

Final Report

Longitudinal Study on SMMEs and Co-Operatives in South Africa: Wave Two (2022)

November 2022



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Abbreviations

7NDP	7th National Development Plan
AI	Artificial Intelligence
BEIS	Department of Business, Energy and Industrial Strategy
BER	Bureau for Economic Research
BRICS	Brazil, Russia, India, China, South Africa
COVID-19	Coronavirus 2019

DSBD	Department of Small Business Development
Dti	Department of Trade and Industry
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
ILO	International Labour Organisation
NDP	National Development Plan
PPE	Personal Protective Equipment
PWD	Persons with Disabilities
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

Section 1: Introduction

The South African National Development Plan¹ (NDP) describes the government strategy for reducing inequality, eliminating poverty, and stimulating growth in 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 previously disadvantaged groups in the country.

Although the NDP outlines admirable goals, the country has struggled to attain many of these and continues to struggle with high levels of unemployment, poverty and inequality. The coronavirus (COVID-19) pandemic further compromised the attainment of these goals within the country. While the NDP aimed to achieve full employment and eradicate poverty by 2030 the reality is that the country has continued to struggle with severe income inequality and increasing unemployment rates, worsened by the pandemic².

Within this context, the Department of Small Business Development (DSBD) has undertaken a longitudinal study on small business and co-operatives in South Africa. The purpose of the 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
- To get a longitudinal profile of SMMEs and co-operatives in the South African economy

¹ National Planning Commission, *National Development Plan 2030: Our Future - Make It Work* (Pretoria: The Office of the Presidency, 2012) <<https://www.gov.za/issues/national-development-plan-2030>>.

² M Sibanyono, 'NDP 2030 Targets: SA's Targets vs Reality', *SABC News*, 2021 <<https://www.sabcnews.com/sabcnews/ndp-2030-targets-sas-targets-vs-reality/>>.

1.1. Methodology

This report shows the findings from the second year of a longitudinal study, which made use of a mixed-methodology approach to understand the small business sector in South Africa. This included a review of the existing literature, qualitative interviews with experts and stakeholders in the small business sector, and a survey with small business owners.

1.1.1. Literature review

A review and analysis of the literature was conducted, including a review of secondary data sources such as Statistics South Africa (Stats SA). 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.

1.1.2. Primary data collection

The primary data collection for the 2022 year of this study involved conducting interviews with experts in three key areas, as discussed in detail below, as well as conducting the second wave of data collection for the survey conducted in 2021.

Expert interviews

In the first wave of this longitudinal study which took place in 2021, we found a lack of available research on the informal sector in South Africa, as well as research which focuses on co-operatives. The informal sector research, in particular, was of interest as experts believed that the sector may be a powerful tool for increasing employment opportunities in the country.

In addition to this, the research identified that women, the youth and those living with disabilities are facing particular challenges in accessing government support programmes. Having identified this, we recommended that these groups be proactively researched to understand their specific needs and challenges in order to present suitable recommendations for support.

Given the above, the expert interviews conducted in 2022 focused on five groups of experts that were identified as having specific knowledge and expertise within each topic. These areas of expertise and the number of interviews conducted for each is presented in Table 1, below.

Table 1: Expert interviews conducted

	Target number of interviews	Interviews achieved
Women	2	2
The youth	2	2
Persons with Disabilities (PWD)	3	3
The informal sector	4	4
Co-operatives	4	5

Quantitative survey

During the first wave of the research, 714 participants responded to the survey sent out. Due to the longitudinal nature of this research, for wave two, the 714 participants were contacted again to participate in the 2022 survey. A total of 699 completed surveys were obtained in the second wave of research. Survey participants were identified in wave one through a database provided by DSBD and the same participants were contacted in wave two.

A summary of the survey sample in 2022 can be found in Table 2. The sample was calculated based on the contributions of SMMEs to GDP, by enterprise size and province. The survey response rate in 2022 was particularly high, with respondents being eager and willing to participate in the survey. The dropout rate from wave one was low, and the fieldworkers reported that awareness of the research and an eagerness to see the results of the research were driving factors for the willingness to engage. There was, of course, some attrition from the survey, which cannot be predicted or controlled for. This resulted in a small sample in selected provinces, specifically Mpumalanga and Limpopo.

Table 2: Survey sample

	Micro		Small		Medium		Cooperatives		Total achieved	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Eastern Cape	40	58	8	7	5	5	4	5	65	75
Free State	34	16	4		2	2	4	3	44	21
Gauteng	233	87	37	17	21	3	36	10	327	117
KZN	65	212	6	60	14	15	9	30	94	317
Limpopo	32	20	3	1	7	2	5	0	47	23
Mpumalanga	30	7	5	3	3	2	2	1	40	13
North-West	21	37	2	6	1	1	2	5	26	49
Northern Cape	6	32	2	4	1	1	1	2	10	39
Western Cape	84	92	13	7	6	2	8	6	111	107
Total	545	561	80	105	60	33	67	62	700	761

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

1.2. Limitations of the study

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

The data available from Stats SA 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 sector³.

Given this, the Stats SA data does not distinguish the number of employees in enough detail to be able to differentiate 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.

There has been a recent change in the definition of enterprise size, which has limited the comparability of the findings to previous research. In 2019 the Department of Small Business Development revised the national definitions of enterprise size. 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 compared to the definitions used prior to 2019.

Table 3: Enterprise Size

Business size	Number of employees – previous definition	Number of employees – revised definition
Micro	0 – 5	0 – 10
Very small	6 – 20	No longer included
Small	21 – 49	11 – 50
Medium	50 - 200	50 - 250

³ 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>.

- Challenges in identifying and contacting experts in some of the special interest case studies.

During the fieldwork period, the research team noted that there was some difficulty in identifying and reaching experts who had a specialised knowledge on entrepreneurs with disabilities, small businesses in the informal sector and co-operatives. Experts were initially identified through the literature review. However, when these individuals proved unable to participate, an expanded list needed to be developed through generalised research and networking.

- Additional research was conducted at the same time, resulting in survey fatigue and some confusion among participants.

During the fieldwork period, the fieldworkers noted that there was another study that was conducted by the DSBD during the same period. This study focused on funding, and several participants expressed frustration at the fieldworkers for this study due to a lack of communication on the funding they had been promised. Unfortunately, the research team was not aware of the other studies and were not able to provide a response to participants. This frustration may impact some of the responses from participants, especially with regards to their sentiments about government helpfulness. This challenge was mitigated by cross-referencing the sentiment scores given by participants against the qualitative responses that they gave in the survey. Responses that spoke directly to the other research that was being conducted were removed from our sentiment analysis.

- The short period of the study prevents us from being able to make causal inferences on the changes in the state of SMMEs and co-operatives in South Africa

While the research indicated that there have been some changes in the context, size and description of the small business sector in South Africa from 2020 to 2021, it is not yet possible to establish the causes of these changes. Several years of longitudinal data, alongside targeted research, is required to assess these causes. As such, this research presents a simple description of changes in the small business sector from 2020 to 2021.

1.3. 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 macroeconomic context for SMMEs and co-operatives. Thereafter, the section presents a description of SMMEs and their owners in South Africa.

Section 3: 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 and how these enterprises are performing in the post-COVID era.

Section 4: Reviews government support for SMMEs and co-operatives and examines the impact of government support.

Section 5: Considers the future of SMMEs and co-operatives in a post-recovery context and reviews 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 6: Presents several Special Interest Case Studies, namely: women, the youth, those living with disabilities, co-operatives and the informal sector. This section explores each of these sub-groups in detail, aiming to understand the experiences specific to each group, and the support needed for each sub-group to succeed in business.

Section 7: Presents the key findings and recommendations from this research.

Section 2: SMMEs and co-operatives in South Africa

This section aims to highlight important changes in the economic context of SMMEs and co-operatives in South Africa, especially with regards to COVID-19 and government policy. Furthermore, the section aims to identify and discuss changes in the profile of the sector with regards to the characteristics of SMMEs and co-operatives, the profile of their owners and the contribution of small businesses to the South African economy.

2.1 The economic context

Any review of the economic context of a country in the world today would be lacking without giving mention to the COVID-19 pandemic. With an estimated 4 million cases of COVID-19 in the country, and over 100 thousand reported deaths from the virus⁴, the pandemic had significant impacts on the economic state of the country.

The first COVID-19 case in South Africa was confirmed on the 5th of March 2020, with the National State of Disaster being announced later that month and officially commencing on the 27th of March 2020⁵. The pandemic saw the country remain in a state of disaster for 750 days, with all its concomitant economic impacts. In 2020, South Africa saw its largest economic decline since 1946 and, while the end of 2020 began to see positive economic growth once more, it was not sufficient to overcome the impact of the Level 5 lockdown in the country.

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. The Bureau for Economic

⁴ Johns Hopkins University and Medicine, 'South Africa - COVID-19 Overview', *Coronavirus Resource Center*, 2022 <<https://coronavirus.jhu.edu/region/south-africa>> [accessed 28 August 2022].

⁵ S Lebuso, 'Timeline : A Look Back at the Past Two Years of Lockdown', *City Press*, 2022 <<https://www.news24.com/citypress/news/timeline-a-look-back-at-the-past-two-years-of-lockdown-20220323>> [accessed 28 August 2022].

Research (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 doors⁶. Some predictions suggest that the situation will only worsen, with up to 60% of SMMEs closing due to the crisis⁷.

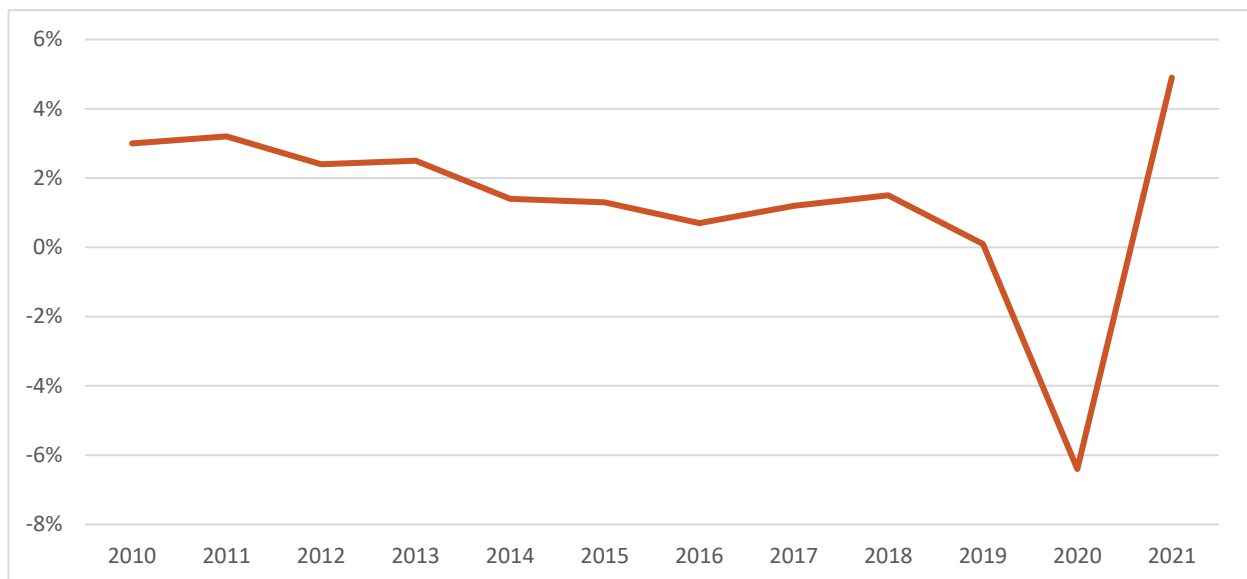
As shown in Figure 1, the annual growth rate in South Africa's Gross Domestic Product (GDP) saw severe declines over the pandemic. Despite this, 2021 saw recovery rates of nearly 5%, with the first quarter of 2022 showing GDP recovering to pre-pandemic levels⁸. Of course, not all sectors and industries experienced the same degree of recovery.

⁶ 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)>.

⁷ 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.za/>>.

⁸ StatsSA, 'After Two Years, GDP Returns to Pre-Pandemic Levels', 2022 <<https://www.statssa.gov.za/?p=15440>>.

Figure 1: Gross Domestic Product growth rate, South Africa⁹



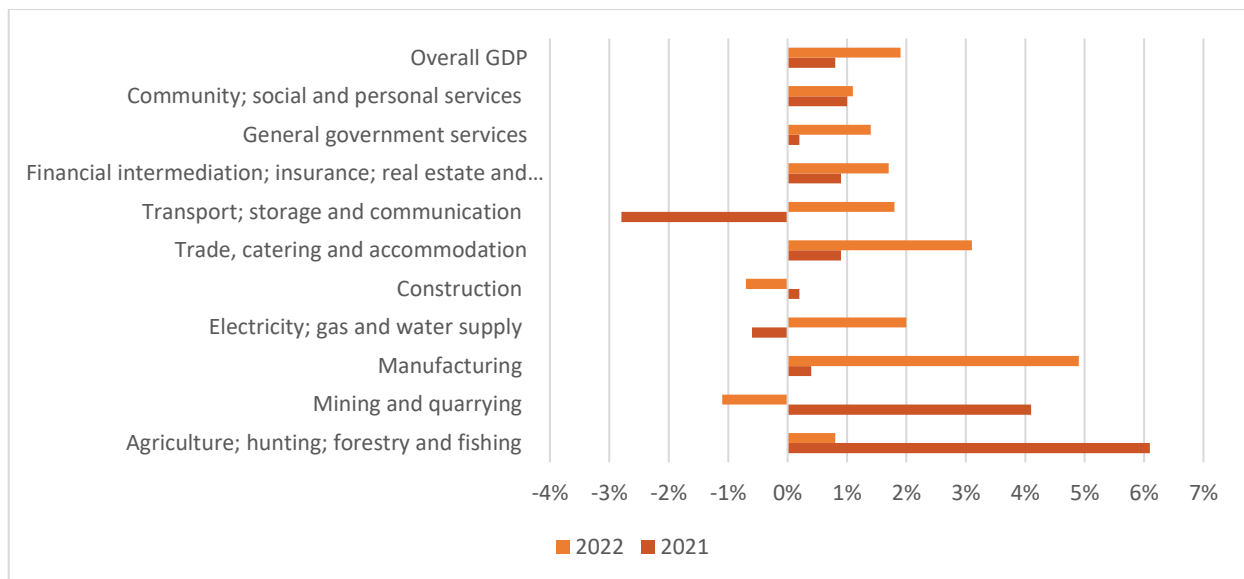
Although growth in the agricultural industry had been strong in the fourth quarter of 2021, the industry saw more subdued growth in 2022. Similarly, mining and quarrying and construction saw continued contraction into 2022¹⁰. Outside of these sectors, the only significant changes in GDP over the past year have been in government services and trade, catering and accommodation.

In the first instance, StatisticsSA undertook a national census in early 2022, resulting in higher-than-normal government expenditure and showing an unusual increase in this industry's growth rate and contribution to GDP. Tourism, of course, began to increase again as the South African borders began opening and both national and international travellers were once more able to move throughout the country. These changes are illustrated in Figure 2, below, which show the industry growth rates for the first quarter of 2021 and 2022.

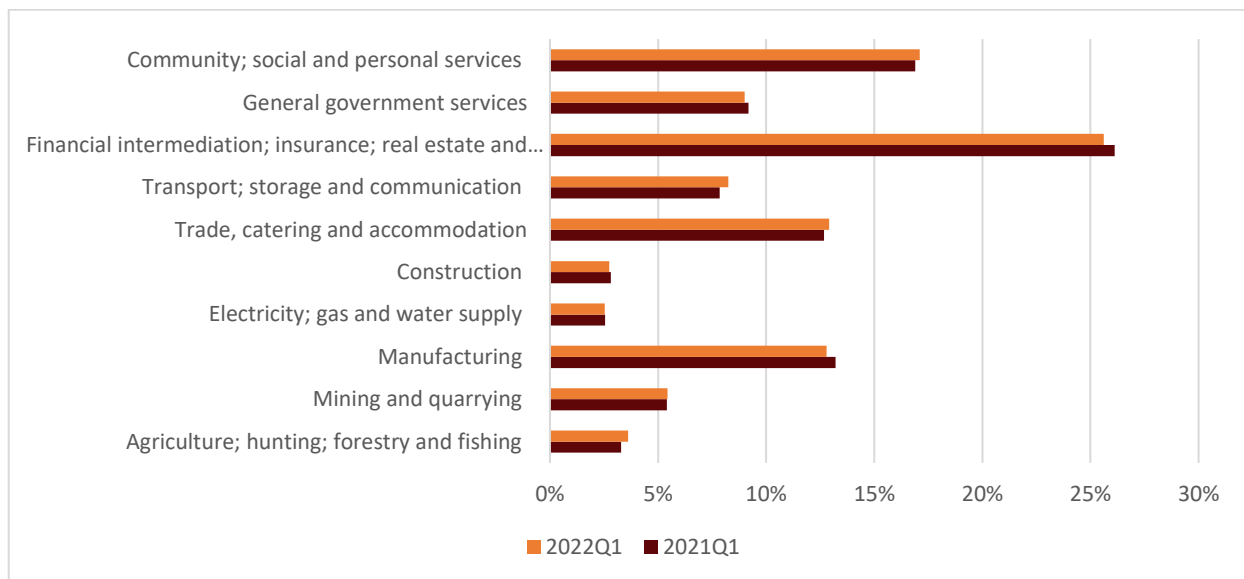
⁹ World Bank Group, 'GDP Growth (Annual %) - South Africa', *World Bank Data*, 2022
<<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=ZA>> [accessed 28 August 2022].

