quarter increases, while positive, were not sufficient to overcome the decline from early 2020, with each of these measures still showing a year-on-year decline between December 2019 and December 2020³³.

Despite these dire figures, the Minister of Finance, Tito Mboweni, noted in the 2021 Budget Speech that he has reasons for hope. Among these are the growth projections for the South African economy, which is forecasted to grow by 3,3% in 2021 at a rate slightly higher than the forecast for Sub-Saharan Africa³⁴. Inflation for 2020 was also the lowest it has been in 16 years, with an average inflation of 3,3%³⁵, a figure that has remained low into January 2021³⁶.

While there may be some hope, it has been insufficient to improve the international perception of South Africa's economic future. In November 2020, ratings agency Moody's downgraded South Africa to level Ba2 – down one level and now two levels below investment grade. In the same month, Fitch cut South Africa down to rating BB-, three levels below investment grade. Both ratings agencies warned that the outlook was

³¹ StatsSA, *Gross Domestic Product Quarter 4: 2020 Results*.

³² StatsSA, *Quarterly Employment Statistics December 2020 Results*, 2021.

³³ StatsSA, *Quarterly Employment Statistics December 2020 Results*.

³⁴ Tito Mboweni, '2021 Budget Speech', *South African Government*, 2021

³⁵ StatsSA, *Consumer Price Index December 2020*, 2021.

³⁶ StatsSA, 'Inflation Remains Low in January', 2021

negative, with Moody's maintaining the negative outlook in a statement made in January 2021³⁷. The implication of this ratings downgrade applies predominantly to the availability of financing and investments in the country, with lower ratings from these agencies resulting in less financing available for SMMEs and co-operatives due to reduced confidence in the South African economy.

3.1.2. *Regulatory and business environment*

Regulation in South Africa

The South African government has taken a holistic approach to SMME regulation; viewing policy design as a shared task between the various government actors and taking the broader macroeconomic and socio-economic goals of the country into account. Perhaps most foundational in this regard is the National Development Plan, released in 2011, which specifies the macroeconomic objectives of decreasing unemployment, poverty and inequality and highlights the importance of SMMEs as a tool for achieving these goals³⁸.

In service of these goals, the Department of Small Business Development (DSBD) was established in 2014³⁹. Between the advent of the country's democracy in 1995 and the present day, numerous policies and bills have been written to encourage the development of the sector. Table 11, below, gives a brief overview of the most influential of these and notes the primary objectives stated for each.

Table 11: Policies and Bills for Small Business Development

Name	Year	Brief overview
National Strategy on the Development and	1995	The primary objective of the strategy was listed as being "to create an enabling environment for small enterprises". This

³⁷ 'Moody's Sends Downgrade Warning to South Africa', *BusinessTech*, 2021

³⁸ National Planning Commission.

³⁹ DSBD, 'Home Page', 2021 <<http://www.dsbd.gov.za/>>.

Promotion of Small Business in South Africa		<p>objective was further broken down into five specific objectives, namely:</p> <ol style="list-style-type: none"> 1. Facilitate greater equalisation of income, wealth and economic opportunities 2. Creating long-term jobs 3. Stimulating economic growth 4. Strengthening the cohesion between small enterprises 5. Level the playing fields between bigger and small enterprises
National Small Business Act	1996 ⁴⁰ , amended 2004 ⁴¹ , amended 2020	<p>In 1996, the National Small Business Act established the National Small Business Council and the Ntsika Enterprise Promotion Agency, as well as providing guidelines for further state actors to promote and support small businesses.</p> <p>In 2004, the Act was amended to incorporate the Small Enterprise Development Agency and make provisions for further institutions to be incorporated into the Ntsika Enterprise Promotion Agency.</p> <p>In 2020, the Act was further amended to provide for the establishment of the Office of Small Enterprise Ombud Service, as well as to define prohibited unfair practices and establish clear provisions for these cases.</p>

⁴⁰ The Office of the Presidency, *National Small Business Act Act No. 102 of 1996* (Cape Town: Republic of South Africa, 1996).

⁴¹ The Office of the Presidency, *National Small Business Amendment Act, 2004* (Cape Town: Republic of South Africa, 2004).

Integrated Small Business Development Strategy⁴²	2003	<p>The Strategy was intended as a 10-year strategy for the development of small businesses from 2004 to 2014, with the primary objectives listed as:</p> <ol style="list-style-type: none"> 1. Increase the contribution of small business to the growth of the South African economy 2. Create an enabling environment for small enterprises 3. Create sustainable long-term jobs for women and men in the small business sector 4. Ensure previously disadvantaged individuals, women, people with disabilities and young women and men are equitably represented in the small business sector 5. Increase the competitiveness of the small business sector 6. Improve communication between government and the small business community
Co-operatives Act⁴³	2005	<p>To provide for:</p> <ul style="list-style-type: none"> - The formation of and registration of co-operatives - The establishment of a Co-operatives Advisory Board - The winding up of co-operatives - The repeal of Act No. 91 of 1981
Integrated Strategy on the Development and	2012	<p>The mission of the Strategy is given as:</p>

⁴² Dtic, *The Integrated Small Business Development Strategy in South Africa* (Pretoria, 2003).

⁴³ The Office of the Presidency, *Co-Operatives Act, No. 14 of 2005* (Cape Town: Republic of South Africa, 2005).

Promotion of Co-Operatives⁴⁴		<ul style="list-style-type: none"> - Strengthen the potential benefits of co-operatives by raising the value and profile of co-operatives in the whole economy - Foster human capital development - Foster a culture of co-operation, self-help, self-reliance and solidarity among co-operative beneficiaries - Work towards self-sustainability of the co-operatives movement in the medium- to long-term - Conduct leading-edge research to inform the development, evaluation and monitoring of performance on co-operatives
National Informal Business Upliftment Strategy	2013	<p>Focusing on supporting informal businesses, the strategic pillars for the Strategy are:</p> <ol style="list-style-type: none"> 1. Creating an enabling legal and regulatory environment 2. Upliftment through enterprise development 3. Facilitate intergovernmental relations for delivery 4. Partnership and stakeholder management with, e.g., business associations 5. Empowerment through information/knowledge management

Mandated to “lead and co-ordinate an integrated approach to the promotion and development of entrepreneurship, small business and co-operatives, and ensure an enabling legislative and policy

⁴⁴ Dtic, *Integrated Strategy on the Development and Promotion of Co-Operatives* (Cape Town: Republic of South Africa, 2012) <www.MediaClubSouthAfrica.com>.

environment to support their growth and sustainability”⁴⁵, the DSBD co-ordinates tasks across numerous government agencies and units for the development of SMMEs. These bodies have been created primarily for the implementation and execution of the DSBDs mandate, requiring significant co-ordination to successfully accomplish the numerous projects spanning all the units. Table 12, below, gives an overview of the most influential of these units.

Table 12: Government Agencies for SMME Development

Government actor	Year incorporated	Mission/ Mandate
Small Enterprise Development Agency⁴⁶	2004	Mandated to implement government’s small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government.
National Youth Development Agency	2008	To mainstream youth issues into society and to facilitate youth development with all sectors of society
Small Enterprise Finance Agency	2012	To provide access to finance in an efficient and sustainable manner to SMMEs and co-operatives throughout South Africa.

Despite the concerted and extensive effort of government to support SMMEs and co-operatives, most measures of their effectiveness have shown that support structures are ineffective, and regulation is burdensome. The GEM⁴⁷ scores for government entrepreneurship programmes showed a decline between 2017 and 2019, from 3.5 out of 10 to 3.1. The 2019 average was 4.0, showing that – while all countries

⁴⁵ DSBD.

⁴⁶ SEDA Technology Programme fully integrated in SEDA’s structures in 2009

⁴⁷ Angus Bowmaker-Falconer and Mike Herrington, *Igniting Startups for Economic Growth and Social Change: South Africa 2020*, 2020.

struggle with providing SMMEs with adequate support – the South African government has much room for improvement.

Scores for government policies relating to tax and bureaucracy were similarly low, falling to 2.7 in 2019. In a focused study in the Free State province conducted by the International Labour Organization (ILO)⁴⁸, up to 75% of small businesses noted that provincial legislation was a hindrance to business operations and growth. The study estimated regulatory compliance costs to be ZAR3.8 billion, amounting to 2.7% of the province's GDP. The two regulatory areas noted as most problematic were tax regulation and labour laws. Most worryingly, enterprises stated that they consciously reduced business growth and frequently resorted to illegal or informal practices as mechanisms for coping with these regulatory burdens.

These compliance costs resulted from both time and financial expenses, with a large majority of small enterprises choosing to outsource financial and human resources tasks to specialists⁴⁹. Businesses noted that a driving factor for this decision was the frequent changes in regulation, making it difficult to learn to do the work themselves.

Despite these struggles, there have been positive changes in the business environment and regulation in recent years. The e-filing system implemented by the South African Revenue Service (SARS) and the online business registration were both noted as improvements with regards to the ease of compliance. These changes also improved South Africa's Doing Business score, with the report noting that both of these changes resulted in reduced time burdens for businesses⁵⁰.

⁴⁸ Jens Dyring Christensen, Farid Hegazy, and Johan Van Zyl, *The Cost of Red Tape: An Assessment of Administrative Barriers and Regulatory Costs for SMEs in South Africa*, 2016 <<http://www.ilo.org/publns>>.

⁴⁹ Cecile Nieuwenhuizen, 'The Effect of Regulations and Legislation on Small, Micro and Medium Enterprises in South Africa', *Development Southern Africa*, 36.5 (2019), 666–77 <<https://doi.org/10.1080/0376835X.2019.1581053>>.

⁵⁰ World Bank Group, 'Business Reforms in South Africa', *Business Reforms in South Africa*, 2020 <<https://www.doingbusiness.org/en/reforms/overview/economy/south-africa>>.

A further improvement to the regulatory environment in South Africa was the 2020 amendment to the Small Business Act, which introduced a specialized Ombud service for small enterprises. This service is intended to assist SMMEs with the resolution of contract and payment disputes, and the amendment gave further power to the Minister of Small Business Development to “declare certain practices in relation to small enterprises to be prohibited unfair business practices; and to provide for matters connected herewith”⁵¹. The introduction of the Ombud service has been widely regarded as a positive step forward for South African SMMEs and there is great interest in observing how these changes will be implemented.

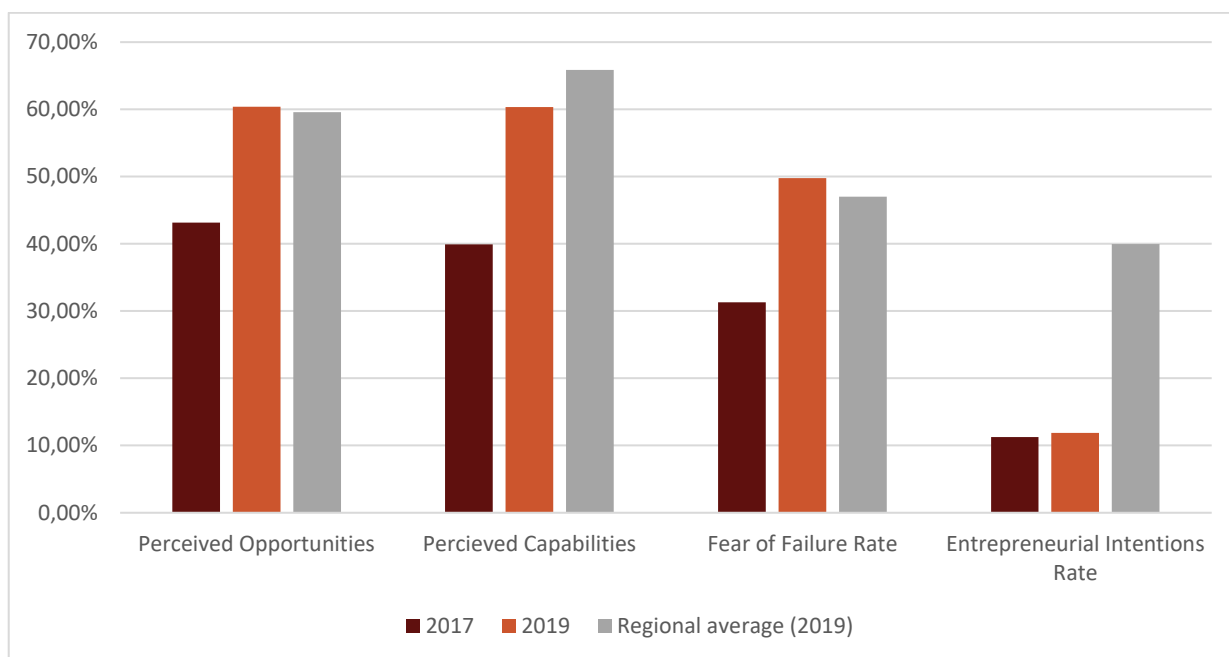
Entrepreneurship and the business environment

Amidst this disheartening macroeconomic environment, there is news to give hope. The 2019 Global Entrepreneurship Monitor (GEM) showed some positive movements in South African attitudes towards entrepreneurship during 2019. Figure 1, below, shows the perceptions towards entrepreneurship in the country for 2017 and 2019, alongside the regional average. The figure shows the percentage of individuals aged between 18 and 64 who see good opportunities for business in their area (Perceived Opportunities), who believe they have the required skills to start a business (Perceived Capabilities) and who intend to start a business within three years (Entrepreneurial Intentions Rate). In all three measures, the perceptions of South Africans increased between 2017 and 2019, with the largest increase being in perceived capabilities which increased by 20,42 percentage points to reach a little over 60%.

Figure 1: Self-Perceptions of Entrepreneurship South Africa⁵²

⁵¹ Minister of Small Business Development, *National Small Enterprise Amendment Bill, 2020* (Pretoria: Department of Small Business Development, 2020) <www.gpwonline.co.za>.

⁵² Angus Bowmaker-Falconer and Herrington.



Somewhat less encouraging is the substantial increase in the Fear of Failure Rate, which increased by a little over 18 percentage points. This represents the percentage of individuals, aged 18 to 64, who perceive there to be good opportunities but for whom a fear of failure would prevent them from starting a business. While the Fear of Failure Rate in South Africa slightly outpaces the regional average, it is also concerning to note that the Entrepreneurial Intentions Rate for the region is almost four times higher than that of South Africa. So, while individuals in the region are generally afraid of failure, they maintain their intentions to start a business, where this fear of failure prevents many South Africans from doing so.

Table 13: Number of individuals who identify as self-employed⁵³

	2019	2020	% change
Number of people who identify as self-employed	2 511 083	2 417 797	-3,71%
Working age population	38 506 391	39 093 316	1,52%

⁵³ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020, 2021*

<www.statssa.gov.za,info@statssa.gov.za,Tel+27123108911>; StatsSA, *Quarterly Labour Force Survey Quarter 4: 2019 Results, 2020*.

Furthermore, the number of people identifying as self-employed decreased from 2019 to 2020, with a total decrease of 3,71% as seen in Table 13 above. While a little less than 2,5 million individuals identified themselves as either an employer or an own account worker without employing others in 2020. A review of the quarterly statistics shows a slow decline in the 2020 figures from quarter one through to quarter 3, with quarter 4 showing a small increase of less than 1 percentage points as the country reopened.

Figure 2: Societal Value Placed on Entrepreneurship⁵⁴

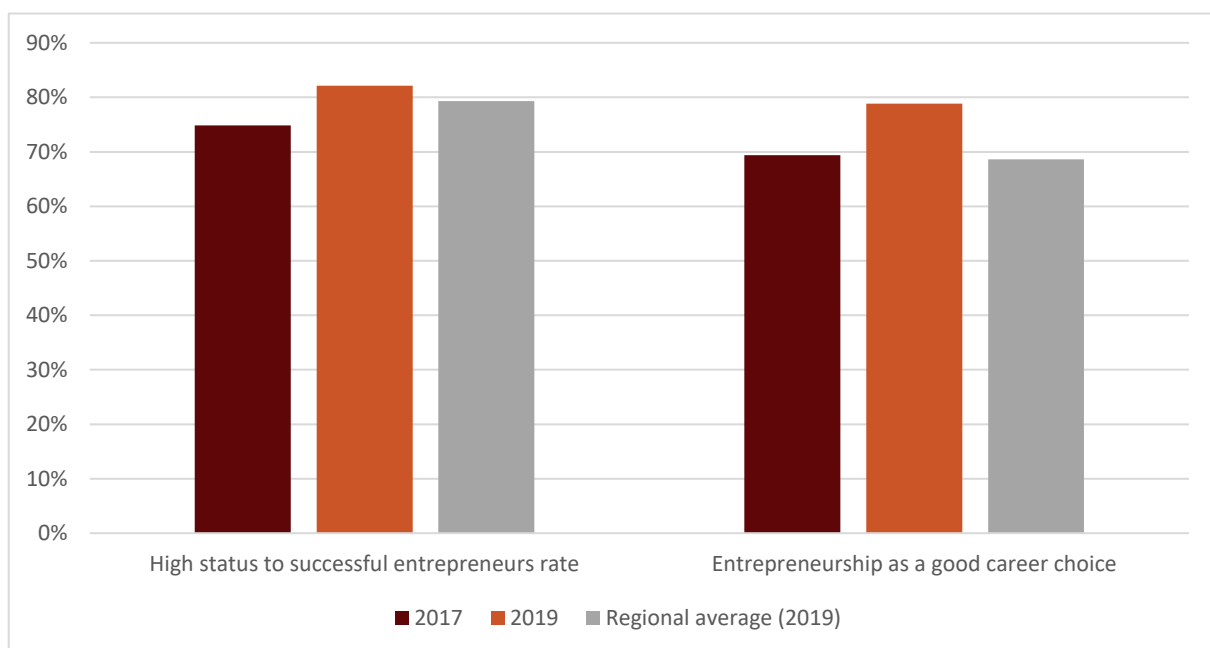


Figure 2, above, shows that South Africans are not only optimistic about entrepreneurship but that they believe the society and culture within the country places a high value on business ownership as well. Perceived status for successful entrepreneurs increased from 2017 to 2019 to outpace the regional average by almost 3 percentage points. Perceptions about entrepreneurship as a good career choice have also increased in the country, nearing 80% in 2019.

⁵⁴ Angus Bowmaker-Falconer and Herrington.

Of course, these findings are all from 2019 and do not account for COVID-19 so we know relatively little about how the pandemic has impacted these perceptions for South African citizens. The Global Competitiveness Index Rankings, shown in Table 7 below, are also from 2019 and show South Africa in comparison to the other BRICS nations. These rankings are all out of 141 participating countries and are compiled into an overall rank, marking the relative competitiveness of a country.

South Africa's rank increased from 67th to 60th between 2018 and 2019, with the financial system being the country's strongest component (ranked at 19th). With the exception of Brazil, all the BRICS nations out-rank South Africa in the overall ranking. In addition to the financial system, South Africa outranks the other nations in terms of its institutions. Concerningly, South Africa ranked 118th out of 141 countries in terms of its workforce health. Furthermore, while the market size rank of 35th is higher than the average rank for the country in other measures, it remains far below the fellow BRICS nations who rank 10th, 6th, 3rd and 1st.

Table 14: Global Competitiveness Index Rank for BRICS countries⁵⁵

	Brazil	Russia	India	China	South Africa
2018 Overall Rank (*141)	72	43	58	28	67
2019 Overall Rank (*141)	71	43	68	28	60
Enabling Environment					
Institutions	99	74	59	58	55
Infrastructure	78	50	70	36	69
ICT adoption	67	22	120	18	89
Macroeconomic stability	115	43	43	39	59

⁵⁵ Klaus Schwab, 2019.

Human Capital					
Health	75	97	110	40	118
Skills	96	54	107	64	90
Markets					
Product market	124	87	101	54	69
Labour market	105	62	103	73	63
Financial system	55	95	40	29	19
Market size	10	6	3	1	35
Innovation Ecosystem					
Business dynamism	67	53	69	36	60
Innovation capability	40	32	35	24	46

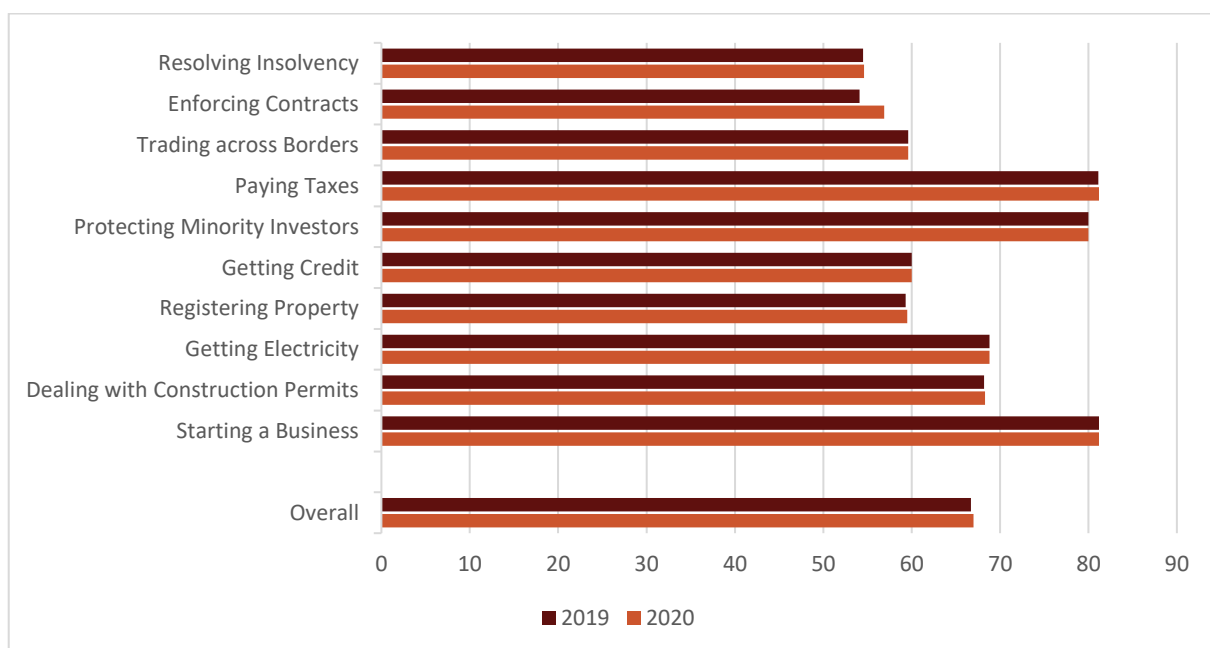
Although not directly comparable, it does seem likely that these competitiveness rankings will only deteriorate for 2020 and 2021, with South Africa's IMD World Competitiveness rank reaching its lowest historical point for 2020⁵⁶. While the methodology differs significantly across the two measures, it is particularly disconcerting to note that South Africa ranks 60th out of 63 countries in terms of digital competitiveness. Particular constraints to the country's digital competitiveness are skills and knowledge, education, the regulatory framework in the country and the "adaptive attitude" of the population. This adaptive attitude can be described as a willingness to take risks, alongside entrepreneurial resilience. The particularly low scores in adaptive attitudes, then, suggest that the GEM Fear of Failure Rate will remain low going into 2021.

Figure 3, below, shows South Africa's scores in the primary components of the World Bank's Doing Business Report for 2019 and 2020. These scores fall between 0 and 100, with 0 being the lowest score and 100 the highest. Overall, South Africa maintained its 2019 overall score of 67 in 2020, improving marginally in terms

⁵⁶ IMD World Competitiveness Online, 'Digital Competitiveness Ranking: South Africa', 2020
<<https://worldcompetitiveness.imd.org/countryprofile/ZA/digital>>.

of ease of enforcing contracts which has historically been one of the country's lowest-scoring components. No significant changes were noted in the remaining components.

Figure 3: Ease of Doing Business Score for South Africa⁵⁷



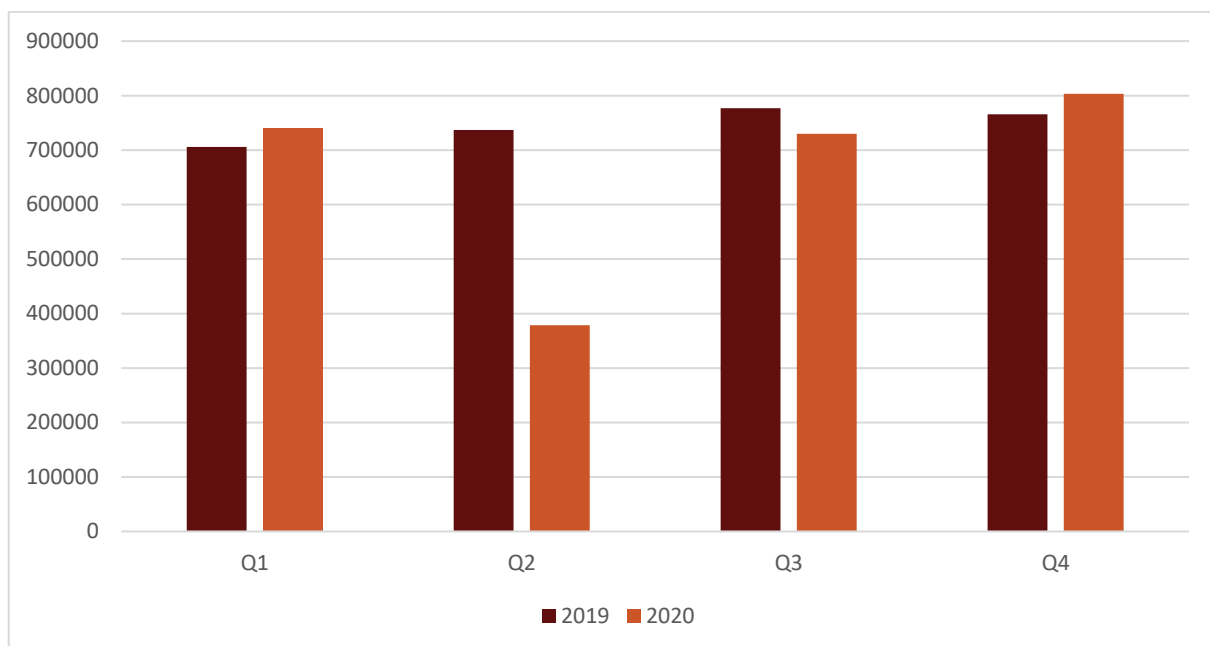
Overall, despite a difficult macroeconomic environment, South African views regarding entrepreneurship remain positive. It will be interesting to observe the results from GEM in 2021 and compare the post-pandemic sentiments from those prior to COVID-19. While the country has seen a decline in the number of individuals identifying as self-employed and reductions in its competitiveness scores, the business environment in general remains reasonably strong, with high scores for starting a business in the World Bank's *Doing*

⁵⁷ World Bank Group, *Doing Business 2020: Economy Profile South Africa*, 2020.

*Business report*⁵⁸. Furthermore, the online portal for business registration, reduced time for online registration and the introduction of a specialized court for hearing commercial cases were reforms which all improved the overall business environment in the country ⁵⁹.

Considering this macroeconomic environment, it is heartening to see that quarter 4 estimates for the number of individuals who started a business in 2020 slightly outpaced those who did so in 2019, as shown in Figure 4 below. While quarter two showed a significant drop in these figures, relative to 2019, the figures increased to nearly match the 2019 numbers in quarter 3 and outpaced them in quarter 4. Overall, the number of individuals who started a business in South Africa decreased by a little over 11% from 2019 to 2020⁶⁰.

Figure 4: Number of individuals who started a business by quarter⁶¹



⁵⁸ World Bank Group, *Doing Business 2020: Economy Profile South Africa*.

⁵⁹ World Bank Group, 'Business Reforms in South Africa'.

⁶⁰ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁶¹ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*; StatSA.

3.2. A profile of SMMEs and their owners

This section reviews the existing data on SMMEs and co-operatives in South Africa, beginning with an overview of the sector as a whole. Thereafter, the section gives a description of SMME owners in South Africa, disaggregated by population group, age group, gender and education levels. Finally, we present the contribution of SMMEs to the South African economy, measured through contribution to employment and GDP.

3.2.1. Description of the small business sector

According to the Companies and Intellectual Properties Commission, company registrations for 2019 increased by 2% between 2018 and 2019, to reach 395 320 in the 2018/19 financial year⁶². Co-operatives fared less well, with declining registration rates since 2015 and only 12 270 registrations in the 2018/19 financial year. Figure 5, below, illustrates the evolution of these registrations over time. Despite this increase in registrations, 2021 has also shown an increase in business closures, with a 49% year-on-year increase in company liquidations between March 2020 and March 2021⁶³.

Figure 5: Company and co-operative registrations 2018/19⁶⁴

⁶² Companies and Intellectual Properties Commission, *Annual Report 2018/19*, 2019 <www.cipc.co.za>.

⁶³ BusinessTech, 'South Africa Has One of the Highest Business Failure Rates in the World: Analysts', *BusinessTech*, 2021 <<https://businesstech.co.za/news/business/487503/south-africa-has-one-of-the-highest-business-failure-rates-in-the-world-analysts/>>.

⁶⁴ Companies and Intellectual Properties Commission, *Annual Report 2018/19*.

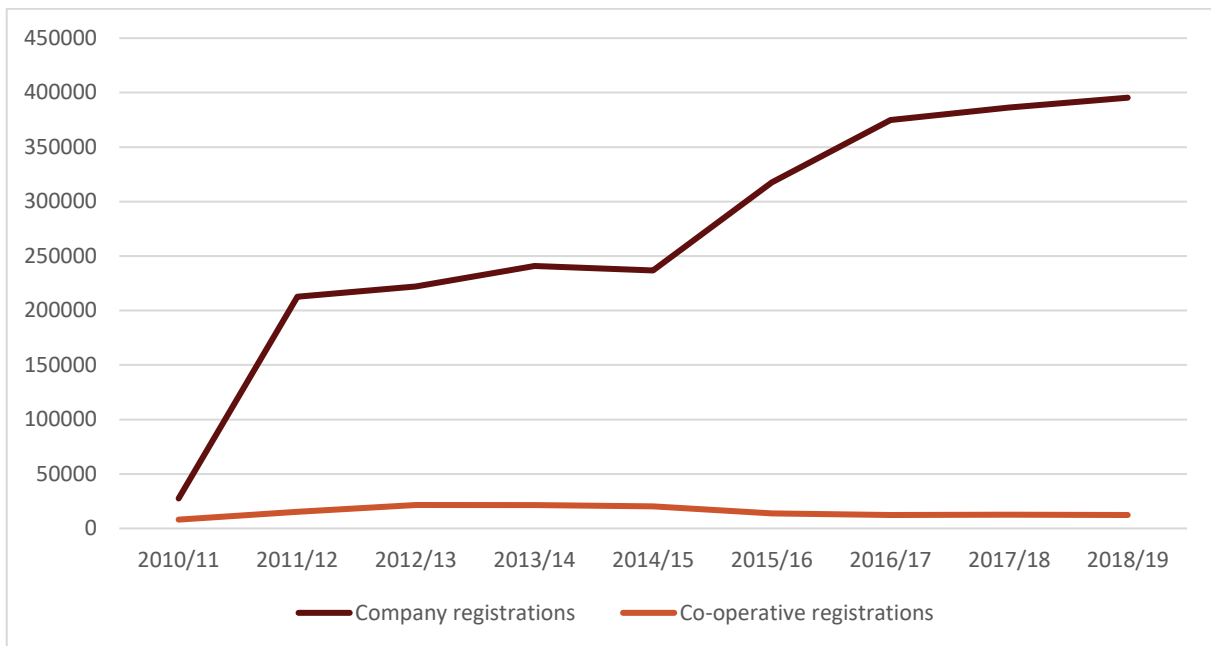


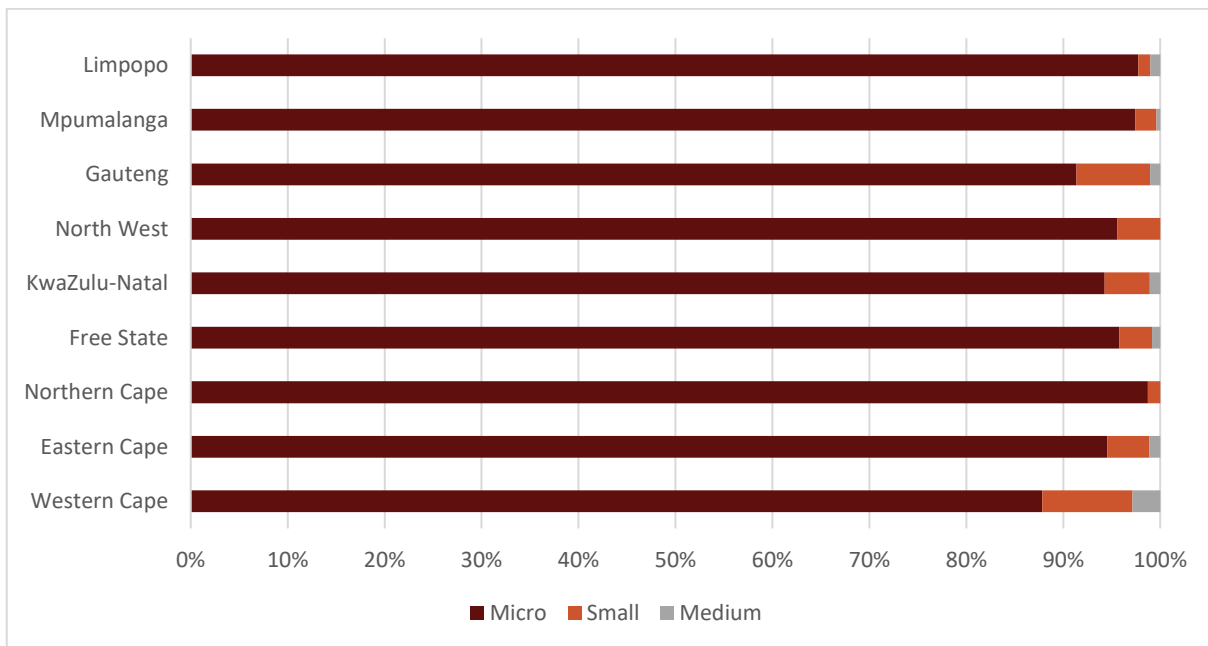
Figure 6 illustrates the distribution of enterprise size by province for 2020. Unsurprisingly, more rural provinces have the highest percentage of micro enterprises, with Mpumalanga, Limpopo and the Northern Cape having the largest share of these. Gauteng and the Western Cape have the largest share of small and medium enterprises in the country, likely due to their status as economic hubs. On the whole, in 2020, micro enterprises account for nearly 37,57% of SMMEs in South Africa, while small enterprises account for a little less than 29%. Medium and large enterprises make up the remaining 33,56%^{65,66}.

Figure 6: Enterprise size by province (2020)⁶⁷

⁶⁵ Note: the StatsSA data does not allow us to distinguish between medium and large enterprises. Therefore, both are included in this category when reported here.

⁶⁶ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁶⁷ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.



Of course, the industry in which these enterprises operate have a significant impact on this distribution. The mining, manufacturing and electricity and gas sectors are highly dominated by medium and large enterprises, with all other sectors showing more than 50% of enterprises in the micro and small categories. Transport, storage and communications, wholesale and construction are the industries with the highest presence of micro and small enterprises, as seen in Figure 7 below. Of course, these are industries that are likely to have been particularly impacted by COVID-19 and the Level 5 lockdown in particular. The construction industry has already been under strain for several years, which may have further impacted the industry's resilience to economic shocks like the pandemic.

Figure 7: Distribution of enterprise size by industry (2020)⁶⁸

⁶⁸ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

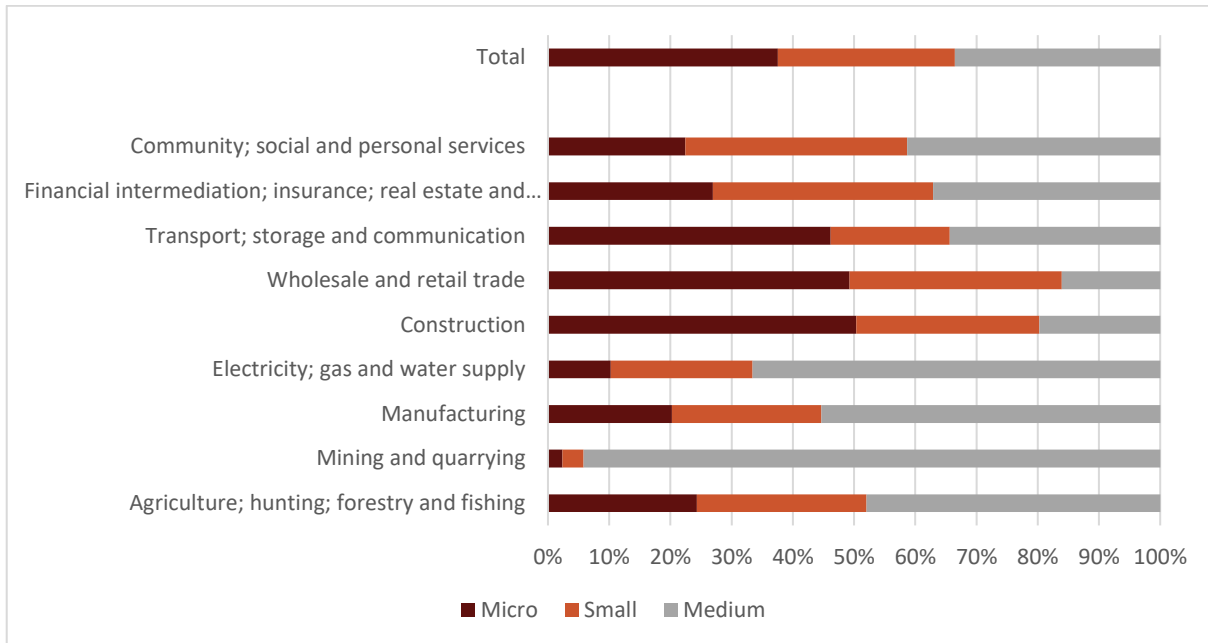


Figure 8 illustrates the distribution of enterprises by sector. The informal sector is dominated almost entirely by micro enterprises, while the bulk of medium and large enterprises operate in the formal sector. Of course, the informal sector is often a space that protects those who are not able to enter the formal sector, or who have been forced to exit the formal sector. Individuals who are unable to find work in the formal sector, or who cannot afford the costs from formalization for their business are still afforded a livelihood in the informal sector. In contrast, formalization offers small businesses legal protections and protects workers from unfair practices. The high number of micro enterprises in the informal sector is predominantly comprised of individuals who are own account workers, for whom these legal protections are likely perceived as being less important and who's business is necessity driven.