¹⁰ Stats sa , *Statistical Release P0441* (Pretoria, 7 June 2022) <www.stats sa .gov.za;info@stats sa .gov.za;Tel+27123108911>.

Figure 2: Industry growth rates, Q1 2021 and 2022¹¹



Despite volatility in growth rates, Figure 3: Industry contribution to GDP, Q1 2021 and 2022

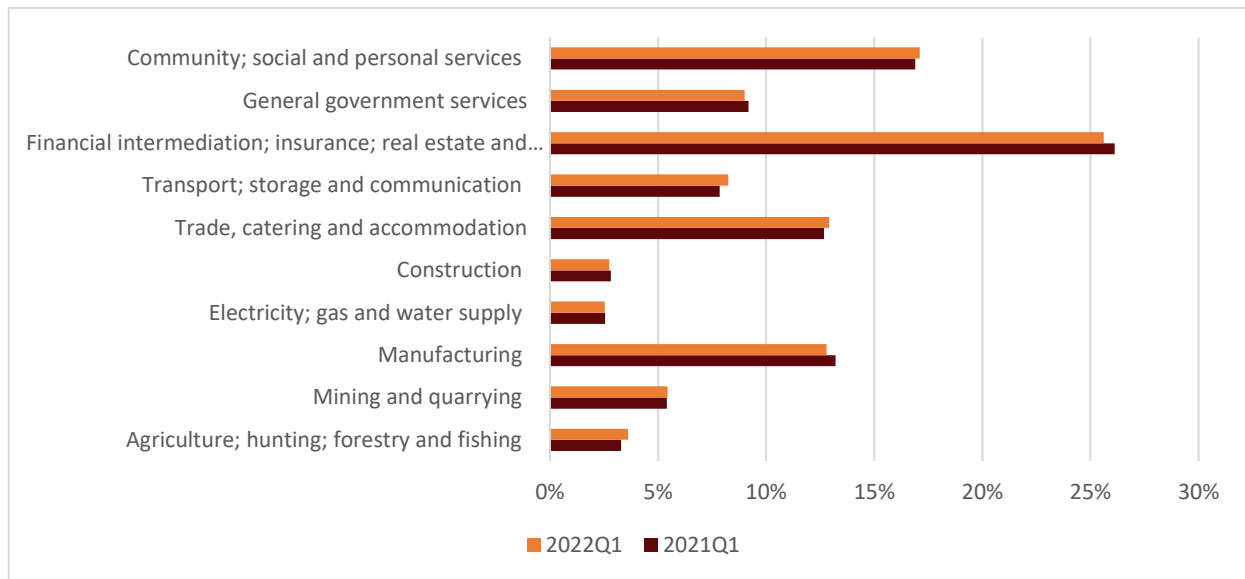


shows that industry contributions to total GDP in the country has remained relatively stable across these two years. Despite recovering GDP, the country has seen continued and significant shocks

¹¹ StatsSA, *Statistical Release P0441* (Pretoria, 7 June 2022)
<www.statssa.gov.za,info@statssa.gov.za,Tel+27123108911>.

in other important economic measures. Most recently, consumer inflation increased to a 13-year high, with the Consumer Price Index (CPI) increasing by 1,1% between May and June of 2022.

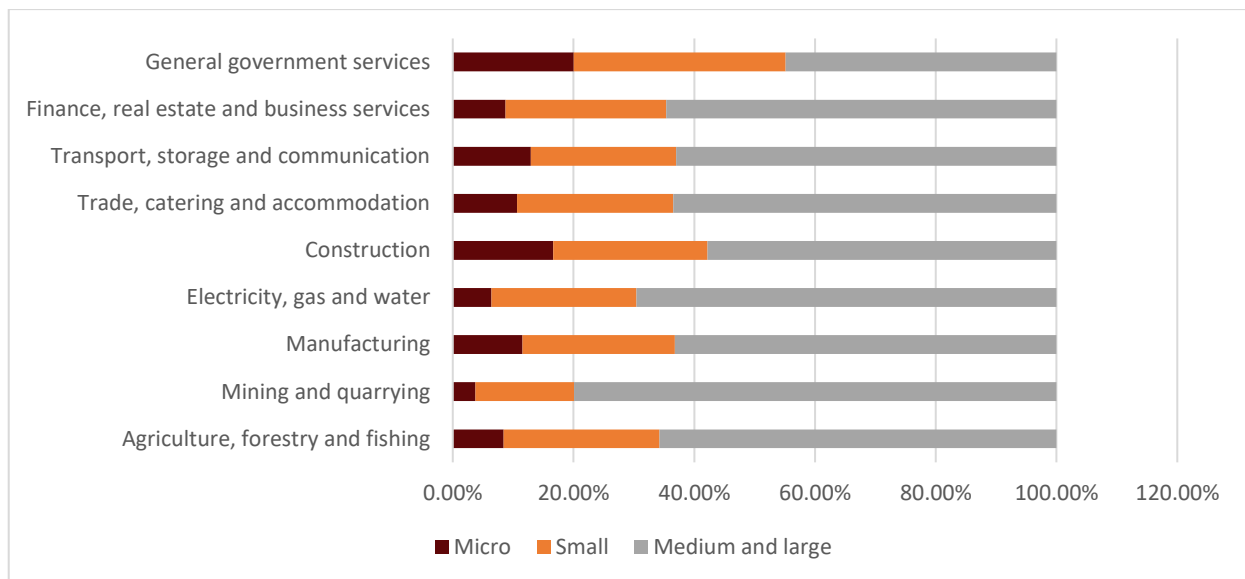
Figure 3: Industry contribution to GDP, Q1 2021 and 2022¹²



In terms of the contribution of SMMEs and co-operatives to GDP, there have been several significant changes from 2020 to 2021. Most notably, the contribution of micro enterprises operating in the agricultural sector has declined significantly. In fact, overall, the contribution of SMMEs to GDP has declined by nearly 20%, year-on-year. The data suggests that the economic recovery in the country is largely being driven by medium and large enterprises, while micro and small enterprises fall out of the economy as production and input costs rise.

¹² StatsSA, *Statistical Release P0441*.

Figure 4: SMME contributions to GDP¹³



Notably, the increase in inflation was driven significantly by transport goods and services, which saw an annual increase of 20% in June, with fuel prices showing an annual increase of 45,3% in the same month. Importantly, prices for food and non-alcoholic beverages also showed significant increases (8,6% year-on-year), with many of the food goods that comprise a basic food basket showing the highest increases¹⁴.

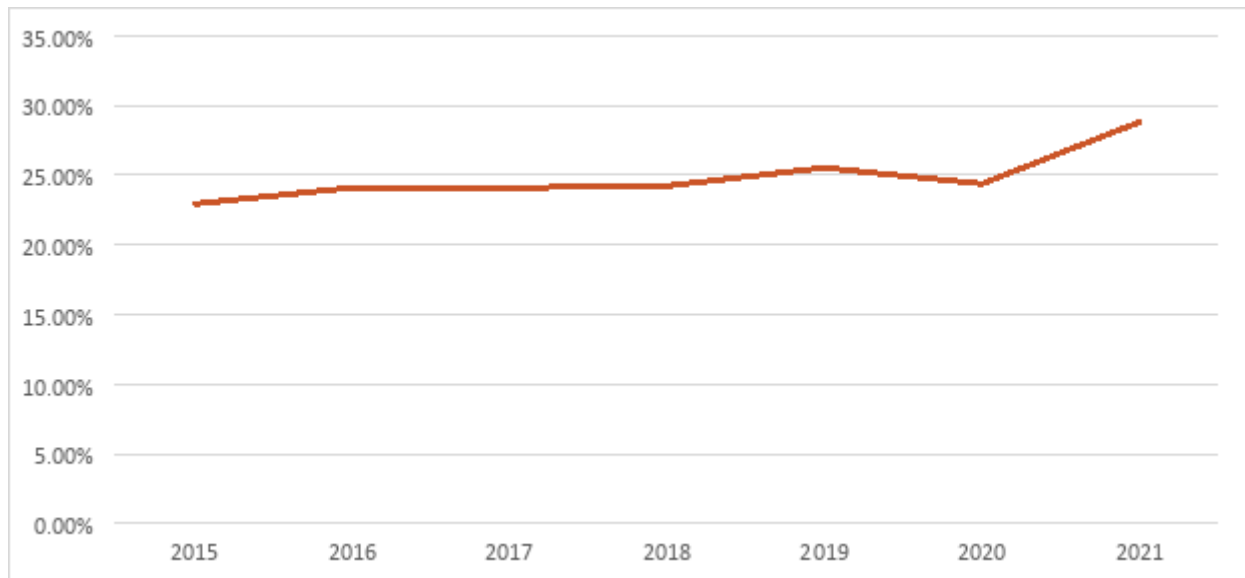
Figure 5 illustrates the national unemployment rates over time. It is clear that unemployment has steadily increased in the country since 2015, with 2021 showing a sharp increase compared to previous years. In the first quarter of 2022, the national unemployment rate hit a record high of

¹³ StatsSA, *Statistical Release P0441*.

¹⁴ Stats sa , 'Consumer Inflation Surges to a 13-Year High', *Stats sa* , 2022 <<https://www.stats sa .gov.za/?p=15583>> [accessed 28 August 2022].

34,5%, with youth unemployment being as high as 63,9%¹⁵. Although 2022 figures have not been released, the World Bank¹⁶ estimates that 55,7% of women in South Africa are unemployed.

Figure 5: National Unemployment over time¹⁷



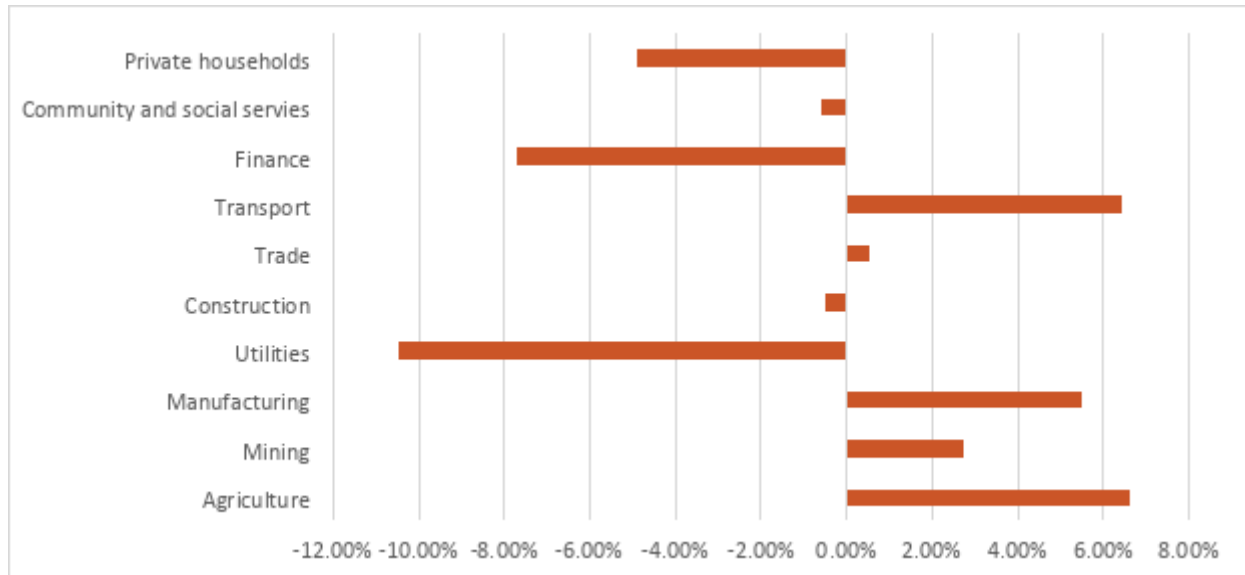
Looking at industry-level changes, utilities, private households and the financial sector saw the largest decreases in employment, year-on-year from 2021 to 2022, quarter 1. These changes are illustrated in Figure 6**Error! Reference source not found.**, below.

¹⁵ StatsSA, 'South Africa's Youth Continues to Bear the Burden of Unemployment.', *Quarterly Labour Force Survey*, 2022 <<https://www.statssa.gov.za/?p=15407>>.

¹⁶ The World Bank Group, 'Country Profile: South Africa', *COVID-19 Business Pulse Survey*, 2021 <<https://www.worldbank.org/en/data/interactive/2021/01/19/covid-19-business-pulse-survey-dashboard>>.

¹⁷ StatsSA, *Statistical Release P0441*.

Figure 6: Percentage change in employment, by industry, year-on-year 2021 to 2022¹⁸



In more positive news for the economy, ratings agency Standard and Poor Global revised the country's credit rating outlook from stable to positive, bringing with it the hopes of higher investments and a return to a more productive economy¹⁹.

Despite the declining contribution to GDP, the distribution of employment contributions remained stable from 2019 to 2020, showing some increased resilience in the sector.

¹⁸ StatsSA, *Statistical Release P0441*.

¹⁹ R. White, 'SA's Rating Outlook Revised from Stable to Positive', *Eye Witness News*, 2022
<<https://ewn.co.za/2022/05/21/sa-s-rating-outlook-revised-from-stable-to-positive>>.

Figure 7: Comparative contribution of SMMEs to employment, by enterprise size (2019 and 2020)²⁰

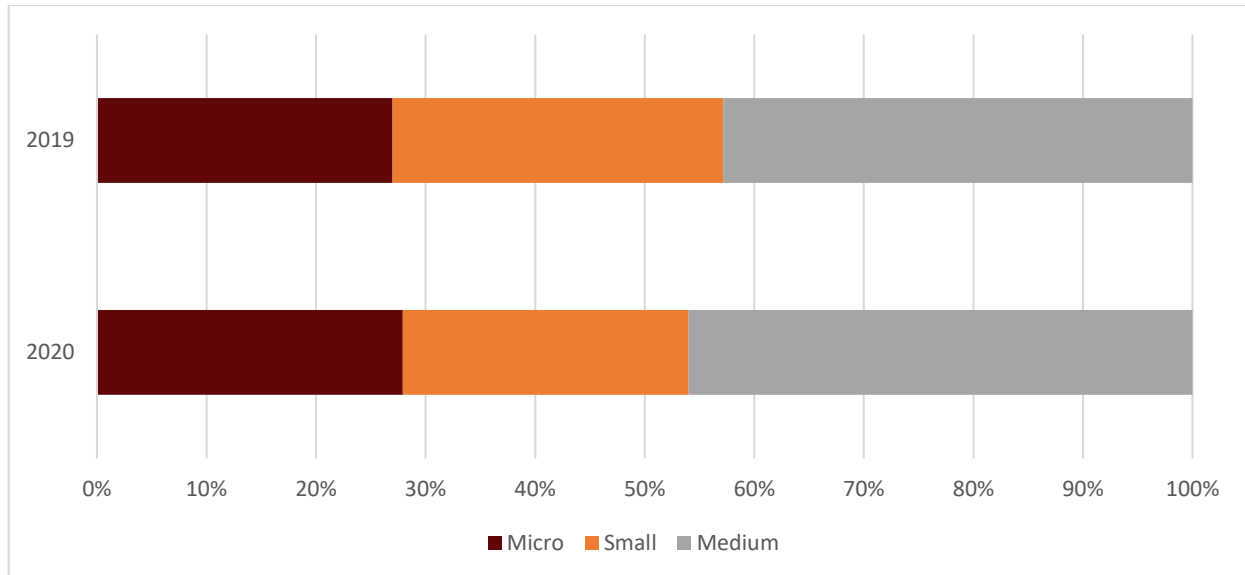
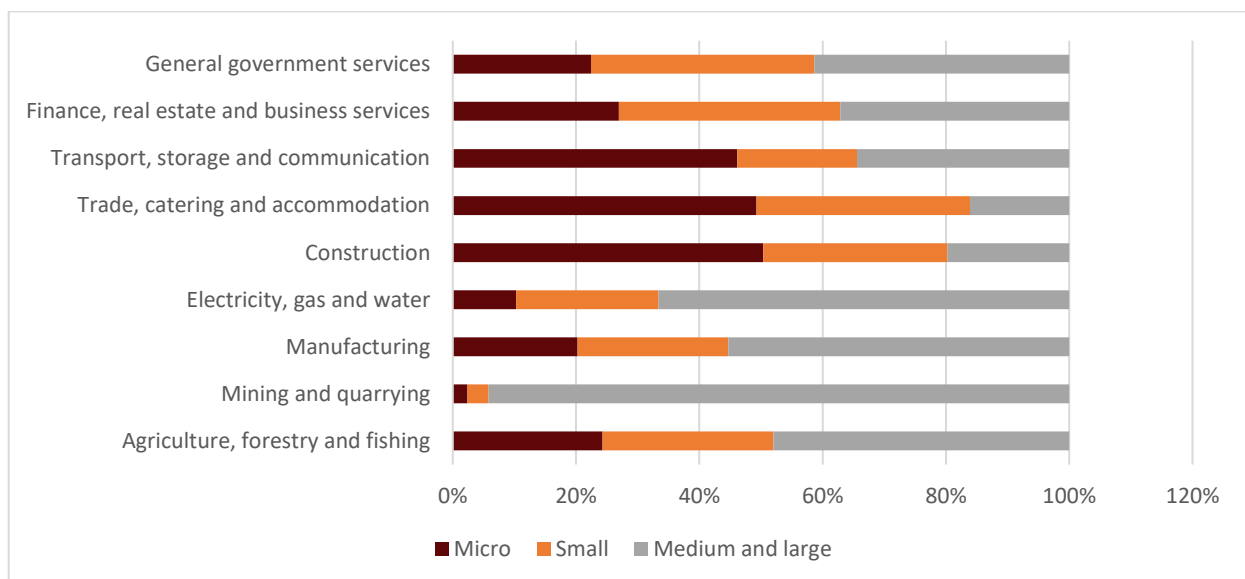


Figure 8: SMME contribution to employment, by industry (2020)²¹



²⁰ Source: own calculations using QLFS

²¹ Source: own calculations using QLFS

2.1.1 Regulatory environment

Following the COVID-19 pandemic, the South African government developed the “Economic Reconstruction and Recovery Plan” in 2020²². This section provides a brief overview of the plan and its goals, as this plan will impact and influence the development of policy for supporting SMMEs and co-operatives going forward.

The Plan was specifically developed to bring the country back on course with regards to the NDP and lays out short, medium and long-term goals that are required in order to achieve the NDP goals. These interventions include:

- Growing the economy at a rate of 5,4%
- Reducing the unemployment rate to 6%
- Increasing investment as a share of GDP to 30%
- Reducing inequality as measured by the Gini coefficient to 0.60; and
- Total eradication of poverty

In order to achieve these goals, the Plan is structured into three phases:

Phase 1: Engage and Preserve

This phase of the plan focuses first and foremost on saving lives and distressed households and firms. Its emphasis is on the health response to the pandemic and aims to ensure social and food security and stability in the country.

Phase 2: Recover and Reform

This phase aims to restart the economy while controlling health risks. It is in this phase that SMMEs begin to show particular importance, as strengthening SMME supply chain inclusion forms a key objective of this phase of the Plan.

Phase 3: Reconstruct and Transform

²² The Office of the Presidency, *THE SOUTH AFRICAN ECONOMIC RECONSTRUCTION AND RECOVERY PLAN 2*, 2020.

This phase of the plan focuses on macro-economic interventions, SMME development and the digital economy, among other things.

The following priority interventions have been identified by the Plan:

- Aggressive infrastructure investment;
- Employment orientated strategic localization, reindustrialization and export promotion;
- Energy security;
- Support for tourism recovery and growth;
- Gender equality and economic inclusion of women and youth;
- Green economy interventions;
- Mass public employment interventions;
- Strengthening food security; and
- Macro-economic interventions

With regards to the role of SMMEs and co-operatives in the Plan, the government has identified specific interventions aimed at developing SMMEs and strengthening their inclusion in supply chains in the country. These include financial interventions, granting start-up loans at 0-2% interest for new businesses, as well as using labour-intensive techniques for infrastructure development, using SMMEs as the primary suppliers for these. Further interventions in support of SMMEs include financial and non-financial support for SMMEs and cooperative in the green economy, and support and training for SMMEs operating in the digital economy. The latter of these is of particular importance in the post-COVID world, as the global economy shifts to an increasing focus on digital production and sales.

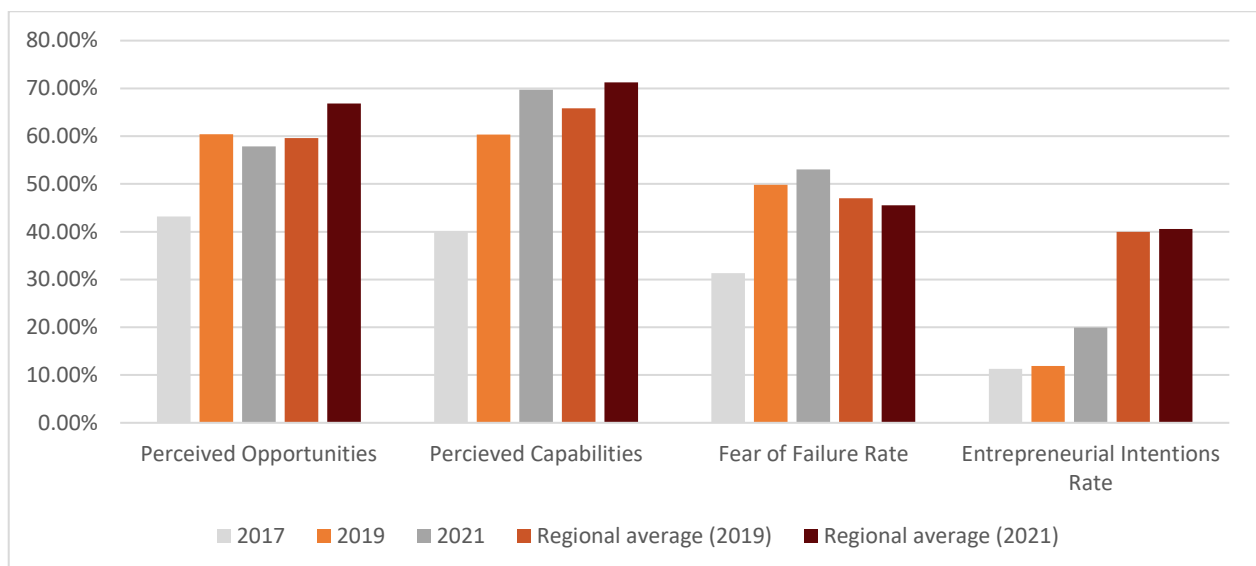
With the recent lifting of the National State of Disaster, the Economic Reconstruction and Recovery Plan is likely to enter into Phase 2 in the coming months and years. As we enter Phases 2 and 3, we should begin to see increasing and innovative government interventions in support of SMMEs and cooperatives. The objectives and goals established in the Plan, therefore, gives us

a benchmark against which to assess the effectiveness of new government programmes and interventions.

2.1.2 Entrepreneurship and the business environment

There were no significant changes in the self-perceptions of entrepreneurship between 2019 and 2021, except in the entrepreneurial intentions rate which saw an increase of 8,06 percentage points²³.

Figure 9: Self-perceptions of entrepreneurship in South Africa²⁴

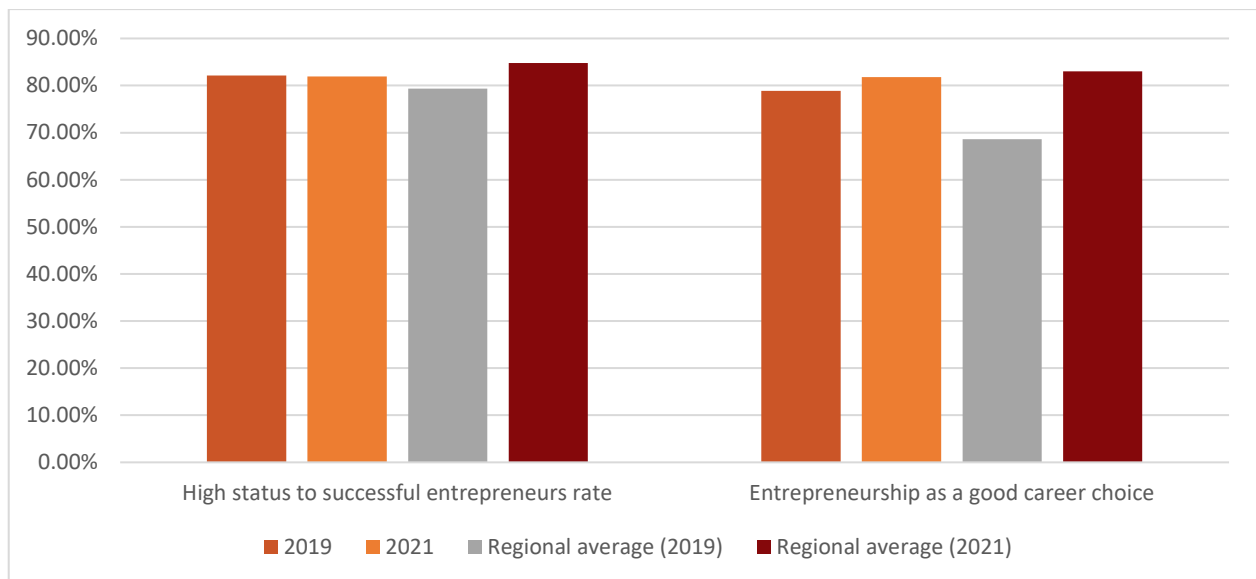


The societal value placed on entrepreneurship remained constant and at a similar level to regional averages across the two years.

²³ Niels Bosma and others, *GEM Global Entrepreneurship Monitor 2020/2021, Global Entrepreneurship Monitor, 2021* <<https://www.gemconsortium.org/report/gem-20202021-global-report>>.

²⁴ René Heavlow Amanda B. Elam, Karen D. Hughes, Maribel Guerrero, Stephen Hill, Catharina Nawangpalupi, María del Mar Fuentes, Juan Pablo Dianez González, Ana Fernández Laviada, Catalina Nicolas Martínez, Murcia Alicia Rubio Bañón, Murcia, Nihel Chabrak, Candida Brush, *Women's Entrepreneurship Report, 2021*.

Figure 10: Societal value placed on entrepreneurship in South Africa²⁵

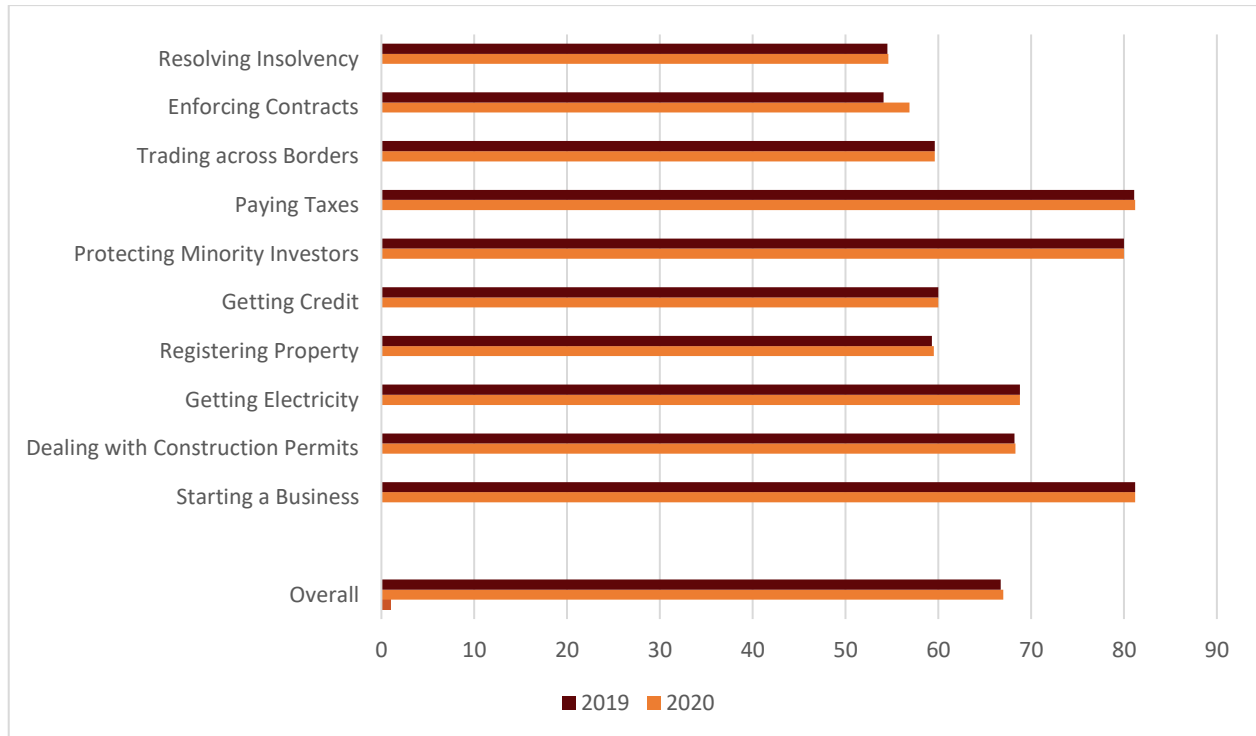


There were no significant changes in the Ease of Doing Business score from 2019 to 2020, except that our overall score improved slightly from 66,7 to 67. This change was predominantly driven by the expansion of online tax payment systems, which improved the ease with which businesses are able to file their tax returns²⁶.

²⁵ Amanda B. Elam, Karen D. Hughes, Maribel Guerrero, Stephen Hill, Catharina Nawangpalupi, María del Mar Fuentes, Juan Pablo Dianez González, Ana Fernández Laviada, Catalina Nicolas Martínez, Murcia Alicia Rubio Bañón, Murcia, Nihel Chabarak, Candida Brush,.

²⁶ World Bank Group, 'Business Reforms in South Africa', *Doing Business Report*, 2021
<<https://www.doingbusiness.org/en/reforms/overview/economy/south-africa>>.

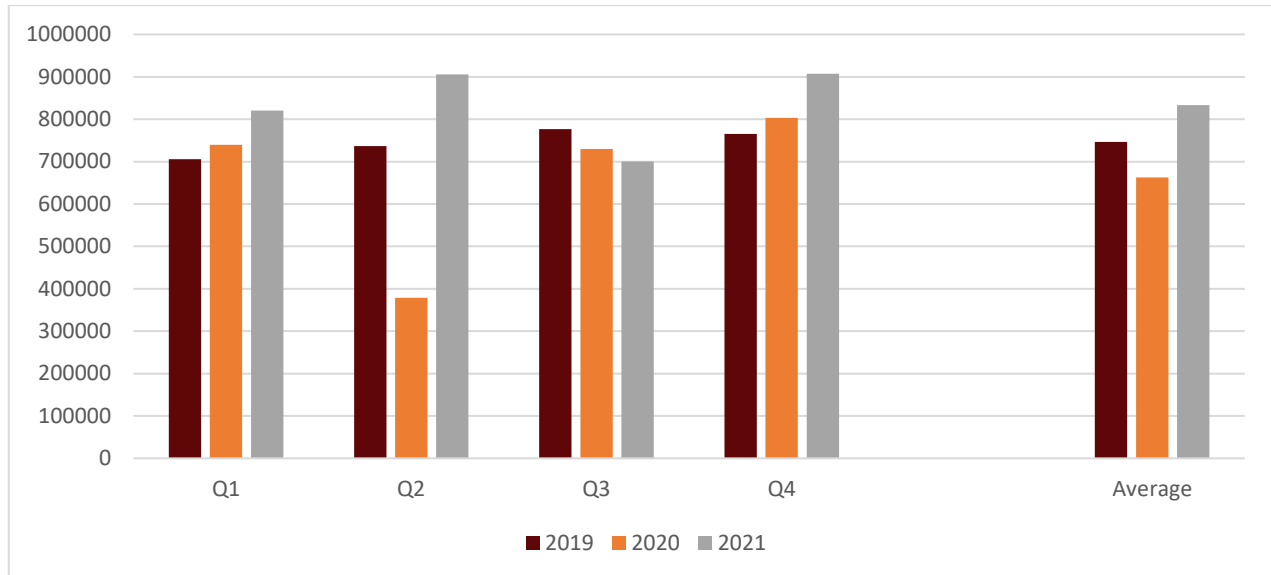
Figure 11: Ease of Doing Business Score²⁷



On average, more people started a business in 2021 than in previous years, exceeding 2019 levels. This was true for all quarters in 2021, with the largest difference being in quarter 2.

²⁷ World Bank Group, *Doing Business 2020*, 2020 <<https://doi.org/10.1596/978-1-4648-1440-2>>.

Figure 12: Number of people who started a business, by quarter²⁸



2.2 A Description of the Small Business Sector in South Africa

Company registrations declined last year compared to the 2018/19 financial year. Company registrations declined by a little over 2,5% while co-operative registrations increased by 2%.