Figure 8: Distribution of enterprise size by sector (2020)⁶⁹

⁶⁹ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

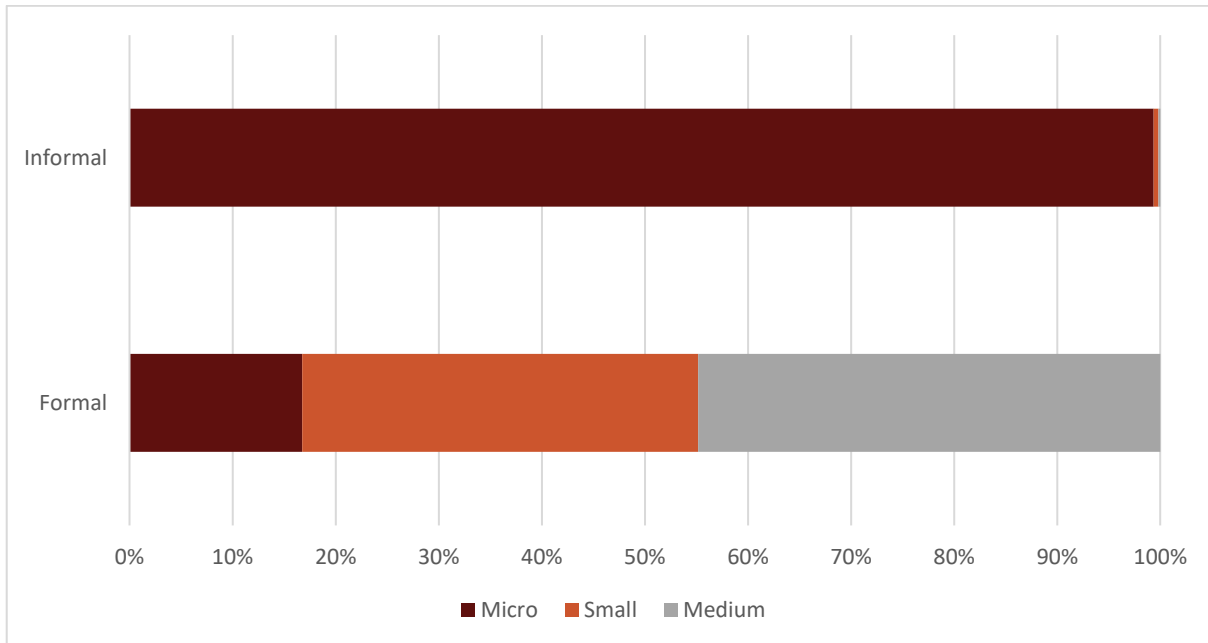


Figure 9 shows how this distribution has changed over the past decade. While there has been little change in the composition of the informal sector over time, the proportion of the formal sector that is taken up by medium and large enterprises has been steadily increasing since 2010.

Figure 9: Distribution of enterprise size across sectors over time⁷⁰

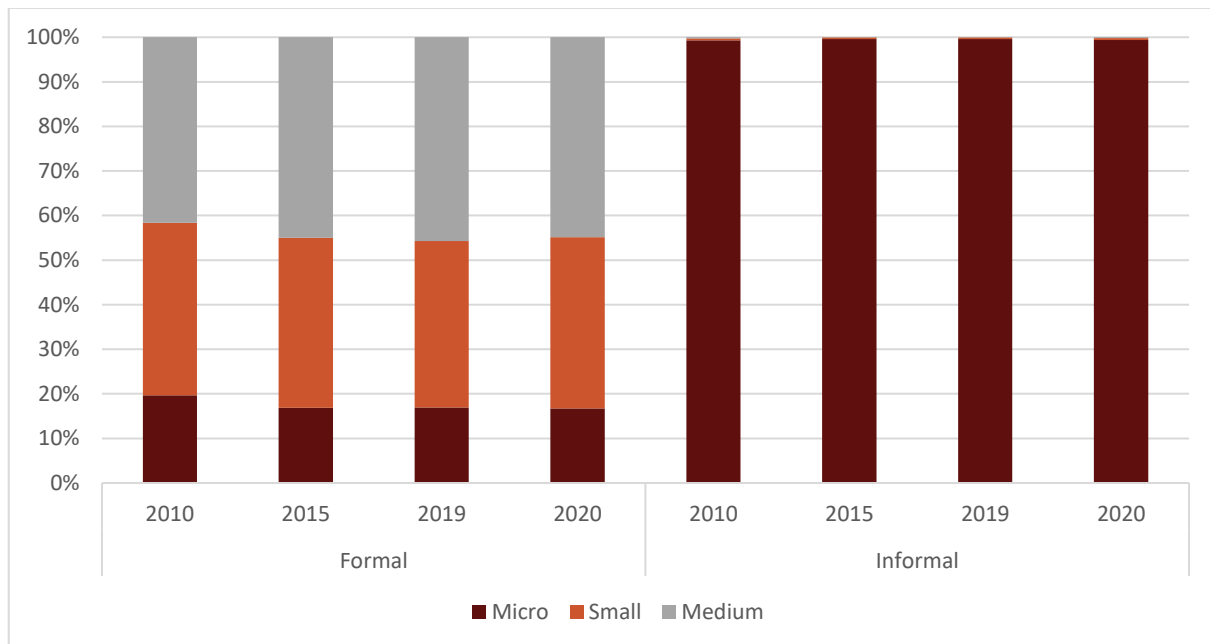
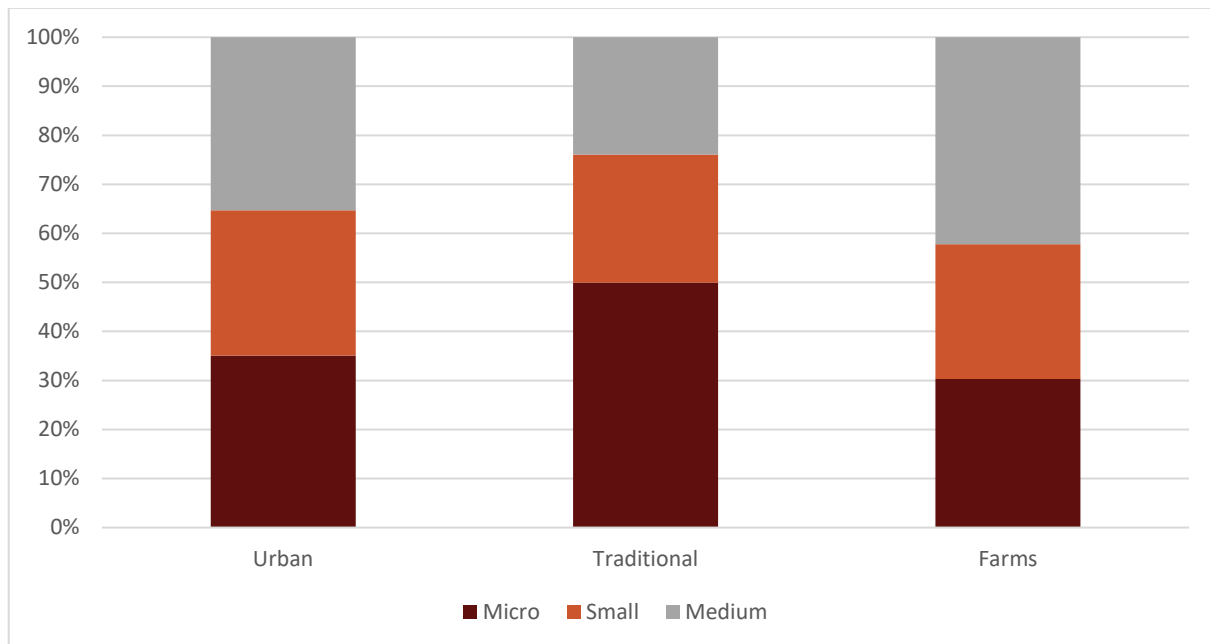


Figure 10 shows the distribution of enterprise size across geography types, showing that rural geographies have the highest percentage of micro enterprise, followed by urban geographies. The QLFS specified “Farms” as an additional geography group, and it is interesting to note that over 40% of these enterprises are taken up by medium and large enterprises⁷¹. Likely, this is due to the high start-up costs of establishing businesses in farming areas, along with the logistic difficulties in managing stock and transport in these areas. It is also the case that economies of scale are only realised in terms of infrastructure and technological investment for farms beyond a particular size, and this may affect the decision of whether to farm at scale or not.

⁷⁰ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁷¹ “Traditional” refers to traditional dwellings, typically in rural areas.

Figure 10: Distribution of enterprise size across geography type (2020)⁷²



3.2.2. A profile of SMME owners

We now turn our attention to understanding the profile of small business owners in South Africa who started businesses in the country in 2020 and the characteristics of these entrepreneurs.

Considering business owners by population group (Figure 11), we see that nearly 76% of business owners are Black African, while over 16% are White. White South Africans comprise only 7% of the working age population, while Black Africans comprise over 80%. The proportion of white business owners, then, is more than double the proportion of the population group in the working age population. These figures have remained relatively consistent for the past decade, with Black Africans comprising 70% of business owners in 2010 and white South Africans comprising 15% in the same year⁷³.

⁷² StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁷³ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2010 Results, 2011*.

Figure 11: Business owners by population group (2020)⁷⁴

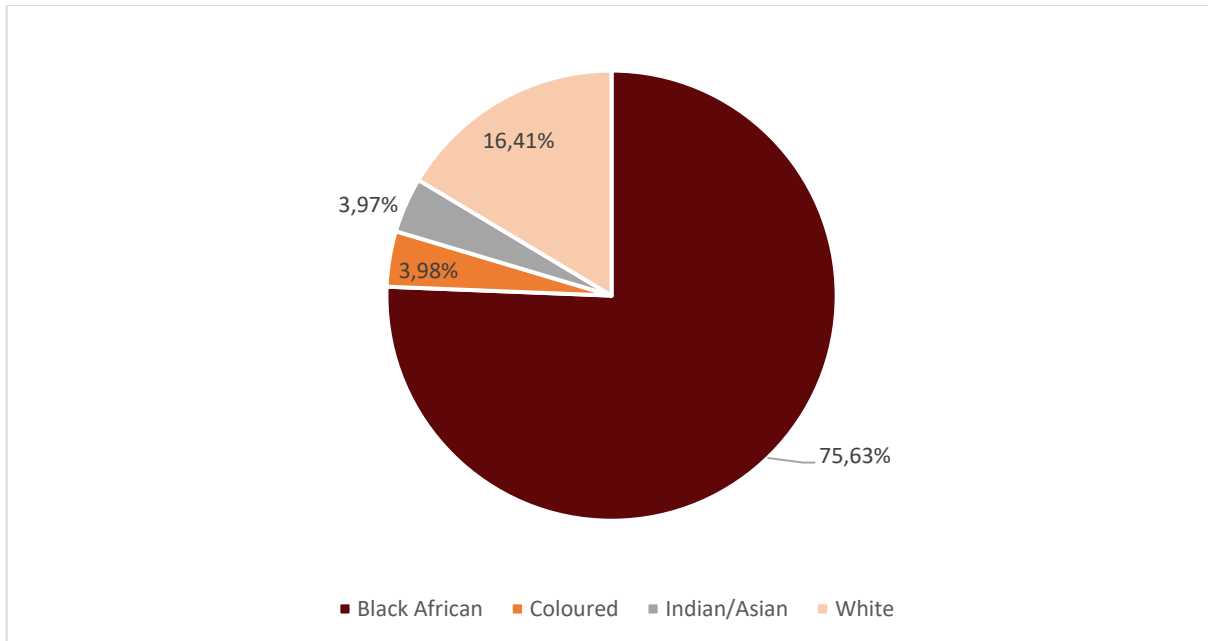
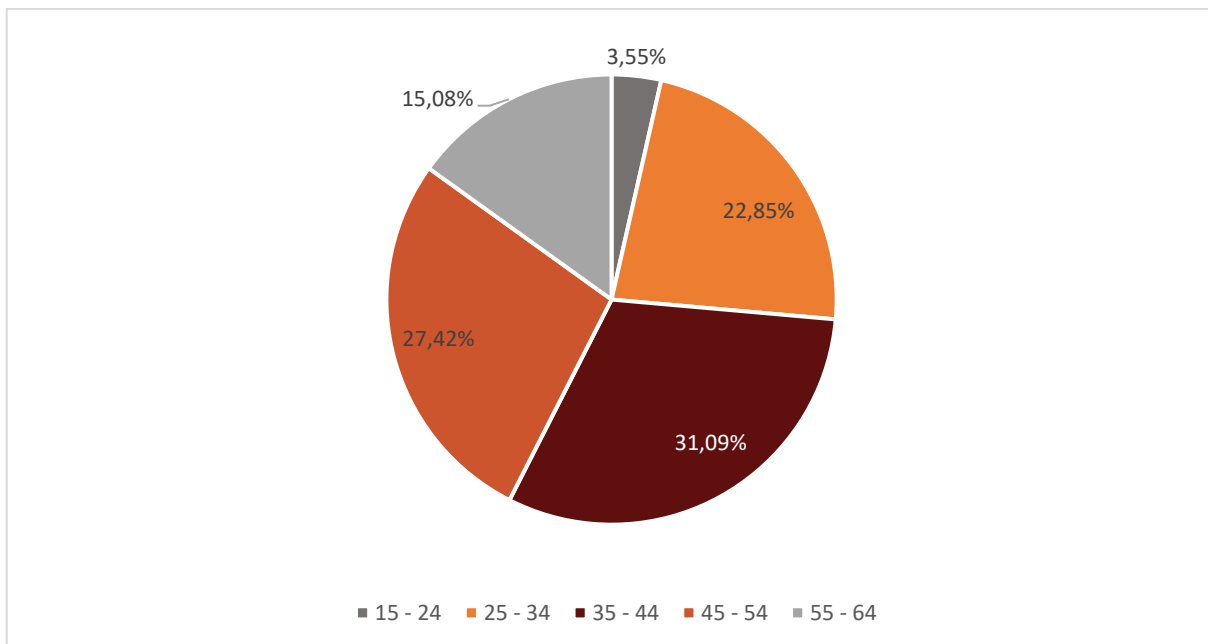


Figure 12 shows that the youth make up a little over a quarter of South African business owners, with 3,55% being between the ages of 15 and 24 and 22,85% aged 25 to 34. The largest age group of business owners are those aged between 35 and 44, with a relatively high proportion of business owners being aged between 55 and 64 (15,08%).

Figure 12: Business Owners by Age Category (2020)⁷⁵

⁷⁴ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁷⁵ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.



Relative to the distribution among the working age population, the proportion of business ownership by the youth remains low, as shown in Figure 13. This is particularly concerning in the South African context where youth unemployment is of particular concern⁷⁶. In 2020, youth unemployment reached nearly 60% in South Africa. Business ownership and entrepreneurship is viewed as a mechanism for combatting this high unemployment; however, the figures for 2020 suggest that there is still work to be done in encouraging business ownership among the youth of the country.

Figure 13: Age distribution of Business Owners Relative to the Working Age Population (2020)⁷⁷

⁷⁶ National Planning Commission.

⁷⁷ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

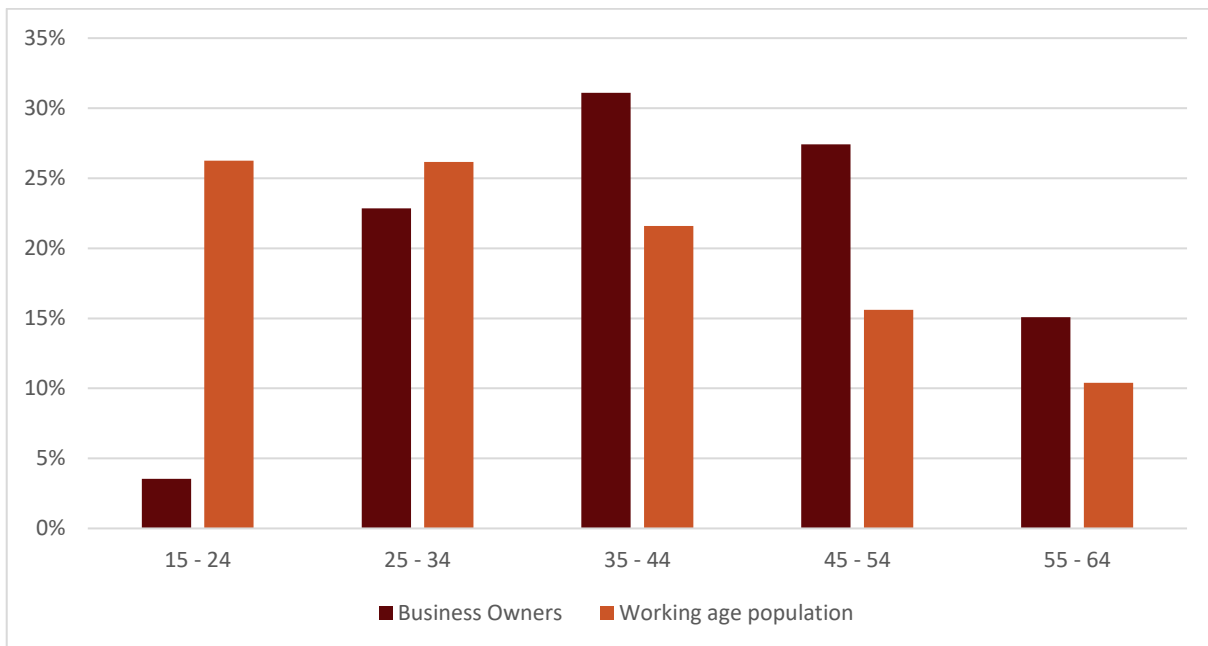


Figure 14 shows the percentage of business owners that are between the ages of 15 and 34 for 2010, 2015, 2019 and 2020. The figure shows that there has been a slight but steady decline in young business owners over the past decade, with the youth comprising a little over 29% of business owners in 2010 and only 26% in 2020. One explanation for this is that the youth have less access to finance than their older counterparts and may be less risk-loving in their income-seeking behaviour. Without a well-established career or reputation, without significant savings or a dual-income household that can cover the financial risks of entrepreneurship, the youth may simply be unable to afford the risk⁷⁸. Furthermore, the youth may have families that rely on them for income, extending from their own, nuclear families to parents, siblings, nieces and nephews who are all in need of support, again limiting their appetite for taking risk.

⁷⁸ Global Entrepreneurship Monitor, *2018/2019 Global Report*, 2018
<<http://www.gemconsortium.org/report/50012>>.

Figure 14: The youth as business owners over time⁷⁹

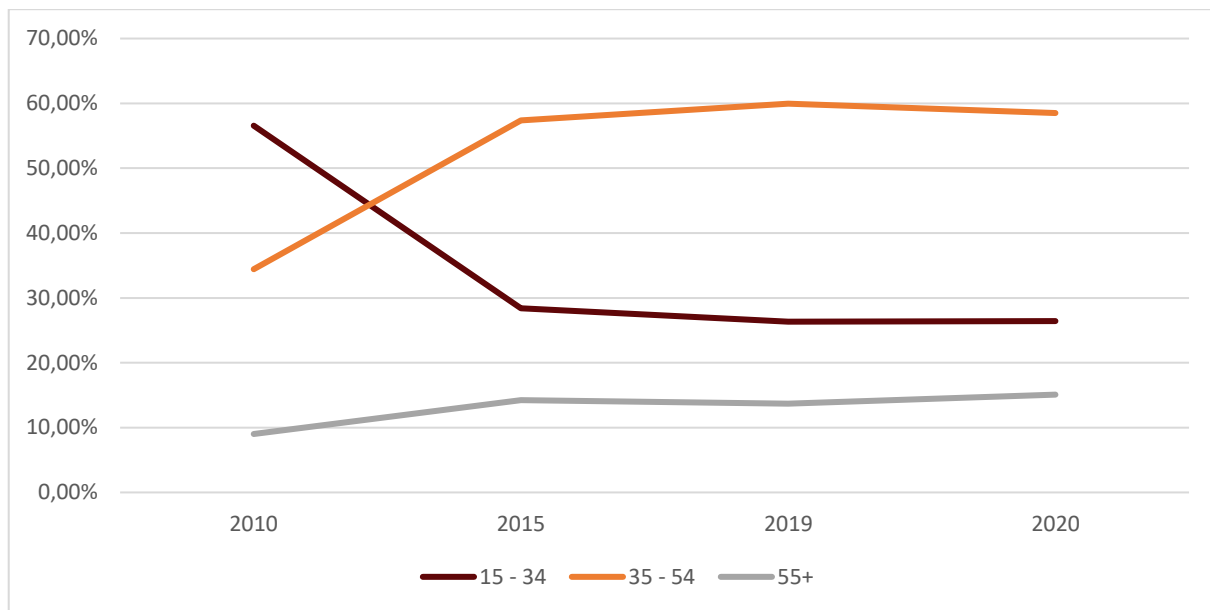
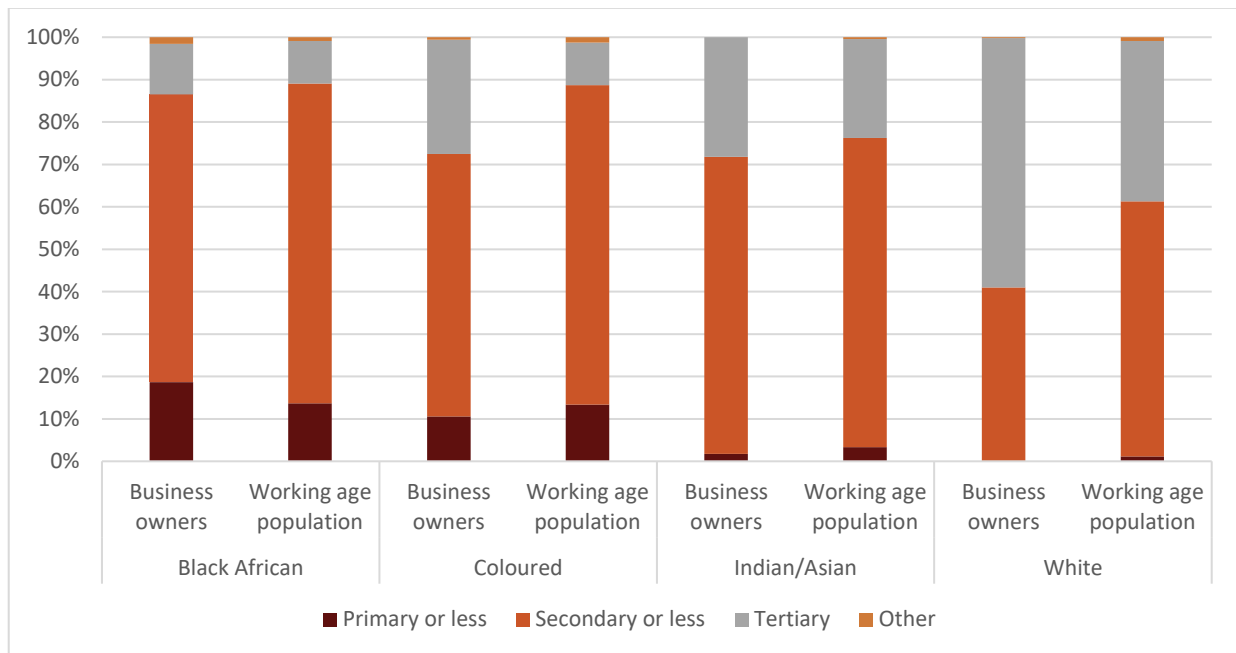


Figure 15 shows the education levels of business owners by population group and relative to that of the working age population. Of course, the education distribution amongst South Africans as a whole is vastly different, with White South Africans achieving far higher levels of education than any other population group. Black Africans have the lowest education levels overall, with nearly 90% of this group having education levels at or below the secondary level. Business owners in each population group are, on average, more highly educated than the working age population. The difference is most stark in for the white population group, where almost 60% of business owners have tertiary level education, in comparison to only 12% of Black African business owners.

⁷⁹ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

Figure 15: Education Distribution of Business Owners by Population Group⁸⁰

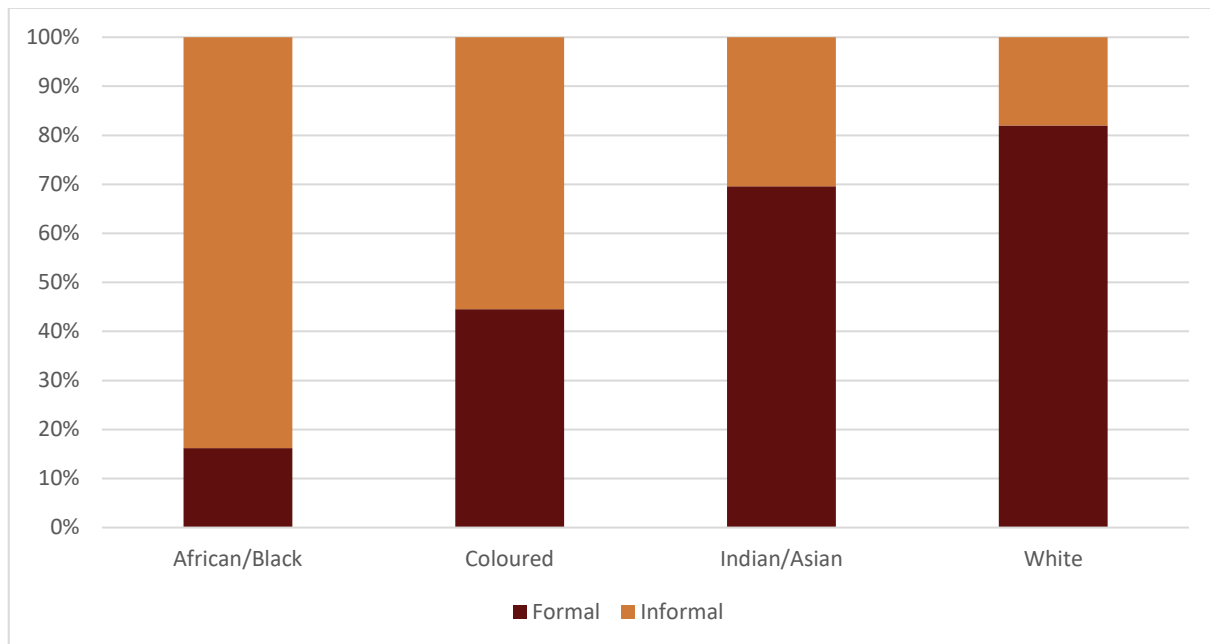


The business sector follows a similar pattern in terms of population groups, with White South Africans predominantly operating in the formal sector and Black African predominantly operating in the informal sector (Figure 16). Operating in the informal sector affords small businesses less protection from contract disagreements with clients and suppliers and offers fewer opportunities in terms of financing, market access and other support structures⁸¹. Black African business owners are already more vulnerable to economic shocks, such as the COVID-19 pandemic, due to their historically lower incomes and lower education levels, and location in under-served areas. Without formalization, these same business owners are less able to access the support they need to survive in times of crisis.

⁸⁰ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁸¹ US Aid, *Removing Barriers to Formalization: The Case for Reform and Emerging Best Practice*, 2005.

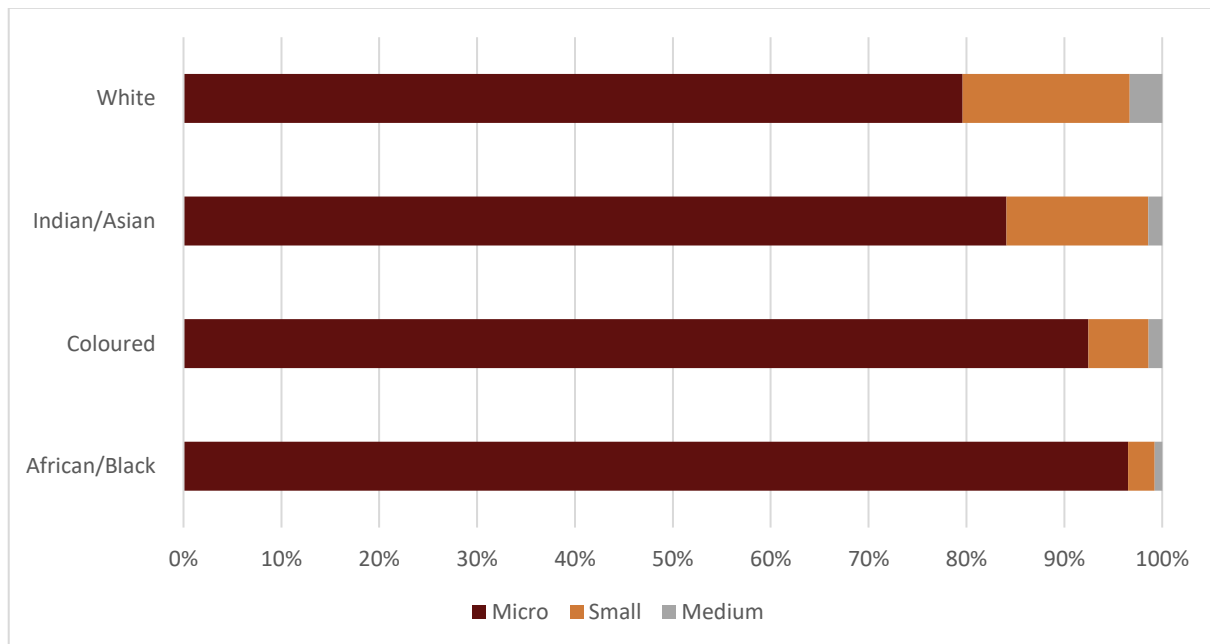
Figure 16: Sector Distribution of Business Owners by Population Group⁸²



Black African business owners are also the most likely to run micro enterprises, 98% of all enterprises owned by Black Africans falls into this category. In contrast, a little less than 80% of white business owners run micro enterprises and around 5% run medium and large enterprises.

⁸² StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

Figure 17: Enterprise size distribution by population group (2020)⁸³



SMMEs offer source of income and employment for women, but on average, only a third of owners are women, as shown in Figure 18. By race, more Black African and white women are likely to be business owners – nearly 40% of Black African business owners are women, compared to only 12% in the Indian/Asian population group. Overall, 33,5% of business owners in the working age population are women.

Figure 18: Gender distribution of business owners by population group (2020)⁸⁴

⁸³ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁸⁴ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

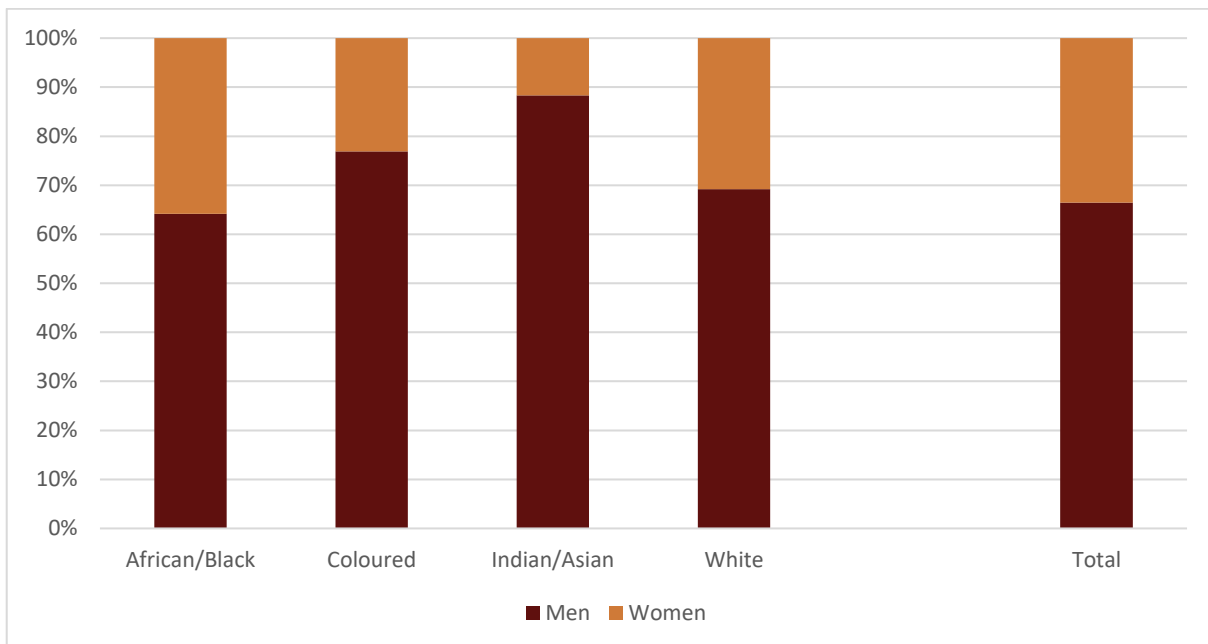
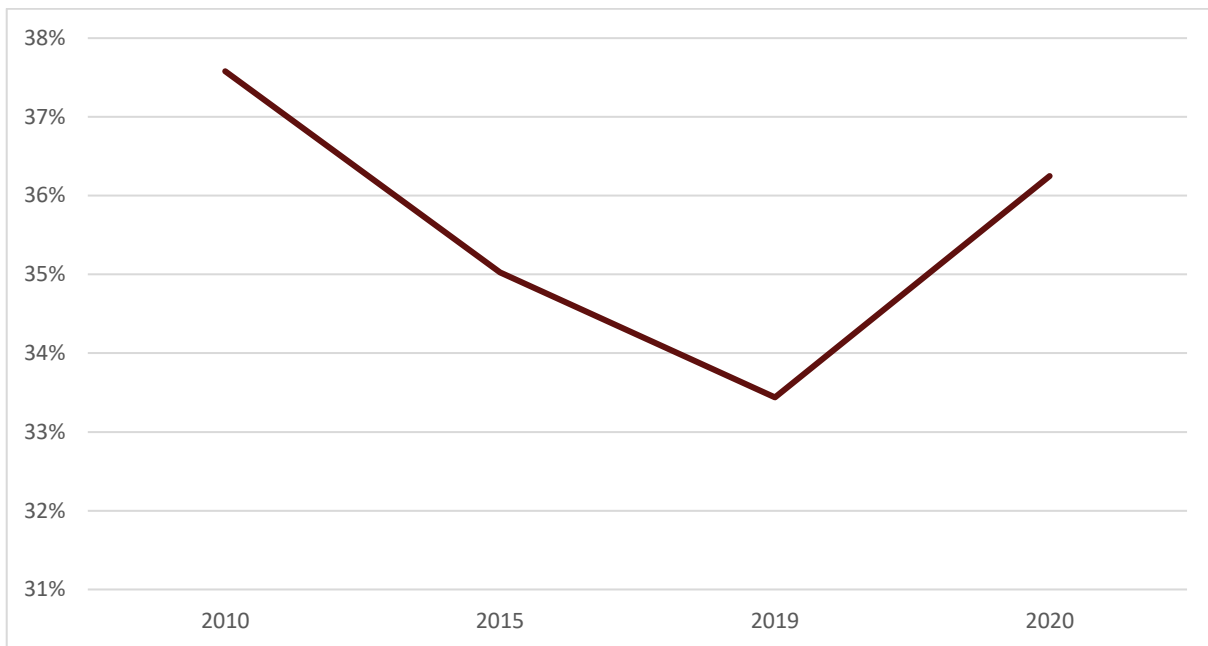


Figure 19, below, shows the evolution of business ownership by women over time by plotting the percentage of businesses owned by women for 2010, 2015 and 2019. Over the past decade, women business ownership has decreased overall from a high point of 37,6% in 2010. While it has never reflected the population distribution, there was a steady decline in women-owned business until 2019, reaching a low of 33%. 2020 saw an increase in women business owners once more, although this has yet to achieve 2010 levels.