²⁸ Own calculations using QLFS

Figure 13: Companies and co-operatives registrations 2019/20²⁹

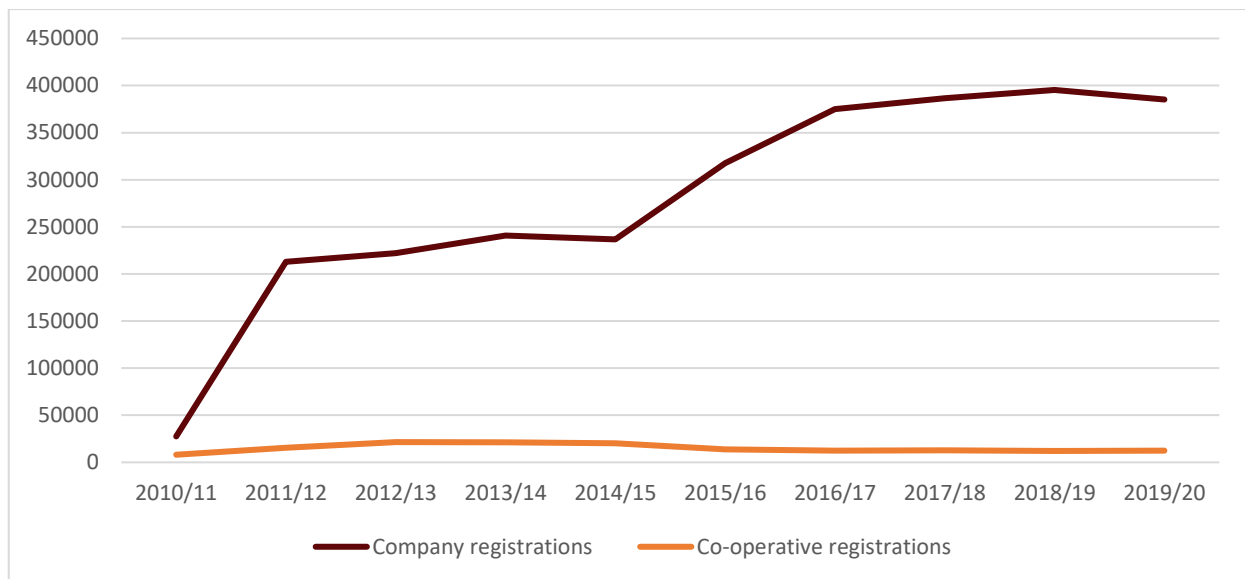
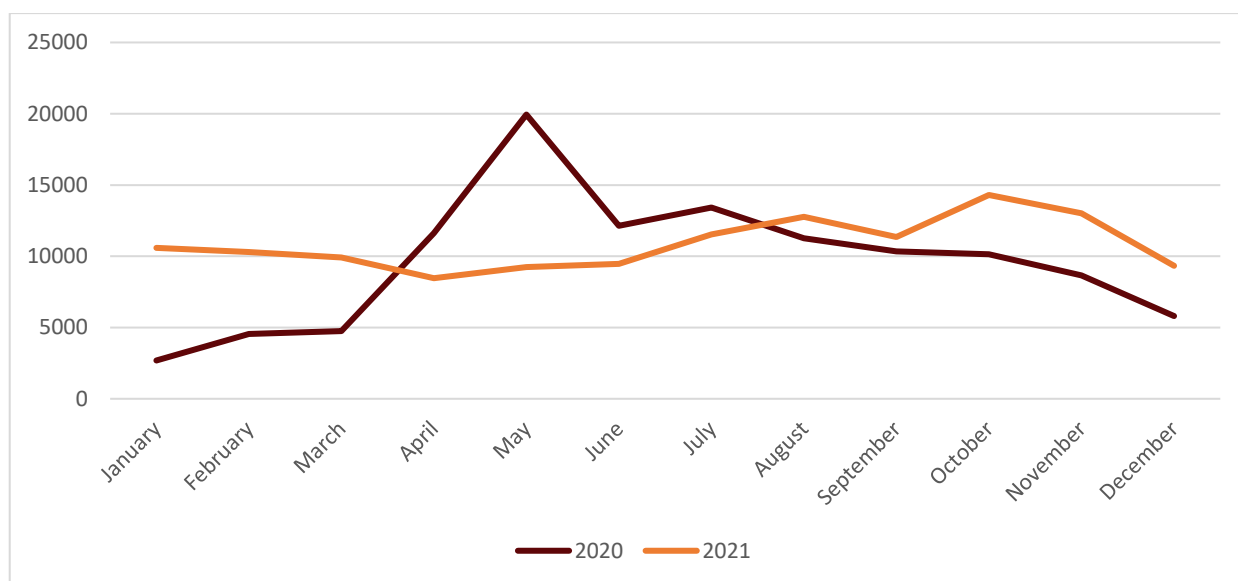


Figure 14 shows the month-by-month number of business registrations for 2020 and 2021, as reported by the CIPC. Unfortunately, no data is available on a monthly basis prior to 2020, which makes a comparison of pre-COVID times impossible. However, we do see that business registrations peaked in the early stages of COVID-19, when lockdown measures were strong. 2021 saw far more stable business registrations across months, although these were still higher than pre-COVID times.

²⁹ Source: CIPC

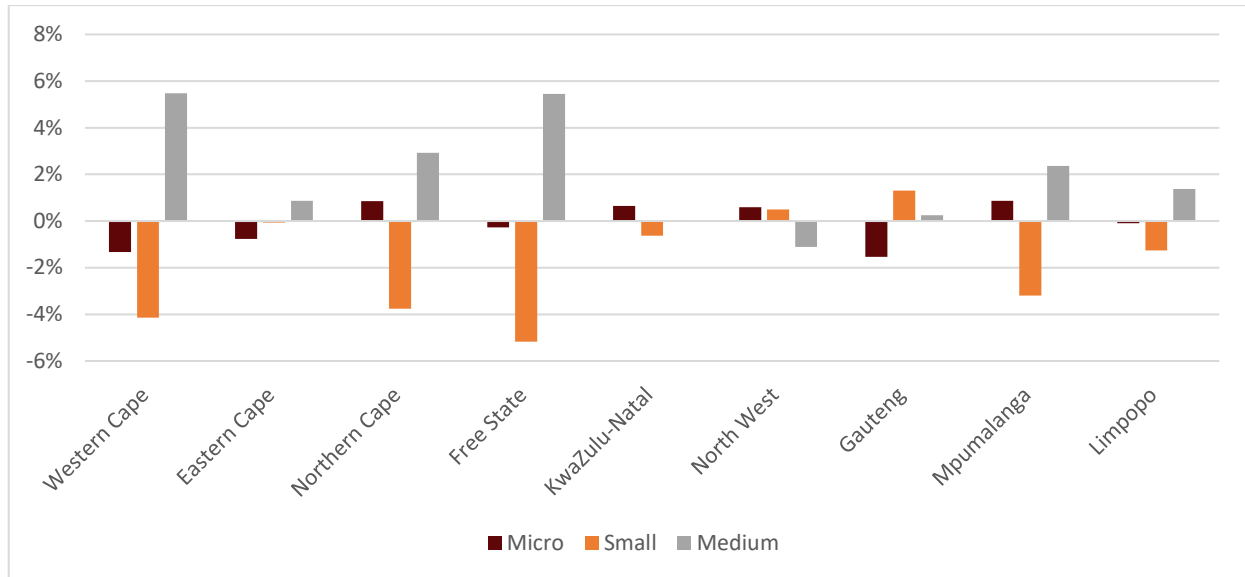
Figure 14: Comparison of business registrations by month, 2020 and 2021³⁰



In almost all provinces, the number of medium-sized enterprises grew relative to small and micro enterprises. The exception was in the North-West, where medium-sized enterprises saw a decline in their overall share of SMMEs in the province.

³⁰ Source: CIPC

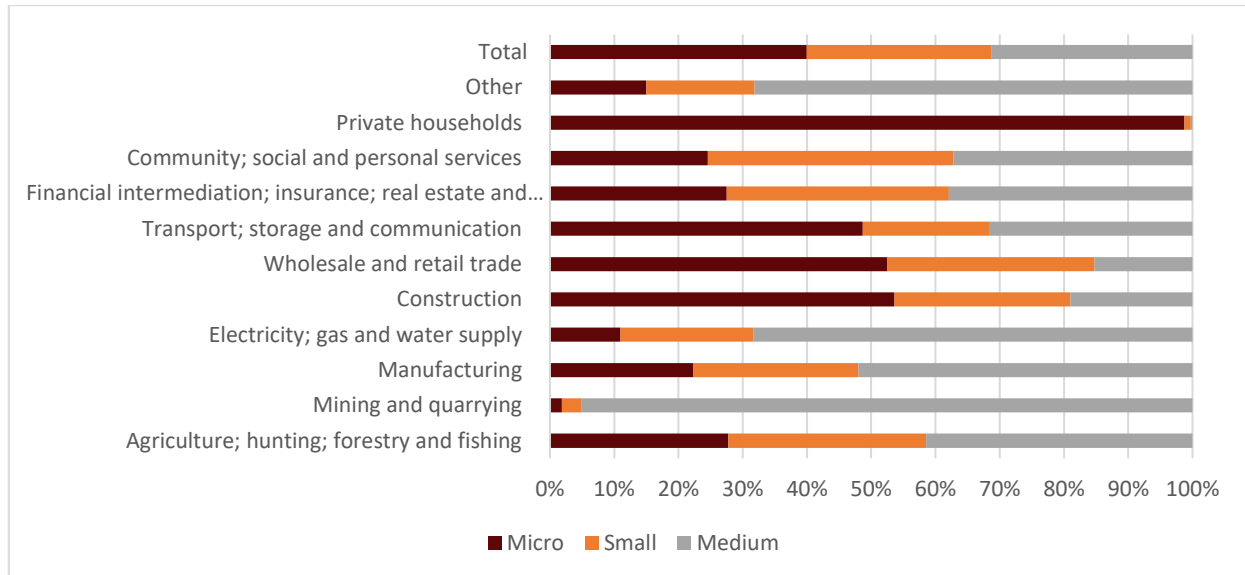
Figure 15: Changes in the distribution of enterprise size, by province³¹



No significant shifts have been observed in the composition of the small business sector when analysing the data by industry.

³¹ Source: own calculations using QLFS

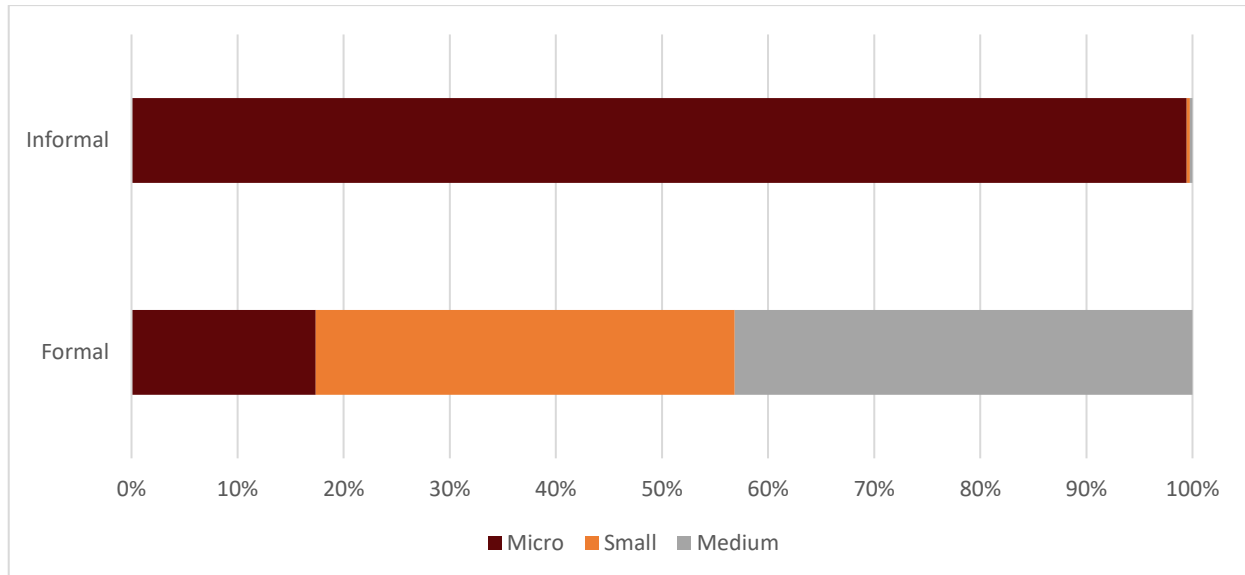
Figure 16: Distribution of enterprise size, by industry (2021)³²



No significant changes were noted in the distribution of enterprises by sector, with the informal sector increasing very slightly (0,03%) in 2021 as compared to 2022.

³² Source: own calculations using QLFS

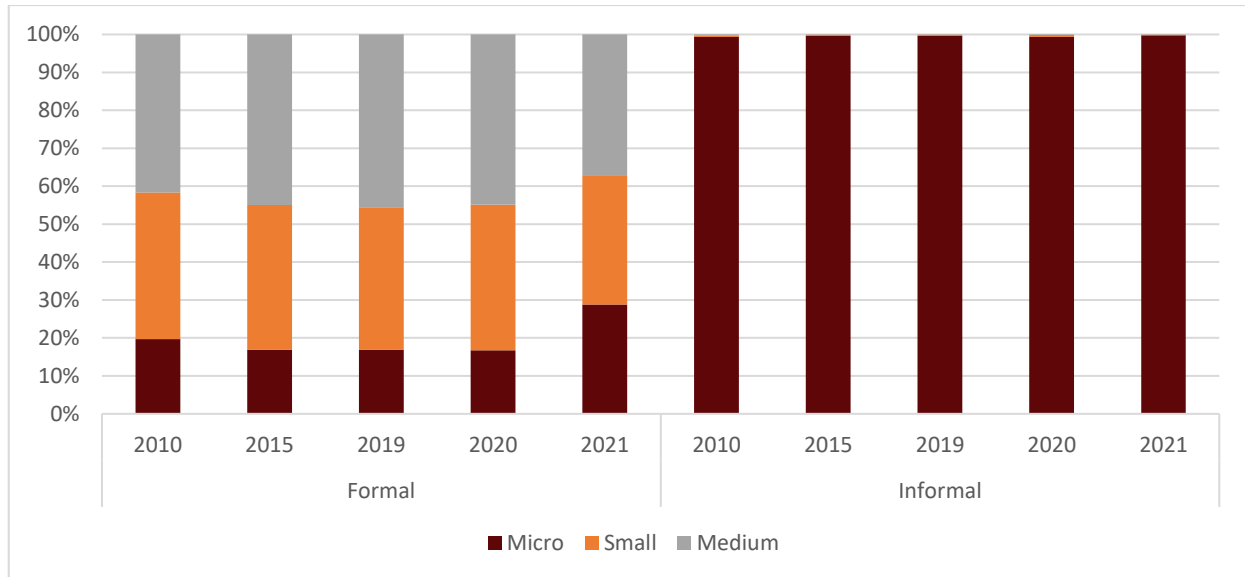
Figure 17: Distribution of enterprise size, by sector (2021)³³



The share of medium and large enterprises in the formal sector has decreased in the past year, with that shift being driven largely by an increase in micro enterprises in the formal sector.

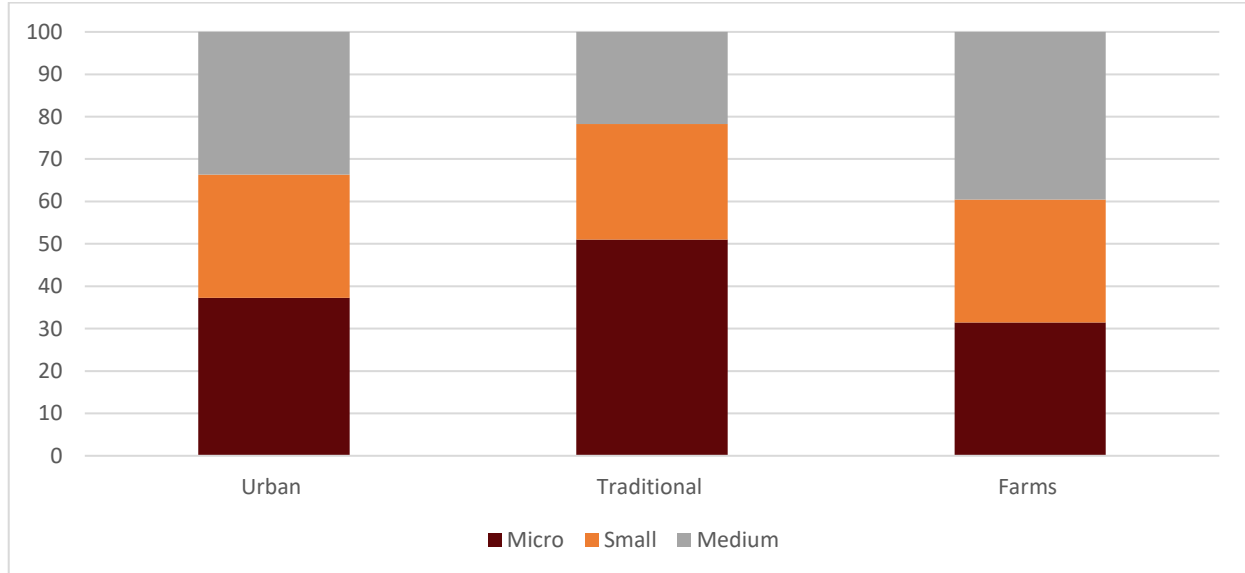
³³ Source: own calculations using QLFS

Figure 18: Distribution of enterprise size across sectors over time³⁴



No significant changes have occurred in the distribution of enterprise size by geography type.

Figure 19: Distribution of enterprise size across geography type (2021)³⁵

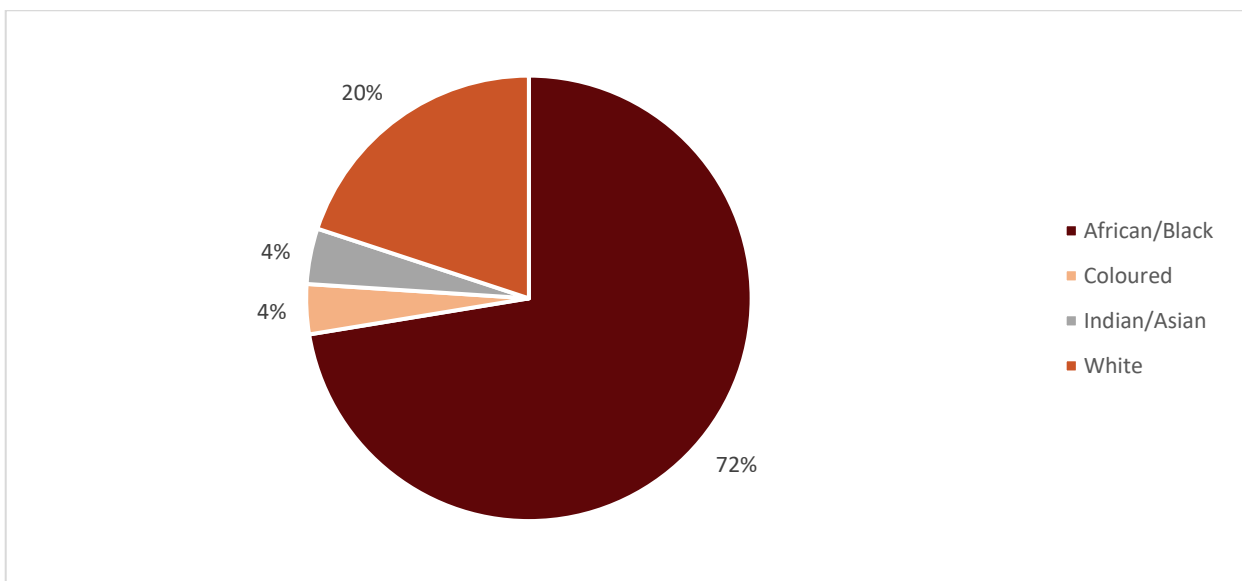


³⁴ Source: own calculations using QLFS

³⁵ Source: own calculations using QLFS

There has been a decrease in the portion of SMME owners that are Black African over the past year (from 76% to 72%), with this being driven primarily by an increase in the portion of business owners that are white.

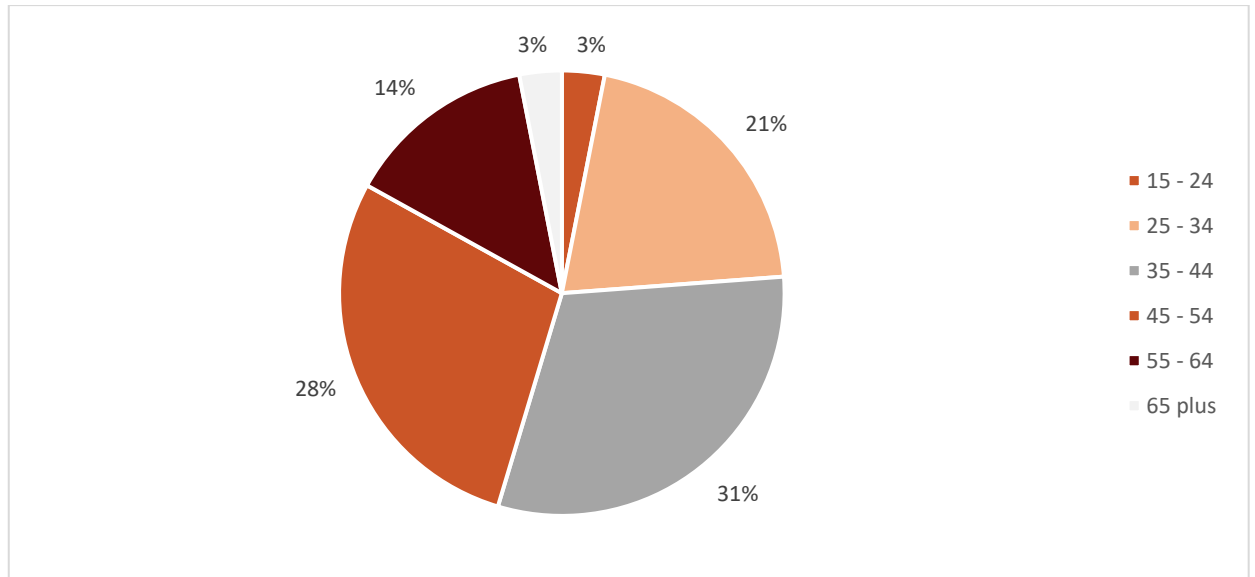
Figure 20: Business owners by population group (2021)³⁶



2021 saw a slight decrease (percentage) in the youth as business owners, driven predominantly by those over 65 starting their own businesses.

³⁶ Source: own calculations using QLFS

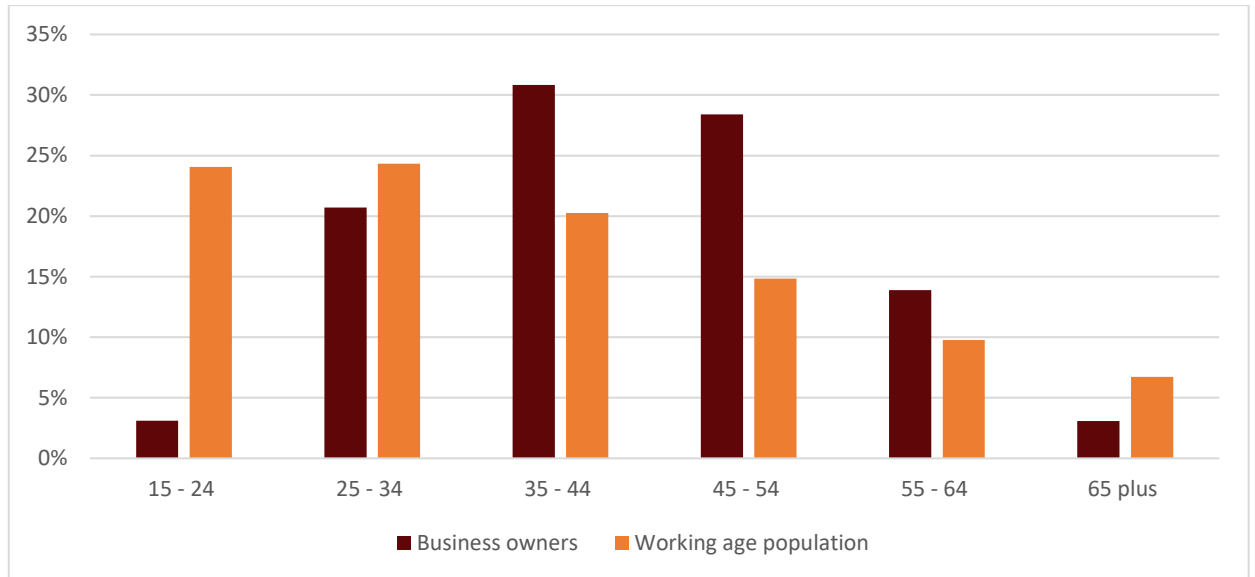
Figure 21: Business owners by age category (2021)³⁷



As in previous years, youth as business owners are not distributed according to the working age population, with more business owners being aged between 35 and 64.

³⁷ Source: own calculations using QLFS

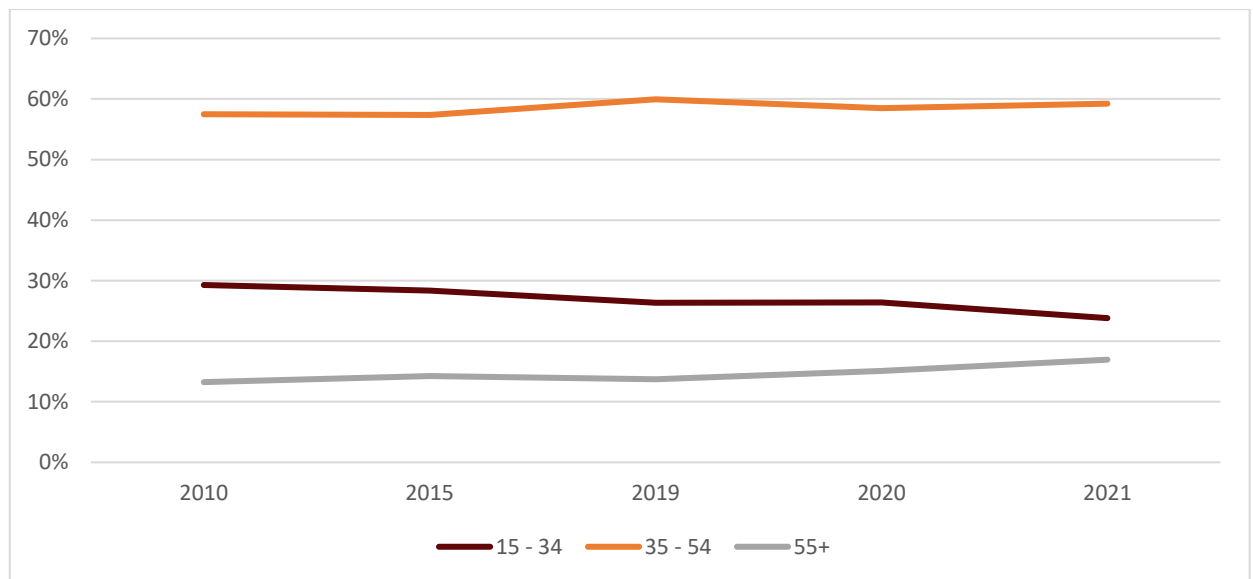
Figure 22: Age distribution of Business Owners Relative to the Working Age Population (2021)³⁸



Between 2020 and 2021, we see a 2-percentage point decrease in the youth as business owners, with an increase in older cohorts (55+).

³⁸ Source: own calculations using QLFS

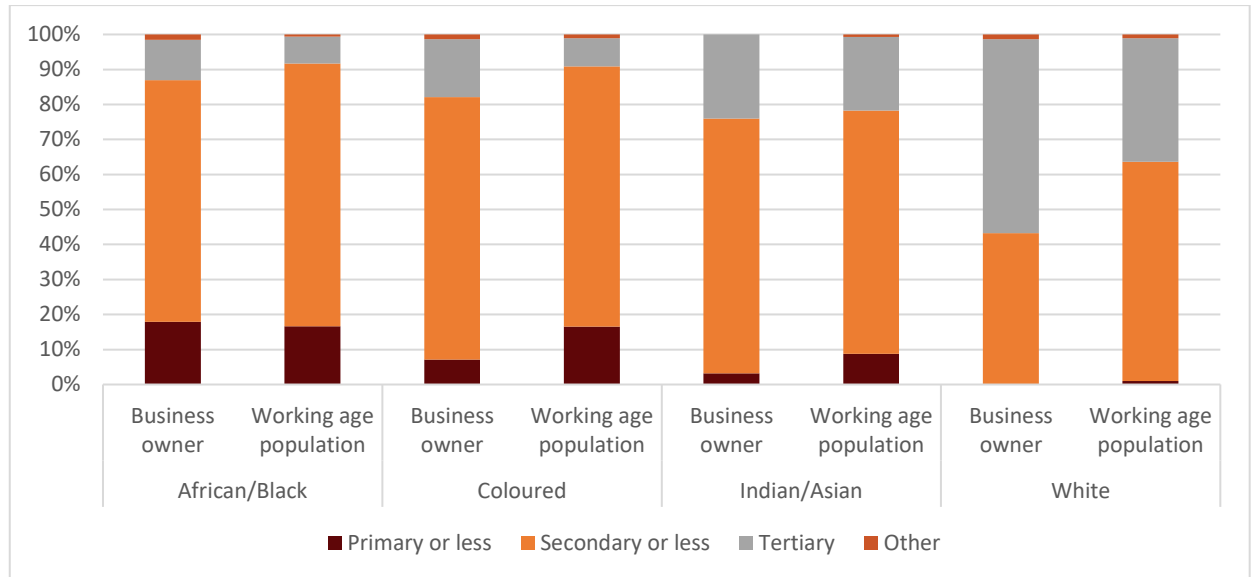
Figure 23: The youth as business owners over time³⁹



No significant changes in the distribution of education between the working-age population and population by population group. The data still shows significant disparities by population group that are unchanged from previous years.

³⁹ Source: own calculations using QLFS

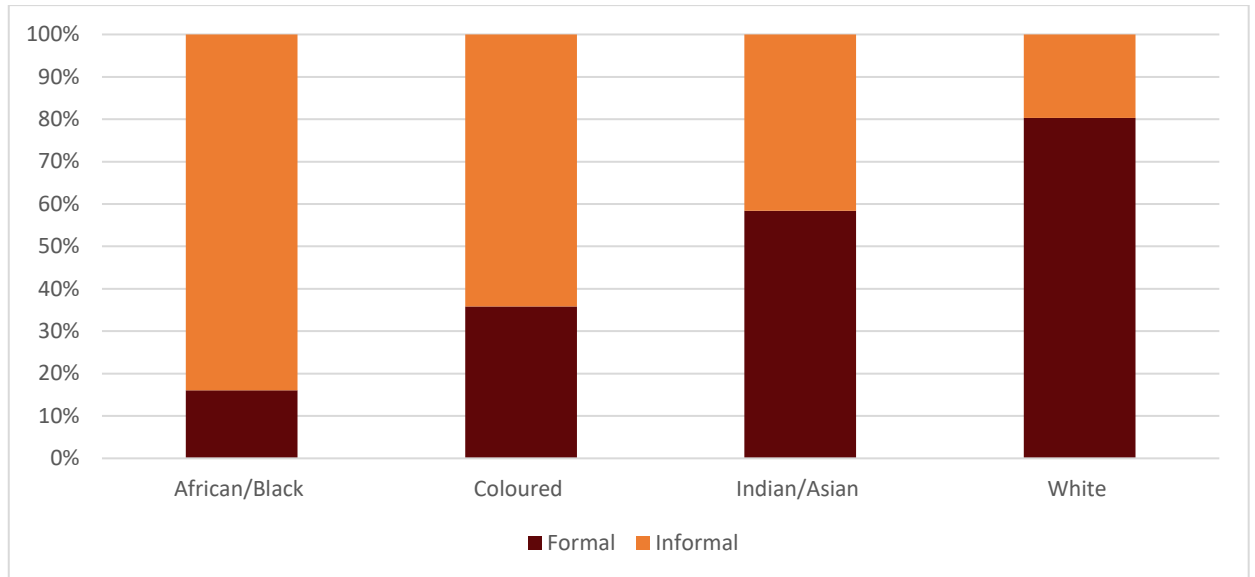
Figure 24: Education Distribution of Business Owners by Population Group⁴⁰



There has been no change in the sectoral contribution of business owners by population group since last year.