Figure 19: Percentage of business owners that are women over time⁸⁵

⁸⁵ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.



3.2.3. *The contributions of SMMEs and co-operatives to the South African economy*

Figure 20 shows the contribution of SMMEs to GDP, decomposed by size category. This estimate was calculated using the Abedian method, described in Appendix C. These contributions are not surprising, with medium and large enterprises contributing the bulk to GDP overall. Micro and small enterprises have the highest contributions in the construction, trade, catering and accommodation, and finance, real estate and business services. Unsurprisingly, SMMEs make a very small contribution to GDP in the mining and quarrying industry, while their contribution to agriculture is almost 40%. Overall, SMMEs contribute an estimated 47% to the total GDP of the country accounting for over R2 billion. Absolute values for SME contribution to GDP by size and industry can be found in Appendix C.

Figure 20: SME contribution to GDP by industry (2020)⁸⁶

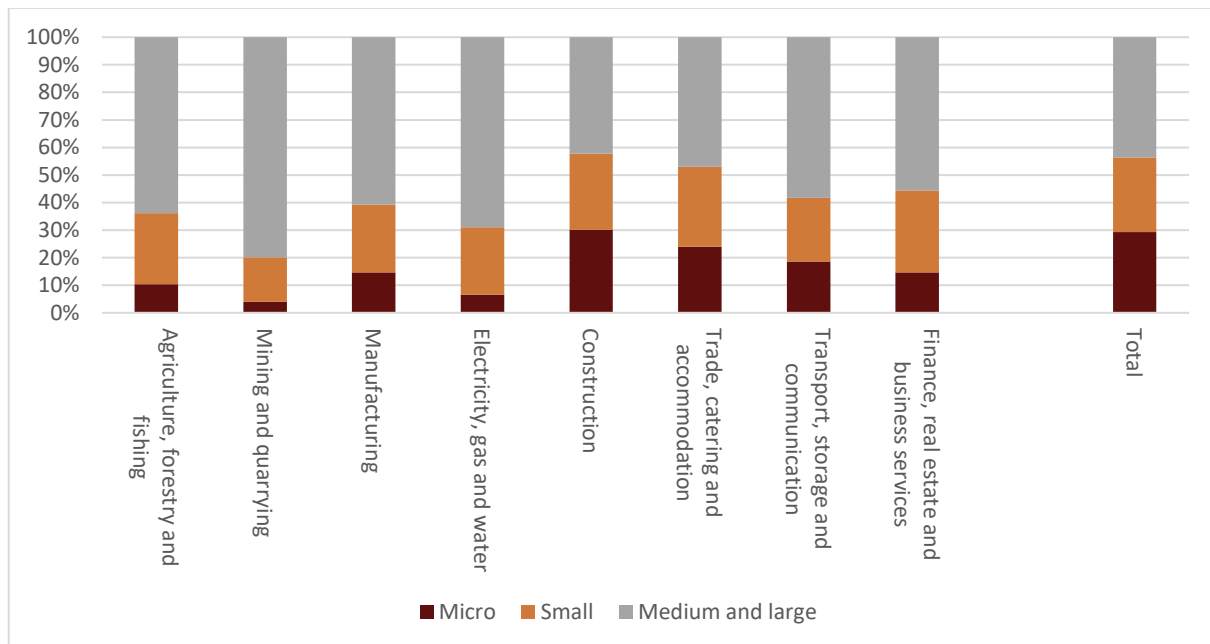
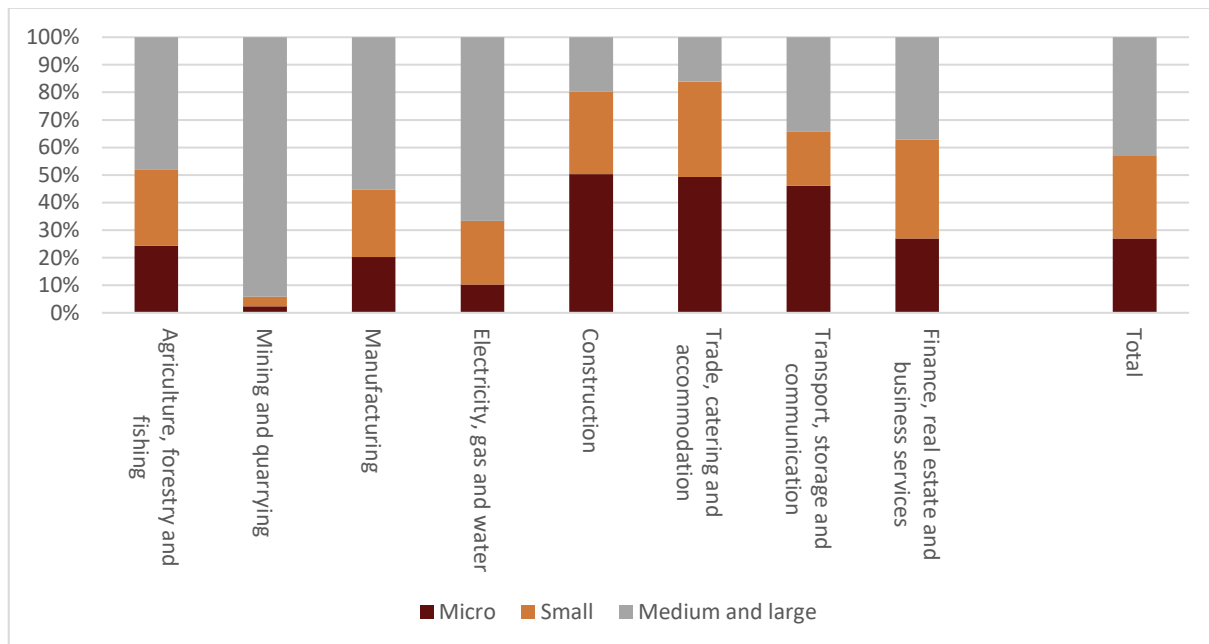


Figure 21 shows the contribution of SMEs to employment for 2020, decomposed by size and industry. The same industries perform best in employment as those that contribute the most to GDP, with construction and trade, catering and accommodation contributing over 80% to employment in their respective industries. Overall, SMEs account for 57% of the employment in South Africa, with the lowest contributions being in mining and quarrying and electricity, gas and water.

⁸⁶ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

Figure 21: Employment contribution of SMEs by industry (2020)⁸⁷



Recent estimates by the Small Enterprise Development Agency (SEDA) suggest that employment in the SME sector decreased by 13,2 percentage points year-on-year between December 2019 and December 2020⁸⁸. In contrast, GDP contributions increased by 1,2 percentage points in the same period. COVID-19 had a particularly strong impact on employment among SMEs, with 90% of job losses (1,5million) in the country being in this sector. Despite this, the relative financial performance of SMEs was encouraging, with a small increase in the relative contribution of SMMEs to GDP.

3.3. South Africa in a Global Context: Case Study Comparisons

The case studies presented here are intended as a means for benchmarking both the performance of the SMME sectors in other countries, and for gaining insights into the design of longitudinal studies on the SMME sector. This section briefly outlines the types of longitudinal studies and describes the components of the

⁸⁷ StatsSA, *Quarterly Labour Force Survey Quarter 4: 2020*.

⁸⁸ Small Enterprise Development Agency, *SMME Quarterly Update Quarter 1 2020, 2020* <[http://www.seda.org.za/Publications/Publications/SMME Quarterly 2020 Q1.pdf](http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%2020%20Q1.pdf)>.

case study analysis that should be focused on for input into the design of the longitudinal study under consideration.

Investigating the experience of other economies, particularly in the context of COVID-19, allows us to establish diverging patterns of growth and development for SMMEs, innovative responses by the State and SMME entrepreneurs to weathering the pandemic, and the variables that should be considered in order to understand the sector, which may have been neglected in the South African context. As such, these case studies will aim to identify the following:

- Establishing appropriate variables for understanding SMME challenges and opportunities.
- Understanding what future-looking variables may be useful to include in the study through investigating differences between SMMEs in the selected countries and South Africa.
- Investigating sampling and participation protocols from studies conducted in the selected countries.

The selection of the case study countries began with establishing criteria that would best describe the ideal countries for analysis. These criteria include:

- Existing longitudinal studies having been conducted in these countries.
- At least one BRICS nation should be included in the case studies, due to the comparability with South Africa.
- Case study countries should have seen an increase in their Doing Business score between 2019 and 2020.
- Countries should have an active co-operatives sector and a dedicated government agency for developing SMMEs and co-operatives.
- At least one Sub-Saharan country should be included, due to the comparability to South Africa.

Ideally, we would have identified three countries that met all of the above criteria. However, the existence of longitudinal studies on SMMEs and co-operatives was a significant constraint in identifying these countries.

However, there were no countries that met all of the above requirements. The following countries were selected for inclusion in the case studies:

Table 15: Selected case study countries

Country	Existing longitudinal study	Change in Doing Business score (% points)	Reason for inclusion
India	No	3,5	An active informal sector, with a high number of SMMEs and co-operatives operating in rural areas and a large agricultural sector make India a good comparison country to South Africa
United Kingdom	Yes	-0,1	A long-standing longitudinal study conducted by the Department for Business, Energy and Industrial Strategy holds significant learnings for the methodological approach of this research.
Zambia	Yes	1,2	Zambia's government has a dedicated department for the development of co-operatives, which are a strong component of the Zambian economy. Furthermore, Zambia shows similar degrees of unemployment, informality and income inequality as South Africa. These factors make it a good comparison country for South Africa.

3.3.1. India

The Indian SMME sector is the second largest in the world, with China being the frontrunner for the title⁸⁹. With a large population and high inequality rates, SMMEs have played a critical role in supporting the economy over the past decade. Of course, as with all economies, COVID-19 had a significant impact on India, the first quarter of 2020 showed the largest ever contraction in the Indian economy, with a GDP decrease of 24,4% quarter-on-quarter⁹⁰.

With the impact of the pandemic still building, the 2021 predictions are gloomy: The International Monetary Fund predicts an economic contraction of up to 8% for the economy in 2021. India's unemployment rate has also reached its highest level in three decades – increasing to 7,11% in 2020⁹¹.

Prior to the pandemic, India had seen large decreases in its levels of extreme poverty, noting a decade-long downward trend⁹². Lockdown, however, resulted in substantial increases in the level of poverty in the country with a large portion of the middle class being pushed into poverty during 2020. In fact, India's increase in the number of people who live in poverty (defined as living on less than \$2 per day in U.S. dollars) accounts for nearly 60% of the global increase in poverty due to the pandemic⁹³.

⁸⁹ Avinash Pawar and Balkrishan Sangvikar, 'Understanding the SME Role and Distribution in India', *International Conference on Innovation of Small Medium-Sized Enterprise*, 1.March (2020), 53–62
<<http://proceedings.conference.unpas.ac.id/index.php/icis/article/view/508>>.

⁹⁰ Business Standard, 'Indian Economy to Contract by 8% in 2020-21, Show Government Estimates', *Business Standard*, 2021 <https://www.business-standard.com/article/economy-policy/india-s-gdp-may-shrink-8-in-fy21-on-covid-blow-second-advance-estimate-121022600857_1.html>.

⁹¹ Business Standard.

⁹² Rakesh Kochhar, 'India's Middle Class Shrinks amid COVID-19 as China Sees Less Change', *Pew Research Center*, 2021 <<https://www.pewresearch.org/fact-tank/2021/03/18/in-the-pandemic-indias-middle-class-shrinks-and-poverty-spreads-while-china-sees-smaller-changes/>>.

⁹³ Kochhar.

Despite this, there is one industry that has thrived, even amidst the pandemic - agriculture⁹⁴. With a predicted growth rate of 3% for 2021, the sector is set to be the best-performer in the Indian economy following the crisis. This is significant, because 50% of the Indian labour force relies on the sector for employment and the contribution of agriculture to GDP had been decreasing over the past few decades⁹⁵. With 68% of the population living in rural areas, this “agriculture revival” remains a point of hope for the country.

Outside of agriculture, the informal sector is the largest employer in India, with 85% of the non-agricultural workforce finding employment in the sector⁹⁶. While this level of employment has remained stable for decades, the country has seen significant improvements in labour market conditions over the past few years – even in the informal sector.

Regulation and the business environment

The Ministry of Micro, Small and Medium Enterprises is the primary government body involved with the development of SMMEs and co-operatives. Mandated to “promote the growth and development of micro, small, and medium enterprises... so as to create new enterprises and more employment opportunities”⁹⁷, the Ministry focuses its efforts on skills and entrepreneurship development, with the long-term goal of increasing the manufacturing base in the country.

The Ministry works through several implementing organisations, which are listed and described in the table below.

Table 16: Associate Organizations for the Indian Ministry of Micro, Small and Medium Enterprises

⁹⁴ Business Standard.

⁹⁵ Shashikant Kumar and Niladri Ranjan Dash, ‘Moving Beyond The Rural-Urban Divide : Challenges for Socio Economic Development in India’, June 2020, 2017.

⁹⁶ Santosh Mehrotra, *Informality Employment Trends in the Indian Economy: Persistent Informality, but Growing Positive Development*, Employment (Geneva, 2019).

⁹⁷ Small & Medium Enterprises Ministry of Micro, ‘Attached Organizations’, *Government of India*, 2021 <<https://msme.gov.in/about-us/attached-organizations>>.

Name	Mandate
Office of Development Commissioner	Implements the policies and various programmes/schemes for providing infrastructure and support services to MSMEs. It functions through a network of MSME-Development Institutes (DI), Regional Testing Centres, Footwear Training Institutes, Production Centres, Field Testing Stations and specialized institutes.
Khadi & Village Industries Commission	<p>The goals of the Commission are as follows:</p> <ul style="list-style-type: none"> • The social objective of providing employment in rural areas • The economic objective of producing saleable articles; and • The wider objective of creating self-reliance amongst people and building up a strong rural community spirit
Coir Board	The Coir Board is tasked with promoting the overall development of the coir industry and improvement of the living conditions of the workers engaged in this traditional industry.
National Small Industries Corporation (NSIC)	The mission of NSIC is "To promote and support Micro, Small and Medium Enterprises by providing integrated support services encompassing, Marketing, Finance, Technology and other Services.
National Institute for Micro, Small and Medium Enterprises (NIMSME)	<p>NIMSME has a wide scope of activities, including consultancy, research, and information services. Based on national objectives, the focus areas for NIMSME have been identified as:</p> <ul style="list-style-type: none"> • Entrepreneurship Development, • Technology Up-gradation & Transfer, • Policy Issues, • NGO Networking, • Environment Concerns, • Cluster Development, and • Information Services

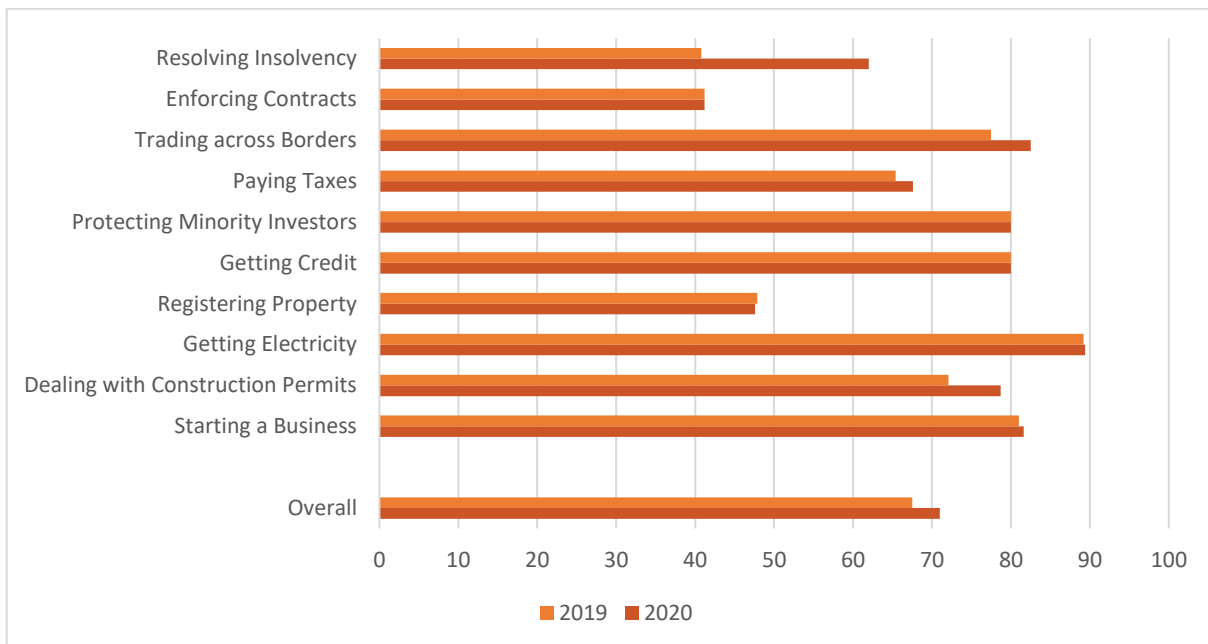
Mahatma Gandhi Institute of Rural Industrialisation (MGIRI)	<p>The mandate of MGIRI is to accelerate rural industrialization for sustainable village economy so that KVI sector co-exists with the mainstream economy. This is to be achieved through:</p> <ul style="list-style-type: none"> • Attracting professionals and experts to Gram Swaraj • Empowering traditional artisans • Innovation through pilot study/field trials. • R&D for alternative technology using local resources
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India's regulatory space is relatively dynamic, with the government being highly responsive to changes in the environment⁹⁸. In 2019, for instance, four regulatory changes were made that improved the ease of doing business in the country, earning it a place in the top 10 best improvers in the World Bank's *Doing Business Report* – a position India has held for 3 consecutive years⁹⁹. These changes showed through an incredible increase of 14 positions in the global rankings, reaching 63rd in the world. The figure below highlights these improvements.

Figure 22: India Doing Business Scores (2019 - 2020)

⁹⁸ Sunil Shukla and others, *India Report 2017/2018, Global Entrepreneurship Monitor*, 2018.

⁹⁹ World Bank Group, *Country Profile: India, Doing Business Report*, 2020 <www.doingbusiness.org>.



Although stemming from a wide range of changes and building on previous reforms to make these improvements, the 4 largest changes in 2019 contributing to this increased DB score were:

- Starting a business was made easier through abolishing filing fees for company incorporation and an improved electronic system for registration.
- India streamlined the process for obtaining construction permits, reducing both the time and cost of doing so, reducing the cost for building a warehouse to only 4% of its value.
- Electronic submission of documents, integrating trade stakeholders into a single electronic platform and enabling post-clearance audits all improved India's score in trading across borders.
- Resolving insolvency was made easier through reorganization of proceedings, building on reforms that were implemented in 2016. One result of this is that the recovery rate for creditors is now 71.6 cents to the dollar, higher than any other country in the region and higher than the OECD high-income country average.

When we consider entrepreneurship in particular, India scores especially highly. In the GEM 2020 report, India placed 6th out of 54 countries in terms of government support and policies¹⁰⁰. The driving factor for their success is the intense and successful collaboration between local and national governments to draft and implement effective policies. National government is responsive to feedback from their local counterparts, allowing for the agile policy stance noted earlier. Another key factor for their success is that, despite the continual policy changes, the tax system remains predictable and consistent, allowing small enterprises to learn the ropes and comply with tax regulations without relying on third-party experts. The largest weakness of the government support for entrepreneurs and small enterprises is that government support programmes are either jointly aimed at new and existing firms or for existing firms only¹⁰¹. This reduces the amount of support available for new firms, which face different challenges than those experienced by firms that have existed for several years.

An overview of SMMEs and Co-operatives in the country

The supportive government policies are reflected in the perceptions of entrepreneurship in the country – the table below illustrates that 82,50% of India's population perceives there to be good opportunities for entrepreneurship in the country, with 81,70% perceiving themselves to be capable of taking these opportunities up¹⁰². Both these rates are significantly higher than those for South Africa (60,41% and 60,35%, respectively). However, the fear of failure rate in India is also higher than that in South Africa and, despite the positive perceptions, in intention to take up entrepreneurship remains low, relative to the regional average.

Table 17: GEM Self-Perceptions of Entrepreneurship¹⁰³

	India	Regional Average	South Africa
Perceived Opportunities Rate (%)	82.50%	58.40%	60,41%

¹⁰⁰ Sunil Shukla, Pankaj Bharti, and Amit Kumar Dwivedi, *India Report 2019/2020, Global Entrepreneurship Monitor*, 2020.

¹⁰¹ Shukla, Bharti, and Dwivedi.

¹⁰² Shukla, Bharti, and Dwivedi.

¹⁰³ Global Entrepreneurship Monitor.

Perceived Capabilities Rate (%)	81.7%	63.50%	60,35%
Fear of Failure Rate	56.80%	37.30%	49,79%
Entrepreneurial Intentions Rate	20.30%	33.70%	11,90%

The IBEF¹⁰⁴ 2021 Industry report on SMMEs estimates that there are 2.5 million SMMEs in India, with the industry growing at 18,5% year-on-year between 2019 and 2020. Furthermore, 99% of these SMMEs are micro enterprises and more than half of Indian SMMEs operate in rural areas¹⁰⁵. The SME Chamber of India reports that SMMEs account for 45% of total production in the country, 40% of total exports and contribute 30% to India's GDP¹⁰⁶.

With regards to the sectoral composition of the sector, 36% of Indian SMMEs operate in trade and retail, 33% in services, and 31% in manufacturing¹⁰⁷. More than half of the sector operates in rural India, and the sector employs and estimated 110 million individuals¹⁰⁸.

As with many other countries, the primary challenge faced by SMMEs in the country is access to finance and struggles in attracting and maintaining talented and skilled employees¹⁰⁹. Unlike many other countries, government regulation and bureaucracy are not listed as a specific challenge by SMME owners and managers¹¹⁰. Struggles with poor infrastructure, digital skills and a lack of innovation are frequently listed as

¹⁰⁴ India Brand Equity Foundation, 'Indian MSME Industry Report', 2021

<<https://www.ibef.org/industry/msme.aspx>>.

¹⁰⁵ Pawar and Sangvikar.

¹⁰⁶ SME Chamber of India, 'About SME in India', 2021 <<https://www.smechamberofindia.com/about-msme-in-india.php>>.

¹⁰⁷ Pawar and Sangvikar.

¹⁰⁸ Vikas Vaskal, 'MSMEs: The Growth Engines of the Indian Economy', *Mint*, 2020

<<https://www.livemint.com/news/india/msmes-the-growth-engines-of-the-indian-economy-11597923225239.html>>.

¹⁰⁹ 'SME Landscape in India - Growth, Challenges and Opportunities', *Business Standard*, 2019

<https://www.business-standard.com/content/specials/sme-landscape-in-india-growth-challenges-and-opportunities-119062100357_1.html>.

¹¹⁰ 'SME Landscape in India - Growth, Challenges and Opportunities'.

challenges. In fact, Mukherjee¹¹¹ notes that digital skills and innovation is likely the most important challenge that Indian SMMEs face and, with the global developments from COVID-19, this is likely to become increasingly important in the coming years.

The impact and response to COVID-19

The first case of COVID-19 in India was recorded on the 30th of January 2020¹¹². Unsurprisingly, the pandemic had a huge impact on the SMME sector, with almost 20% of SMMEs reporting that they were considering closing their businesses permanently¹¹³. Even once lockdown had been lifted, small enterprises in the country were, on average, operating at only 11% of their capacity, with 56% producing nothing at all¹¹⁴. Furthermore, the impact on micro enterprises was larger than on bigger businesses, with enterprises employing less than 10 people seeing a reduction in turnover of 24%, compared to a 10% reduction for those employing 45 people or more¹¹⁵.

Despite these negative impacts, Indian SMMEs tended to be more optimistic about their ability to recover than their peers in other Asian countries, with 61% saying that they believed they would thrive in a post-COVID world¹¹⁶. Most enterprises (70%) believed that recovery to pre-COVID production levels would take about one year¹¹⁷. While SMMEs reported that lack of market access and lack of access to financing were their largest challenges during COVID-19, many noted that they were forced to accelerate their digitization¹¹⁸.

¹¹¹ Sonia Mukherjee, 'Challenges to Indian Micro Small Scale and Medium Enterprises in the Era of Globalization', *Journal of Global Entrepreneurship Research*, 8.28 (2018) <<https://doi.org/10.1186/s40497-018-0115-5>>.

¹¹² Krishnarajapet Ramaswamy, 'Impact of COVID-19: Micro, Small and Medium Enterprises in India, Pandemic Shock of COVID-19 and Policy Response: A Bird's Eye View', *Korea Institute for International Economic Policy*, 53.9 (2021), 158–71.

¹¹³ Ramaswamy.

¹¹⁴ Ramaswamy.

¹¹⁵ Ramaswamy.

¹¹⁶ Lovay Mahajan, 'Indian SMEs: Overcoming Funding Challenges amidst a Global Pandemic', *Emerging Markets Institute: Cornell University*, 2020 <<https://business.cornell.edu/hub/2020/12/07/indian-smes-overcoming-funding-challenges-amidst-global-pandemic/>>.

¹¹⁷ FE Online, 'Over 82% Small Businesses Had Negative Covid Impact; Lack of Market Access Top Challenge', *Financial Express*, 2021 <<https://www.financialexpress.com/industry/sme/msme-eodb-over-82-small-businesses-had-negative-covid-impact-lack-of-market-access-top-challenge-survey/2238325/>>.

¹¹⁸ FE Online.

For the most part, it appears that this digitization took the form of web development and the introduction of e-commerce platforms to maintain sales, as well as using video conferencing and WhatsApp to manage operations¹¹⁹.

Those enterprises that were able to develop digital forms of operations management and sales were far more likely to survive the crisis¹²⁰. Business owners attribute this to reduced costs and increased competitiveness that was created through the digitization process¹²¹. This move towards digitization has introduced new struggles to the SMME sector in the country: many business owners believe that digitization is prohibitively expensive, although this appears to be based on perceptions alone rather than real costs. A more serious constraint is lack of digital knowledge and skills, and a struggle to find staff that have these¹²².

The government of India implemented extensive support programmes for SMMEs during the pandemic, including the creation of several lines of credit¹²³. Access to finance is a consistent challenge for SMMEs in almost every country, and India is no different. With a funding gap of US\$300 billion in the sector, the credit extensions from the government were a welcome relief for many SMMEs¹²⁴. The primary forms of government support granted to SMMEs included:

- An emergency credit line of up to 20% of their outstanding debt, with a 100% government guarantee on the credit amount and a 12-month moratorium on repayments¹²⁵.
- Extending government lending schemes to include informal businesses and street vendors, with a dedicated financing plan for these enterprises¹²⁶.

¹¹⁹ Ramaswamy.

¹²⁰ Ramaswamy.

¹²¹ FE Online.

¹²² Ramaswamy.

¹²³ Robert W Fairlie, *The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey* (Cambridge, MA, 15 June 2020) <<https://doi.org/10.3386/w27309>>.

¹²⁴ Mahajan.

¹²⁵ Fairlie.

¹²⁶ Fairlie.

- An extension on the tax year for SMMEs to improve their cash flow during the crisis¹²⁷.

3.3.2. *United Kingdom*

Comparing the economic effects of COVID-19 to the 2008 global financial crisis shows the severity of the pandemic's impact on the world. In the UK, GDP declined by 9,1% in 2020, more than twice the decline experienced in the global financial crisis and the largest contraction in the economy's recent history¹²⁸. While 2021 has seen some economic growth, the recovery is slow, and growth has been at 1/3rd of the pre-pandemic rates¹²⁹. The unemployment rate in the country grew, year on year, between 2019 and 2020 from 3,8% to 4,5%¹³⁰. However, 2021 has seen a significant surge in online job advertisements, suggesting that the country is on route to recovery in this measure¹³¹.

With their first case recorded on the 31st of January 2020, the UK has, arguably, been one of the countries most impacted by COVID-19, with every town and village in the country suffering loss of life¹³². While the vaccine brings with it new hope, by the first half of April 2020 an estimated 20% of the UK working-age population had lost their jobs and those who have retained their jobs are concerned for their safety in the workplace, given the prevalence of the virus¹³³.

¹²⁷ Fairlie.

¹²⁸ David Beckett, 'Coronavirus and the Impact on Output in the UK Economy', *Office for National Statistics*, 2021 <<https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheuk/economy/march2021>>.

¹²⁹ Beckett.

¹³⁰ Debra Leaker, 'Unemployment Rate (Aged 16 and over, Seasonally Adjusted)', *Office for National Statistics* <<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/timeseries/mgsx/lms>>.

¹³¹ 'UK Economy Latest', *Office for National Statistics*, 2021

<<https://www.ons.gov.uk/economy/economicoutputandproductivity/output/articles/ukeconomylatest/2021-01-25>>.

¹³² Becky Johnson, 'COVID-19: One Year since UK's First Case and Every Town Has Suffered Loss of Life and Livelihoods', *SkyNews*, 2021 <<https://news.sky.com/story/covid-19-one-year-since-uks-first-case-and-every-town-has-suffered-loss-of-life-and-livelihoods-12204026>>.

¹³³ Tera Allas, Marc Canal, and Vivian Hunt, *COVID-19 in the United Kingdom: Assessing Jobs at Risk and the Impact on People and Places*, May 2020.

Inflation in the country is expected to rise from its current level at 1,5% to above 2% target over the course of 2021. Despite its high income and developed status, poverty rates in the UK have been relatively high, with an estimated 21% of the country's population living in poverty prior to the pandemic, and the pandemic pushing another 700 000 individuals into poverty. As such, the country's social welfare system is being placed under strain¹³⁴. Perhaps more concerning is the increase in "in-work" poverty, which describes individuals who have meaningful work but are unable to cover their costs. Recent estimates state that 17,4% of working households are living in poverty, by this definition¹³⁵.

With a steady decline in the rural population of the country since 2000, only 16% of the UK's population lived in rural areas in 2019¹³⁶. With less than 2% of the population employed in agriculture – the sector that appeared least affected by the pandemic – and a predominantly urban population, competition for work, housing, food and transport is high in the country¹³⁷. This combination of stressors has placed additional strain on the social welfare programmes of the country, which have recently undergone significant changes.

Regulation and the business environment

The governance of small businesses in the UK is managed by the Minister for Small Business, Industry and Enterprise. The Minister is responsible for a large array of responsibilities, ranging from business sectors to regulation, regional growth, and the Royal Mail¹³⁸. Within the Ministry, the Department for Business, Energy and Industrial Strategy co-ordinates the bulk of small business governance, working with no less than 42 government agencies and public bodies for the implementation of their mandate. Mandated to "build a stronger, greener future by... tackling climate change, unleashing innovation and making the UK a great

¹³⁴ Hannah Westwater, 'UK Poverty: The Facts, Figures and Effects', *The Big Issue*, 2021
<<https://www.bigissue.com/latest/uk-poverty-the-facts-figures-and-effects/>>.

¹³⁵ Westwater.

¹³⁶ 'Rural Population (% of Total Population) - United Kingdom', *World Bank Group*, 2021
<<https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=GB>>.

¹³⁷ 'Rural Population (% of Total Population) - United Kingdom'.

¹³⁸ 'Minister for Small Business, Industry and Enterprise', *UK.Gov*, 2021
<<https://www.gov.uk/government/ministers/minister-of-state-business-and-enterprise>>.

place to work and do business”, the emphasis for small business in the UK is vastly different from that in the developing world¹³⁹.

In fact, only one government agency is dedicated to the support of SMMEs, although there are policies and programs in place to assist them. The Small Business Commissioner is sponsored by the Department for Business, Energy and Industrial Strategy and works to ensure fair payment for small businesses and assists them with resolving payment disputes with larger firms¹⁴⁰.

In June 2014, the UK published the Small Business, Enterprise and Employment Act. The Bill was “designed to reduce the barriers that can hamper the ability of small businesses to innovate, grow and compete”¹⁴¹. The bill focused on 11 key areas, listed as:

1. Access to finance
2. Regulatory reform
3. Public sector procurement
4. The Pubs Code Adjudicator and the Pubs Code
5. Childcare and schools
6. Education evaluation
7. Companies: transparency
8. Company filing requirements
9. Directors’ disqualification
10. Insolvency
11. Employment

¹³⁹ ‘Department for Business, Energy & Industrial Strategy’, *UK.Gov*, 2021

<<https://www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy>>.

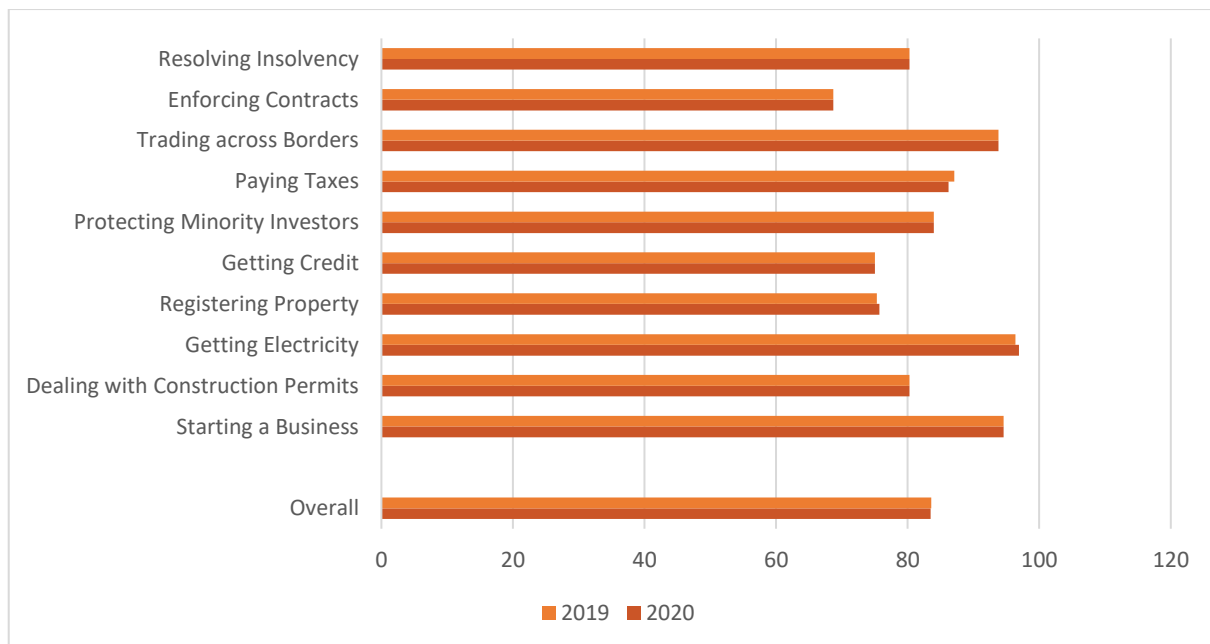
¹⁴⁰ ‘Small Business Commissioner’, *UK.Gov*, 2021 <<https://www.gov.uk/government/organisations/small-business-commissioner>>.

¹⁴¹ *Small Business, Enterprise and Employment Act* (Department for Business, Energy and Industrial Strategy, 2015).

The Bill introduced several financing mechanisms through reduced barriers to finance, changing legislation for invoicing and encouraging competition among banks to finance SMMs. Further, the Bill focused primarily on decreased regulatory burdens for SMMs and assisting potential business owners by reducing non-funding barriers to business ownership, such as the costs and availability of childcare¹⁴².

Recent regulatory changes for doing business include the 2020 introduction of a new pension scheme paid for by the employer, which made paying taxes more difficult. However, reductions in the corporate tax rate in both 2016 and 2015 were improvements for the business environment in the country.

Figure 23: UK Doing Business Scores (2019 - 2020)



The figure above shows the *Doing Business* scores for the UK in 2019 and 2020. Although there were slight improvements in getting electricity and registering property, the bulk of the measures remained

¹⁴² *Small Business, Enterprise and Employment Act.*

stagnant, with some decreasing across the two years¹⁴³. Consistently ranking in the top 50 countries across all measures, the UK is ranked 8th overall for the Ease of Doing Business in 2020. Despite this, there was a small decline in their overall score from 2019 to 2020¹⁴⁴.

Between 2018 and 2019, there was a small improvement in the UK's score for government support – from 3,77 to 4,02 out of 10. This measure was ranked as the second most important measure in terms of its influence over the entrepreneurial environment in the country. Government policies regarding taxes and bureaucracy saw a decline from 5,43 to 5,08 over the same period and government entrepreneurship programmes declined from 4,46 to 4,32¹⁴⁵.

An overview of SMMEs and Co-operatives in the country

Despite the high in-work poverty rates in the country, the UK has a low entrepreneurial culture, compared to the region and global averages¹⁴⁶. The table below shows the self-perceptions of entrepreneurship for the UK for 2019. The perceived opportunities in the country are lower than regional and global averages, at only 27,3% while the Fear of Failure Rate is higher than both averages, at a little over 40%¹⁴⁷, despite relatively high perceived capabilities¹⁴⁸. The Entrepreneurial Intentions Rate is particularly low, at only 8,2% compared to the regional average of 10,8% and the global average of 27,3%.