⁴⁰ Source: own calculations using QLFS

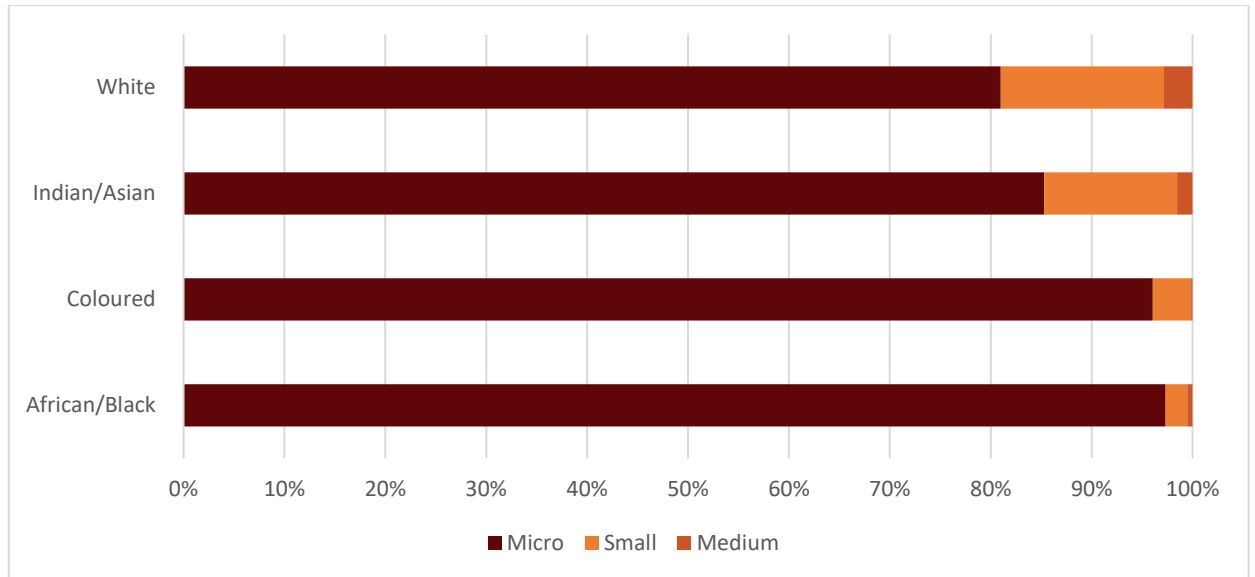
Figure 25: Sector Distribution of Business Owners by Population Group⁴¹



There has been no change in the size distribution of enterprises by population group since 2020.

⁴¹ Source: own calculations using QLFS

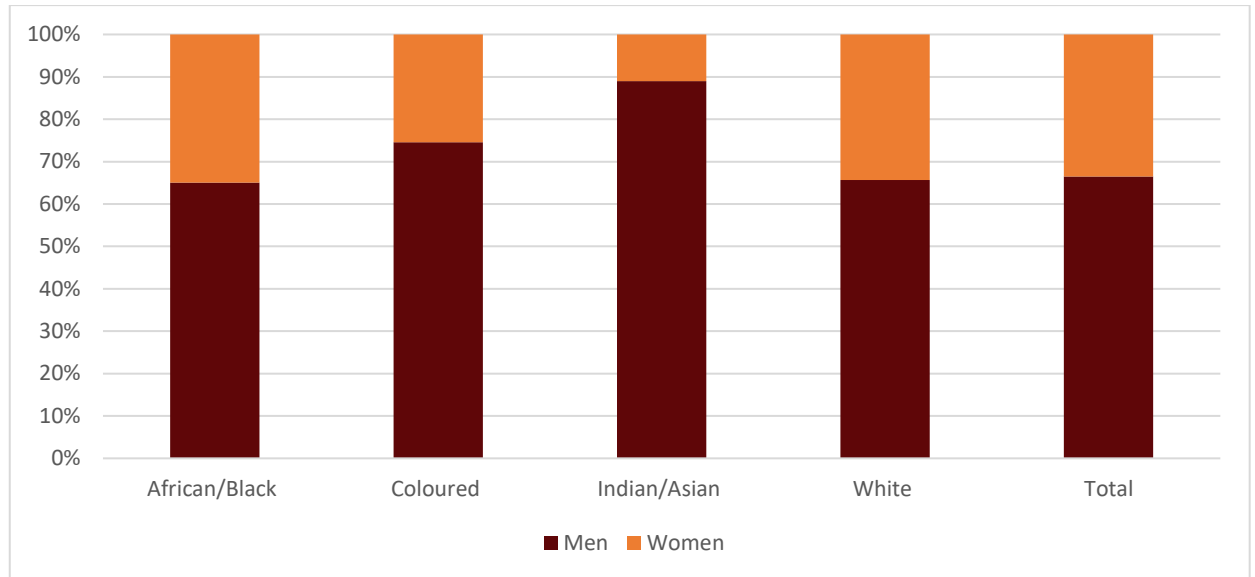
Figure 26: Enterprise size distribution by population group (2021)⁴²



No significant changes in gender distribution of business owners by population group were noted since last year, except that women make up a slightly larger percentage of white business owners than they did in previous years.

⁴² Source: own calculations using QLFS

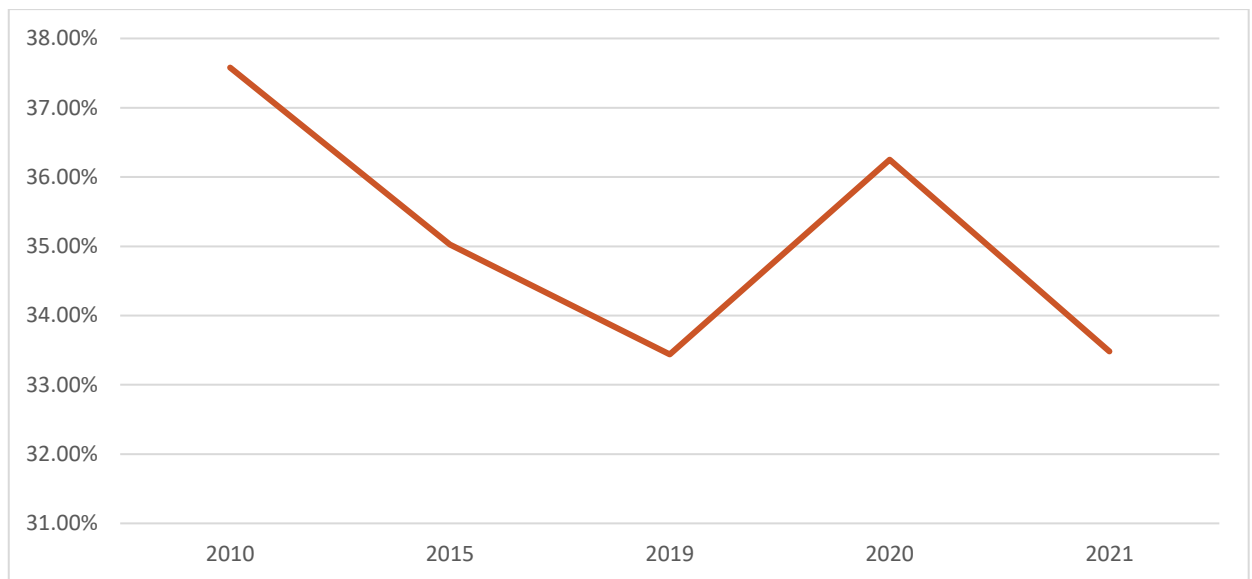
Figure 27: Gender distribution of business owners by population group (2021)⁴³



The percentage of women as business owners declined again from 2020 to 2021, which further emphasizes the importance of the Special Interest Case Study, discussed below.

⁴³ Source: own calculations using QLFS

Figure 28: Percentage of business owners that are women over time⁴⁴



Section 3: Experiences of South African SMMEs and co-operatives

Over the past decade, research has shown that the challenges faced by SMMEs and co-operatives in South Africa have remained relatively consistent⁴⁵. These challenges have, historically, been access to finance, access to markets, a lack of skills and struggling to find skilled staff, burdensome regulation and low levels of digital literacy. This section considers the experience of South African SMMEs and co-operatives, considering both the historical challenges faced by small businesses and their current experiences and challenges.

⁴⁴ Source: own calculations using QLFS

⁴⁵ Angus Bowmaker-Falconer and Mike Herrington, *Igniting Startups for Economic Growth and Social Change: South Africa 2020*, 2020.

3.1. The historical challenges faced by small businesses in South Africa

Table 4 shows the most frequently reported challenges experienced by SMMEs and co-operatives in the country, as established by the 2022 survey conducted for this research. While access to finance remains one of the biggest challenges experienced by small businesses, with 63,62% of enterprises reporting this as a challenge, new challenges have risen to the surface in 2022. Most notably, managing cash flow (65,76%) and marketing (59,34%) are among the top three most frequently reported challenges.

Table 4: Most frequently reported challenges, by enterprise size (2022)⁴⁶

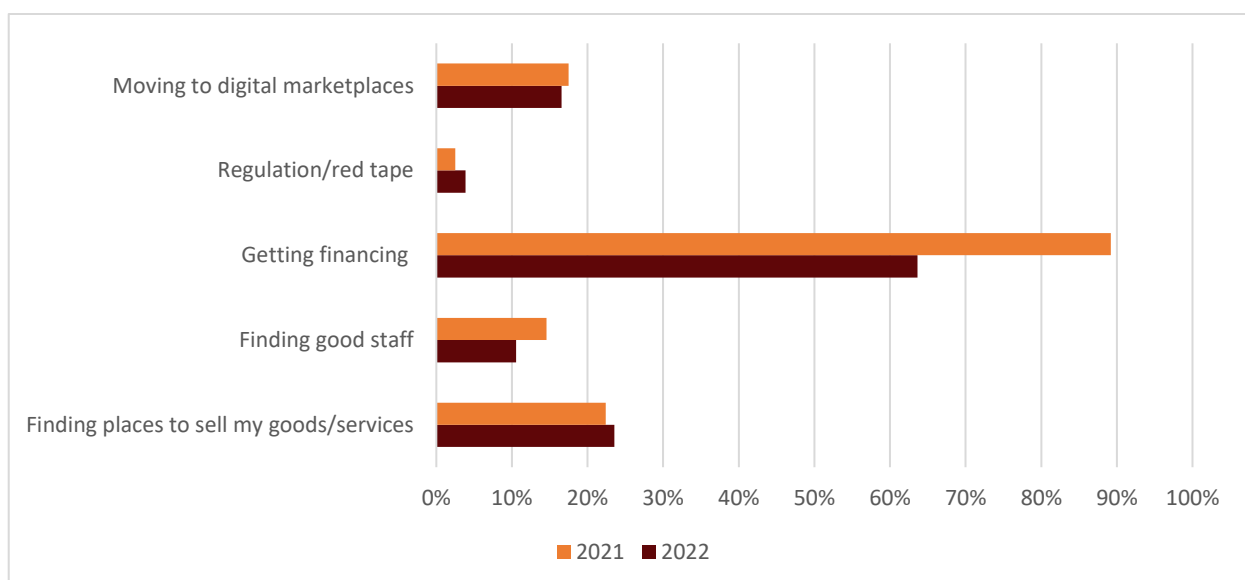
	Co- operative	Medium	Micro	Small	Total
Managing cash flow	67,74%	68,18%	65,69%	63,89%	65,76%
Getting financing	61,29%	59,09%	63,30%	69,44%	63,62%
Finding equipment	46,77%	54,55%	42,20%	37,50%	42,51%
Finding suitable/affordable business premises	12,90%	22,73%	24,77%	18,06%	22,97%
Managing business operations	29,03%	31,82%	37,25%	36,11%	36,23%
Finding places to sell my goods/services	14,52%	18,18%	25,32%	19,44%	23,54%
Paying utility bills	22,58%	27,27%	32,84%	31,94%	31,67%
Cost of storage facilities	20,97%	22,73%	25,87%	19,44%	24,68%
Crime	35,48%	36,36%	33,21%	38,89%	34,09%
Marketing my business	48,39%	63,64%	61,47%	51,39%	59,34%

While the decrease in importance placed on historical challenges does not mean that they have been entirely resolved, it is positive that there has been a significant decline in the number of businesses that report struggling with these challenges.

⁴⁶ Source: primary research survey

Figure 29 shows a comparison of the percentage of small businesses that report struggling with each of the historical challenges. The data is taken from the survey conducted for this research and compares responses from 2021 and 2022. What the figure shows is that reports of struggling with many of the historical challenges had already decreased in 2021, with most of these challenges being reported by less than 20% of the respondents in our survey. In all cases except for access to markets, the reported struggles with these challenges further decreased from 2021 to 2022.

Figure 29: A comparison of the historical challenges faced, 2021 and 2022⁴⁷



While small businesses may not be reporting struggling with the above-mentioned historical challenges, they remain areas of concern for policymakers and regulators. Table 5, for instance, shows that South Africa has continued to perform poorly in terms of its digital literacy and competitiveness⁴⁸. The table shows South Africa's ranking out of a total of 63 countries on various measures of digital competitiveness⁴⁹. Table 6 shows the ways in which this is shown in the small

⁴⁷ Source: primary research survey

⁴⁸ IMD World Competitiveness Online, 'Digital Competitiveness Ranking: South Africa', 2020
<<https://worldcompetitiveness.imd.org/countryprofile/ZA/digital>>.

⁴⁹ IMD World Competitiveness Online.

business context in particular, showing the reported usage of various digital technologies by SMMEs and co-operatives.

Table 5: Digital Competitiveness Ranking out of 63 (South Africa), 2016 to 2022⁵⁰

	2016	2017	2018	2019	2020	2021	2022
Overall Rank	51	47	49	48	60	60	58
Knowledge	49	49	52	54	60	60	54
Technology	51	53	52	51	55	59	58
Future readiness	47	42	43	44	57	59	59

Some of these measures have drastically improved over the past year. Most notably, usage of a business bank account and digital marketing, which increased by 39,11 and 30,32 percentage points respectively. Almost all other technologies also saw an increase in usage, showing an impressive shift in the way that SMMEs and co-operatives use – and plan to use – these technologies. It is possible that this increase in usage of digital technologies has meant that fewer businesses find it to be a challenge worth reporting.

Table 6: Reported usage of digital technologies, by enterprise size, 2021 and 2022⁵¹

	Co-operative	Medium	Micro	Small	Total 2022	Total 2021
A business bank account	74,19%	72,73%	61,10%	68,06%	63,34%	24,23%
Cloud-based storage	1,61%	4,55%	2,39%	2,78%	2,43%	1,40%
Delivery service for our products	30,65%	27,27%	32,29%	30,56%	31,81%	9,24%
Digital marketing	35,48%	50,00%	42,75%	37,50%	41,80%	11,48%
E-commerce platforms	8,06%	9,09%	3,49%	5,56%	4,28%	1,54%
Point of sales system	8,06%	9,09%	7,34%	9,72%	7,70%	3,64%

⁵⁰ IMD World Competitiveness Online.

⁵¹ Source: primary research survey

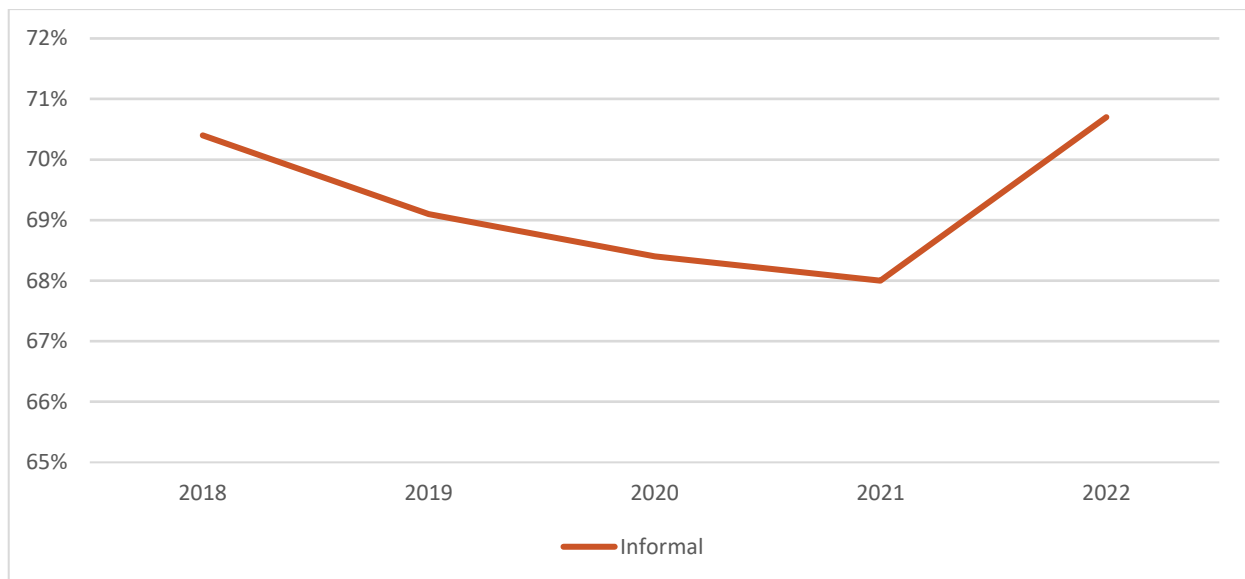
Software for booking keeping	14,52%	18,18%	6,61%	9,72%	7,99%	6,58%
Technology-enabled payment system for suppliers	17,74%	13,64%	9,36%	8,33%	10,13%	10,64%

The World Bank's *Doing Business Report*⁵² noted that taxes and regulation in South Africa has eased over the past few years, which may explain the decrease in the number of small businesses reporting this as a significant challenge. Other potential explanations would be if the small business sector in South Africa was seeing significant shifts towards informality, in which case the regulatory burdens in the country would have no significant impact on SMMEs.

Figure 30 illustrates the percentage of South African businesses that operate in the informal sector over time. We can see that there was a slight but steady decrease in informality over time, up until 2022 which saw a sudden rise. This sudden rise may simply be an outlier or may be driven by the recovering economy after the pandemic, wherein more individuals may have started new businesses but not yet registered. Regardless of the reason for the spike, the current pattern suggests that the decline in struggling with regulation is not driven by an increase in informality.

⁵² World Bank Group, *Doing Business 2020*.

Figure 30: Percentage of SMMEs that are informal over time, 2018 to 2022⁵³



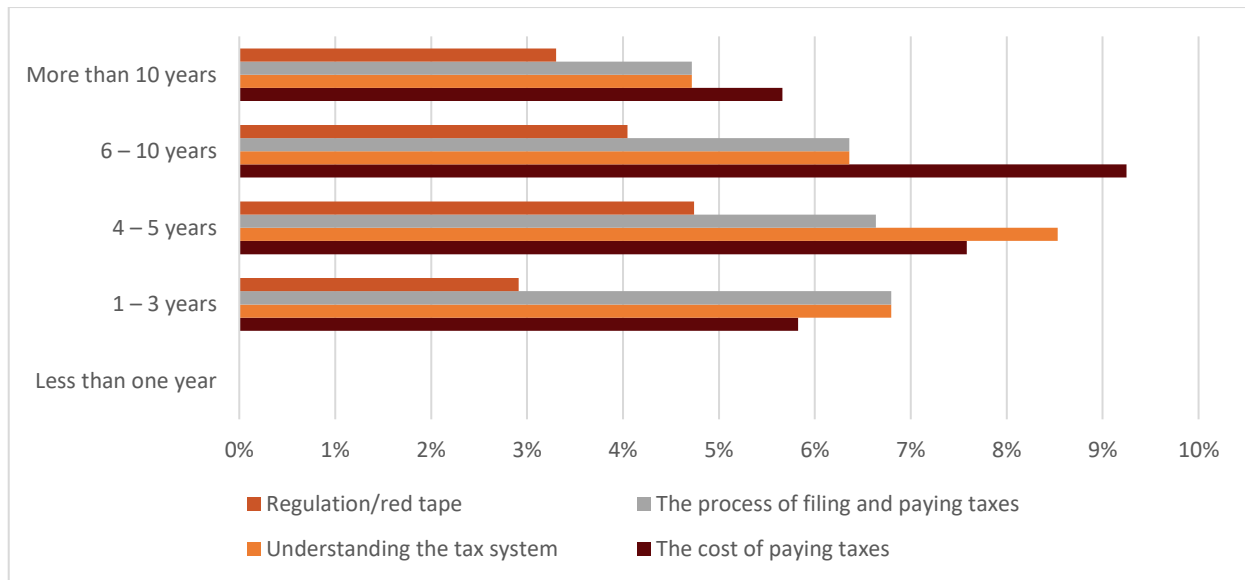
Another potential explanation for small businesses no longer reporting regulation and red tape as a particular challenge could be related to the age of the business. One would expect very young businesses to have limited regulatory requirements, with these increasing as the business grows. Increases in revenue and number of people employed would likely result in more complex taxation and labour law burdens, and these are likely to occur more frequently among older and larger businesses. In a similar vein, as businesses mature and learn, these challenges should reduce again when they have learned the skills – or hired the staff – necessary to navigate these challenges.

Figure 31 illustrates the percentage of businesses who report struggling with taxation and regulation for different enterprise ages. The figure shows that very young businesses do not report struggling with these regulatory burdens, with businesses reporting these struggles more frequently as the enterprise ages. The percentage of businesses who report struggling with these challenges then decreases again, when businesses have been in operation for more than ten years. For regulation in particular, businesses that have been in operation for 4 to 5 years report

⁵³ Source: Own calculations using QLFS

struggling with this the most, after which we see a decrease in the percentage of businesses reporting struggling with this challenge.

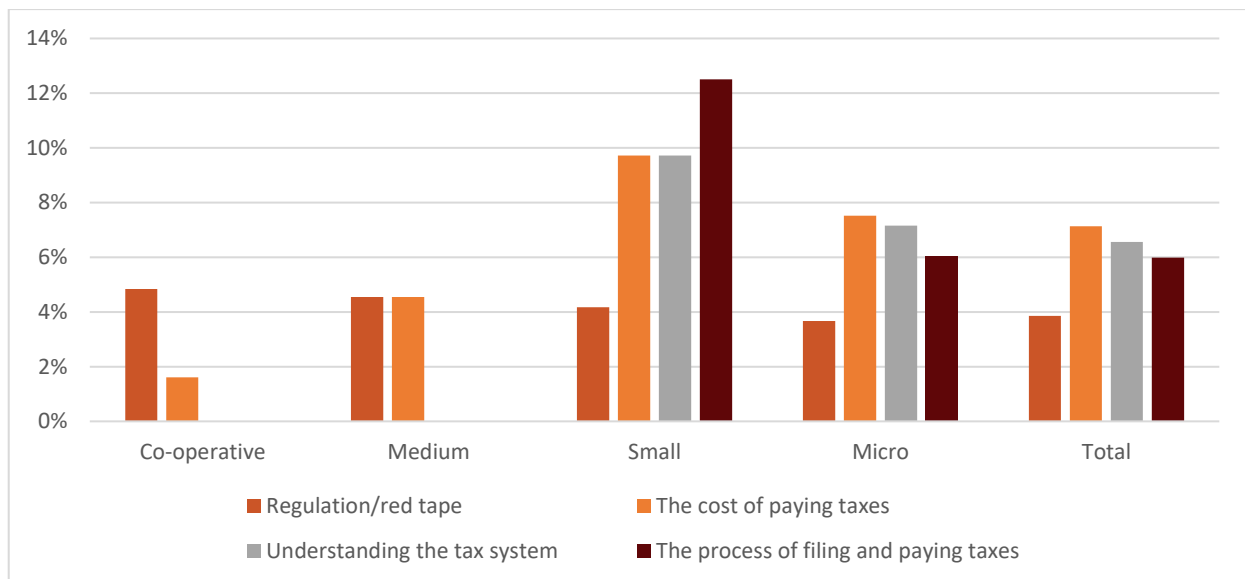
Figure 31: Struggling with regulation and taxes, by enterprise age (2022)⁵⁴



This hypothesis is further supported by Figure 32, below, which shows that micro enterprises are less likely to report struggling with regulation than small enterprises are, and that the reported incidence of struggling with regulation and taxes decreases again for medium enterprises.

⁵⁴ Source: primary research survey

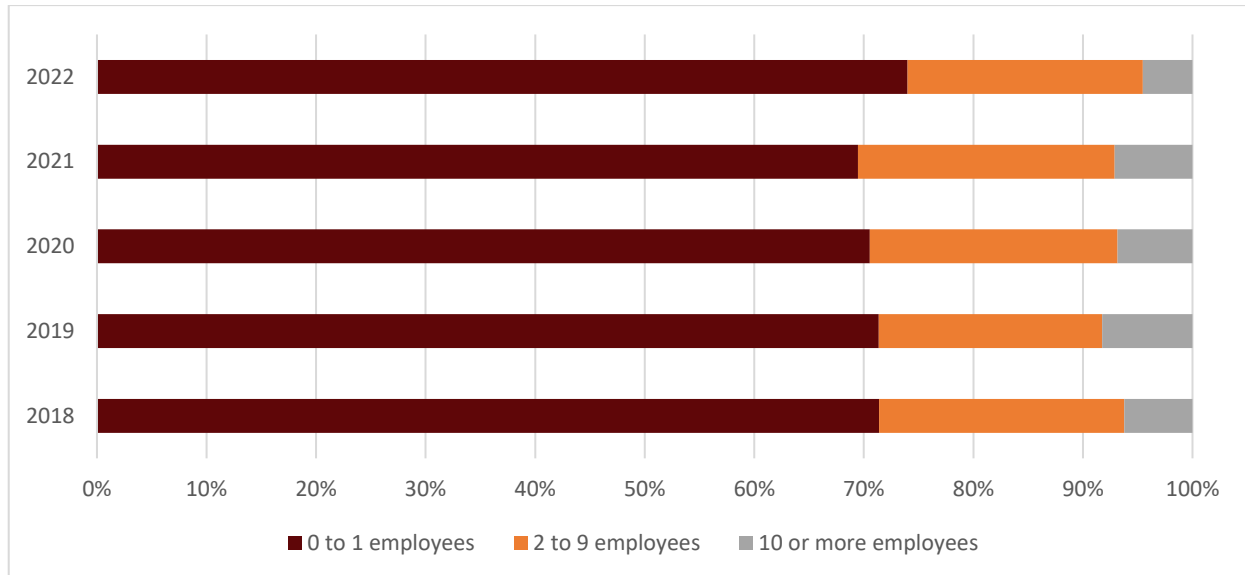
Figure 32: Regulation and taxes as reported challenges, by enterprise size (2022)⁵⁵



Next, we consider why a lack of skilled staff may have become less of a challenge to small businesses over time. The two most likely explanations for this are that the skill level of staff have improved or that the number of people employed by small businesses has decreased over time. Figure 33 shows the distribution of the number of people employed by small businesses over time. Although we see a slight shift towards a lower number of employees (less than 10), this change is statistically insignificant and is unlikely to explain the decrease in reported struggles with finding skilled staff.

⁵⁵ Source: primary research survey

Figure 33: Number of employees by small businesses over time, 2018 to 2022⁵⁶



With regards to the reduction in reported struggles with access to markets, there is no available literature to draw on to understand what may have improved this outcome for small businesses in the country. Table 6 showed that, although there has been an increase in the number of businesses that make use of e-commerce platforms to sell their goods and services, the reported usage of these platforms remains very low (4,28%). Our survey data also showed that only 3,14% of respondents exported goods or services, a very small increase from 2021 where 2,94% of respondents reported exporting goods and services.

The fact that access to markets has improved for SMMEs and co-operatives over the past few years is a hugely positive outcome for the small business sector in the country. Given that we are unable to establish the cause of the change, it may be valuable to investigate this topic further. Understanding what has changed in the sector to improve access to markets may allow us to draw on this success to further improve outcomes for the sector in the country.

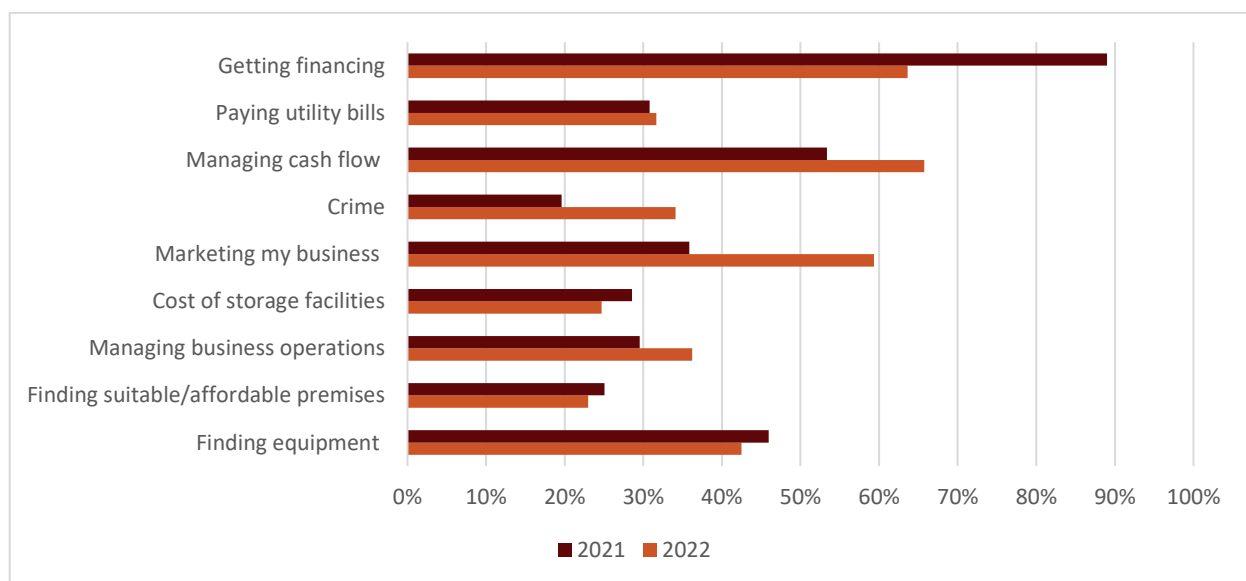
⁵⁶ Source: own calculations using QLFS

3.2. The current experience of SMMEs and co-operatives

While the historical challenges faced by SMMEs and co-operatives appear to have improved over recent years, this does not mean that small businesses are free from challenges entirely. Instead, new challenges have become more salient for these businesses, with these challenges requiring new approaches and considerations for improvement.

Table 4 showed the percentage of small businesses that reported struggling with a variety of challenges in the survey conducted for this research. From this table, we are able to identify the most common challenges currently experienced by small businesses in the country. These are paying utility bills, managing cash flow, crime, marketing, storage facilities, managing operations, finding premises and finding equipment. Among this list, managing cash flow, marketing and finding equipment are the three most prevalent challenges reported.

Figure 34: Comparison of current challenges faced, 2021 and 2022⁵⁷



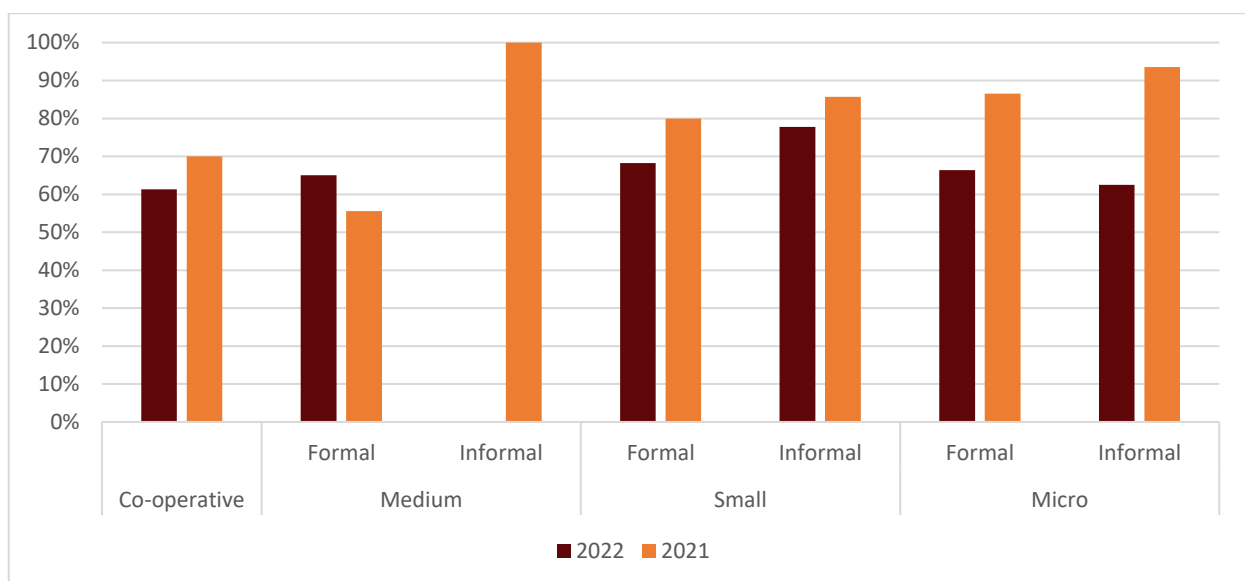
⁵⁷ Source: primary research survey

Figure 34 compares the incidence of these challenges being reported between 2021 and 2022. We see that reports of struggling with utility bills, cash flow, crime, marketing and managing operations have all increased over the past year, with managing cash flow, marketing and crime showing the highest increases (24,5%,63,9% and 70%, increase respectively).

3.2.1 Access to finance

Figure 35 illustrates the percentage of enterprises that report struggling with access to finance, disaggregated by enterprise size and formality. It compares the percentage of small businesses who reported access to finance as a challenge in our 2021 survey compared to our 2022 survey, and we see an overall decrease in the percentage of enterprises that report this as a challenge.

Figure 35: Comparison of getting financing as a reported struggle, by enterprise size and sector (2021 and 2022)⁵⁸



Small and micro enterprises were the most likely to report struggling with access to finance, and informal enterprises were more likely to report this as a challenge than formal enterprises. This echoes the pattern found in 2021, although the challenge appears to have decreased for all

⁵⁸ Source: primary research survey

enterprises, regardless of size and sector. As with the 2021 survey, size, gender and age did not have statistically significant relationships with access to finance.