Table 18: Self-Perceptions of entrepreneurship - United Kingdom

UK	Regional Average	Global Average	South Africa
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¹⁴³ World Bank Group, 'Business Reforms in United Kingdom', *Doing Business Report*, 2021 <<https://www.doingbusiness.org/en/reforms/overview/economy/united-kingdom>>.

¹⁴⁴ World Bank Group, *Country Profile: United Kingdom*, *Doing Business Report*, 2021 <<https://www.doingbusiness.org/en/data/exploreeconomies/united-kingdom>>.

¹⁴⁵ Mark Hart and others, *United Kingdom 2019 Report*, 2019 <<https://www.gemconsortium.org/economy-profiles/united-kingdom-2>>.

¹⁴⁶ Hart and others.

¹⁴⁷ Hart and others.

¹⁴⁸ Hart and others.

Perceived Opportunities Rate (%)	27,30%	40,50%	50,50%	60,41%
Perceived Capabilities Rate (%)	54,50%	53,40%	61%	60,35%
Fear of Failure Rate	48,30%	42,60%	41%	49,79%
Entrepreneurial Intentions Rate	8,20%	10,80%	27,30%	11,90%

Despite these low figures, the perceived status to entrepreneurship is high, with 77,1% of the adult population stating that entrepreneurs have a high status in society and 69,6% stating that entrepreneurship is a good career choice¹⁴⁹.

Despite the low entrepreneurial intentions, 99% of all businesses in the UK were small enterprises, with 96% of all businesses being micro enterprises, employing less than 10 individuals¹⁵⁰. In 2018, 60% of the total employment in the country came from SMEs, amounting to 16,3 million people¹⁵¹. Between 2019 and 2020, the number of SMEs grew by 1,9%, with the largest industry represented in the sector being construction (20%), followed by Professional, Scientific and Technical Activities (15%)¹⁵².

UK SMEs struggle with access to finances in much the same manner as enterprises in other countries, with a particular challenge being access to finance for early-stage businesses and those outside of central hubs and cities¹⁵³. Another challenge is the co-ordination of government support programmes through the business

¹⁴⁹ Hart and others.

¹⁵⁰ 'What Are SMEs & Why Are They So Important for the UK Economy?', LABS, 2019 <<https://labs.com/what-are-smes-why-are-they-so-important-for-the-uk-economy/>>.

¹⁵¹ 'What Are SMEs & Why Are They So Important for the UK Economy?'

¹⁵² 'UK Small Business Statistics', *The Federation of Small Businesses*, 2020 <<https://www.fsb.org.uk/uk-small-business-statistics.html>>.

¹⁵³ Hart and others.

lifecycle to encourage growth and regulatory compliance as businesses grow and expand¹⁵⁴. Perhaps the largest focus for SMEs is both a challenge and an opportunity: business owners are extremely focused on innovation and research and development, and flexible funding for these activities is listed as a primary constraint for business growth¹⁵⁵.

The impact and response to COVID-19

As much as 80% of UK SMMEs stated that their revenue has suffered during the pandemic, with many concerned about defaulting on loans and having to retrench employees¹⁵⁶. Unlike much of the rest of the world, the agricultural sector in the UK was one of the hardest hit, alongside logistics and construction, where 90% of SMMEs reported a decrease in revenue during 2020¹⁵⁷.

For many enterprises, supply chain disruptions and the cost of compliance with COVID-19 regulations have been the biggest challenges faced during the pandemic¹⁵⁸. As with the SMME experiences in other countries, many small enterprises in the UK responded to these challenges through cost-reduction strategies and diversifying products or sales channels in an effort to increase revenue streams for their businesses and respond to the changing world around them¹⁵⁹.

While digitization and the adoption of technology was something on the forefront of business owners' minds in the UK, the shape of these changes has been vastly different in the UK than in the developing world. Although increases in video conferencing and digital marketing were observed, SMMEs report increased uptake of more advanced technologies such as Artificial Intelligence (AI) and augmented reality¹⁶⁰. This, of

¹⁵⁴ Hart and others.

¹⁵⁵ Hart and others.

¹⁵⁶ Maria Albonico, Zdravko Mladenov, and Ruchi Sharma, *How the COVID-19 Crisis Is Affecting UK's Small and Medium-Sized Enterprises*, 2020.

¹⁵⁷ Albonico, Mladenov, and Sharma.

¹⁵⁸ Lee Hopley, *The Impact of the COVID-19 Pandemic on UK SMES and Their Response*, February 2021.

¹⁵⁹ Hopley.

¹⁶⁰ Hopley.

course, is likely to present SMMEs in the country with new opportunities in the future, if the uptake persists and the enterprises can use these technologies to find new and innovative ways of doing business.

However, one year after the pandemic began, many companies in the UK are thinking less about COVID-19 and more about the implications of Brexit on their business operations¹⁶¹ and, along with this, came a reduction in investments in technology. Nearly 25% of small business owners believe that they will be trading at pre-pandemic levels in 2022, with 14% believing that they will accomplish this by the end of 2021¹⁶², illustrating some of this optimism about the sectors' ability to recover from the pandemic.

This change in focus does not mean that the pandemic has gone without effects on these businesses – most self-employed individuals in the country stated that, one year later, the pandemic had cost them more than double what they had initially predicted¹⁶³.

As far as government support goes, most SMMEs and their owners stated that they did not receive enough support from government¹⁶⁴. For many, the constraints were a lack of clarity on what support was available and limits on what businesses were eligible for support from the government¹⁶⁵. Despite these sentiments, government assistance to SMMEs during the pandemic was substantial. The table below outlines the largest support programmes from the UK government:

Table 19: United Kingdom - Selected Government Support Schemes

Programme	Description
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¹⁶¹ Hopley.

¹⁶² Catriona Smith, 'Covid-19 One Year on: Impact on SMEs Set to Exceed £126 Billion', *Simply Business*, 2021 <<https://www.simplybusiness.co.uk/knowledge/articles/2021/03/impact-covid-19-small-business-one-year-on/>>.

¹⁶³ Smith.

¹⁶⁴ Smith.

¹⁶⁵ Smith.

Coronavirus Job Retention Scheme	A grant given to SMMEs who have needed to furlough employees and/or apprentices, which covers up to 80% of employee wages up to a cap of £2,500. Programme extended until 30 September 2021.
Restart Grant	A once-off cash grant of up to £18,000 for businesses such as pubs, restaurants, hotels, and gyms to assist with re-opening their businesses after lockdown.
Business Rates Holiday and tax discounts for 2021/22	A business tax holiday has been automatically granted to every UK business for the 2020/21 tax year, with a 66% rate reduction for taxes for the 2021/22 tax year.
Recovery Loan Scheme	An updated scheme which replaces those that were instituted during the pandemic, the Recovery Loan Scheme grants businesses between £25,000 and £10 million where the government gives lenders and 80% guarantee on the loan.
Commercial rent protection	Businesses that are unable to pay their commercial rent are protected from eviction until the end of June 2021.
Self-Employment Income Support Scheme	A series of grants that support self-employed individuals who have been adversely affected by COVID-19. Paying up to 80% of three months' average monthly trading profits, the grant has been adjusted multiple times to account for lockdown extensions. It has currently been extended for the fifth time, in which 80% of trading profits will be paid if turnover dropped by more than 30% during the pandemic. If the reduction in turnover was less than 30%, self-employed individuals can claim 30% of monthly trading profits.

3.3.3. Zambia

Zambia confirmed their first COVID-19 case on the 18th of March 2020 and took until the end of April 2020 to cross the 100-case count threshold¹⁶⁶. At the start of the pandemic, the country was one of the few that appeared ready to respond effectively, and the government was praised for their responsiveness in putting up preventative measures¹⁶⁷. Indeed, at the time of writing, the country had only suffered 1 278 deaths – a small amount when compared with the 89 thousand deaths in South Africa.

Despite the strong response to the pandemic, the country was not able to avoid the impacts of the pandemic entirely. While the GDP growth rate for Zambia averaged 3,1% per annum from 2014 to 2019, the country experienced a contraction following the pandemic, with a reduction of 1.7% during the third quarter of 2020¹⁶⁸. Inflation in the country has reached record highs, averaging 15,7% throughout 2020 and reaching as high as 22,2% in February of the same year¹⁶⁹.

The pandemic is not solely responsible for the declining economy. Zambia is heavily reliant on agriculture and natural resources, especially copper. Recent years have seen copper prices decline combined with a persistent drought in the country, both of which reduced economic activities long before COVID-19 began¹⁷⁰.

Despite achieving middle-income status in 2011, 58% of Zambia's population earn less than the international poverty line and three quarters of the poor in the country live in rural areas¹⁷¹. Furthermore, the informal sector in Zambia employs an estimated 90% of the labour force, with most of these being based in rural areas and involved in small agricultural operations, which are at risk of external shocks, such as the recent

¹⁶⁶ Andrew Silumesii and others, 'Zambia RECOVR Survey Results and Policy Priorities: Identifying Evidence-Based Social Protection Strategies for an Inclusive and Equitable Recovery', *Innovations for Poverty Action*, 2020 <<https://www.poverty-action.org/blog/zambia-recovr-survey-results-and-policy-priorities-identifying-evidence-based-social-protection>>.

¹⁶⁷ Mwansa Rodgers, 'COVID-19, Issues of Governance and Mounting Political Unrest in Zambia', *Accord*, 2021 <<https://www.accord.org.za/analysis/covid-19-issues-of-governance-and-mounting-political-unrest-in-zambia/>>.

¹⁶⁸ 'Zambia Overview', *World Bank Group*, 2021 <<https://www.worldbank.org/en/country/zambia/overview>>.

¹⁶⁹ 'Zambia Overview'.

¹⁷⁰ 'Zambia Overview'.

¹⁷¹ 'Zambia Overview'.

drought¹⁷². Although the unemployment rate has been consistently decreasing over the past decade, reaching 12,17% in 2020¹⁷³, the country is expected to see a strong increase in poverty and unemployment due to the large demographic shift occurring in the country, which now has one of the youngest populations in the world¹⁷⁴.

Regulation and the business environment

SMMEs in Zambia are regulated under the Ministry of Commerce, Trade and Industry. Within the Ministry, the following departments and government programmes exist for the support of SMMEs and co-operatives:

Table 20: Zambia - Government programs and departments for the development of SMMEs

Name	Mandate
Department of Cooperatives	The Department has the mandate of promoting and facilitating the formation and growth of cooperatives in order to steer socio-economic development, job creation, income generation and poverty reduction.
Zambia Agribusiness and Trade Project	The development objective of the Agribusiness and Trade Project for Zambia is to contribute to increased market linkages and firm growth in agribusiness. There are two primary objectives of the project: Creating and developing market linkages in agribusiness, focusing on two sets of beneficiaries: 'emerging and poor farmers' and 'growth-oriented agribusiness SMEs' Strengthening the regulatory and institutional framework for agribusiness and trade.
Zambia Development Agency	The Zambia Development Agency (ZDA) has a multifaceted mandate of promoting and facilitating trade, investment and enterprise development in the country. The Agency is also responsible for building and enhancing the country's investment

¹⁷² Manju Kedia Shah, *The Informal Sector in Zambia Can It Disappear? Should It Disappear?*, 2012.

¹⁷³ 'Unemployment, Total (% of Total Labor Force)- Zambia', *World Bank Data*, 2021

<<https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=ZM>>.

¹⁷⁴ 'Zambia Overview'.

profile for increased capital inflows, capital formation, employment creation and growth of the Medium Small and Micro Enterprise (MSME) Sector

In 2017, the Zambian Ministry of National Development Planning released its 7th National Development Plan (7NDP), outlining a strategy for national growth until 2021. In this plan the Government identified that there was a need to “make fundamental policy shifts¹⁷⁵” to achieve the objectives that the plan laid out. Five key pillars were identified as focus areas for these policy shifts:

- Accelerating economic diversification
- Building a strong manufacturing and industrial base
- Promoting graduation of micro and small to medium-scale enterprises
- Investing in human capital development
- Strengthening governance mechanisms and institutional capacities

The Government states in the 7NDP that “efforts will be made to address factors that impinge on the growth of MSMEs” and, further, lists some of these factors as lack of skills, poor access to technology and a weak policy environment for supporting MSME growth.

Indeed, Zambia’s government made quick work of delivering on these promises, with several regulatory changes being made as early as 2018 for improving the business environment in the country. These included improved access to credit through a new Movable Property Act¹⁷⁶. The law implemented a functional collateral registry, which is fully operational, completely integrated across the country and includes a secured transactions system¹⁷⁷. An online tax portal was also introduced in 2018, making tax payments easier, and was accompanied by a reduction in property transfer tax rates, reducing the cost of registering property¹⁷⁸.

¹⁷⁵ Ministry of National Development Planning, *7th National Development Plan 2017 - 2021* (Lusaka, 2017).

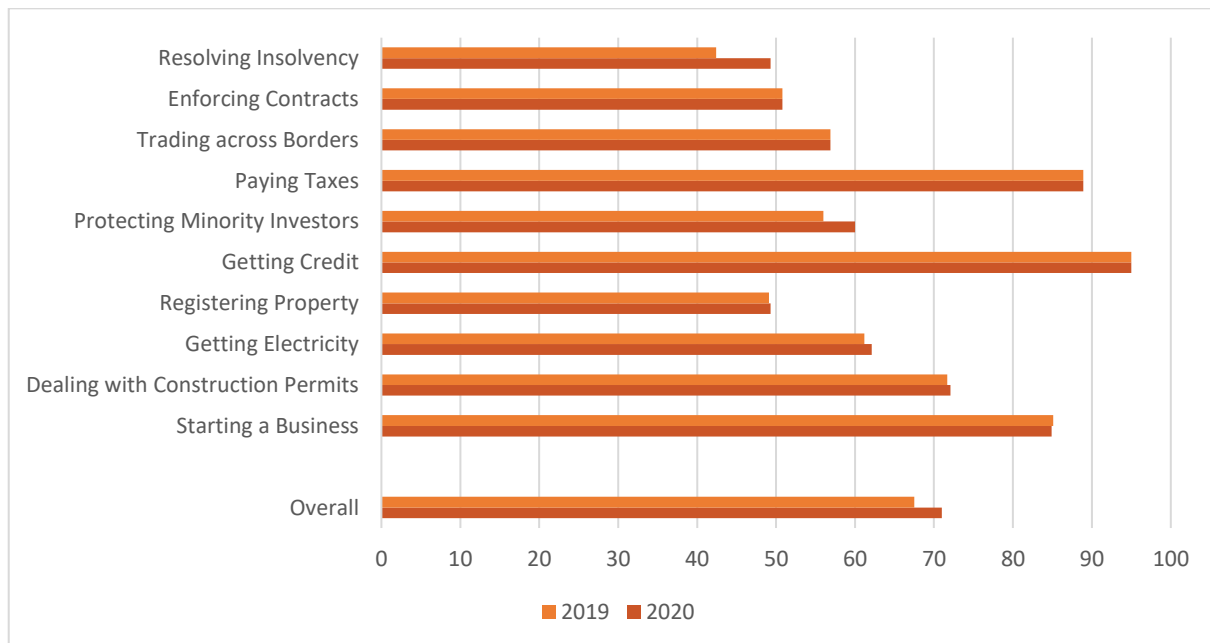
¹⁷⁶ ‘Business Reforms in Zambia - Doing Business - World Bank Group’
<<https://www.doingbusiness.org/en/reforms/overview/economy/zambia>>.

¹⁷⁷ ‘Business Reforms in Zambia - Doing Business - World Bank Group’.

¹⁷⁸ ‘Business Reforms in Zambia - Doing Business - World Bank Group’.

The figure below shows changes in Zambia's *Doing Business* scores across all metrics for 2019 and 2020. Although there are fewer substantial changes than immediately following the release of the 7NDP, the country has maintained consistent improvements in several measures and improved their score overall.

Figure 24: Zambia Doing Business Scores (2019 - 2020)



Unfortunately, the most recent Global Entrepreneurship Monitor report for Zambia was published in 2013, before the introduction of the 7NDP and under different government, preventing us from examining the government support scores for the country in a comparative way.

An overview of SMMEs and Co-operatives in the country

SMMEs play an incredibly important role in the Zambian economy. Small and medium enterprises account for 70% of the country's GDP, 88% of total employment and 97% of all businesses in the country¹⁷⁹. Aware of the high risks associated with an over-reliance on copper and agriculture, the Government of Zambia placed significant effort into diversifying the economy and creating local opportunities for business development¹⁸⁰. Government efforts have focused considerably on small enterprises, in particular, resulting in Zambia being one of the highest-ranked countries in Africa in terms of its business environment.

As early as 2013, studies showed that Zambia was one of the most entrepreneurial countries in the world, with over 41% of the adult population involved in business activity¹⁸¹. Despite this, small businesses in the country suffer from very high failure rate, often related to lack of finance, low profitability or a poor business environment¹⁸². Evidence also suggests high rates of youth involvement in entrepreneurship, with 42% of those aged 18 to 35 running their own enterprise.

In 2012, there were an estimated 1.02 million informal micro and small enterprises in Zambia, with the majority of these (70%) being farming operations¹⁸³. Investigating the turnover of these enterprises, only 8% of these have the potential to increase tax revenue for the government. The exception is informal firms that operate in urban areas. Comprising only 3% of all informal enterprises, these show turnover and characteristics that overlap with formal SMMEs.

Co-operatives also play an important role in the Zambian economy, with 9 498 co-operatives registered as of December 2019¹⁸⁴. Of these, 9 029 operated in the agricultural sector. The total membership in co-operatives slightly exceeds 1,5 million individuals, with the bulk of these members in savings and credit union co-operatives, despite these comprising only 4% of the registered co-operatives in the country¹⁸⁵. Despite

¹⁷⁹ International Trade Center, *Promoting SME Competitiveness in Zambia*, 2019 <www.intracen.org/SMEOutlook>.

¹⁸⁰ International Trade Center, *Promoting SME Competitiveness in Zambia*.

¹⁸¹ Mike Herrington and Donna Kelley, *Promoting Entrepreneurs: Insights for Policy - Zambia*, 2013.

¹⁸² Herrington and Kelley.

¹⁸³ Kedia Shah.

¹⁸⁴ International Co-Operative Alliance - Africa, *National Report: Zambia*, 2020.

¹⁸⁵ International Co-Operative Alliance - Africa.

this, co-operatives contribute only a small amount to employment in the country, with increased competition and low management skills hindering their growth¹⁸⁶.

Most research in Zambia suggests that the small business sector predominantly serves local markets¹⁸⁷, with few of these businesses exporting their goods (either directly or indirectly)¹⁸⁸. Despite this, many indicate that exporting is a goal for their business and something that they would like to participate in, although they are unsure of how to achieve this goal¹⁸⁹.

In a 2019 study, 43,5% of SMME owners started their business because they saw an opportunity to do so and 40,6% did so because they had a passion for the work, suggesting that business ownership is not necessity-driven in the country¹⁹⁰. When discussing the challenges faced in starting their businesses, over half of small businesses noted that “sourcing capital” was a struggle, with 30,4% stating that competition was too strong, 29% struggling with transport costs for getting stock and 24,6% struggling with finding skilled staff¹⁹¹.

These challenges are not uncommon for small enterprises and reflect the same struggles faced by SMMEs in both India and South Africa. With the majority of SMME owners stating that they have taught themselves how to manage their businesses¹⁹², it is also unsurprising that many note struggles with business management and regulatory compliance and barriers to growth and sustainability.

The impact and response to COVID-19

¹⁸⁶ International Co-Operative Alliance - Africa.

¹⁸⁷ Alfred Nuwagaba, ‘Enterprises (SMEs) in Zambia’, *International Journal of Economics, Finance and Management*, 4.4 (2015) <<http://www.ejournalofscience.org>>.

¹⁸⁸ International Trade Center, *Promoting SME Competitiveness in Zambia*.

¹⁸⁹ International Trade Center, *Promoting SME Competitiveness in Zambia*.

¹⁹⁰ Jones J Kalyongwe, ‘Small and Medium Enterprises Business Sustainability Challenges and Rejoinders: A Case of Selected Districts in Zambia’ (University of Lusaka, 2019).

¹⁹¹ Kalyongwe.

¹⁹² Kalyongwe.

Like much of the world, SMMEs in Zambia were struck hard by the pandemic. In a June 2020 survey, 48% of businesses in the country reported being at risk of failure within 12 months, with the majority of these being micro and small enterprises¹⁹³. Businesses began retrenchments early on during the pandemic, with 2,378 jobs lost between February and May 2020¹⁹⁴ to keep their companies running.

The challenges introduced by the pandemic exacerbated the financing challenges faced by SMMEs in the country, which many combatted through informal financing and a surge in digital credit solutions¹⁹⁵. With constraints in transport, lack of cash flow for inventory and constrained movement, SMMEs operating in the services industries fared far better than those in production¹⁹⁶ and enterprises that were able to pivot away from production towards increasing their services offering were more likely to survive the crisis. Of course, this is a particularly difficult task for those enterprises operating in rural and low-income areas, especially when the bulk of the sector sells to their peers and local markets¹⁹⁷.

Of course, the provision of services requires a different set of skills and investments for small businesses, and, in the post-COVID world, these often mean reliance on digital channels of sales and communications which are already a scarce resource in the country¹⁹⁸. Even within the production realm, digital skills are becoming more important, following the pandemic, and businesses in Zambia have seen the same digital acceleration experienced in the rest of the world¹⁹⁹. For those businesses that have made the switch to digital, unreliable internet has been a significant barrier to using more digital technology²⁰⁰.

¹⁹³ Impact Capital Africa, *COVID-19 Zambia: Inside Business*, June 2020 <www.impactcapafrica.com>.

¹⁹⁴ Impact Capital Africa.

¹⁹⁵ Constantine Manda and others, *How Micro- and Small Enterprises (MSEs) Leveraged Informal Financing and Digital Technology during the COVID-19 Pandemic in Zambia*, 2021.

¹⁹⁶ Manda and others.

¹⁹⁷ Clement Mwaanga and Leah Chew, 'Entrepreneurship Development: Reflections on Organisational Challenges That Hinder Their Growth', *Management*, 6.5 (2016), 137–45 <<https://doi.org/10.5923/j.mm.20160605.01>>.

¹⁹⁸ Mutale Mukosa, 'The Impact of COVID-19 on Small Scale Businesses in Zambia', *Banking and Insurance Academic Journal*, 2.6 (2020) <www.cird.online/BIJ/:E-mail:BIJ@cird.onlinepg.1>.

¹⁹⁹ Veethi Vyas and Ashirul Amin, 'Zambian Small- and Micro-Enterprises during COVID-19', *BFA Global*, 2020 <<https://bfa-global.com/covid-19/insights/zambia-msmes-during-covid-19/>>.

²⁰⁰ Vyas and Amin.

Despite a challenging financial and market environment, Zambian SMME owners are optimistic: 64% of SMMEs stated that they intended to stay open during the crisis and 43% stated that they were extremely confident that their enterprise would recover from the pandemic²⁰¹.

4. Section 4: The Experiences of South African SMMEs and Co-operatives

Section 3 gave an overview of the current state of the South African economy and the impact of COVID-19 on domestic markets. In the midst of the declining economy, predictions note that domestic markets are likely to recover more slowly than the global market, with electricity outages and uncertainty around the vaccine listed as primary factors for the slow recovery²⁰². This section presents a review of the experiences of South African SMMEs and co-operatives. It begins with examining the historical challenges faced by SMMEs and co-operatives, then moves to consider the current experiences of these enterprises, and closes with a review of the specific impacts of COVID-19 on SMMEs and co-operatives

4.1. Historical challenges faced by SMMEs and co-operatives

Significant research has been conducted over the years addressing the challenges experienced by SMMEs in South Africa. Broadly speaking, these challenges have remained relatively consistent over time with small businesses struggling to overcome them in any meaningful way. Of course, COVID-19 has changed these challenges in many ways – in some instances aggravating them, in others simply changing the way that the challenges are experienced, along with bringing new challenges to the sector. This section considers the primary historical challenges faced by the small business sector, as identified through the literature and expert interviews. It investigates how these challenges are being experienced by small business owners in the present-day South Africa, through an analysis of the results from the survey conducted for this research.

²⁰¹ Vyas and Amin.

²⁰² Bureau for Economic Research, *SA Economic Outlook with Special Reference to the SMME Sector and an Updated Quarterly Report*, 2020 <<http://www.seda.org.za/Publications/Publications/SA Economic Outlook December 2020.pdf>>.

Table 21: Historical challenges faced, % by enterprise size

	Micro	Small	Medium	Co-operatives	Total
Finding places to sell my goods/services	0,00%	22,92%	22,91%	10,00%	22,41%
Finding good staff	10,00%	20,83%	13,88%	0,00%	14,57%
Getting financing	60,00%	80,21%	91,47%	70,00%	89,22%
Regulation/red tape	20,00%	6,25%	1,67%	0,00%	2,52%
Moving to digital marketplaces	0,00%	25,00%	16,56%	20,00%	17,51%

Historically, the primary challenges that SMMEs and co-operatives in South Africa face are access to finance, access to markets, regulatory burdens, lack of skills and struggles in finding skilled staff, and digital literacy. Table 21 shows the percentage of respondents in the survey that reported struggling with each of these challenges. While digital literacy was not asked directly, the table reports on small business owners that reported moving to digital marketplaces as a challenge while running their business. It's clear that access to finance remains the largest challenge for SMMEs and co-operatives. However, the other challenges that are strongly emphasized in the literature are reported much less frequently than one would expect. Despite this, the academic evidence for the challenges, as well as the evidence gathered from the expert interviews, makes it worthwhile to examine each of these challenges in more detail.

Access to finance

“Access to finance [is one of the biggest challenges], even with a brilliant business plan, if SMME's cannot not provide own contribution, no one is willing is willing to assist them with finance.”

As with most developing nations, the most pressing challenge faced by SMMEs, and co-operatives is access to funding. In a 2018 study²⁰³, 65% of SMME owners surveyed responded saying that “A lot of assistance [was] needed” in terms of access to finance²⁰⁴. This is consistent with research conducted as far back as 2008 and has continued to be noted as a challenge faced by SMMEs until the present day²⁰⁵. This challenge is further compounded by the demographic, sector and size discrepancies in financial access, particularly with regards to the informal sector who find it especially difficult to access finance.

These trends have persisted into 2021, where 89% of surveyed respondents reported access to finance as a challenge that they had experienced since starting their business. This challenge is more prominent for enterprises in the informal sector, where 92,9% of respondents reported this as a challenge²⁰⁶. Smaller enterprises and co-operatives were 15% more likely to report struggling to access finance, when compared with medium enterprises, although these results were not statistically significant. Figure 25 shows the percentage of enterprises that reported access to finance by enterprise size and sector. Micro enterprises and informal medium enterprises reported access to finance most frequently, with co-operatives also frequently reporting struggling to access finance.

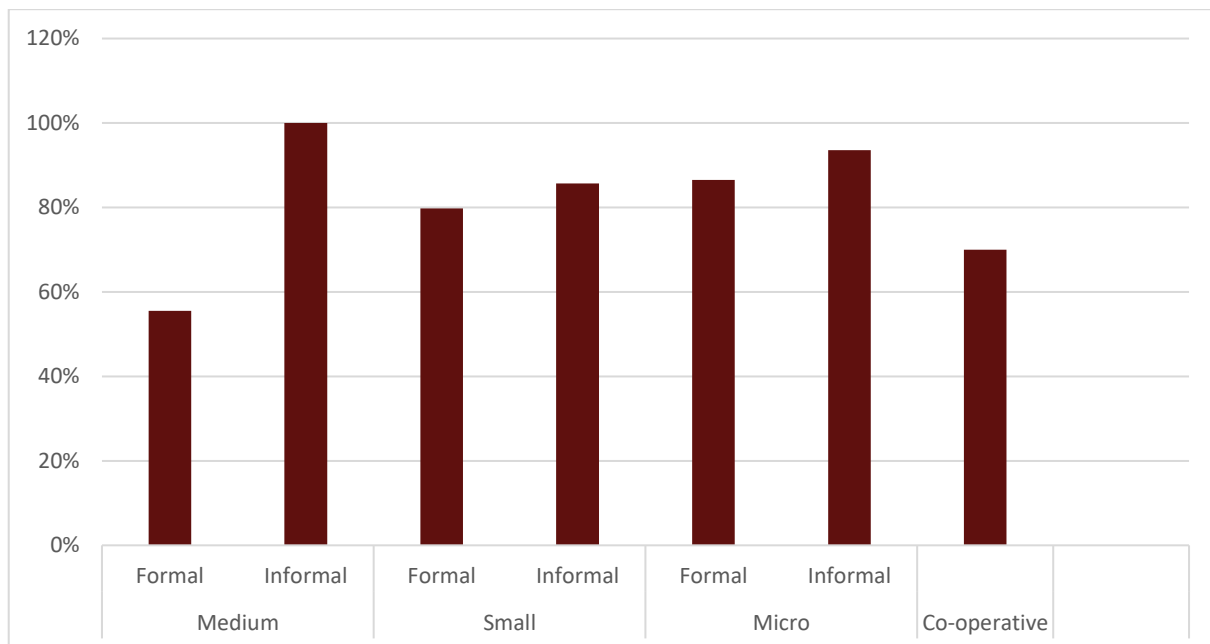
²⁰³ SME Africa, *An Assessment of South Africa's SME Landscape: Challenges, Opportunities, Risks and Next Steps*, 2018 <<https://www.smallbusinessinstitute.co.za/wp-content/uploads/2019/12/AssessmentOfSAsSMElandscape.pdf>>.

²⁰⁴ SME Africa.

²⁰⁵ Department of Trade and Industry, *Annual Report 2007/08*, 2008.

²⁰⁶ Difference statistically significant at the 1% level.

Figure 25: Access to finance as reported challenge, by enterprises size and sector



These challenges faced by informal and small enterprises were echoed in the qualitative research, where 90% of the experts interviewed noting that funding is generally more difficult for these enterprises. This was largely attributed to a lack of certainty in the feasibility of the business concept, and a lack of information and skills in developing a business plan and application for funding.

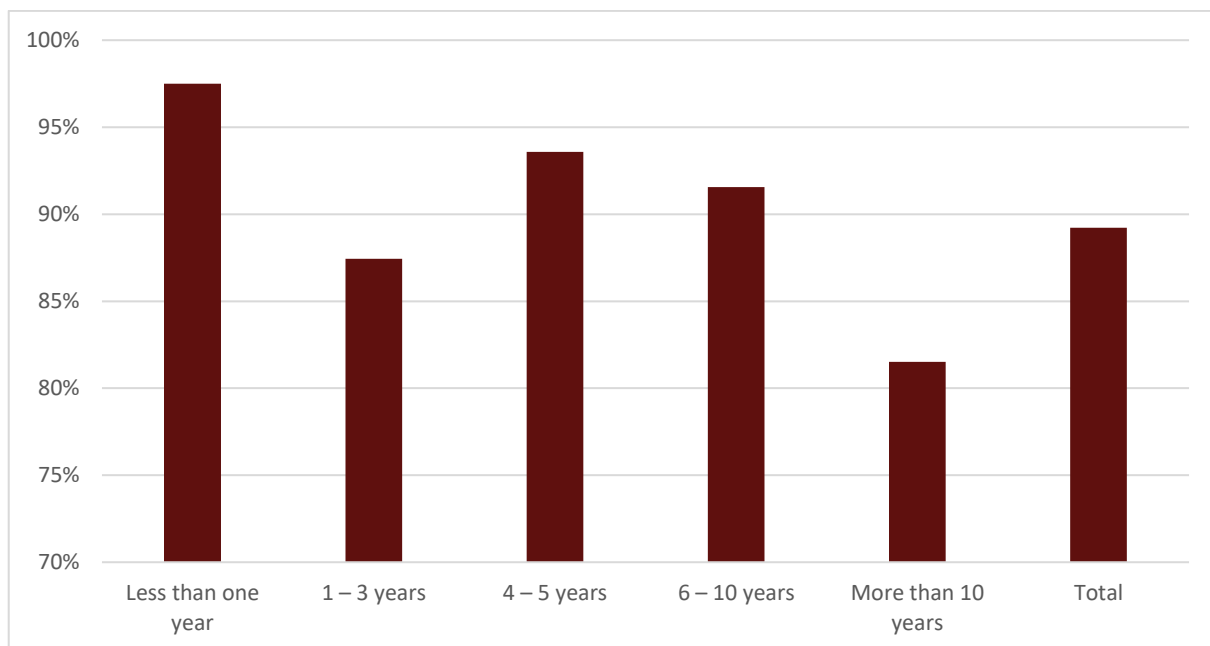
“Finance has been very difficult for co-operatives. Funding institutions are very reluctant to fund co-operatives because they have a stigma of not being a sustainable business model.”

Although the qualitative research highlighted that access to finance is more difficult for marginalized groups, there was no statistically significant difference in reported challenges in accessing finance by population group, gender and disability status. Many of the experts interviewed noted that funding is most difficult for enterprises in the start-up phase, where there is insufficient evidence of the strength of their business.

“Funders are very reluctant to fund businesses at an ideation stage... they want you to pilot to see if what you are doing is working or can work before they extend funding.”

An analysis of the survey data shows that older businesses are 2% more likely than younger businesses to report access to finance as a challenge²⁰⁷. Figure 26 shows the percentage of enterprises that reported access to finance as a challenge, by enterprise age. The figure shows that start-ups do, in fact, report struggling to access to finance more frequently than do older enterprises. However, there is a decline in the reports of this challenge as enterprises enter the 1- to 3-year mark.

Figure 26: Access to finance as a reported challenge, by enterprise age



Access to markets

²⁰⁷ Difference statistically significant at the 5% level

Access to markets [is a big challenge], in that without a track record people are reluctant to give small businesses and especially startup businesses an opportunity to provide a service.

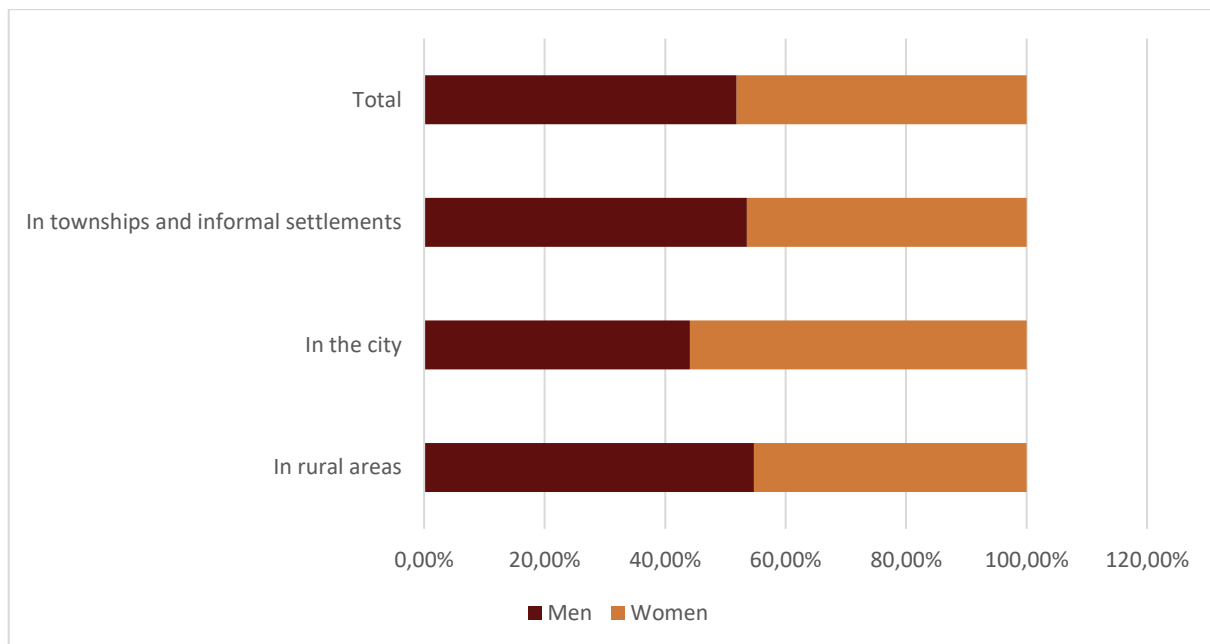
The next most prevalent challenge noted in the SME Africa survey was lack of access to markets, with 52% of respondents noting that significant assistance is required in this sphere²⁰⁸. This finding is also consistent with historical challenges in the country and impacts the resilience of small businesses, many of whom rely on a small number of clients for their revenue. Should they lose these clients, the lack of diversification puts the business in danger. Furthermore, high transport costs and inequalities in access to transport impact the ability of small businesses to expand to new markets and to find new customers²⁰⁹.

The survey data collected for this research indicated that there were some differences in access to markets across provinces, although these were slight. Kwa-Zulu Natal, Limpopo, Mpumalanga and the Northwest province had the highest number of SMMEs and co-operatives r experiencing access to markets as a challenge. Figure 27 illustrates the reported challenge in accessing markets by gender and area. The results show that men and women struggle similarly when accessing markets, although men struggle slightly more in townships and rural areas than what women do. This is likely due to the fact that women are more likely to operate in market stalls and on streets, while men are more likely to work in manufacturing and services.

²⁰⁸ SME Africa.

²⁰⁹ SME Africa.

Figure 27: Access to markets as a reported challenge, by area and gender



Those in townships (34,5%) and rural areas (22,2%) were generally more likely to report struggling to access markets and informal enterprises were also 8% more likely than formal enterprises to report experiencing this challenge, with 27% of informal enterprises reporting experiencing this challenge, compared to 15% of formal enterprises. Black Africans, the youth and rural enterprises were all more likely to report struggling with access to markets, although these results were not statistically significant.

Regulatory burdens

Ease of doing business is a definite challenge for [SMMEs]. There is academic literature, there is proof that this is really an issue in the South African context on what SMME's are facing.

Regulatory burdens and constraints have also been historically challenging for small business owners – a cumulative 74% of SMME owners noted that they would specifically like assistance with *understanding* the

laws and regulations that apply to them²¹⁰. In previous studies, regulatory burdens have been frequently noted as constraints in the sector, and this perception continued to 2018 where 32% of SMME owners felt that South African labour laws inhibit SMME growth in the country²¹¹. Of those who felt that labour laws were inhibiting to growth, the majority were specifically concerned with compliance with regulatory bodies and with minimum wages in the country. In addition to employment regulation, tax burdens have also been listed as a barrier to formalization and a challenge to SMME growth since 2008²¹².

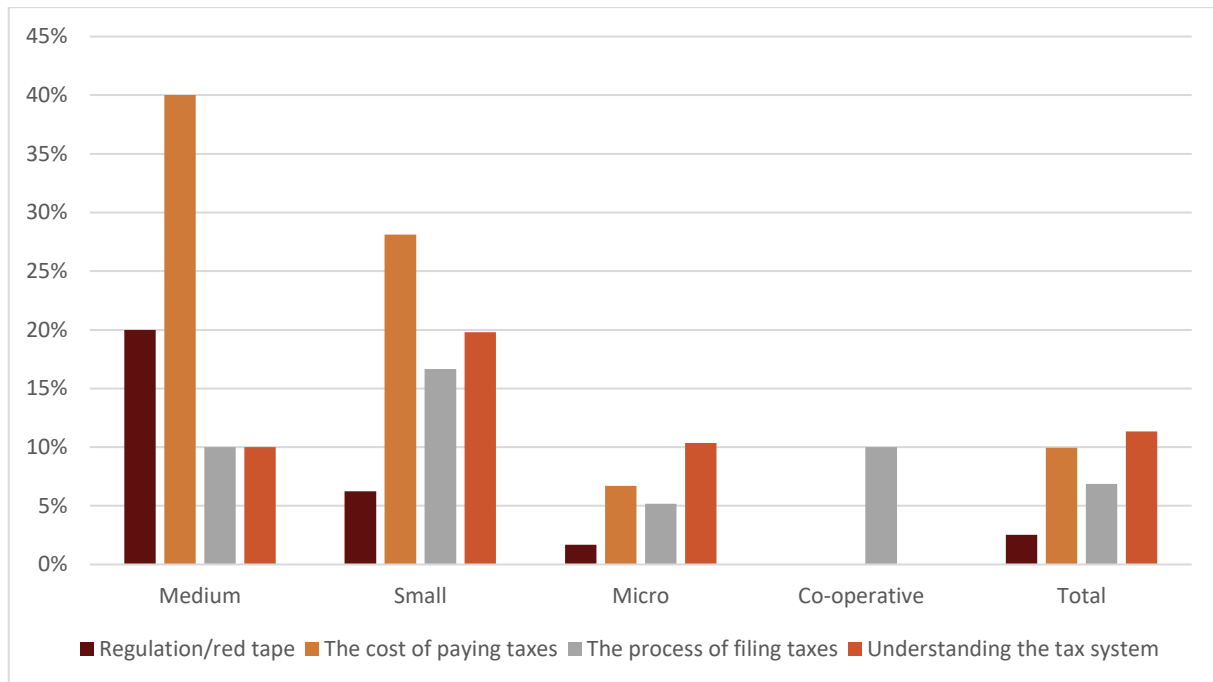
Despite regulation and red tape being an often-cited challenge faced by SMMEs and co-operatives in the country, participants in our survey did not report this as a significant challenge. Only 2,5% of enterprises surveyed reported regulation as being a challenge that they have faced with their business, although this amount increases when decomposed by enterprise size. As enterprises grow, they become more likely to report challenges with regulation, paying taxes and understanding the tax system.

²¹⁰ SME Africa.

²¹¹ SME Africa.

²¹² Department of Trade and Industry.

Figure 28: Regulation and taxes as reported challenges, by enterprise size



It is possible that these results are driven, in part, by non-compliance by enterprises. If SMMEs and co-operatives are neglecting their regulatory and tax requirements, they may not have experienced these as notable challenges. This is echoed in the qualitative research, where experts note that there is a lack of awareness about the regulation surrounding small business, resulting in many enterprises not being compliant with regulation.

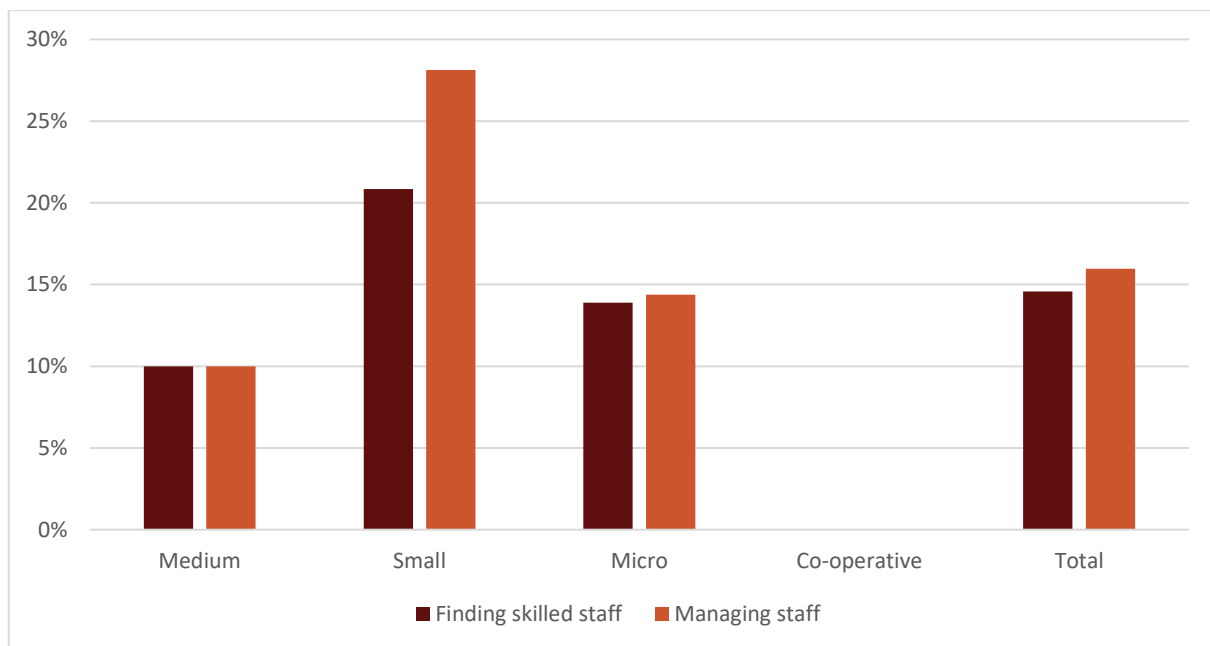
Some of the informal sectors don't want to grow because they don't want to be formalized. They are avoiding paying taxes.

The expert interviews also suggested that regulatory avoidance increased during COVID-19 and that it is most prevalent in the informal sector, where informality protects enterprises from regulatory and tax burdens.

Low skills levels

Another persistent challenge faced by SMMEs is low skills levels of both owners and staff²¹³. Owners of small businesses often lack the requisite knowledge and skills to effectively manage their businesses, which is especially true once the business begins to grow and employs staff or expands to new markets. The regulation surrounding employee dismissals and wages often worsen this constraint for SMMEs. Hiring staff comes with the risk of them being a poor fit for the enterprise or not having the required skills and the employment regulations mean that there are high costs associated with dismissing the staff member. On the other hand, avoiding the risk of making a hiring mistake limits enterprise growth, as well as the sector's contribution towards national employment²¹⁴.

Figure 29: Finding and managing staff as reported challenges, by enterprise size



Despite the frequency with which lack of skilled staff is cited as a challenge in the literature, only 15% of the survey respondents for this research listed finding skilled staff as a challenge that they had faced with their

²¹³ SME Africa.

²¹⁴ Bureau for Economic Research, *The Small, Medium and Micro Enterprise Sector of South Africa*, 2016.

business. Those with higher levels of education were more likely to report struggling to find skilled staff. Those who had vocational or trade training, however, were the most likely to report struggling with finding appropriate skills. The formal sector was 11% more likely to report struggling to find skilled staff²¹⁵ and rural enterprises were 5,6% more likely than enterprises based in cities to report struggling to find skilled staff²¹⁶.

Research has shown that most of the SMMEs fail because the trader was not well equipped to run the business.

Of course, lack of skills does not apply only to staff but to the enterprise owners themselves. The qualitative research shows that lack of knowledge and skills in business management and operations is a significant challenge for SMMEs and co-operatives. These are often “invisible” challenges, and these enterprises may not be aware that their lack of knowledge is harming their business.

Digital literacy and adoption

New challenges have also started to emerge in recent years, some of which have bearing on the SMME sector within the COVID-19 context. Perhaps most important of these is the technological limitations and digital access and literacy. While smartphone and, even, laptop access are reasonably high among small business owners, more advanced technology is still being used at extremely limited rates – 35% of small business owners, for instance, stated that they do not use cloud services “at all” for their business and only 22% of these businesses use e-commerce on a regular basis²¹⁷. Stable and reliable internet was listed as a constraint to growth by 60% of small businesses surveyed, with lack of technological skills being mentioned by 45% of these enterprises.

The IMD World Competitiveness Report²¹⁸ shows the extent of South Africa’s challenges with technology and the new digital economy: in 2020 the country received its lowest competitiveness ranking of 60th out of

²¹⁵ Difference is statistically significant at the 1% level

²¹⁶ Difference is statistically significant at the 10% level

²¹⁷ SME Africa.

²¹⁸ IMD World Competitiveness Online.

the 63 countries in the study. When considering individual components of the ranking, South Africa scores 60th in knowledge, 55th in technology and 57th in future readiness. Perhaps most concerning is the country's low rank for "adaptive attitudes" (59th out of 63), which refers to the general willingness to adopt new technologies and adapt to changing digital environments. The country's rank also declined very rapidly, as shown in Table 22 below: the country's overall rank dropped from 48th to 60th between 2019 and 2020 and from 44th to 57th in "future readiness".

Table 22: Digital Competitiveness Rankings 2016 - 2020²¹⁹

	2016	2017	2018	2019	2020
Overall Rank	51	47	49	48	60
Knowledge	49	49	52	54	60
Technology	51	53	52	51	55
Future readiness	47	42	43	44	57

According to the Global Innovation Index 2020²²⁰, South Africa's innovation inputs – comprised of its infrastructure, human capital, institutions, market sophistication and business sophistication – are higher than its innovation outputs – defined as its knowledge creation, impact and diffusion and the creative goods and services produced by the country. The implication is that the investment that South Africa is making into human capital, infrastructure and institutional development are not translating into improved ability to produce, use and distribute knowledge and technology²²¹.

²¹⁹ IMD World Competitiveness Online.

²²⁰ Global Innovation Index, *Global Innovation Index 2020: South Africa Country Profile*, 2020.

²²¹ Global Innovation Index.

Specific strengths and weaknesses for each sub-indicator are discussed and these may give some clues to the reason behind this discrepancy between innovation inputs and outputs. First, strength for innovation inputs is measured by government spending on education, which numerous studies have shown to be poorly translated into education outcomes²²². The number of new business registrations is also listed as a strength, albeit in the innovation outputs indicator, which data suggests has been driven by COVID-19 loss of employment, rather than the development of innovations for which there is a business case.

Some of the weaknesses listed include political and operational stability, the ease of starting a business, and the GDP per unit of energy used. In addition to these, several weaknesses are listed in the human capital and skills indicator. The pupil-teacher ratio in primary and secondary education and low tertiary enrolment levels are the primary weaknesses listed in these indicators.

Combined, the low digital competitiveness, lack of skills and low innovation capabilities create a small business landscape that is likely to struggle with digitization and cannot effectively make use of the expansion in market access that is created through new technologies and digital marketplaces. In fact, while only 18% of survey respondents named digitization as a challenge that they had experienced, a surprisingly low number of enterprises report usage of various digital technologies. Nearly 61% of those surveyed reported not using any of the listed technologies, and only 24,23% of those surveyed reported using a business bank account. Table 23 reports the usage of digital technologies, by enterprise size. Larger enterprises are more likely to use these technologies although uptake remains low even among medium enterprises, where 20% of those surveyed reported not using any of the listed technologies.

Table 23: Reported usage of digital technologies, by enterprise size

	Medium	Small	Micro	Co-operative	Total
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²²² Bureau for Economic Research, *The Small, Medium and Micro Enterprise Sector of South Africa*.

A business bank account	70%	61,46%	17,73%	10%	24,23%
Cloud-based storage	10%	4,17%	0,84%	0%	1,40%
Delivery service for our products	10%	27,08%	6,35%	10%	9,24%
Digital marketing	40%	26,04%	8,70%	10%	11,48%
E-commerce platforms	10%	4,17%	1,00%	0%	1,54%
Point of sales system	0%	12,50%	2,17%	10%	3,64%
Software for bookkeeping	40%	18,75%	4,01%	10%	6,58%
Technology-enabled payment system for suppliers	40%	28,13%	7,53%	0%	10,64%
None of these	20%	31,25%	66,05%	80%	60,75%

4.2. The current experience of SMMEs and co-operative

Although access to finance remains the most frequently reported challenge experienced by SMMEs and co-operatives, these are not the only challenges faced by these enterprises. Table 24 summarizes the most-reported challenges experienced by SMMEs and co-operatives, outside of the historical challenges reported in Section 4.1 above. The table shows that managing cash flow, finding equipment and marketing are the biggest challenges experienced by SMMEs and co-operatives.

Table 24: Most frequently reported challenges, by enterprise size

	Medium	Small	Micro	Co-operatives	Total
Finding equipment	20,00%	45,83%	46,82%	20,00%	45,94%
Finding suitable/affordable premises	0,00%	33,33%	24,41%	10,00%	25,07%
Managing business operations	0,00%	39,58%	28,76%	10,00%	29,55%

Cost of storage facilities	20,00%	40,63%	27,09%	10,00%	28,57%
Marketing my business	20,00%	35,42%	36,45%	20,00%	35,85%
Crime	10,00%	19,79%	19,57%	30,00%	19,61%
Managing cash flow	60,00%	65,63%	51,67%	30,00%	53,36%
Paying utility bills	40,00%	47,92%	28,43%	0,00%	30,81%

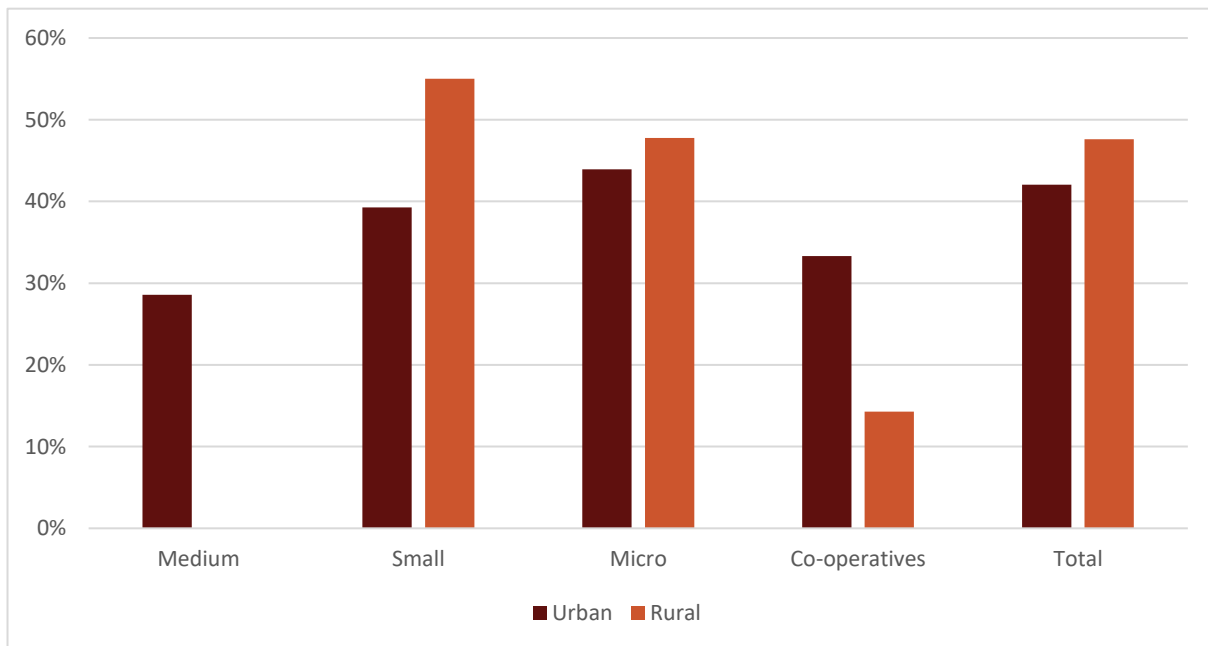
Finding equipment

Nearly 46% of those surveyed reported struggling to find equipment as a challenge that they had faced with their business. This challenge was most prominent among small enterprises in rural areas, with 55% of these enterprises reporting this as a challenge, as shown in Figure 30 below. In fact, enterprises operating in rural areas were 10% more likely to report struggling to find equipment²²³. Older enterprises were also more likely to report this as a challenge than younger enterprises²²⁴.

²²³ Difference statistically significant at the 1% level

²²⁴ Difference statistically significant at the 1% level

Figure 30: Finding equipment as a reported challenge, by enterprise size and area

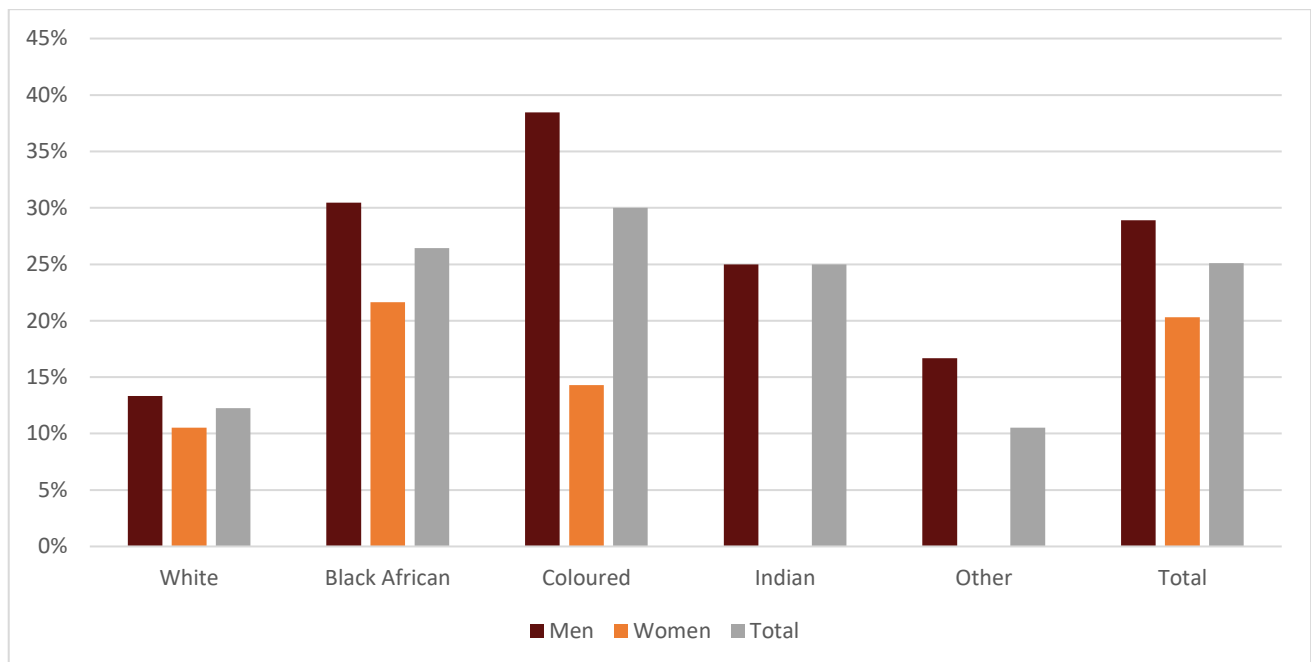


Finding suitable premises

25% of respondents in the survey reported that finding suitable or affordable premises was a challenge that they had experienced. Women were 8% less likely to report this as a challenge than men ²²⁵, as illustrated by Figure 32 below. The figure shows the percentage of men and women within each population group that reported finding suitable premises as a challenge that they had experienced. At the population group level, white business owners were the least likely to report struggling to find suitable premises, while Coloured business owners were the most likely to report this as a challenge. These differences stem predominantly from the size of enterprises, as well as the sector and industry in which these enterprises operate. Women were more likely to run micro enterprises that they were able to operate out of their homes, while men and Coloured business owners were more likely to operate businesses that required significant equipment or manufacturing processes that require more space to accommodate.

²²⁵ Difference is statistically significant at the 1% level

Figure 31: Finding suitable premises as a reported challenge, by population group and gender



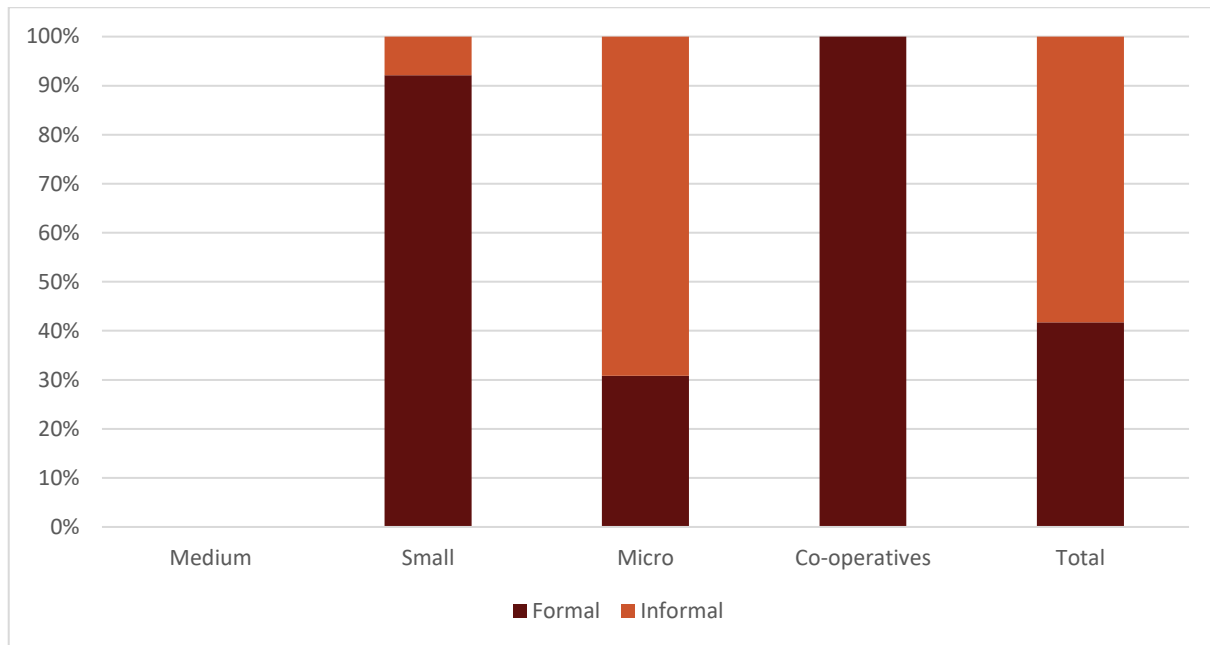
Managing business operations

Although none of the medium-sized enterprises surveyed reported managing business operations as a challenge that they had experienced, nearly 30% of all those surveyed reported struggling with this aspect of their business. This was also consistently mentioned in the qualitative interviews, with most experts agreeing that lack of skills when it comes to business management is a significant contributor to business failure in the small enterprise sector. Figure 32, shows the distribution between formal and informal enterprises in each size category that reported managing business operations as a challenge. Micro enterprises and the informal sector struggled the most with this component of their businesses, although the differences between size categories was not statistically significant. Women were 7% less likely to report struggling with business operations than men ²²⁶ and higher levels of education were associated with a 10% decrease in reported struggles with business operations²²⁷.

²²⁶ Difference is statistically significant at the 5% level

²²⁷ Difference is statistically significant at the 1% level

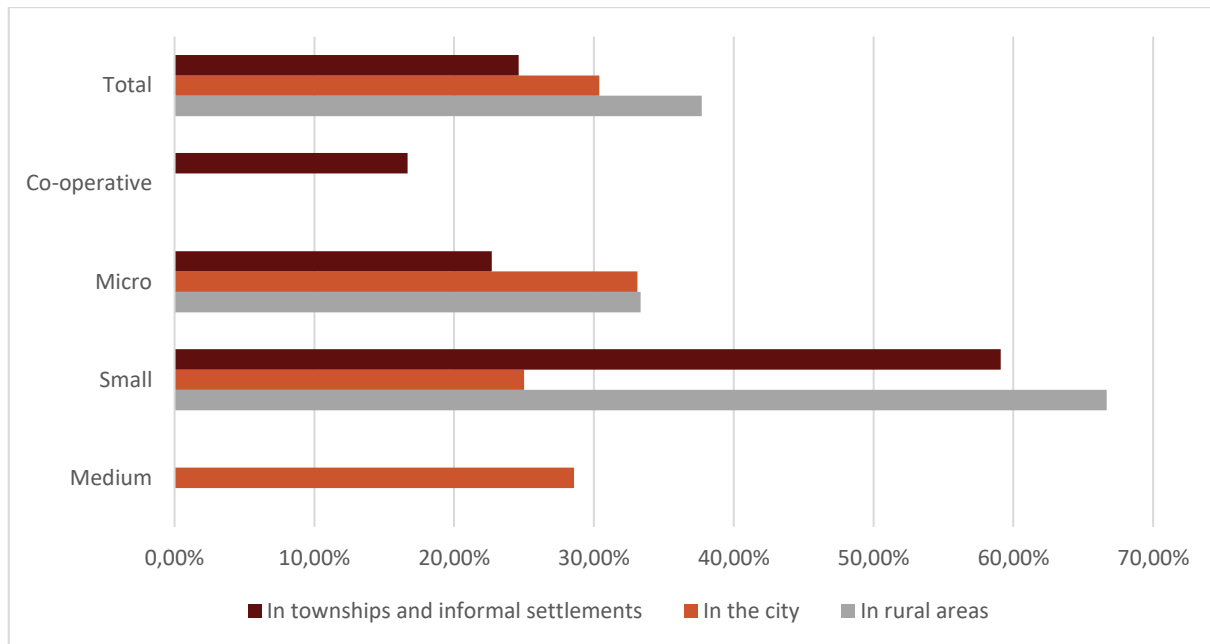
Figure 32: Managing business operations as a reported challenge, by enterprise size and sector



Cost of storage facilities

A little over 29% of respondents reported that the cost of storage facilities was a challenge that they had experienced with their business, of which 79% were micro enterprises. Figure 33 illustrates the percentage of enterprises in each size category that reported storage costs as a challenge, disaggregated by area. Overall, those in rural areas and cities struggle more with storage facilities than those in townships and informal settlements. Small enterprises report experiencing this challenge most frequently, with 66,7% of small enterprises in rural areas, 25%, in cities, and 59% in townships and informal settlements reporting this as a challenge.

Figure 33: Cost of storage facilities as a reported challenge, by enterprise size and area



Marketing my business

Unlike many of the other challenges reported by SMMEs and co-operatives in the survey, marketing a business was reported as a challenge fairly equally across all enterprise sizes and owner sub-groups. Although a larger percentage of small and micro enterprises reported this as a challenge, these differences were not statistically significant. Neither were there statistically significant differences between the formal and informal sectors, different population groups or genders. Enterprises in the start-up phase were 8,4% more likely to report experiencing this challenge than older enterprises, and those with higher levels of education were less likely to report this as a challenge than those with lower levels of education²²⁸.

²²⁸ Differences statistically significant at the 1% level.

Figure 34: Marketing my business as a reported challenge, by enterprise size and age group

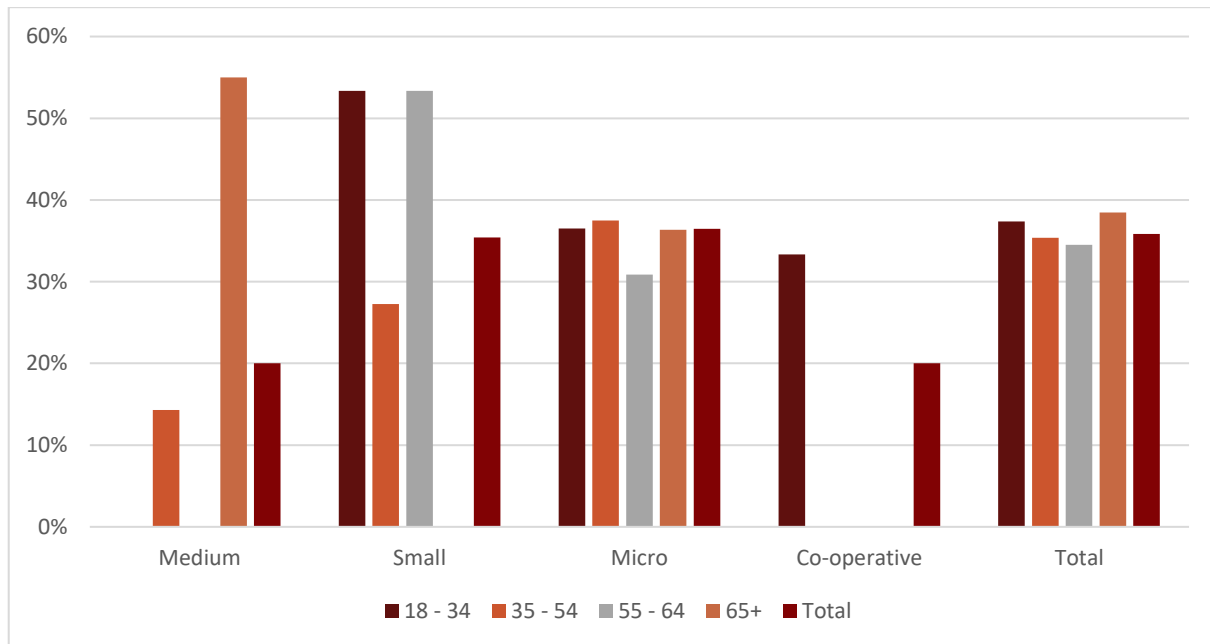


Figure 34 illustrates the percentage of enterprises reporting marketing as a challenge by enterprise size and age group. For medium-sized enterprises, older owners are most likely to report struggling with marketing their businesses. In small enterprises, youth owners and owners older than 55 are most likely to report this as a challenge. For other size categories and the total population, there is a fairly even distribution of age groups in those reporting struggling with marketing. Importantly, however, those enterprises that own a smartphone were 23% less likely to report struggling with marketing their businesses, all else being equal²²⁹. There was no statistically significant relationship between any other asset ownership or demographic group and marketing as a reported challenge.

Managing cash flow

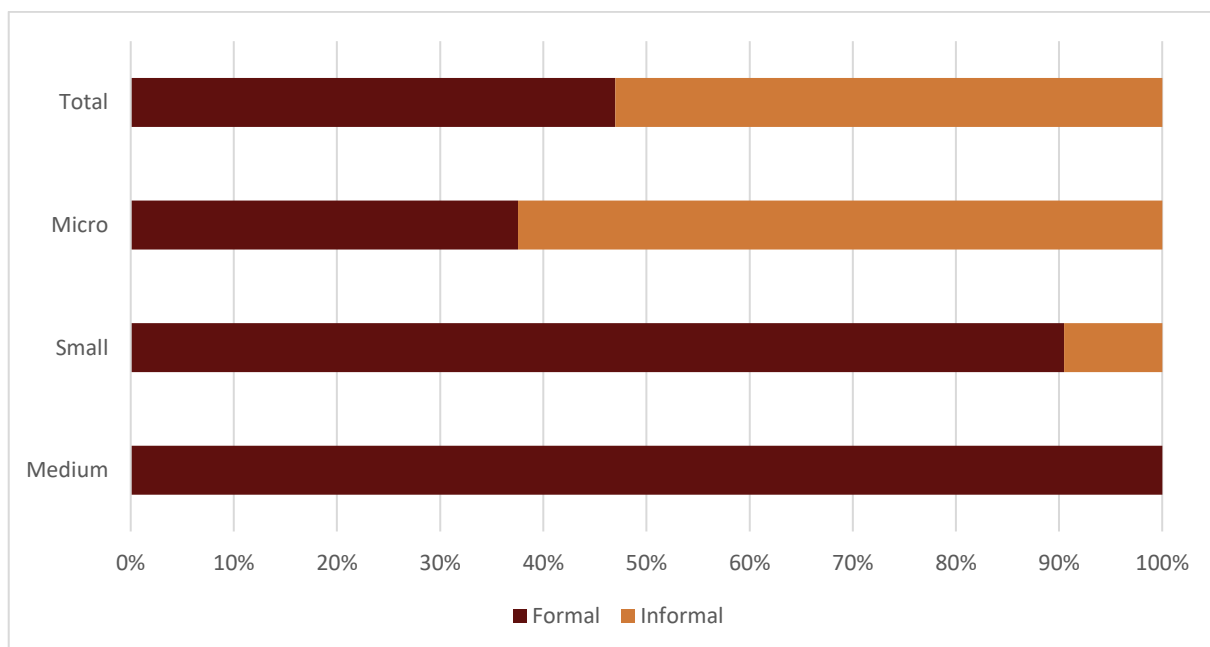
Nearly 54% of enterprises surveyed reported struggling with managing their cash flow. Women were 6% more likely to report struggling with cashflow, and rural enterprises were 9% more likely to report the same²³⁰. Figure 35 illustrates the distribution of enterprises that reported cash flow as a challenge across sectors,

²²⁹ Difference statistically significant at the 1% level

²³⁰ Differences statistically significant at the 5% level

disaggregated by enterprise size. Across the entire sample, formal enterprises were less likely to report struggling with cashflow, but this result is largely driven by the high percentage of informal micro enterprises reporting struggling with cash flow. For small and medium enterprises, more of those reporting struggling with cash flow came from the formal sector. This could be due to the definition used for categorizing enterprises: cash flow constraints would likely be compounded by needing to pay staff salaries and wages, and enterprises in the survey were categorized based on number of full-time employees.

Figure 35: Cash flow as a reported challenge, by enterprise size and sector



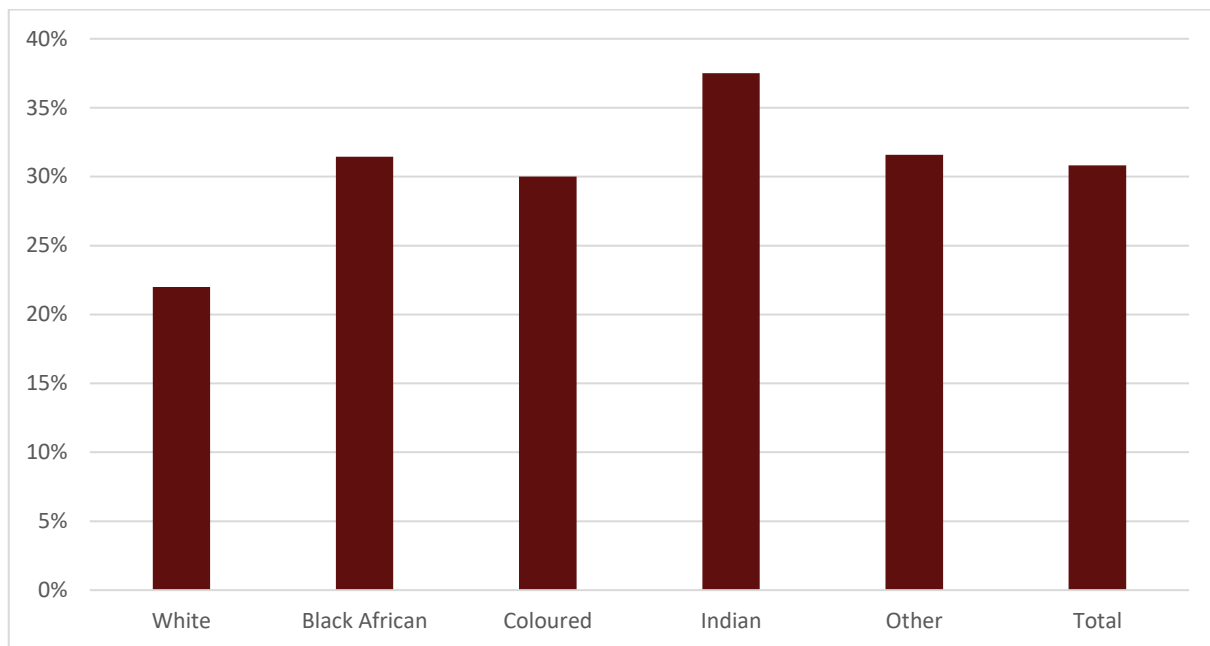
Paying utility bills

A little under 31% of enterprises surveyed reported that paying utility bills presented a challenge for their business'. This challenge was particularly prevalent for small enterprises, where 47,9% reported experiencing this challenge²³¹. Informal enterprises were less likely to report struggling with paying utility bills, as were co-operatives. However, there were statistically significant differences between population groups, as illustrated

²³¹ Differences statistically significant at the 1% level

in Figure 36 below. White business owners reported struggling with paying utility bills at much lower rates than the other population groups²³².

Figure 36: Paying utility bills as a reported challenge, by population group



4.3. How COVID-19 has impacted and changed the experience of SMMEs and co-operatives

SMMEs were not immune to the hard-hitting impacts of the crisis. In fact, many have argued that they were most severely impacted, and the data supports this. Impacts on SMMEs ranged in form but business closures were a common occurrence in 2020. Concerningly, this continued through to quarter 3 of 2020, even once the economy began its recovery. SEDA BER Report shows an 11% year-on-year decline in the number of SMMEs from September 2019 to September 2020, with 12% of SMMEs who employ others shutting their

²³² Difference statistically significant at the 5% level

doors²³³. Some predictions suggest that the situation will only worsen, with up to 60% of SMMEs closing due to the crisis²³⁴.

The impacts were, of course, not equal across all sectors, with those relying on social interaction being most heavily impacted²³⁵. Agriculture was the only industry that did not see a decline in the number of small businesses but, instead, saw an increase²³⁶. The Western Cape was most strongly impacted, likely due to the strong hospitality industry in the province, given that 53% of all closures occurred in the trade and accommodation sectors.

These impacts were also different across demographic groups and enterprise ages, with 75% of closures occurring in businesses owned by individuals aged 30 to 55. Although the youth struggled to start businesses in this period, it seems that they have been more able to maintain their businesses than older cohorts. Equally notable is that closures differed across business age, in a different direction than one would expect. While the standard wisdom is that most businesses will not survive past their fifth year, businesses that were less than 3 years old closed at a slower rate than those that have been operating for between 3 and 20 years, with those operating for three years or less accounting for 46% of closures and those operating between 3- and 20-years accounting for 66% of all closures²³⁷.

The CIPC's BizPortal²³⁸ gives the number of company registrations every month for 2020. These figures are plotted below, in Figure 37. It's clear, from the figure, that there was a large spike in business registrations following the implementation of the national lockdown with a little over 11 000 registrations in April and nearly

²³³ Small Enterprise Development Agency, *Does the SA Economic Outlook Bode Well for the SMME Sector?*, 2020 <[http://www.seda.org.za/Publications/Publications/SMME Quarterly Sector Report Q3 2020 Presentation.pdf](http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%20Sector%20Report%20Q3%2020%20Presentation.pdf)>.

²³⁴ Agesan Rajagopaul, Nomfanelo Magwentshu, and Shakeel Kalidas, *How South African SMEs Can Survive and Thrive Post COVID-19 Providing the Right Support to Enable SME Growth Now and beyond the Crisis*, 2020 <<https://www.brookings.gov>>.

²³⁵ Haroon Bhorat and others, *The Economics of Covid-19 in South Africa: Early Impressions*, 2020.

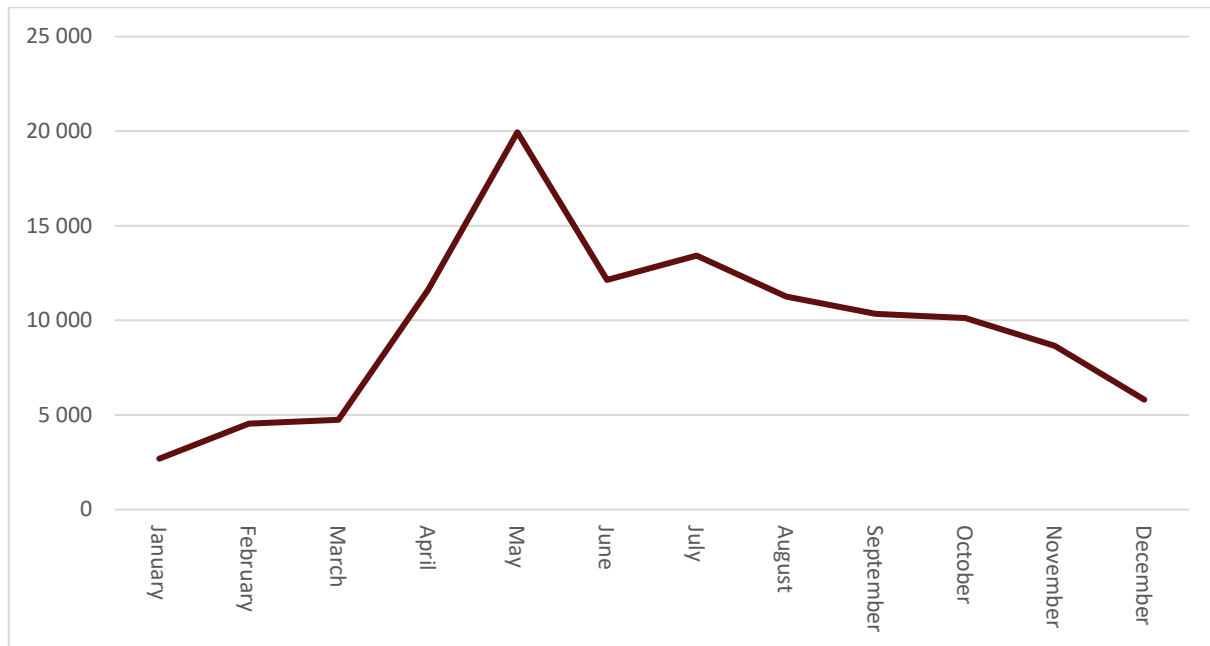
²³⁶ Small Enterprise Development Agency, *SMME Quarterly Update 2020 Quarter 3*, 2020 <[http://www.seda.org.za/Publications/Publications/SMME Quarterly Sector Report Q3 2020.pdf](http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%20Sector%20Report%20Q3%2020.pdf)>.

²³⁷ Small Enterprise Development Agency, *SMME Quarterly Update 2020 Quarter 3*.

²³⁸ Companies and Intellectual Properties Commission, 'BizPortal', 2021 <<https://www.bizportal.gov.za/stats.aspx>>.

20 000 in May. Although this spike is an outlier in the data, the registration volumes have not yet returned to pre-COVID levels and, in fact, increased again in the first quarter of 2021 with over 10 000 registrations in both January and February.

Figure 37: Business Registrations by Month (2020)²³⁹



Arndt et al²⁴⁰ note that there are four primary channels through which COVID-19 is likely to have impacted SMMEs. These are: (1) forced reduction in production, (2) decline in household demand for goods and services, (3) disrupted global supply chain, and (4) decreased business investment due to increased uncertainty. These factors have different impacts on different enterprise sizes, industries and sectors. Research suggests that more than 80% of South Africans are looking to reduce their retail spending and 70% are aiming to cut back on transport and travel expenses²⁴¹. This, of course, suggests that retail, wholesale,

²³⁹ Companies and Intellectual Properties Commission, 'BizPortal'.

²⁴⁰ Channing Arndt and others, *Impact of Covid-19 on the South African Economy An Initial Analysis*, 2020.

²⁴¹ Rajagopaul, Magwentshu, and Kalidas.

transport and tourism industries are likely to continue being impacted by the crisis in the medium- to long-run.

Reduction in production disrupts revenue generation and impacts cash flow for businesses, which has income effects for all businesses equally but is likely to impact the resilience of sectors and industries with higher operating costs more strongly. These include any industries that are labour, capital or equipment intensive, such as manufacturing, and construction. Declines in household demand will strongly impact retail and tourism industries, especially for those businesses who specialize in luxury goods and services. The combination of decreased revenue, lower demand and the disruption of global supply chains is likely to drive operating costs up for small businesses in the country. In fact, 44% of small business owners reported that their supplier costs have increased during the pandemic ²⁴².

One sector which should be particularly considered in the midst of the pandemic is the informal sector and, indeed, the crisis has brought the sector to the forefront of research on SMMEs in the developing world. The informal sector is, in many ways, more vulnerable to the shocks presented by the pandemic than the formal sector is. Although operating costs – such as rent – may be lower or more flexible, the informal sector has little access to financial assistance and often operates in crowded areas where the lockdown measures were the most necessary²⁴³. In a qualitative study with 233 small businesses operating in the informal sector, 93% of owners stated that they had no other source of income during the lockdown²⁴⁴. Due to a lack of digital literacy and access to technology, 87% said that they could not run their business from home and 86% did not know how to access emergency funding. This negative impact for the sector is further supported by the SEDA data, which shows that SMMEs in the provinces with larger informal sectors – such as Limpopo and the North-West – were particularly hard hit during the pandemic²⁴⁵.

²⁴² IPSOS, 'SMMEs: Understanding the Impact of COVID-19', 2020 <<https://www.ipsos.com/en-za/smmes-understanding-impact-covid-19>>.

²⁴³ C Torrington and others, *COVID-19: The Impact on Small Businesses and Gaps in Current Solutions*, 2020 <<https://media.africaportal.org/documents/THE-IMPACT-OF-COVID-19-ON-MICRO-SMALL-BUSINESS-IN-DEVELOPING-COMMUNITIES.pdf>>.

²⁴⁴ Torrington and others.

²⁴⁵ Small Enterprise Development Agency, *Does the SA Economic Outlook Bode Well for the SMME Sector?*

Not only is the informal sector particularly vulnerable to economic shocks such as that experienced in 2020, but it is also a key part of the ecosystem that keeps those in poverty alive²⁴⁶. In townships and low-income areas, informal food suppliers provide food to low-income populations at lower prices than large retail chains, as well as reducing the associated costs such as transport and opportunity cost in time. In fact, more than 70% of low-income households rely on informal vendors for their food supply. The informal food sector is also a significant contributor to employment, accounting for more employment than its formal counterpart²⁴⁷. Despite this, these businesses were closed during the national lockdown, losing stock and depleting their already-low capital reserves as well as increasing the expenses of their customer base.

The experiences of business owners themselves also illustrate the severity of the crisis – in a survey conducted in 2020, 58% of business owners felt that COVID-19 is the worst challenge that their business could face²⁴⁸. While very few firms continued operating at full capacity during the national lockdown, most could not maintain this, with 40% of firms operating at partial capacity and 48% closing temporarily²⁴⁹. In another study, 36% of business owners stated that they had to close their businesses indefinitely and 18% said that they were considering closing down entirely²⁵⁰. In September 2020, 55% of business owners stated that they were more uncertain about the future of their businesses now than during lockdown, with the vast majority believing that it will take more than a year for their business to recover from the pandemic²⁵¹.

While not surprising, the extent of this negative outlook is concerning. In the same survey, 17% of small business owners stated that they did not think they could survive for more than 6 months, and 26% stated that they could not survive for longer than 3 months. In addition to the decrease in production and sales,

²⁴⁶ Marc C A Wegerif, “‘Informal’ Food Traders and Food Security: Experiences from the Covid-19 Response in South Africa”, *Food Security*, 2020 <<https://doi.org/10.1007/s12571-020-01078-z>/Published>.

²⁴⁷ Wegerif.

²⁴⁸ Catalyst for Growth, *The Impact of COVID-19 on African SMMEs and Operations*, 2020.

²⁴⁹ Bhorat and others.

²⁵⁰ Catalyst for Growth.

²⁵¹ IPSOS.

small businesses have faced significant cash flow constraints resulting from customers failing to pay or paying invoices late, and 32% of micro enterprises noted that they had orders cancelled during the pandemic²⁵².

Table 25 presents a summary of the struggles that enterprises reported facing during COVID-19. The figures are an average score out of 5 where higher scores represent a more severe impact. The table shows that SMMEs and co-operatives overall struggled most with a decrease in cash flow, declining sales and being able to pay business expenses. For co-operatives, small- and micro enterprises, decreases in cash flow was the most severe impact of the pandemic. For medium enterprises, declining sales and struggles with paying staff were the most severe impacts of the pandemic.

Table 25: Struggles faced during COVID-19, by enterprise size (score out of 5)

	Medium	Small	Micro	Co-Operative	Total
Sales decreased	4,40	4,38	4,57	4,20	4,54
Struggled to pay business bills	4,30	4,27	4,16	4,30	4,18
Struggled to continue with production	3,20	3,75	3,84	3,80	3,82
Struggling to source inputs	3,00	3,65	3,53	3,80	3,54
Struggling to move to digital sales channels	2,70	3,40	3,19	3,40	3,21
Struggling with product and/or market diversification	3,20	3,57	3,49	3,20	3,50
Struggled with transportation	2,70	3,19	3,54	2,40	3,47
Struggled to pay staff/labour	4,40	3,94	3,07	1,50	3,19
Struggled with imports/exports	2,20	1,39	1,24	1,50	1,28
Struggled to comply with health and safety regulation	2,30	2,59	2,51	2,60	2,52

²⁵² IPSOS.

Struggling to be paid within 30 days by clients	3,50	3,79	3,01	3,00	3,12
Cash flow decreased	4,20	4,49	4,69	4,60	4,65

Access to finance

In the context of COVID-19, access to finance became even more important for the majority of SMMEs in South Africa. The Business Impact Survey conducted by StatsSA showed that 85% of businesses had lower turnover than their usual range during the pandemic period, with over 40% of businesses temporarily stopping trading between March and April 2020²⁵³. Despite not being able to operate at full capacity – or at all – most businesses had to continue paying operating expenses. In pre-COVID times, only 6% of SMEs reported having received government funding and only 9% had successfully sourced funding from private sources, with these largely being granted to more established businesses²⁵⁴. During 2019, 64% of SMMEs reported having to use the owner's savings to maintain the business, due to an inability to access funding or loans²⁵⁵. This has implications for the livelihoods of these owners themselves: should the business need to close; the financial stability of the owners is at risk.

In the peak of the pandemic, SMME owners listed lack of knowledge about government support programs as being the primary constraint for not utilizing the available support²⁵⁶. In April 2020, 68% of surveyed SMMEs had been unsuccessful in their applications for COVID-19 relief funding, with 71% of business owners stating that they would need business funding to re-start their businesses when lockdown ended²⁵⁷.

The national lockdown and reduced demand within the economy has increased the need that SMMEs have for financial assistance. While new sources of funding have been made available to SMMEs, specifically for

²⁵³ StatsSA, *Business Impact Survey of the COVID-19 Pandemic in South Africa*, 2020
<www.statssa.gov.za, info@statssa.gov.za, Tel+27123108911>.

²⁵⁴ Rajagopaul, Magwentshu, and Kalidas.

²⁵⁵ Xero, *The State of South African Small Business: The Trends Set to Shape Recovery*, 2020.

²⁵⁶ Rajagopaul, Magwentshu, and Kalidas.

²⁵⁷ Heavy Chef Foundation, *#COMBATCOVID SMME Survey*, 2020.

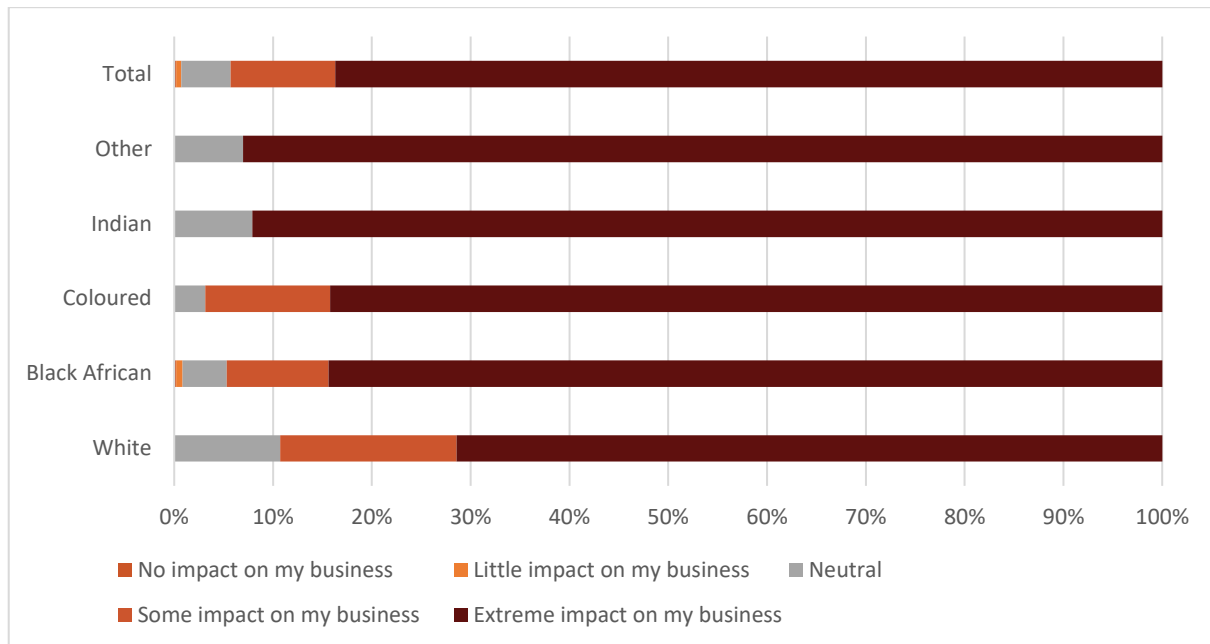
assistance during the crisis, lack of awareness about these financing options, combined with a lack of knowledge on how to access them prevents these measures from being completely effective. In addition to this lack of knowledge, there are funding gaps between the formal and informal sectors where eligibility criteria – such as registration requirements, tax compliance requirements and financial documentation required – prevents those in the informal sector from accessing funds at all²⁵⁸.

Compounding the challenges that SMMEs and co-operatives faced when accessing finance during the pandemic were struggles associated with decreasing cash flow. Figure 38 illustrates the distribution of impact scores reported by individuals, indicating the severity of the impact of cash flow decreases on their businesses during COVID-19. White business owners were the least likely to report a severe impact from decreased cash flow, relative to other population groups, although this difference was not statistically significant. Rural enterprises were 20% more likely to report that decreasing cash flows had a severe impact on their business than their urban counterparts and enterprises with multiple owners were less likely to report an extreme impact from decreasing cash flows²⁵⁹.

²⁵⁸ Xero.

²⁵⁹ Differences statistically significant at the 1% level

Figure 38: Impact of decreased cash flow on enterprises, by population group



Access to markets

Of course, with the national lockdown in 2019, access to markets was a particularly severe challenge for SMMEs and co-operatives during the COVID-19 outbreak. Even as the economy opened up and began recovering, small businesses and co-operatives struggled with declining consumer demand and lower discrepancy spending throughout the country²⁶⁰. Many small businesses rely on a small number of clients or customers and the economic impacts of the pandemic resulted in many of these being shut down or reducing spending, forcing SMMEs and co-operatives to look for new business. Despite this, 49% of businesses who remained open were able to bring in new business after the hard lockdown, although they noted that doing so had become more difficult and required more time than it had in the pre-COVID era²⁶¹. It is telling that, when asked what types of support they needed, 53% of small businesses and co-operatives said they needed

²⁶⁰ Rajagopaul, Magwentshu, and Kalidas.

²⁶¹ IPSOS.

financing to cover operational expenses, which is to be expected. However, 29% - a high percentage – simply said that they needed people to buy from their business²⁶².

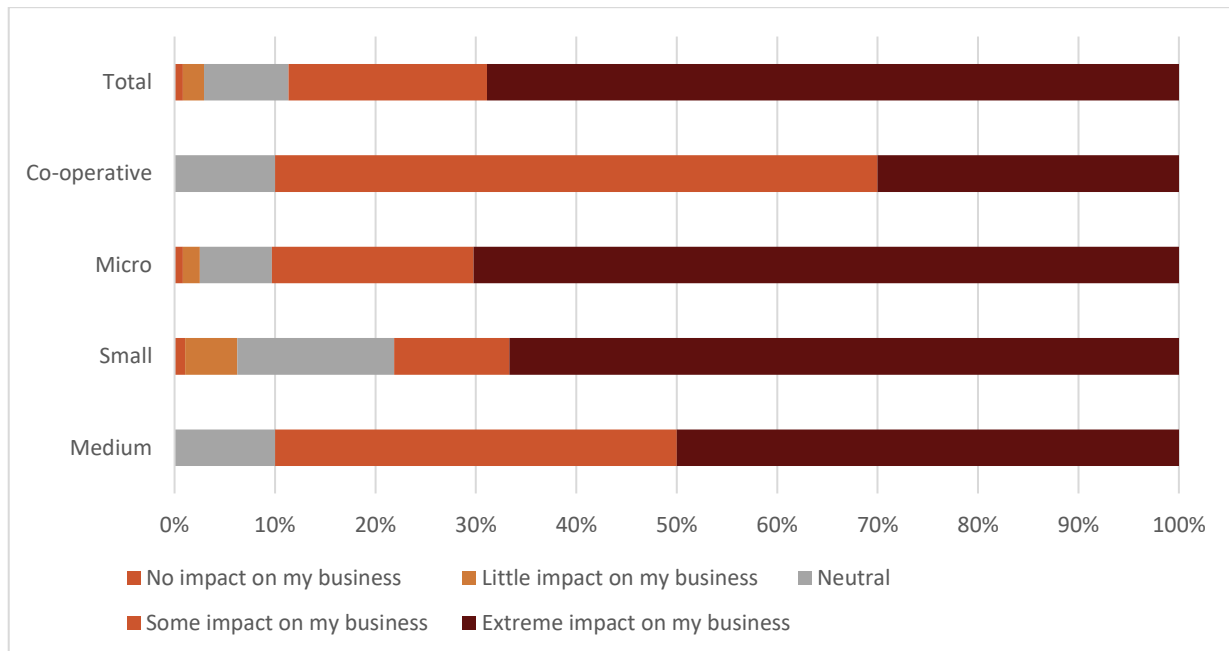
Of course, low digital literacy levels and adoption feed into and compound challenges with accessing markets. With low usage of e-commerce platforms, SMMEs and co-operatives are missing an opportunity to expand their client base and market access and relatively low costs. Even so, introducing digital marketplaces brings with it its own challenges: stock and services management will need to improve, costs will need to be absorbed upfront thereby increasing cashflow requirements, and marketing strategies will need to change. Thus far, SMMEs and co-operatives tend to rely on word-of-mouth marketing and will need to develop and improve digital marketing skills²⁶³. Although digital marketplaces expand the potential customer base substantially, the competition is also fierce, forcing SMMEs and co-operatives to develop assets to help them stand out. Often these rely on discounted prices, which reduce revenue, and good design of digital content, which increases business expenses.

Figure 39 illustrates the distribution of responses indicating the severity of the impact of declining sales on SMMEs and co-operatives during COVID-19, by enterprise size. Co-operatives and micro enterprises were the most severely impacted by decreases in sales.

²⁶² Catalyst for Growth.

²⁶³ Catalyst for Growth.

Figure 39: Impact of decreased sales, by enterprise size



Regulatory burdens

For those businesses that re-opened after the national lockdown, regulations regarding health and safety of their staff and customers have been difficult to maintain. Spending on personal protective equipment (PPE), hand sanitizers, and mechanisms for tracking capacity on the premises have introduced new costs to business operations²⁶⁴. Outside of this, regulatory burdens do not appear to have increased for SMMEs and co-operatives, although the impact of these has changed: as noted above, the eligibility criteria for relief funding includes requirements on financial statements, tax compliance, and UIF registration, all of which are difficult for many SMMEs to provide²⁶⁵.

Low skills levels and digital literacy

The pandemic has introduced new challenges for small businesses and co-operatives with regards to skills and digital literacy. First, the skills required by SMME and co-operatives' employees have changed, or at

²⁶⁴ Catalyst for Growth.

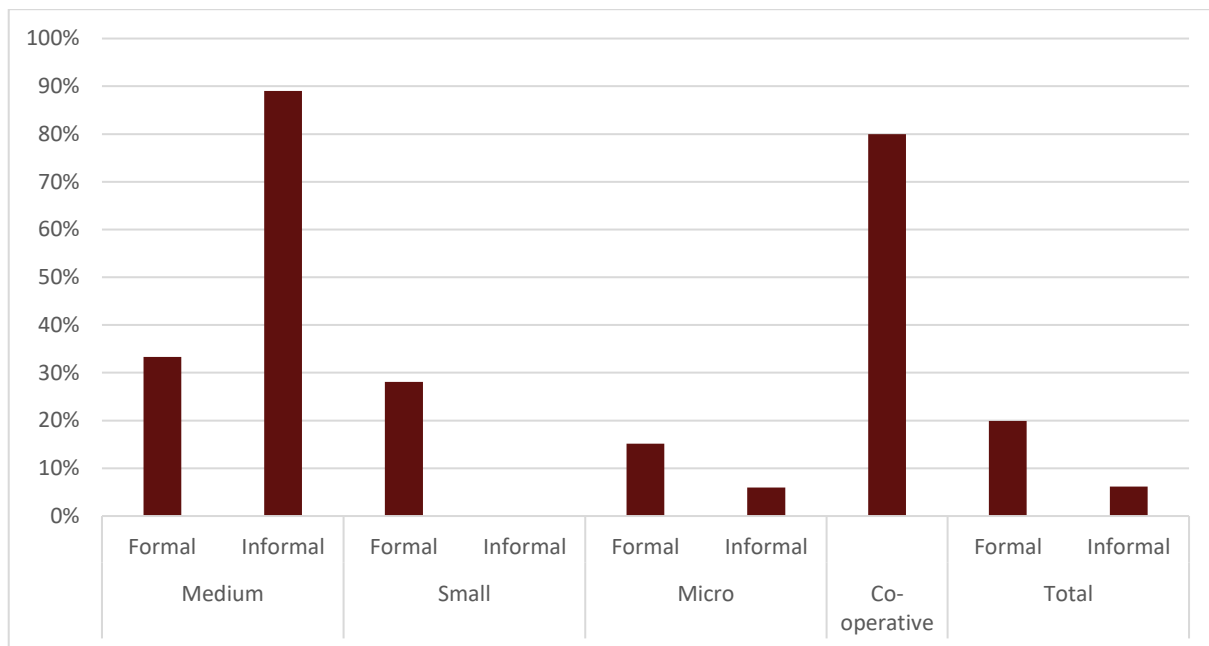
²⁶⁵ Rajagopaul, Magwentshu, and Kalidas.

least changed in terms of priority. While previous challenges revolved simply around finding the skills to “do the work” at a high enough quality, small business owners see new skills gaps emerging. Over two-thirds of small businesses report struggling to find employees with the right skills for the “new normal”, noting the biggest gaps in cloud computing skills, programming and digital project management²⁶⁶. The survey conducted for this research showed low levels of uptake of these digital technologies, suggesting that this skills gap is likely to intensify in the coming years as small businesses in South Africa are forced to uptake these technologies at increasing rates.

Figure 40 illustrates the percentage of small enterprises in the survey that use digital marketing, disaggregated by enterprise size and sector. Digital marketing is a particularly important illustration of digital skills, as it allows small enterprises to improve their market access. The survey findings show that formal enterprises are more likely to make use of digital marketing, as are larger enterprises, with only 6% of informal micro enterprises using this technology.

²⁶⁶ Xero.

Figure 40: Percentage of enterprises that use digital marketing, by size and sector



Small business owners have also found themselves lacking skills that are increasing in importance in the post-pandemic world. The shift to remote working, where it has been possible for SMMEs and co-operatives, has increased the need for good staff management, and required the empowerment of staff to complete work so that owners can focus their efforts on strategic decisions and finding new customers²⁶⁷.

One lesson that small businesses have learned from the pandemic is to hire fewer staff but with more experience and more appropriate skills²⁶⁸. This has both positive and negative implications for the South African development goals²⁶⁹: fewer staff means less employment generated in the sector and the requirement of more experience may reduce youth employment even further. However, the move towards prioritizing digital skills and increased agility and innovation may give the youth a competitive advantage over older cohorts.

²⁶⁷ Rajagopaul, Magwentshu, and Kalidas.

²⁶⁸ IPSOS.

²⁶⁹ National Planning Commission.

New challenges faced as a result of the pandemic

Of course, the pandemic brought with it entirely new challenges that small businesses have not faced in the past. First, 35% of small business owners stated that they would have to re-evaluate their business model and strategy, noting that the business would have to change the way that it operates, increase efficiency, reduce costs and adjust their strategies for finding new clients²⁷⁰. Achieving these goals requires skills that many business owners – especially those in the informal sector – do not have, putting pressure on business owners to run and manage their business during an economic crisis while also developing new skills during a time where survival is the biggest priority.

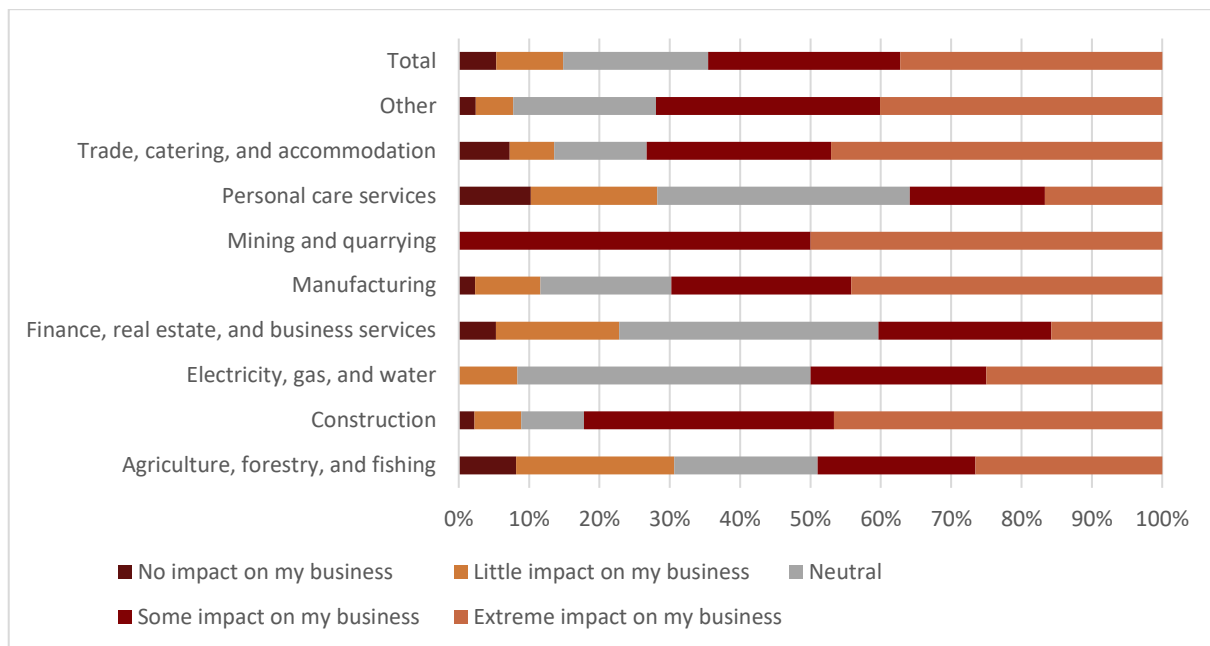
Along with this strategic change, small businesses and co-operatives have to begin considering new methods of production and ways of working²⁷¹. Remote working has become a world-wide phenomenon due to the pandemic, but many small businesses are simply not equipped for this way of conducting business. With low access to smartphones and laptops in the country, high data costs and a reliance on in-person sales, small businesses are faced with needing to find ways to finance these changes while already cash constrained. For those businesses that produce goods but do not need large equipment – such as small-scale artisans, seamstresses, and those in catering – finding ways to increase production while maintaining quality control becomes increasingly difficult.

During the pandemic itself, continuing production was reported as having an “extreme impact” on businesses by 37% of businesses in our survey. In line with the results discussed in Section 3, the construction industry was most heavily impacted by restrictions in production, while agriculture, personal care and business services were least impacted, as illustrated in Figure 41, below.

²⁷⁰ Catalyst for Growth.

²⁷¹ Catalyst for Growth.

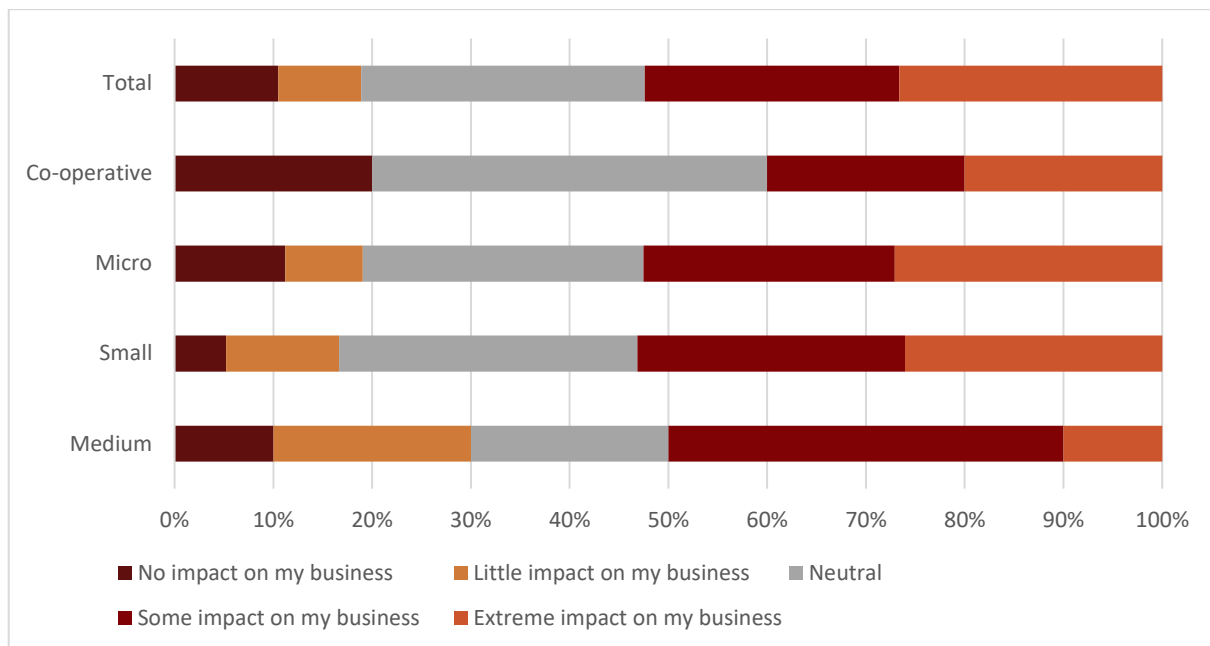
Figure 41: Continuing production as a reported struggle during COVID-19, average score by industry



Along with the financial challenges faced, the changing priorities of small businesses and co-operatives and the pressure to simply survive has also meant that plans for expansion and diversification have had to be put on hold²⁷². Paradoxically, these are the same changes that are required to survive the pandemic in the long run, creating tension between short- and medium-run survival and placing significant constraints on long-run growth. Figure 42 shows the distribution of enterprises that reported struggling with product and market diversification during the pandemic. Over 50% of SMMEs and co-operatives reported these struggles as having some impact on their business, with over 20% stating that this had an extreme impact on their business.

²⁷² Rajagopaul, Magwentshu, and Kalidas.

Figure 42: Impact of struggling with product and/or market diversification, by enterprise size



5. Section 5: Government support for the small business sector

This section reviews the government support available for SMMEs and co-operatives and aims to investigate the effectiveness of this support, as well as to assess the challenges faced in effectively implementing support programmes.

*"I think if we look at the money spent, one would think we have assisted them very well but we have not."*²⁷³

Historically, government support for SMMEs and co-operatives has not always been effective. The expert interviews conducted by GEM in 2019 showed that experts rated the availability of government subsidies for

²⁷³ Quo

new businesses at 3,9 out of 10, a significant decline from the 2016 score of 5,6²⁷⁴. In fact, almost every measure of the effectiveness of government support declined between 2016 and 2019, with experts rating the overall effectiveness of government programmes aimed at new and growing businesses at 2,9 out of 10 in 2019. Government bureaucracy and delays in assistance programmes were listed as significant barriers to effective government support for SMMEs and co-operatives.

In the COVID-19 context, government support responses to the pandemic were announced on the 21st of April 2020²⁷⁵. Although quickly formulated, there were significant delays in the implementation of many of the support structures for SMMEs and co-operatives, which hampered their effectiveness. The support measures announced in April included R40 billion in wage protection through the Unemployment Insurance Fund (UIF), R100 billion in job protection and creation, and R2 billion in direct SMME support²⁷⁶. One aspect of this support was the creation of the Solidarity Fund (SF), which businesses, organizations, individuals and the international community could contribute towards, and which received R150 million in seed capital from the South African government²⁷⁷.

²⁷⁴ A Bowmaker-Falconer and M Herrington, 'Igniting Startups for Economic Growth and Social Change', *Global Entrepreneurship Monitor South Africa 2019/2020 Report*, 2020, 9–60

<[http://www.seda.org.za/Publications/Publications/GEMSA 2019 Entrepreneurship Report.pdf](http://www.seda.org.za/Publications/Publications/GEMSA%2019%20Entrepreneurship%20Report.pdf)>.

²⁷⁵ Haroon Borat, Morné Oosthuizen, and Ben Stanwix, *Social Assistance Amidst the Covid-19 Epidemic in South Africa: An Impact Assessment*, 2020.

²⁷⁶ Borat, Oosthuizen, and Stanwix.

²⁷⁷ OECD, 'Coronavirus (COVID-19): SME Policy Responses', 2020 <<http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/#heading-d1e20693>> [accessed 8 April 2021].

Table 26: Government Support for SMMEs - Applications and Approvals

Fund	Applications	Approvals	Total value approved
SMME Debt Relief Refinancing Scheme	35 865	1 497	R513 million
Temporary Employer/Employee Relief Scheme (TERF)	No data	149 236 employees paid, representing 9 362 employers	R748 815 094
COVID-19 Agriculture Disaster Fund	55 155	15, 036, of which: 4, 494 were to women 2,493 were to the youth 224 were to people living with disabilities	No data
Spaza Shop Support Scheme	1 000	400	No data
Department of Sports, Arts and Culture COVID-19 Relief Fund (Sports)	3 000	473	No data
Department of Sports, Arts and Culture COVID-19 Relief Fund (Arts and Culture)	5 000	No data	No data
Tourism Relief Fund	10 000	6 000	R1 million
National Youth Development Fund	No data	No data	No data

Despite the range of funding options available, a 2021 survey of small business owners showed that 53% of SMMEs stated that “Government has not helped” them in dealing with the negative consequences of COVID-19²⁷⁸. As a result, 54% of small businesses surveyed had to resort to loans in order to survive the pandemic.

²⁷⁸ SurveyFiesta, *Strategic Priorities for the Post-COVID-19 Economy*, 2021 <www.surveystfiesta.com> [accessed 8 April 2021].

While the above discusses the support available primarily to assist SMMEs with the COVID-19 pandemic, the remainder of this section considers government support more generally.

5.1. Effectiveness of government support

“It’s hard to think of any [government support programmes] that was spectacularly successful because most of the government programs that had potential to develop SMMEs were badly implemented. Most of the governments programs are too small scale if they’re very in depth or they’re too one size fits none if they are very broad, and almost universally, they’re too bureaucratic in the way that they tend to operate.”²⁷⁹

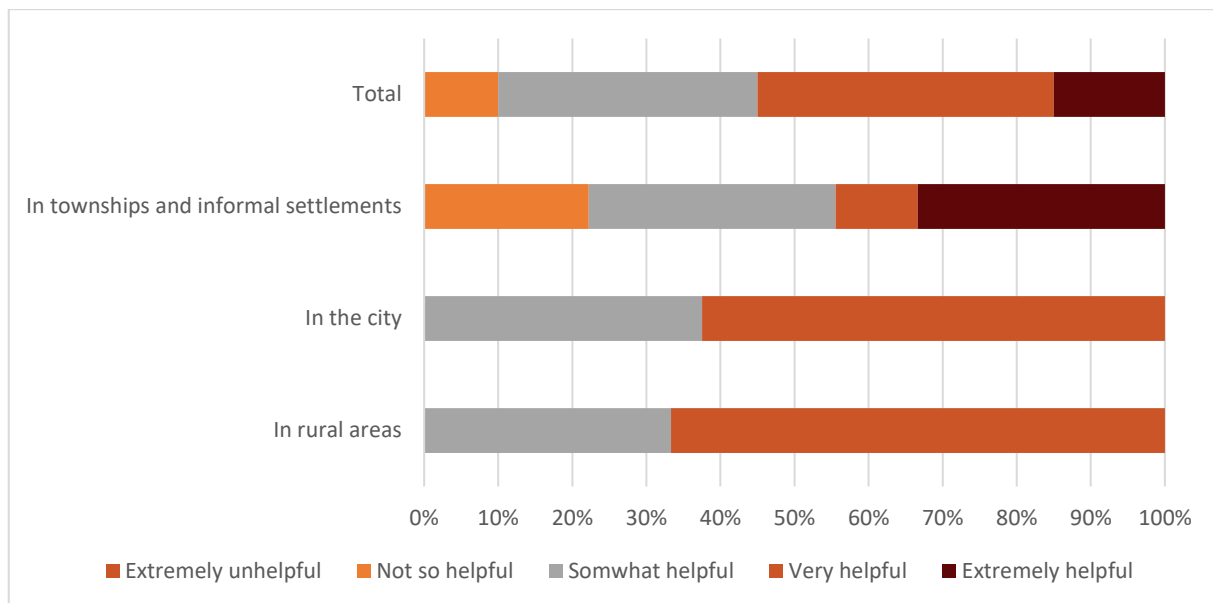
Historically, government support for SMMEs and co-operatives has not always been effective. The expert interviews conducted by GEM in 2019 showed that experts rated the availability of government subsidies for new businesses at 3,9 out of 10, a significant decline from the 2016 score of 5,6²⁸⁰. In fact, almost every measure of the effectiveness of government support declined between 2016 and 2019, with experts rating the overall effectiveness of government programmes aimed at new and growing businesses at 2,9 out of 10 in 2019. Government bureaucracy and delays in assistance programmes were listed as significant barriers to effective government support for SMMEs and co-operatives.

The impression among many of the experts interviewed echoed that of the GEM studies: of the 19 interviews conducted, 10 experts stated that they did not believe government had effectively assisted SMMEs and co-operatives. Figure 43 illustrates the sentiments expressed by business owners that had received support from the government regarding the degree to which this support was helpful. The data shows that, while most enterprises state that government support was helpful, 10% of those surveyed stated that the help that they had received was “not so helpful” and a further 35% had neutral sentiments towards the helpfulness of the government support that they had received.

²⁷⁹ Quote taken from expert interview

²⁸⁰ A Bowmaker-Falconer and Herrington.

Figure 43: Sentiments on the helpfulness of government support, by area



Further analysis of the survey data investigated the reasons that business owners gave for expressing the sentiments reported in Figure 43. These responses were recorded in qualitative format (i.e., spontaneous responses). These responses show that 55% of individuals who had applied for government support noted that they had received more funding than they had applied for or had received support more than one time through multiple applications. In contrast, 98,2% of those who had applied for government assistance but not received it reported having heard no feedback on their applications.

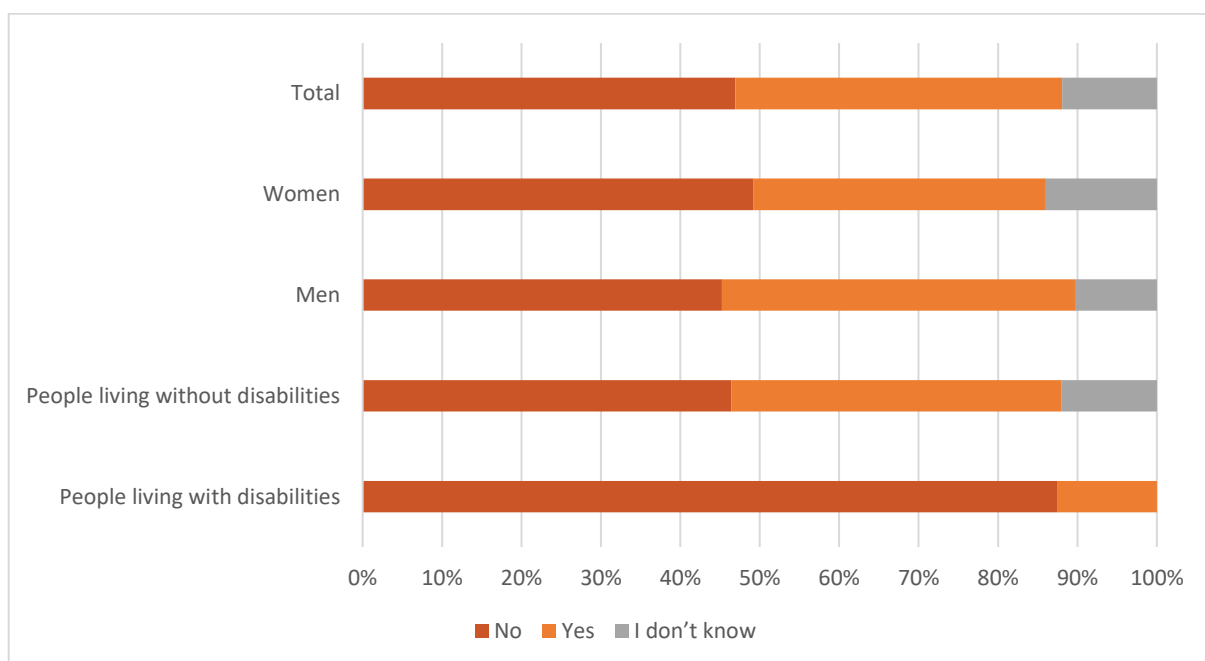
"I don't know [why I did not receive the government support I applied for] or they were playing with us, or they don't care."²⁸¹

Indeed, the sentiments from business owners on government support is fairly pessimistic. Figure 44 shows the distribution in responses to the question "Do you feel that government is doing enough to support SMMEs", disaggregated by gender and disability status. Overall, 47% of respondents stated that they felt

²⁸¹ Spontaneous response from survey data

government was not doing enough, and 12% stated that they didn't know. When considering marginalized groups, however, the sentiments become more pessimistic – 88% of those living with disabilities reported that government was not doing enough to support the small business sector, compared to only 46,45% of those living without disabilities²⁸². Women were also marginally more likely to report dissatisfaction with the level of government support available, although these differences were not statistically significant.

Figure 44: Do you feel that SMMEs are getting enough support from government?



*"I can only speak for co-ops and for women and, as far as I know, they weren't supported at all. All the women businesses I know said that they applied for every single grant that was going out and never got any of them."*²⁸³

²⁸² Differences statistically significant at the 1% level.

²⁸³ Quote taken from expert interview

The experts interviewed for this research emphasized that the support provided to women, co-operatives and the informal sector was vastly different than that supplied to men, other businesses and to businesses operating in the formal sector. The survey analysis showed that women were 3% less likely than men to have received government assistance, and co-operatives were 18% less likely than other businesses to receive assistance. However, these results were not statistically significant. The informal sector, however, was 16% less likely to receive assistance than the formal sector, with these differences being statistically significant at the 10% level.

“The government supported SMMEs badly. The problem is that the government’s support focuses on the one out of ten SMMEs in a township context that is likely to be formal.”²⁸⁴

An important pattern that emerged in the interviews regarding support to the informal sector, was the misplaced focus on formalization. Seven of the eleven experts interviewed noted that informality will be a permanent component of the South African economy. Several experts noted that the focus on formalizing businesses results in the exclusion of informal businesses that need the most support: survivalist entrepreneurs who are the most in need of assistance are unlikely to receive it because they are unlikely to ever formalize their businesses. Instead, they argue, informal businesses should be met “where they are”, insisting that “any program that is designed around taking informal businesses into a classroom-type of training is not going to work²⁸⁵”.

Two programmes were noted by the experts as having been successful: the Seta Coaching Program and the National Gazelle. The Seta Coaching Program was mentioned by 7 out of 11 experts and the National Gazelle was identified by 4 experts. The characteristics of these programs that experts believed made them successful were their targeted nature. The Seta Coaching Program worked with small businesses in a way that accounted for the stage that the SMME was at in its life cycle, thereby addressing the challenges that

²⁸⁴ Quote taken from expert interview

²⁸⁵ Quote taken from expert interview

the business owner experienced as they occurred. This allowed the coaching program to both be relevant to the experience of the SMME, as well as give practical assistance in overcoming challenges.

The National Gazelle was noted as a successful program because of the value of financing that it was able to supply small businesses. Experts noted that the program was not inclusive, and that it focused largely on affluent businesses which were more likely to be owned by white businesses owners, men, and those with higher education and income levels. However, they argue that the process for selecting the viable businesses to get the support, as well as the value of the support given, were successful attributes of the program. Many of the current financial support programs give “too little, too late”²⁸⁶ without providing sufficient funding to allow the business to grow.

5.2. Challenges faced in receiving government support

“Information is a challenge. However, many services there are, for people to know where to find [them] is normally where the challenge is”

The very first criteria for government support to be effective is that small business owners must be aware of support programs. Table 27 summarizes the percentage of respondents in our survey who had heard of various government support programs. Overwhelmingly, awareness of these programs is extremely low among participants. The three programs that were most widely recognized were the Black Business Supplier Development Program, Seda Development Program and the Township, Rural and Entrepreneurship program.

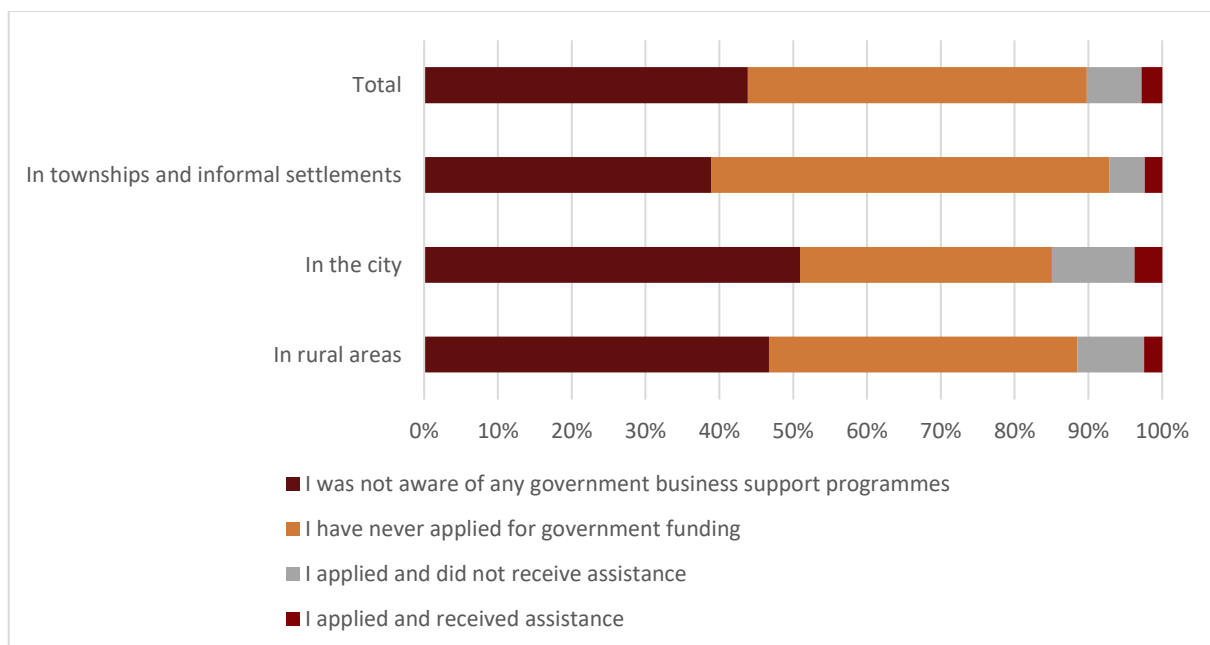
²⁸⁶ Quote taken from expert interview

Table 27: Percentage of respondents who are aware of government support programs, by enterprise size

	Medium	Small	Micro	Co-operative	Total
Film and Television Incentive	0,00%	5,21%	0,50%	0,00%	1,12%
Shared Economic Infrastructure Facility	30,00%	18,75%	3,51%	0,00%	5,88%
Township Rural and Entrepreneurship programme	30,00%	32,29%	17,73%	0,00%	19,61%
Financing from SEFA	30,00%	23,96%	8,19%	0,00%	10,50%
Informal Micro-enterprise development programme	20,00%	13,54%	4,01%	0,00%	5,46%
Export Marketing and Investment Assistance	0,00%	7,29%	1,67%	0,00%	2,38%
Automotive Investment Scheme	10,00%	8,33%	0,67%	0,00%	1,82%
Critical Infrastructure Programme	10,00%	10,42%	0,67%	0,00%	2,10%
Business Process Services Incentive	20,00%	18,75%	5,35%	0,00%	7,28%
Capital Projects Feasibility Programme	0,00%	18,75%	2,84%	0,00%	4,90%
Foreign Investment Grant	0,00%	5,21%	1,84%	0,00%	2,24%
Textile Competitiveness Improvement Programme	0,00%	7,29%	1,00%	0,00%	1,82%
Production Incentive	0,00%	15,63%	3,68%	0,00%	5,18%
Sector-specific Assistance Scheme	20,00%	13,54%	2,68%	0,00%	4,34%
Support Programme for Industrial Innovation	30,00%	19,79%	4,35%	0,00%	6,72%
Black Business Supplier Development Programme	30,00%	47,92%	35,62%	20,00%	36,97%
Seda Technology Programme	10,00%	34,38%	13,55%	0,00%	16,11%
Seda development programme	40,00%	47,92%	22,58%	10,00%	26,05%
Enterprise Investment Programme	20,00%	15,63%	8,36%	0,00%	9,38%
Incubation Support Programme	0,00%	11,46%	3,68%	0,00%	4,62%
Manufacturing Competitiveness Enhancement Programme	40,00%	30,21%	9,03%	0,00%	12,18%
The Technology and Human Resources for Industry Programme	0,00%	18,75%	8,36%	0,00%	9,52%
Co-operatives Incentive Scheme	20,00%	31,25%	6,02%	0,00%	9,52%

Figure 45 illustrates the distribution of enterprise application for government assistance by area. The figure shows enterprises that applied for and received assistance, applied for assistance and did not receive any, never applied and those who were not aware of any government assistance programmes. In rural areas, only 2,46% of respondents reported having received government assistance, with 46,72% reporting that they were not aware of any government support programmes. Townships and informal settlements show similarly low levels of awareness, with cities scoring lowest of all – nearly 51% of respondents operating in cities report not being aware of any government support programmes.

Figure 45: Distribution of enterprise application for government assistance, by area



The effectiveness of government aid is particularly limited by the ability of small businesses and co-operatives receiving approval when applying. In exploring the reasons for not being approved, several themes emerged.

Incomplete applications

Many SMMEs did not submit complete applications when looking for government funding²⁸⁷. For the most part, this was due to missing documents such as financial statements, registration documents and tax compliance documents. Another frequent occurrence was SMMEs and co-operatives being unable to show proof of impact from COVID-19²⁸⁸. This was particularly prevalent in the Arts and Culture industry, where relief funding was supplied only for events being cancelled. Despite this, small businesses continued to apply, perhaps in the hope that they would receive funding despite not meeting the full criteria.

Not meeting the criteria

The criteria for many of the relief schemes included formal documentation for financial performance, business plans, and formalization requirements, such as UIF registration and tax compliance²⁸⁹. These criteria excluded all businesses in the informal sector and, in many cases, exclude businesses owned by individuals with low education levels, who are simply not able to understand and provide this documentation.

Information gaps

In a survey run in early 2020, 86% of small business owners reported not knowing where to go to access emergency funding²⁹⁰. Furthermore, the information given to SMMEs, and co-operatives is often misleading or confusing, including business owners believing that the funding is a grant when it is, in fact, a loan that needs to be repaid.

Time lags in receiving funding

For those businesses who were approved for funding, the delay in receiving a response and then, again, in receiving the funding itself was often too long to enable them to respond to the crisis²⁹¹. An exception to this is the TER Fund, for which the UIF announced that payments are made within a 24-to-48-hour window and are made directly to employees, reducing the waiting time for receiving funds.

²⁸⁷ SME South Africa, 'COVID-19 Small Business Relief Packages Updates', 2020
<<https://smesouthafrica.co.za/covid-19-sme-packages-updates/>> [accessed 8 April 2021].

²⁸⁸ SME South Africa.

²⁸⁹ Torrington and others.

²⁹⁰ Torrington and others.

²⁹¹ Torrington and others.

“Government support is schizophrenic. One of the criteria a business needs is certainty. Being able to know that there’s a support program and when it will be available and what the qualifying criteria are. But the government chops and changes too many times”

For government themselves, the expert interviews identified several key constraints in effectively implementing support programs. Of the 19 experts interviewed, 11 noted that lack of co-ordination among government bodies was the primary constraint to successful support for SMMEs and co-operatives. This lack of co-ordination has implications for both government itself and the enterprises that it is trying to reach experts noted that a lack of co-ordination and clarity resulted in SMMEs and co-operatives being confused about the support available and uncertain about how to use these programs to their advantage.

Interestingly, several experts stated that, while government resources are limited, that this is not the primary constraint to effectively assisting SMMEs and co-operatives. Rather, it is the complex processes, unclear partnerships and lack of available data on the sector which prevents them from effectively implementing programs that could otherwise be extremely successful.

The final challenge noted by the experts was that government support tends towards reactivity, rather than proactivity. Seven experts stated that government programs can be better implemented if more time is taken to design them in a future-looking manner, rather than reacting to economic changes as they occur.

6. Section 6: The future of SMMEs and co-operatives

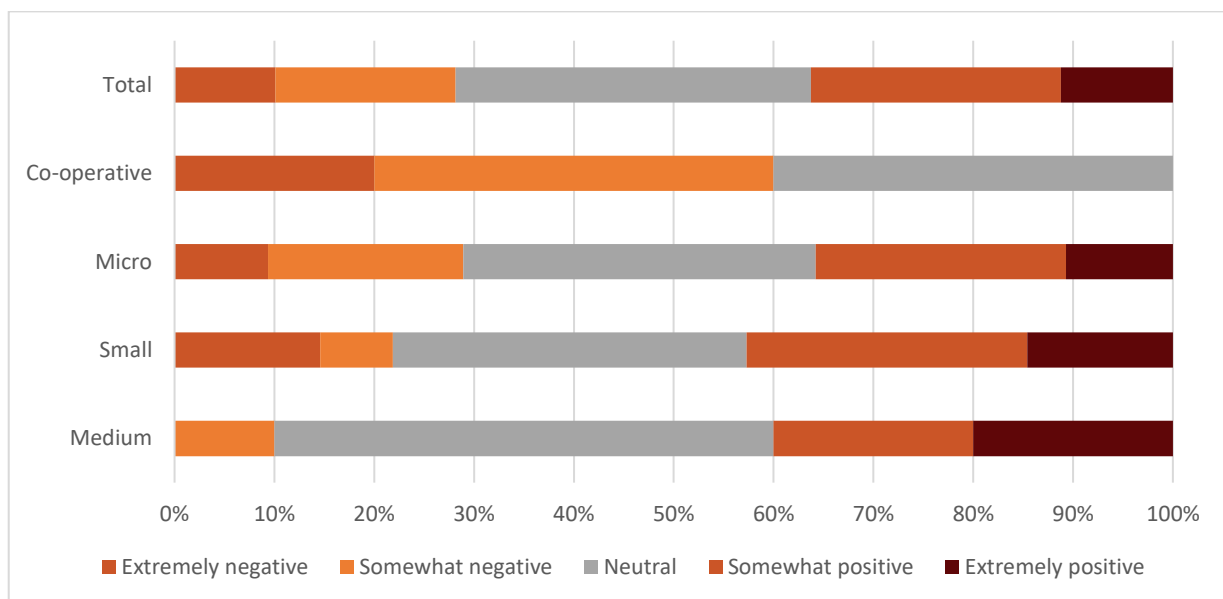
“SMME’s are continuing with their businesses despite the conditions... There is a resilience factor that is self-funded, self-marketed, a factor that is self-sufficient. They have found a way to continue giving services and giving their products.”²⁹²

²⁹² Quote taken from expert interview

This section considers the future of SMMEs and co-operatives by investigating the goals and priorities of small business owners in South Africa, as well as the elements that SMMEs and co-operatives will need in order to thrive in the coming years. Taking into account the priorities of small businesses themselves, and the recommendations given by experts, the section then concludes with an examination of the wants and needs of the small business sector and the opportunities available for growth of the sector in the future.

Figure 46 illustrates the sentiment that small enterprises expressed towards the future of SMMEs and co-operatives in South Africa. Overwhelmingly, co-operatives felt the most negative about the future of the sector, while medium enterprises tended to be neutral or somewhat positive regarding the future. These sentiments hold important implications for the sector, as positive attitudes towards the economy and the sector will likely result in more investment, innovation and development both from small enterprises, and for them.

Figure 46: Sentiment towards the future of small business in South Africa, by enterprise size



6.1. The characteristics of successful SMMEs and Co-operatives

“[Successful entrepreneurs are] entrepreneurs that are self-driven, that can see, identify and take advantage of opportunities.”

The experts interviewed were asked what they believed characterized successful SMMEs and co-operatives. These questions allowed us to investigate the key skills and attitudes that should be developed within the small business sector. Three key characteristics emerged:

1. **Strong leadership and adaptability:** Twelve of the 19 experts interviewed emphasized that successful SMMEs and co-operatives had strong entrepreneurs at their helm. These entrepreneurs were individuals who could see opportunities, who would be willing to take risks and to fail, and who were able to understand business strategy and plans. Leadership included the ability to adapt and to diversify the business to protect it from severe economic shocks. One expert noted that successful small businesses were those that “never stopped new business development” and continued looking for new markets and clients on an ongoing basis.
2. **“Market-first” attitude:** Successful SMMEs and co-operatives were believed to be those that first examined the market to understand whether their business idea was a viable one. Those businesses that conducted effective research into their target market, and who understood the competitive landscape for their goods and services were more likely to succeed than those who, offered products or services that had not been sufficiently researched.
3. **Technological expertise and innovation:** Experts emphasized that technological skills would become increasingly important in the small business sector over time and noted that they have already observed that businesses with strong technological skills are better able to market themselves, access marketplaces and optimize their operations.

Given the above, Table 28 summarizes the average score that respondents placed on various business objectives over the next three years. Businesses were asked to rank 9 objectives from most to least important

and the table reports the inverse of the average ranking, so that higher numbers represent higher importance. Overall, businesses in the survey focused heavily on improving existing products and services.

Table 28: Important business elements over the next three years, score out of 9

	Medium	Small	Micro	Co-operative	Total
Learning new skills for the business	1,6	3,63	3,83	2,80	3,76
Diversifying clients	5,5	4,80	4,82	5,40	4,84
Changing the business strategy	2,1	2,95	3,08	4,00	3,06
Digital marketing	2,7	2,59	3,18	2,80	3,09
Digitizing business operations	2,3	2,97	3,38	1,80	3,28
Reducing costs	4,6	4,10	3,64	4,10	3,72
Improving our operations	5,6	4,47	4,44	3,80	4,45
Improving the quality of products/services	5,9	5,21	5,38	4,90	5,36
Diversifying products	5,7	5,28	4,25	6,40	4,44

While the experts interviewed emphasized the importance of digitization, diversification and skills, these objectives scored relatively low among SMMEs and co-operatives. Medium enterprises were the most likely to place high importance on the factors deemed as important by the experts, with micro enterprises and co-operatives focusing more heavily on improving existing products. This suggests that micro enterprises are more likely to struggle in the near future, as their mindset remains focused on survival, rather than growth.

With the above in mind, survey respondents were asked to rank their most important business goals for the next three years. Table 29 reports the results from this question, where higher numbers represent goals being viewed as more important. Unsurprisingly, most enterprises report that stabilizing finances is their primary objective over the short term, with a focus on increasing their client base being the next most important goal.

Table 29: Ranked goals for small businesses, score out of 7

	Medium	Small	Micro	Co-operative	Total
Purchasing new equipment	2,60	3,59	3,73	3,70	3,70
Hiring more staff	1,60	1,47	1,72	0,80	1,67
Opening new branches	1,90	1,29	1,30	2,00	1,32
Improving digital skills	3,20	3,03	2,90	2,40	2,91
Maintaining and increasing client base	4,70	4,05	3,96	4,20	3,98
Stabilizing finances	4,60	4,66	4,36	5,40	4,42
Improving marketing	2,40	2,91	3,02	2,50	2,99

6.2. Opportunities for growth

Despite the challenges presented by COVID-19, there are also incredible opportunities for growth for SMMEs and co-operatives. While the entrepreneurial culture in South Africa has always been risk-averse, especially among the youth²⁹³, the surge in business registrations during 2019 suggests that the decline in employment in the country has also reduced the relative risk of business ownership, creating an environment in which risk-taking and entrepreneurship can begin to grow. Furthermore, the constraints imposed by the pandemic – both in terms of the way that the world works and the financial position of small businesses – requires a creative and innovative approach to ensure survival. Business owners that are able to adapt, change and innovate are more likely to survive the post-COVID era and these innovations may well contribute to the entrepreneurial culture and business environment in South Africa as a whole.

- **Leveraging technology for growth:**

²⁹³ A Bowmaker-Falconer and Herrington.

Perhaps the biggest opportunity for small businesses lies in leveraging technology²⁹⁴. E-commerce alone is predicted to increase by 150% in South Africa by 2025, representing a huge opportunity for small businesses in the country.

While increasing digital presence and exploring online sales platforms is an obvious starting point, there remain a host of challenges in the country that can be solved or improved through technological innovations. Small businesses that are able to leverage technology to solve logistical constraints of receiving and distributing stock are likely to save enormously on operating expenses. Those that are able to master new technologies – such as Artificial Intelligence and Machine Learning – will have a competitive advantage over other businesses in the South African market but also throughout the continent, where these skills are still lacking.

- **Improved operations and sales strategies:**

COVID-19 has also forced businesses to rethink their operational and sales strategies, highlighting the importance of driving efficiency alongside sales²⁹⁵. These improvements in business management will serve small businesses well in the road to recovery from the crisis.

- **Diversification of products and services:**

Diversification of products and services will also be an important aspect of small business recovery in the post-COVID world²⁹⁶. SMMEs and co-operatives that are able to find innovative ways of diversifying their offerings have the opportunity for expanding their businesses and improving their resilience to future economic shocks. Figure 47 shows the percentage of men and women in our survey who reported having plans to introduce a new product or service in the near future. Women

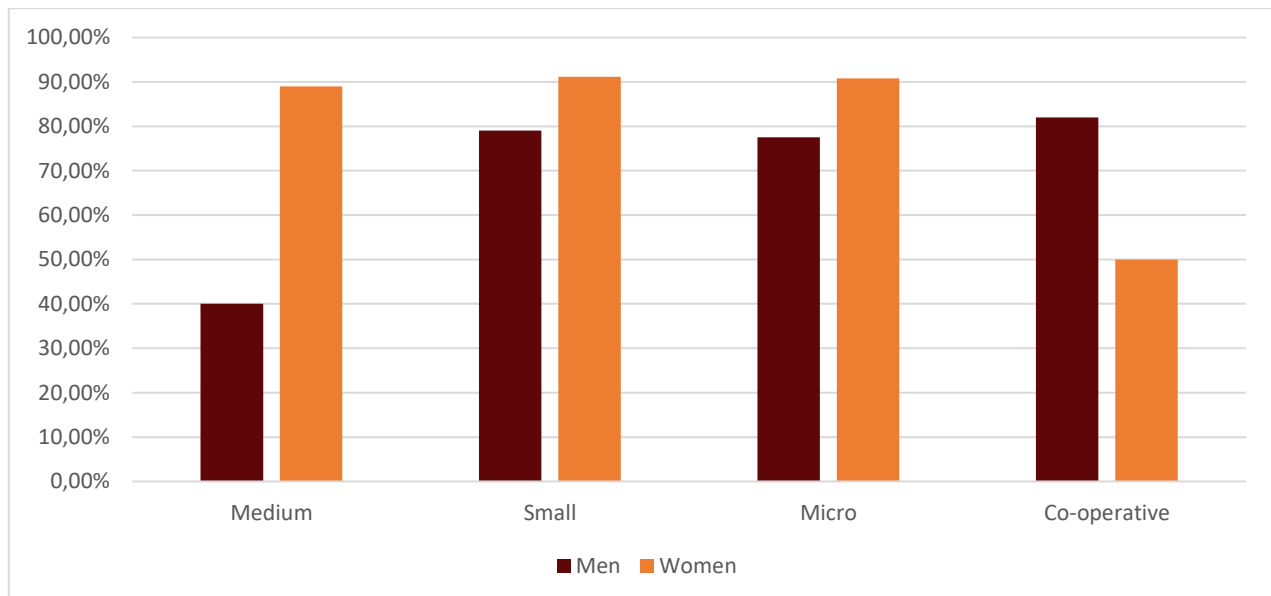
²⁹⁴ Rajagopaul, Magwentshu, and Kalidas.

²⁹⁵ Rajagopaul, Magwentshu, and Kalidas.

²⁹⁶ International Trade Center, *The SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and Its Impact on Small Business* (Geneva, 2020) <www.intracen.org>.

were significantly more likely to report planning new product development than men, with nearly 80% of all women reporting plans for product diversification.

Figure 47: Percentage of business owners who plan to introduce a new product or service, by enterprise size and gender



When asked what might prevent SMMEs and co-operatives from diversifying products, women largely reported that lack of funding or knowledge was a barrier for them. Men frequently reported that they did not feel the need to extend their product or service range. These results were echoed when considering the findings by population group. With the exception of medium-sized enterprises, Black Africans were more likely than any other population group to have plans for developing new products and services.

- **Leveraging local trade and tourism for economic growth:**

Local trade and tourism are also areas that will likely present a new opportunity for growth. While the tourism sector was particularly hard-hit by the crisis, consumer behaviour has turned inwards, looking to explore their home countries more. The creation of domestic tourism packages and attractions

has been somewhat neglected in the South African market to date and presents a space for businesses to step in and fulfil a growing demand.

- **Focusing on the informal sector:**

Finally, perhaps the biggest opportunity for small business growth in South Africa lies in the informal sector²⁹⁷. While the sector was largely ignored during the crisis itself, several experts are arguing that a new approach to the informal sector is the key to economic growth and small business development. In particular, several institutions and academics have called for abandoning the goal of formalization and, instead, recognizing the informal sector as the “backbone of economic resilience”²⁹⁸ and integrating it into the formal sector itself. Informal business owners are risk-averse, with research indicating that they avoid taxes and regulation due to perceived financial risks associated with these. Despite decades of efforts to encourage formalization, there has been only marginal improvement across the globe.

By focusing on the informal sector and incorporating it into the formal sector, informal businesses can focus on taking risks in the building and expanding of their businesses²⁹⁹. This risk taking allows them to innovate and improve their business models while keeping in touch with the needs of their target market and solving operational problems while the business is still young and agile. Embracing informality allows these businesses to grow and improve until they are ready to join the formal sector, which they are then able to do with a stronger base, more experience and greater resilience to economic challenges.

²⁹⁷ The Center for Development and Enterprise, *The Growth Agenda: South Africa’s Informal Sector in the Time of COVID-19*, 2020.

²⁹⁸ Rajneesh Narula, ‘Policy Opportunities and Challenges from the COVID-19 Pandemic for Economies with Large Informal Sectors’, *Journal of International Business Policy*, 3 (2020), 302–10 <<https://doi.org/10.1057/s42214-020-00059-5>>.

²⁹⁹ Narula.

6.3. Supporting SMMEs and Co-operatives in the future

“You can’t give people money and then not give them directive; you can’t give them directive if they don’t have money.”

Table 30 reports the average score, out of 11, that SMMEs and co-operatives gave to different types of government support in terms of how helpful they would be. Across all enterprise size categories, financing was ranked as the most helpful type of support. There was further consistency across all enterprise sizes in that better premises and equipment were considered to be the second most-helpful forms of government support. Importantly, assistance with developing business plans was listed as the least helpful government intervention across all size categories.

Table 30: Perceived helpfulness of types of support, by enterprise size

	Medium	Small	Micro	Co-operative	Total
Provision of utilities, such as water, electricity, and ablution facilities	3,90	3,96	3,49	3,30	3,56
Developing business plans	1,50	3,65	3,23	1,50	3,24
Better premises	6,70	6,36	7,08	7,70	6,98
Storage facilities for my equipment	2,70	4,36	4,59	4,10	4,53
Other training for my staff	3,70	3,13	3,32	3,20	3,29
Reduced taxes	5,80	4,19	3,26	2,80	3,41
Reduced regulation	4,80	4,24	4,00	4,40	4,05
Better equipment	6,80	6,70	7,09	7,10	7,04
Financing	7,70	7,89	7,77	10,00	7,82
Training for myself and my risk in business management	5,20	4,71	5,26	4,80	5,18

Training for myself and my staff in business management	6,20	5,82	5,90	6,10	5,90
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During the expert interviews, every single interviewee noted that small enterprises would say that financing would be the most helpful support that they could receive. However, while they noted that financing was, indeed, necessary, that financing alone would not solve the primary challenges facing SMMEs and co-operatives. Indeed, if we consider the characteristics of successful SMMEs and co-operatives discussed by these experts alongside the priorities and goals that SMMEs and co-operatives listed, the research suggests that the sector will continue to struggle as enterprises react to the crises that they face, without proper ability to plan for the future.

Instead, the experts argues that government support for SMMEs should be done holistically: financing should be tied to coaching so that businesses that receive financing are also assisted with running and maintaining their businesses. Furthermore, training should be individualised to each enterprise or, at least, to each stage in the business life cycle to ensure that support is relevant to those that it is serving.

7. Section 7: Conclusions and recommendations

This section presents a short summary of the key findings from this research and presents recommendations for government policy and further research. This discussion is presented according to the primary research objectives for this study, with a brief overview of the research being presented, followed by key findings and recommendations.

7.1. The developments, trends, and performance of SMMEs and co-operatives

Company registrations in South Africa increased in the 2018/2019 financial year, although co-operatives have seen declining registration rates since 2015³⁰⁰. Business closures have also increased, with a 48% year-on-year increase in company liquidations between March 2020 and March 2021³⁰¹.

In terms of industry and sector, there have been few changes in recent years regarding the contribution of SMMEs and co-operatives. The transport, storage and communications, wholesale and construction are the industries with the highest presence of micro and small enterprises.

Similarly, the informal sector is dominated almost entirely by micro enterprises, with the bulk of medium and large enterprises operating in the formal sector. While there has been little change in the composition of the informal sector over time, the proportion of the formal sector that is taken up by medium and large enterprises has been steadily increasing since 2010, showing a decline in formal micro and small enterprises.

There have also been few changes in the demographic distribution of business owners, with the percentage of Black African business owners increasing by 10 percentage points since 2010. The percentage of White business owners only declined by 1 percentage point in the same time frame. Black African business owners are also more likely to run micro enterprises and operate in the informal sector than their white counterparts.

Youth entrepreneurship is low in the country, with a little over a quarter of South African business owners being aged between 15 and 34. Furthermore, there has been a slight but steady decline in young business owners since 2010, with the youth comprising a little over 29% of business owners in 2010 and only 26% in

³⁰⁰ Companies and Intellectual Properties Commission, *Annual Report 2018/19*, 2019 <www.cipc.co.za>.

³⁰¹ BusinessTech, 'South Africa Has One of the Highest Business Failure Rates in the World: Analysts', *BusinessTech*, 2021 <<https://businesstech.co.za/news/business/487503/south-africa-has-one-of-the-highest-business-failure-rates-in-the-world-analysts/>>.

2020. Women business ownership has also decreased since 2010, reducing from a high of 37,6% to a low of 33% in 2019.

SMMEs contribute an estimated 47% to the total GDP of the country and 57% to the overall employment. Employment in the sector decreased by 13,2 percentage points between December 2019 and December 2020.

Finding 1: While SMMEs and co-operatives have shown incredible resilience during the COVID-19 pandemic, the sector is consistently under-performing in terms of meeting the National Development goals for reducing income inequality and unemployment. Of course, the National Development Plan was developed in an entirely different economic context, especially once one considers the impact of the COVID-19 pandemic. This suggests that the National Development Plan targets may need to be reviewed to find a balance between achieving the growth that SMMEs and co-operatives are capable of, and their realistic contributions to the economy.

Finding 2: The informal sector represents an area for significant development, but it is important to be realistic about the businesses that participate in the sector. Formalization should be de-prioritized as a goal and, instead, the focus should be on growing stable and secure enterprises that are able to survive economic shocks and increase their contribution to the economy and employment.

Recommendation 1: The Department of Small Business Development should restructure their approach to informal enterprises, focusing on creating stable and secure enterprises in the informal sector. This should include the development of a framework for assessing an enterprises' readiness for formalization so that those enterprises that are unlikely to succeed in the formal sector are encouraged to grow and improve within their current operating environments until such a time as formalization becomes a realistic objective. Although this approach reduces the business tax immediately available to government because of the reduction in formal enterprises, the experts interviewed suggest that this opportunity cost is

offset by the potential for increased survival rates among enterprises when they do reach the stage of formalization.

Recommendation 2: Upcoming research for this study should place additional focus on the informal sector, aiming to understand the way in which enterprises within this sector grow and develop towards formalization. This research should focus on the barriers and drivers to formalization for informal enterprises, the growth stages of these enterprises, and the characteristics that enable enterprises to be successful when moving from informality to the formal sector.

7.2. The impact of COVID-19 on SMMEs and co-operatives

The COVID-19 pandemic had severe and significant effects on SMMEs and co-operatives, the full extent of which are yet to be understood. One report showed an 11% decline in the number of SMMEs in the country between September 2019 and September 2020, with some predictions suggesting that up to 60% of SMMEs in the country will shut down due to the pandemic.

Interestingly, while the youth struggled to start businesses during the pandemic, the data suggests that they were more able to maintain existing businesses than the older cohorts, with 75% of business closures occurring in businesses owned by individuals aged 30 to 55. The course of 2020 saw an increase in business registrations at key moments in the country's response to the pandemic, with May 2020 showing a large and sudden spike in the number of business registrations.

The informal sector was particularly hard-hit by the pandemic, with 93% of informal business owners stating that they had no other source of income during lockdown³⁰². In a study conducted by IPSOS³⁰³, 32% of

³⁰² C Torrington and others, *COVID-19: The Impact on Small Businesses and Gaps in Current Solutions*, 2020 <<https://media.africaportal.org/documents/THE-IMPACT-OF-COVID-19-ON-MICRO-SMALL-BUSINESS-IN-DEVELOPING-COMMUNITIES.pdf>>.

³⁰³ IPSOS, 'SMMEs: Understanding the Impact of COVID-19', 2020 <<https://www.ipsos.com/en-za/smmes-understanding-impact-covid-19>>.

micro enterprises reported that they had had orders cancelled during the pandemic and 26% of SMMEs surveyed reported that they would not be able to survive more than 3 months with their current business cash flow.

These findings were mirrored in our survey where SMMEs and co-operatives reported struggling with a decrease in cash flow, declining sales and being unable to pay business expenses as the most severe impacts of the pandemic.

Of course, the pandemic also worsened constraints in access to financing for SMMEs and co-operatives. In April 2020, 68% of surveyed SMMEs had been unsuccessful in their applications for COVID-19 relief funding, with 71% of business owners stating that they would need business funding to re-start their businesses when lockdown ended³⁰⁴.

Furthermore, one lesson that business owners have taken from the pandemic is to hire fewer staff but with more experience and more appropriate skills³⁰⁵. This, of course, has important implications for South Africa's National Development goals, especially as they regard employment.

During the pandemic itself, continuing production was reported as having an "extreme impact" on businesses by 37% of businesses in our survey. This challenge, alongside financial constraints, meant that many small businesses had to delay plans for diversification and expansion. This is of particular significance as diversification in both products and markets are listed by the experts interviewed as some of the key strategies that SMMEs and co-operatives could use to survive the pandemic.

Finding 3: SMMEs and co-operatives remain focused on survival for the post-COVID-19 period and have not yet begun prioritizing recovery through re-assessing their business strategies and product diversification.

³⁰⁴ Heavy Chef Foundation, #COMBATCOVID SMME Survey, 2020.

³⁰⁵ IPSOS.

Recommendation 3: The DSBD and seda should develop training for SMMEs and co-operatives that focus on market assessment and product viability, as well as business management so that SMMEs and co-operatives that go to market are doing so with services and products that are likely to succeed. This training could be built into a support package offered through a collaboration between the DSBD, seda and sefa where the training is followed by funding and assistance in conducting a market assessment. Having completed these, the opportunity for financing for business start-up or further development can be assessed. Offering a package of support in this way will enable small business owners to learn the skills needed to ensure that their businesses are successful, as well as improving the effective allocation of government resources.

7.3. The impact of government support on SMMEs and co-operatives

Both experts and business owners are pessimistic about the impact of government support for the small business sector. Expert interviews conducted for the GEM reports in 2019 showed that experts rated the overall effectiveness of government support for SMMEs at a 2,9 out of 10³⁰⁶. These sentiments were echoed by the experts interviewed for this research, who did not believe that government has effectively supported SMMEs and co-operatives over the past few years.

In many cases, the support offered by government for the COVID-19 pandemic was discussed more neutrally than government support overall. While most of the experts interviewed did not think that government had done enough during the pandemic, they acknowledged that the context of the crisis made this support more difficult.

More concerning, for most of the experts, is the nature and effectiveness of government support offered. Many highlighted the fact that the challenges that small enterprises face have not changed over the past decade, suggesting that the support offered by government has not been effective in addressing the

³⁰⁶ Global Entrepreneurship Monitor, *2018/2019 Global Report*, 2018
<<http://www.gemconsortium.org/report/50012>>.

primary constraints faced by SMMEs and co-operatives. The survey conducted for this research echoed these sentiments, with 10% of respondents stating that the support they had received from government was not very helpful, and a further 35% displaying neutral sentiments towards the helpfulness of the support that they had received.

Furthermore, marginalized groups feel less supported by government and are more likely to believe that government isn't doing enough to support the small business sector. This was particularly true for persons living with disabilities, where 88% of those surveyed reported believing that the government is not doing enough to support SMMEs compared to 46% of those living without disabilities.

Lack of awareness was a significant barrier to SMMEs and co-operatives accessing government support, with nearly 45% of enterprises in our survey reporting being unaware of government support programmes.

Finding 4: The SMME and co-operative sector shows strong inequalities in support, performance and activity when compared across population groups and gender, with Black Africans and women facing far more significant challenges than their more privileged counterparts. With regards to government support, only 8,29% of micro enterprises in our survey received government support, compared to 37,5% of medium enterprises. Over the past decade, women business ownership has decreased by 4,6 percentage points, with women being 3% less likely to receive government support than men.

Finding 5: Awareness of government support programs is low and remains a strong barrier to effective implementation of this support. Small businesses are generally unaware of the existing programs and are not familiar with where to go to find support or how to apply for existing support.

Finding 6: Co-ordination between government stakeholders and departments is a barrier to effectively supporting SMMEs and co-operatives. This lack of coordination results in government resources being ineffectively spent, as well as increased confusion for SMMEs and co-operatives looking for assistance. In some cases, the experts interviewed noted that the lack of coordination between government departments

also resulted in SMMEs and co-operatives sourcing assistance from multiple agencies to address the same challenge. This effectively reduces the available resources available to SMMEs and co-operatives due to “double dipping” by these enterprises.

Recommendation 4: Government support programs should be developed as a value chain across all small business stakeholders to optimize the support given to SMMEs and co-operatives. This should ensure that support is tailored to the life-cycle stage that the enterprise is at, with a clear process on where enterprises should go to get support. This process should be led by the DSBD and should incorporate all government agencies and actors who provide support for SMMEs and co-operatives. Existing government programmes should be incorporated into these programmes to reduce the complexity of the support landscape for SMMEs and co-operatives, while retaining the ability to develop targeted programmes.

Recommendation 5: There should be a single portal that businesses can access to view all the support available from government. This portal should make the application process and qualifying criteria clear for small enterprises and should ensure that assistance is tailored to the type of enterprise. This portal should be developed and maintained by the DSBD and should provide access to information on all support programmes available from all government organisations and actors for small enterprises and co-operatives. The portal should also include a single back-end data base that can be accessed by all government agencies acting to support SMMEs and co-operatives so that agencies can collaborate and work together to effectively use resources and support SMMEs and co-operatives along their growth cycle.

Recommendation 6: A clear monitoring and evaluation framework should be developed by the DSBD in partnership with the dtic to establish the effectiveness of government support. This framework can be included in upcoming years of the longitudinal study and should have clearly defined variables for evaluating the effectiveness of government interventions.

Recommendation 7: Future research for this study should include more detailed assessment of the support programmes available to marginalized groups, along with an evaluation of the support needed by

these groups. This assessment should aim to develop specific recommendations for government support that can be offered to women, Black Africans, the informal sector, the youth, and people with disabilities.

7.4. The inhibitors and opportunities to growth of South African SMMEs and co-operatives

Both the desktop research and expert interviews indicated that the challenges faced by SMMEs and co-operatives have remained consistent over the past two decades. The primary challenges faced are access to finance, access to markets, regulatory burdens, low skills levels, and low levels of digital literacy and adoption. The challenges have been compounded by the COVID-19 pandemic, which has brought with it new areas of focus for many in the small business sector.

Among these, are access to premises and equipment, being able to pay utility bills, business marketing and improving business operations. In almost all cases, Black African business owners, those in rural areas, women, and the youth are more likely to report struggling with these challenges than their demographic counterparts.

The experts interviewed for this research emphasized the importance of digitization, diversification, and skills on the ability of the small business sector to recover and thrive in a post-pandemic world. Concerningly, most small business owners in our survey placed relatively low importance on these aspects of their businesses, focusing instead on improving existing products and stabilizing their finances.

Despite the challenges that the small business sector continues to face, there remain significant opportunities for growth. These include leveraging technology and e-commerce platforms, improving the operational and sales strategies of SMMEs and co-operatives, diversification of products and services, leveraging local trade and tourism, and focusing on the informal sector.

Finding 7: Access to finance remains the most salient challenge for small business owners. However, the experts interviewed for this research argue that this financing is not the solution to the challenges that small businesses face and, instead, needs to be paired with training and business strategy.

Finding 8: While the historical challenges facing the small business sector have remained consistent, different challenges have become more salient to small business owners. These are finding premises and equipment, paying utility bills, marketing – especially as it relates to the digital environment but not limited to this –and managing business operations.

Finding 9: Digital skills and uptake among SMMEs and co-operatives remains low. Furthermore, many SMMEs and co-operatives do not report improving these as a priority over the short- to medium-run.

Recommendation 8: The cost of storage, equipment and premises needs to be reduced for SMMEs and co-operatives. This can be accomplished through equipment financing as well as business parks that allow these enterprises access to shared spaces. The DSBD should collaborate with seda, sefa and provincial and local municipalities to develop business parks with access to equipment, storage, transport and utilities for SMMEs and co-operatives. These can be designed using similar principles to co-working spaces, where small business enterprise are able to make use of communal facilities at reduced costs, which are used by local municipalities to maintain the facilities and equipment.

Recommendation 9: SMMEs and co-operatives need to be exposed to more technology and should be trained in how these can improve their businesses. There should be a focus on moving SMMEs out of survivalist state and towards a future-looking state where they are able to plan for future developments in the sector and prepare for potential economic shocks. The DSBD should review existing training programmes offered through all government agencies and should facilitate a re-design of these programmes to ensure that they include future-looking objectives. In addition to this, local municipalities and provincial governments should develop technology centres that would allow SMMEs and co-operatives exposure and access to technologies that can assist with their businesses.

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A. APPENDIX: ENTERPRISE SIZE

<i>Sectors or subsectors in accordance with the Standard Industrial Classification</i>	<i>Size or class of enterprise</i>	<i>Total equivalent full-time of paid employees</i>	<i>Total annual turnover</i>
Agriculture	Medium	51 - 250	≤35million
	Small	11 - 50	≤ 17 million
	Micro	0 - 10	≤ 7 million
Mining and Quarrying	Medium	51 - 250	≤ 210 million
	Small	11 - 50	≤ 50 million
	Micro	0 - 10	≤ 15 million
Manufacturing	Medium	51 - 250	≤ 170 million
	Small	11 - 50	≤ 50 million
	Micro	0 - 10	≤ 10 million
Electricity, Gas and Water	Medium	51 - 250	≤ 180 million
	Small	11 - 50	≤ 60 million
	Micro	0 - 10	≤ 10 million
Construction	Medium	51 - 250	≤ 170 million
	Small	11 - 50	≤ 75 million
	Micro	0 - 10	≤ 10 million
Retail, Motor trade and repair services	Medium	51 - 250	≤ 80 million
	Small	11 - 50	≤ 25 million
	Micro	0 - 10	≤ 7,5 million
Wholesale	Medium	51 - 250	≤ 220 million
	Small	11 - 50	≤ 80 million
	Micro	0 - 10	≤ 20 million
Catering, Accommodation and other trade	Medium	51 - 250	≤ 40 million
	Small	11 - 50	≤ 15 million
	Micro	0 - 10	≤ 5 million
Transport, storage and communications	Medium	51 - 250	≤ 140 million
	Small	11 - 50	≤ 45 million
	Micro	0 - 10	≤ 7,5 million
Finance and Business Services	Medium	51 - 250	≤ 85 million

Community, Social and Personal Services	Small	11 - 50	≤ 35 million
	Micro	0 - 10	≤ 7,5 million
	Medium	51 - 250	≤ 70 million
	Small	11 - 50	≤ 22 million
	Micro	0 - 10	≤ 5 million

B. APPENDIX: Data collection tools

SMME SURVEY 2021

Dear Participant,

Mthente Research and Consulting is conducting a longitudinal study on behalf of the Department of Small Business Development to understand the SMME and co-operative sector in South Africa. The primary aims of the study is to provide credible and consistent longitudinal data on Small, Medium and Micro Enterprises (SMMEs) and co-operatives and to:

1. Assess the developments, trends, and performance of SMMEs and Co-operatives in relation to that of the South African economy.
2. Analyze the impact of government support to SMMEs and co-operatives in relation to the National Development Plan's (NDP) goals of reducing inequality, unemployment and elimination poverty.
3. Create a longitudinal profile of South African SMMEs and co-operatives.
4. Gain an understanding of the inhibitors and opportunities to growth for South African SMMEs.

We would therefore like to invite you to participate in a short survey which will assist in improving government support for the sector and understand the impact of shocks like COVID-19 on these enterprises.

It must be stressed that all information received will be kept confidential and will only be summarised and reported on in an aggregated manner. The information you provide will not be shared with anyone outside the research team of Mthente. This is following the recognised industry standards of confidentiality and anonymity, as set by SAMRA (the Southern African Marketing Research Association), of which Mthente is an organisational member. The survey will take approximately 20 minutes to complete. By participating in this survey, you consent to the collection and use of your data. At any stage of the research, you may choose to withdraw your consent if you wish. If you need any further clarification, please contact:

- **Shaheen Buckus**, Department of Small Business Development sbuckus@dsbd.gov.za
- **Ishreen Ismail (Research Director)**, Mthente Research and Consulting Services. ishreen@mthente.co.za

Do you agree to participate in this survey?	<input type="radio"/> Yes	<input type="radio"/> No
Participant name in print:		
Participant signature		
Contact number:		

Category	Question	Answer options
A. Profile of SMME owners Objective: to create a longitudinal profile of SMMEs and co-operatives in South Africa	A1. How old are you?	a. 18 to 34 b. 35 to 54 c. 55 to 64 d. 65+
	A2. What gender do you identify as?	a. Man b. Woman c. Other d. Prefer not to say
	A3. Which ethnicity do you identify as?	a. Black African b. White c. Coloured d. Indian e. Asian f. Other
	A4. What is your highest level of education?	a. No formal education b. Primary education c. Secondary education d. Tertiary education e. Completed first tertiary qualification f. Other
	A5. Do you have any disability conditions that have lasted or will last for six months or more?	a. Yes b. No c. I prefer not to say
		a.
	A6. What is your nationality?	{List}

B. Description of the SMME sector Objective: to create a longitudinal profile of SMMEs and co-operatives in South Africa	B1. What is your position within this business?	a. I am the sole owner b. I am a partner in the business c. I am the owner and manager at the business
	B2. How many owners are there in your business?	a. Only 1 b. 2 – 3 c. 4 – 5 d. More than 5
	B3. How long has your business been in operation?	a. Less than one year b. 1 – 3 years c. 4 – 5 years d. 6 – 10 years e. More than 10 years
	B4. Which type of business are you registered as?	a. Private company b. Sole proprietorship c. Co-operative d. My business isn't registered e. My business is not registered but does have permits for operating f. I don't know
	B5. In which province/s does your business operate (select all that apply)	a. Limpopo b. Northwest c. Eastern Cape d. Western Cape e. Gauteng f. Kwa-Zulu Natal

		<ul style="list-style-type: none"> g. Mpumalanga h. Western Cape i. Northern Cape
	B6. Where does your enterprise conduct most of its business?	<ul style="list-style-type: none"> a. In the city b. In rural areas c. In townships and informal settlements
	B7. How many people does your business employ full time?	<ul style="list-style-type: none"> a. None, it's only me that works there b. 1 – 5 people c. 6 to 10 people d. 11 to 20 people e. 21 to 50 people f. More than 50 people
	B8. How many people does your business employ on a part-time or casual basis?	<ul style="list-style-type: none"> a. None b. 1 – 5 people c. 6 to 10 people d. 11 to 20 people e. 21 to 50 people f. More than 50 people
	B9. What industry does your business operate in?	<ul style="list-style-type: none"> a. Agriculture, forestry, and fishing b. Mining and quarrying c. Manufacturing d. Electricity, gas, and water e. Construction f. Trade, catering, and accommodation

		<ul style="list-style-type: none"> g. Finance, real estate, and business services h. Personal care services i. Other
	B10. Can you give us a short description of what your business does?	{Open response}
	B11. Where does your business operate from?	<ul style="list-style-type: none"> a. Owner's home b. Rented business premises c. Business premises that we own d. Co-working spaces e. Near the street f. Vendor markets g. Taxi ranks h. Other
	B12. Which of the following things does your business own? (Choose all)	<ul style="list-style-type: none"> a. Feature phone b. Smart phone c. Laptop d. Desktop computer e. Vehicle f. Manufacturing equipment g. Tables h. Gazebos i. Point of sale system j. Stove k. Microwave l. Refrigerator m. Storage facilities n. Other (please specify)

C. The contribution of SMMEs to the South African economy Objective: to create a longitudinal profile of SMMEs and co-operatives in South Africa	C1. What was your business' turnover in the previous financial year (2019-20)?	a. <R1 million per year b. R1 – R5 million per year c. R5,1 – R7 million per year d. R7,1 – R10 million per year e. R11 – R20 million per year f. R20,1 – R50 million per year g. R50,1 – R100 million per year h. More than R100,1 million per year
	C2. Does your business export any goods or services?	a. Yes b. No c. I don't know
	{If C2 = a} C2a. What percentage of your business revenue is generated from exports?	a. Less than 10% b. 11 – 25% c. 26 – 50% d. 51 – 75% e. 76 – 100%
	C3. Does your business import any goods or services?	a. Yes b. No c. I don't know
	{If C3 = a} C3a. What percentage of your business revenue is generated through imports?	a. Less than 10% b. 11 – 25% c. 26 – 50% d. 51 – 75% e. 76 – 100%
	D1. Have you applied for and/or received any government business	a. I applied and received assistance

D. Impact of government support Objective: to understand the impact of government support to SMMEs and co-operatives in relation to the NDP goals.	support in the past three years?	b. I applied and did not receive assistance c. I have never applied for government funding d. I was not aware of any government business support programmes
	{If D1 = a or b} D1a. Which programme/s have you used, or did you apply for?	{List all}
	{If D1 = a} D1bb. How helpful did you find these government programmes? Please rate from 1 to 5 where 1 is "Not at all helpful" and 5 is "Extremely helpful"	{Rating}
	{If D1 = a} D1c. In what ways was the government support you received helpful/not helpful?	{Spontaneous response}
	{if D1 = b} D1d. What were the reasons that you did not receive government support?	{Spontaneous response}
	{if D1 = c} D1e. Why have you not applied for any government support?	{Spontaneous response}
	D2. Which of the following government support programmes have you heard of before?	<ul style="list-style-type: none"> • Black Business Supplier Development Programme • Co-operatives Incentive Scheme • Incubation Support Programme

		<ul style="list-style-type: none"> • The Technology and Human Resources for Industry Programme • Manufacturing Competitiveness Enhancement Programme • Enterprise Investment Programme • Seda Technology Programme • Support Programme for Industrial Innovation • Sector-specific Assistance Scheme • Production Incentive • Foreign Investment Grant • Textile Competitiveness Improvement Programme • Capital Projects Feasibility Programme • Business Process Services Incentive • Export Marketing and Investment Assistance • Critical Infrastructure Programme • Film and Television Incentive • Automotive Investment Scheme
	D3. Do you feel that SMMEs are getting enough support from government?	<p>a. Yes</p> <p>b. No</p> <p>I'm not sure</p>
	{If D3 = a} D3a. What do you think that government is doing well to support SMMEs?	{Spontaneous response}
	{If D3 = b or c}	{Spontaneous response}

	D3b. What do you think government could do to better support SMMEs?	
E. Challenges for SMMEs and co-operatives Objective: to understand the inhibitors to growth for South African SMMEs and co-operatives, as well as the role played by COVID-19	E1. Which of these challenges have you faced over the course of running your business? Select all that apply	a. Managing cash flow b. Getting financing c. The cost of paying taxes d. Understanding the tax system e. The process of filing and paying taxes f. Finding equipment g. Regulation/red tape h. Finding good staff i. Managing my staff j. Finding suitable/affordable business premises k. Managing business operations l. Finding places to sell my goods/services m. Moving to digital marketplaces n. Moving to remote work o. Paying utility bills p. Cost of storage facilities q. Crime r. Harassment from law enforcement s. Marketing my business
	E2. Have you overcome any of these challenges?	a. Yes, I've overcome some of them

		b. No, my business still faces these challenges
	{If E2 – a} E2a. How did you overcome these challenges?	{Spontaneous response}
	E3. Please tell us how much your business struggled with the following things during COVID-19. Rate each challenge from 1 to 5 where 1 is “No impact on my business” and 5 is “Extreme impact on my business”	{Ratings matrix – selections below} a. Cash flow decreased b. Sales decreased c. Struggled to pay business bills d. Struggled to continue with production e. Struggling to source inputs f. Struggling to move to digital sales channels g. Struggling with product and/or market diversification h. Struggled with transportation i. Struggled to pay staff/labour j. Struggled with imports/exports k. Struggled to comply with health and safety regulation l. Struggling to be paid within 30 days by clients
F. SMME and Co-operative opportunities Objective: To understand the opportunities to growth for South African SMMEs and co-operatives	F1. Which of the following, if any, does your business use? Select all that apply	a. Software for booking keeping b. Digital marketing c. Cloud-based storage d. A business bank account e. E-commerce platforms f. Delivery service for our products

		<ul style="list-style-type: none"> g. Point of sales system h. Technology-enabled payment system for suppliers i.
	F2. Please rank the following goals that you have for your business from most important to least important.	<ul style="list-style-type: none"> a. Stabilizing finances b. Maintaining and increasing client base c. Improving digital skills d. Improving marketing e. Hiring more staff f. Opening new branches g. Purchasing new equipment
	F3. Over the past year, has your business introduced any new products or services?	<ul style="list-style-type: none"> a. Yes b. No
	{If F3 = a} F3a. Can you describe the new product/service that you introduced?	{Spontaneous response}
	F4. Does your business have any plans to introduce a new product/service soon?	<ul style="list-style-type: none"> a. Yes b. No c. I don't know
	{If F4 = a or c} F4a. What might prevent you from introducing new products/services?	<ul style="list-style-type: none"> a. I don't have funding for development b. I don't have the time to develop it c. I'm not sure how to develop something new

		<p>d. I don't know if there is a market for my idea</p> <p>e. I don't think we need to develop anything new</p> <p>f. Other</p>
	G1.. How important do you think the following will be for your business in the next three years? Please rank them from most important to least important.	<p>a. Diversifying products</p> <p>b. Diversifying clients</p> <p>c. Improving the quality of products/services</p> <p>d. Improving our operations</p> <p>e. Reducing costs</p> <p>f. Digitizing business operations</p> <p>g. Digital marketing</p> <p>h. Learning new skills for the business</p> <p>i. Changing the business strategy</p>
	G2. Have you made any changes to the way that your business operates in the past 12 months?	<p>a. Yes</p> <p>b. No</p> <p>c. I'm not sure</p>
	{If EG2 = a} G2a. What changes have you made?	{Spontaneous response}
	G3. What type of support would you find most helpful for your enterprise? Please rank them from most helpful to least helpful	<p>a. Financing</p> <p>b. Training for myself and my staff in business management</p> <p>c. Training for myself and my staff in risk management</p> <p>d. Better premises</p> <p>e. Better equipment</p>

		<ul style="list-style-type: none"> f. Reduced regulation g. Reduced taxes h. Other training for my staff i. Storage facilities for my equipment j. Provision of utilities, such as water, electricity, and ablution facilities k. Developing business plans
	G4. How do you feel about the business landscape in South Africa for the future?	<ul style="list-style-type: none"> a. Extremely positive b. Somewhat positive c. Neutral d. Somewhat negative e. Extremely negative
	G5. Are there any opportunities that you see for your business in the future? Can you describe them?	{Spontaneous response}

Expert Interviews Round 1: Discussion Guide

Introduction

Hello, my name is {name}. I'm doing research for Mthente Research and Consulting, on behalf of the Department of Small Business Development. We're conducting a longitudinal study to understand the SMME and co-operative sector in South Africa to improve government support for the sector and understand the impact of shocks like COVID-19 on these enterprises.

We've asked to speak with you because you have valuable insight into the experience of SMMEs and co-operatives, especially with regards to {co-operatives/ enterprises in the informal sector/ the practical tools that SMMEs and co-operatives need in order to survive}.

Challenges faced by SMMEs and co-operatives

1. Based on your experience, what are the biggest challenges that SMMEs and co-operatives face in South Africa?
 - a. **For co-operative expert:** How are these challenges different for co-operatives?
 - b. **For informal sector expert:** How are these challenges different for SMMEs operating in the informal sector?
2. What were the biggest impacts of COVID-19 on SMMEs and co-operatives?
 - a. Do you think that any particular industry was hit worse than others? Why?

{Prompt for: industries beyond tourism, what were the knock-on-effects of these industries struggling?}

 - b. **For informal sector expert:** How did COVID-19 impact the informal sector differently from the formal sector?

Characteristics of successful SMMEs and co-operatives

3. Are there any characteristics that you can identify of SMMEs and co-operatives that do well?
 - a. What are these characteristics?
 - b. How do you think these characteristics can be encouraged or grown?

{Prompt for: characteristics of owners; organisational characteristics; growth strategies}
4. What characteristics of SMMEs and co-operatives do you think are most likely to help them be successful if they formalize?
 - a. **For informal sector expert:** Are there any characteristics that you can identify of SMMEs and co-operatives that are *most likely* to formalize?

Government support for SMMEs

5. How well do you think government has supported SMMEs and co-operatives over the past few years?

- a. Are there any particular programmes that you think worked well? Why did they work?
 - b. Are there any programmes that you thought worked poorly? How could they have been improved?
 - c. What do you think we can learn from the government support of SMMEs and co-operatives during COVID-19?
6. What do you think government should prioritize in their support for SMMEs and co-operatives going forward?
 7. **For informal expert:** How do you think government can better reach enterprises in the informal sector?

Future-proofing SMMEs for post-recovery

8. What do you think is most important for SMMEs and co-operatives now to help recover from COVID-19?

{Prompt for current focus – what should they change, learn, do over the next year?}

9. How well placed do you think SMMEs, and co-operatives are to grow and thrive over the next 5 years?

{Prompt for: why? Are there any enterprise types or industries that you think are better placed than others?}

10. What do you think are the most important changes that SMMEs and co-operatives need to make for the future, once the recovery period is over?

{Prompt for: how accessible are these changes? What are the biggest barriers to achieving them?}

Conclusion

Thank you for taking the time to talk to us today – we really appreciate hearing your thoughts and having your help with this research. Before we end off, part of this research is to develop a survey that will be administered to SMMEs for three years. Is there anything that you think is important for us to ask in this survey or variables that you think we should measure?

Key Stakeholders Round 2: Discussion Guide

Introduction

Hello, my name is {name}. I'm doing research for Mthente Research and Consulting, on behalf of the Department of Small Business Development. We're conducting a longitudinal study to understand the SMME and co-operative sector in South Africa to improve government support for the sector and understand the impact of shocks like COVID-19 on these enterprises.

We've asked to speak with you because you have valuable insight into the experience of SMMEs and co-operatives, especially with regards to how government can better support these enterprises.

Challenges faced by SMMEs and co-operatives

11. Based on your experience, what are the biggest challenges that SMMEs and co-operatives face in South Africa?

- a. How have these changed time, if at all?
- b. What are the specific impacts that these challenges have on SMMEs?

12. What were the biggest impacts of COVID-19 on SMMEs and co-operatives?

- a. Do you think that any particular industry was hit worse than others? Why?

{Prompt for: industries beyond tourism, what were the knock-on-effects of these industries struggling?}

Characteristics of successful SMMEs and co-operatives

13. Are there any characteristics that you can identify of SMMEs and co-operatives that do well?

- a. What are these characteristics?
- b. How do you think these characteristics can be encouraged or grown?

{Prompt for: characteristics of owners; organisational characteristics; growth strategies; **focus on (b)**}

14. What skills do you think SMMEs need the most in order to enable them to grow?

- a. Why these skills?
- b. What are the current barriers to SMMEs having these skills?
- c. How do we encourage SMMEs to develop these skills?

Government support for SMMEs

15. How well do you think government has supported SMMEs and co-operatives over the past few years?
 - a. Are there any particular programmes that you think worked well? Why did they work?
 - b. Are there any programmes that you thought worked poorly? How could they have been improved?
 - c. What do you think we can learn from the government support of SMMEs and co-operatives during COVID-19?
16. What type of support do you think SMMEs, and co-operatives need the most?
 - a. What do they want the most?
 - b. If these are different, why do you think they are?
17. What do you think government should prioritize in their support for SMMEs and co-operatives going forward?
 - a. Are there any ways that you think government support can be consolidated and streamlined?
 - b. If you could change one thing about government support to small enterprises, what would it be?

Future-proofing SMMEs for post-recovery

18. What do you think is most important for SMMEs and co-operatives now to help recover from COVID-19?

{Prompt for current focus – what should they change, learn, do over the next year?}

19. Our research suggests that access to technology and digital adoption is going to be increasingly important for SMMEs and co-operatives. How do you think these will impact small enterprises over the coming years?
 - a. What prevents SMMEs and co-operatives from using more technology or digitizing their businesses?
 - b. How do you think we can best support SMMEs in doing this?
20. There have been several other challenges that have come up in the research that seem like they will impact SMMEs in the long run. We'd like to get your opinion on some of these. Most

importantly, we're interested in hearing what you think needs to change to solve these problems for SMMEs and co-operatives in South Africa:

- a. Access to markets
- b. Regulatory compliance
- c. Business strategies
- d. Organisational structure and coordination
- e. Operational management

Conclusion

Thank you for taking the time to talk to us today – we really appreciate hearing your thoughts and having your help with this research. Before we end off, part of this research is to develop a survey that will be administered to SMMEs for three years. Is there anything that you think is important for us to ask in this survey or variables that you think we should measure?

C. APPENDIX : SMME economic contribution calculations

Calculating SMME Contribution to GDP using the Abedian method

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

$$GDP_{Total} = Employee\ Contribution_{Total} + Gross\ Operating\ Surplus_{Total}$$

$$GDP_{SMME} = \sum_{Industry} (\# Employees_{Industry})(Average\ annual\ wage_{Industry}) + (Weight)(Gross\ Operating\ Surplus_{Total})$$

- We begin by adding together GDP statistics for all four quarters of 2020 in order to obtain a total Gross Value Added for the calendar year. This is done by industry to allow for more accurate calculations of total contribution to employment.

Next, we calculate the total employee compensation:

- The number of employees for each industry and size category (calculated in Section 3) is multiplied by the average remuneration in that industry, as given by StatsSA.
- This results in a table that describes the employee compensation for each size category, within each industry.
- These estimates are then summed across industries in order to obtain the total employee compensation by size category

Next, we calculate the Gross Operating Surplus:

- The employee compensation values described above are now summed across size categories to obtain a total employee compensation value for the economy as a whole.
- This value is then subtracted from the total GVA of the economy to obtain the total Gross Operating Surplus

We then allocate the Gross Operating Surplus to SMMEs:

- The Gross Operating Surplus is then distributed across size categories according to weights. These weights make assumptions about the level of profitability for each size category and are as follows:
 - o 0.05 micro; 0.25 small; 0.7 medium and large
- This calculation then gives the assumed Gross Operating Surplus per size category

Finally, we calculate contribution to GDP by size category:

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

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

SMME Contribution to GDP by Industry

	Micro	Small	Medium and large
Agriculture, forestry and fishing	12411,03	30801,18	76375,49
Mining and quarrying	14649,48	60298,56	297988,5
Manufacturing	84050,52	141380,6	347937,9
Electricity, gas and water	10962,61	40877,31	115356,2
Construction	42182,39	38838,48	59150,46
Trade, catering and accommodation	156731,8	190781,2	307709,3
Transport, storage and communication	73686,41	91825,2	230924,6
Finance, real estate and business services	128707,5	262252	488552,4
General government services	173391,9	299008,6	386828,6
Total	696773,6	1156063	2310823

SME contribution to employment by industry

	Micro	Small	Medium and large	Total
Agriculture, forestry and fishing	8097,992	9236,007	15993	33327
Mining and quarrying	3634,301	5222,682	143776	152633
Manufacturing	73572,87	88992,37	201250,8	363816
Electricity, gas and water	5080,254	11465,52	33003,23	49549
Construction	39051,67	23184,9	15320,43	77557
Trade, catering and accommodation	137971,6	96980,39	45067	280019
Transport, storage and communication	60406,8	25427,15	45010,05	130844
Finance, real estate and business services	104056,4	138996,3	143436,3	386489
General government services	167859,4	271346,3	309374,3	748580
Total	599731,3	670851,6	952231	2222814