3.2.2 Paying utility bills

Figure 36 shows a comparison of the percentage of enterprises that reported struggling with paying utility bills in 2021 and 2022. Although this did not feature as a significant challenge experienced in the 2021 research, the total percentage of businesses reporting this as a challenge did not significantly increase over the past year.

It is not surprising that such a large percentage of enterprises (32%) report struggling with utility bills: 2021 saw one of the biggest increases in electricity prices in the history of SA, with a 15,6% increase on 1 April 2021⁵⁹. July 2022 saw another large increase of 7,47%⁶⁰. In fact, Business Insider⁶¹ reports that electricity prices have increased 177% in the last ten years and the cost of water has increased by 213% since 2010, all of which are above the consumer price index inflation which increased by 68% in the same time period.

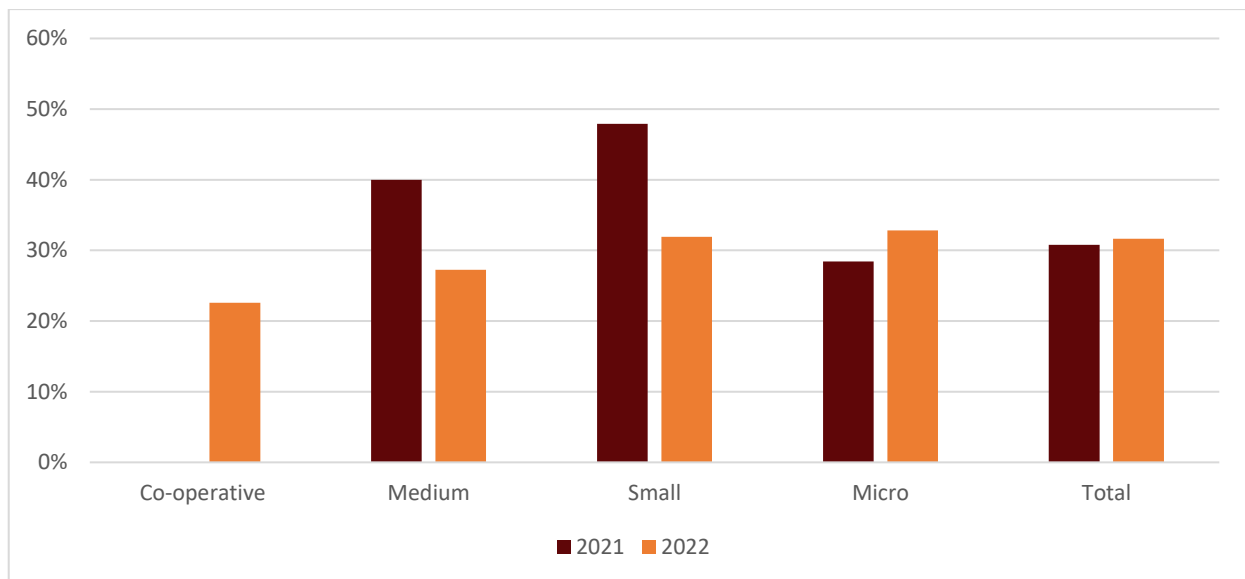
While larger enterprises are 7% more likely to report struggling to pay utility bills than micro and small enterprises, this does not mean that small and informal enterprises are not faced with the same challenge. In fact, those operating in townships are 5% more likely to report struggling with paying utility bills than those operating in city centres, although this relationship is not statistically significant.

⁵⁹ 'Another Electricity Price Hike to Hit South Africa from July', *BusinessTech*, 2022 <<https://businesstech.co.za/news/energy/580002/another-electricity-price-hike-to-hit-south-africa-from-july/>> [accessed 26 November 2022].

⁶⁰ 'Another Electricity Price Hike to Hit South Africa from July'.

⁶¹ 'Electricity Is Now 177% More Expensive than 10 Years Ago – but Water Is up Far More than That', *Business Insider South Africa*, 2020 <<https://www.businessinsider.co.za/water-prices-have-increased-massively-in-south-africa-over-the-last-decade-the-reserve-bank-says-2020-10>> [accessed 26 November 2022].

Figure 36: Comparison of paying utility bills as a reported challenge, by enterprise size (2021 and 2022)⁶²



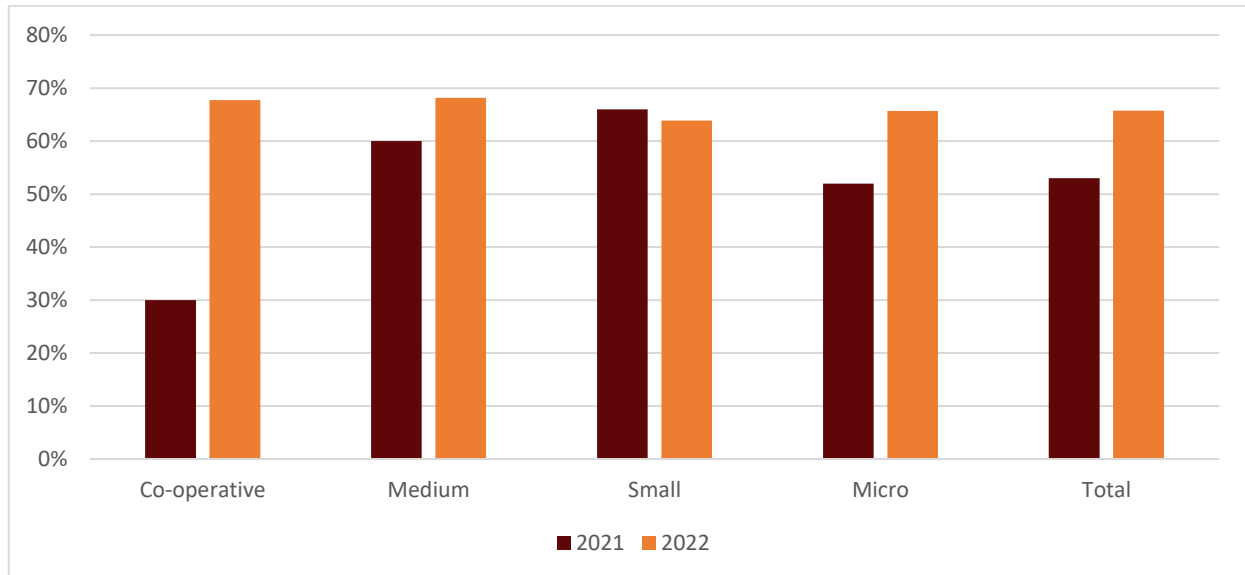
3.2.3 Managing cash flow

Figure 37 shows the percentage of enterprises that reported struggling with managing cashflow in 2021 and 2022. There was a 24,5% increase in the total number of businesses that reported struggling with this challenge in 2022 compared to 2021. The largest change in reporting was for co-operatives, where nearly 70% of co-operatives reported struggling with this challenge in 2022, compared to 30% in 2021. Despite this large change, there was no statistically significant difference in the reported struggle with managing cash flow between co-operatives and other enterprises.

Those operating in townships are 12% more likely to report struggling with cashflow than those operating in urban centres or rural areas, and medium enterprises are slightly more likely to report the same. Women and the youth are 4% more likely to report struggling with cashflow than their male and older counterparts but these relationships are not statistically significant.

⁶² Source: primary research survey

Figure 37: Comparison of managing cashflow as a reported challenge, by enterprise size (2021 and 2022)⁶³



3.2.4 Crime

Figure 38 shows the change in reported struggles with crime between 2021 and 2022, as reported in our survey data. Overall, there has been a 70% increase in the number of enterprises reporting struggling with crime between our 2021 survey and the 2022 survey period. This increase was highest for medium enterprises, although small enterprises reported this challenge the most frequently.

The sudden increase in crime as a reported challenge can likely be explained by the fact that the country was under various stages of lockdown in 2021, which decreased the incidence of crime in the country overall⁶⁴. Although that would explain the particularly large increase, it is worth noting that 2022 has seen particularly high crime rates in the country, with violent crimes being especially high⁶⁵.

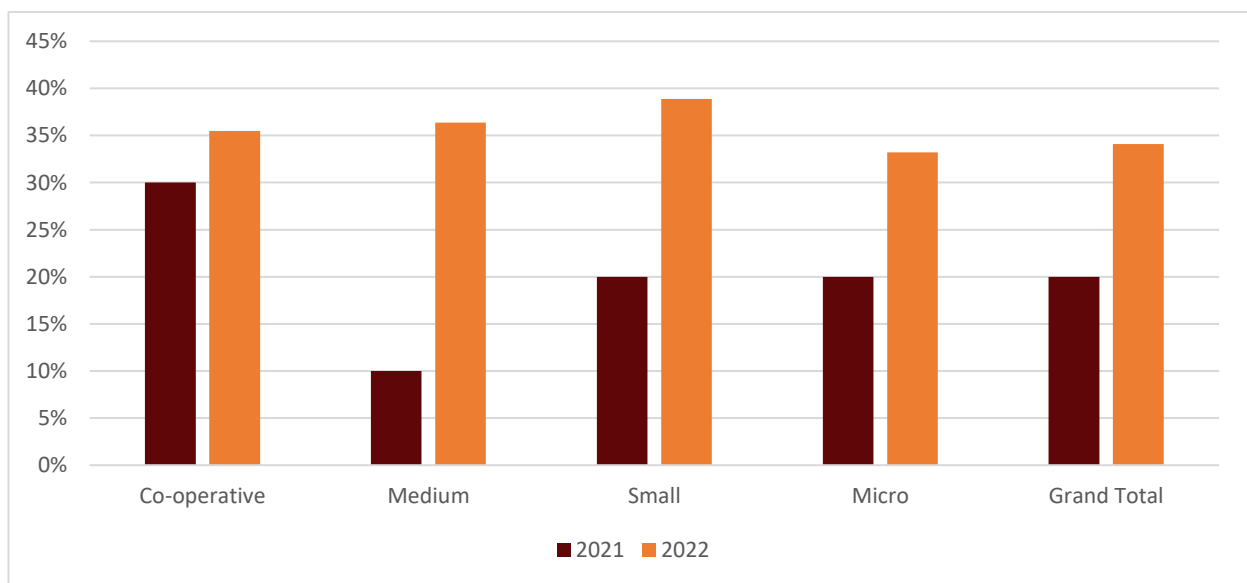
⁶³ Source: primary research survey

⁶⁴ 'South Africa's Latest Crime Stats – a Massive Wave of Red as Violence Escalates', *BusinessTech*, 2022 <<https://businesstech.co.za/news/lifestyle/645543/south-africas-latest-crime-stats-a-massive-wave-of-red-as-violence-escalates/>> [accessed 26 November 2022].

⁶⁵ 'South Africa's Latest Crime Stats – a Massive Wave of Red as Violence Escalates'.

In the analysis of the survey data, no statistically significant relationships were found in any variables and the difference between various groups in the likelihood of reporting crime was consistently less than 1%. This indicates that the challenge of crime is faced somewhat equally in the small business sector, regardless of the characteristics of the business owner, or the formality, age or area of the enterprise.

Figure 38: Comparison of crime as a reported challenge, by enterprise size (2021 and 2022)⁶⁶



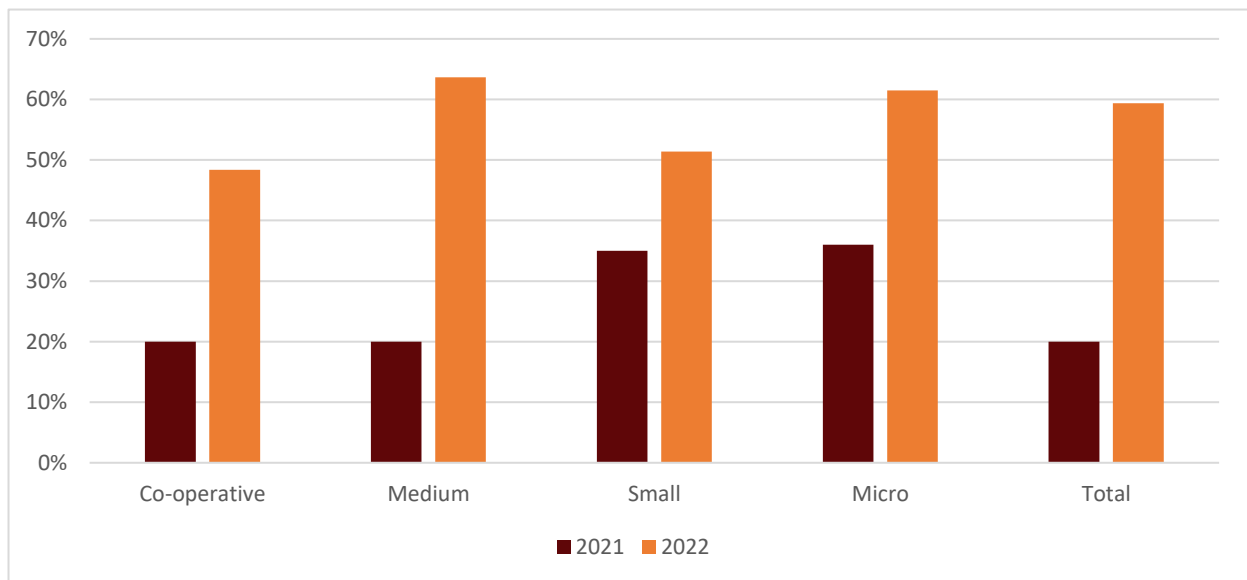
3.2.5 Marketing

Figure 39 shows a comparison of the percentage of enterprises who report struggling with marketing their business from 2021 to 2022. The total number of enterprises who report struggling with this rose from 20% to 49% between 2021 and 2022. The biggest change occurred for co-operatives and medium-sized enterprises. Those living in townships were 11% more likely to report struggling with marketing their businesses than those living in city centres. Women and those operating in the informal sector were also slightly more likely to report struggling with

⁶⁶ Source: primary research survey

marketing their businesses (0,14% and 1,12% respectively), although these relationships were not statistically significant.

Figure 39: Comparison of marketing my business as a reported challenge, by enterprise size (2021 and 2022)⁶⁷

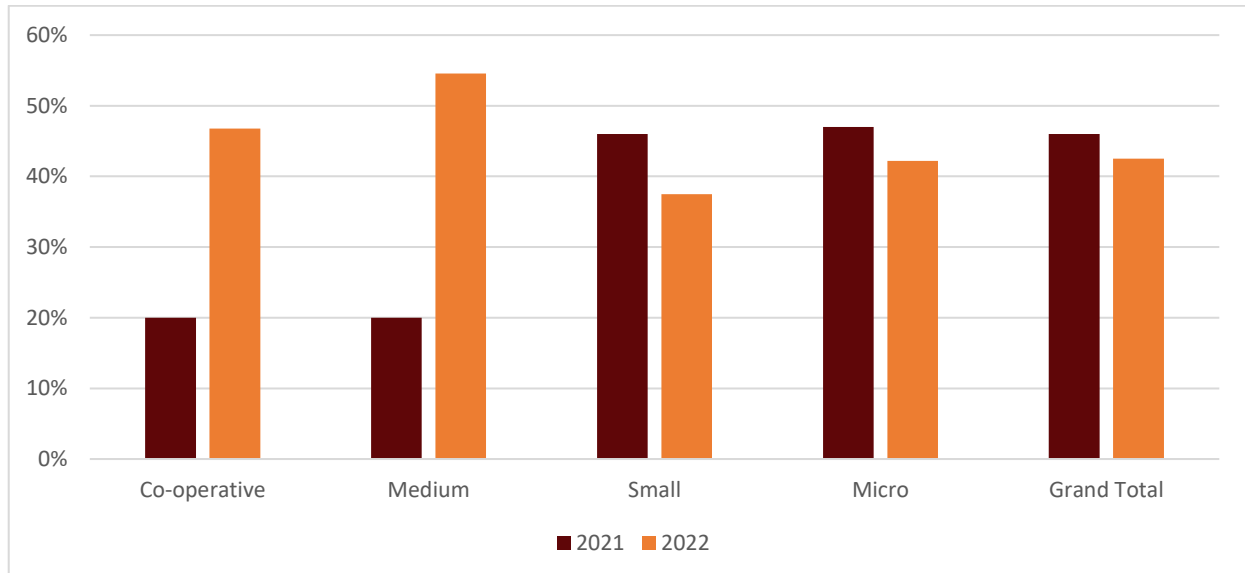


3.2.6 Cost of storage facilities

Figure 40 shows a comparison of the percentage of small businesses who reported struggling with the cost of storage facilities in 2021 and 2022. The graph shows that, overall, there has been a decrease in the percentage of enterprises that report this challenge, although co-operatives and medium enterprises have seen a significant increase in struggling with these costs. Women and white South Africans were slightly less likely to report struggling with the cost of storage facilities, but these relationships were not statistically significant. No other relationship was significant or showed a difference above 1%.

⁶⁷ Source: primary research survey

Figure 40: Comparison of cost of storage facilities as a reported challenge, by enterprise size (2021 and 2022)⁶⁸

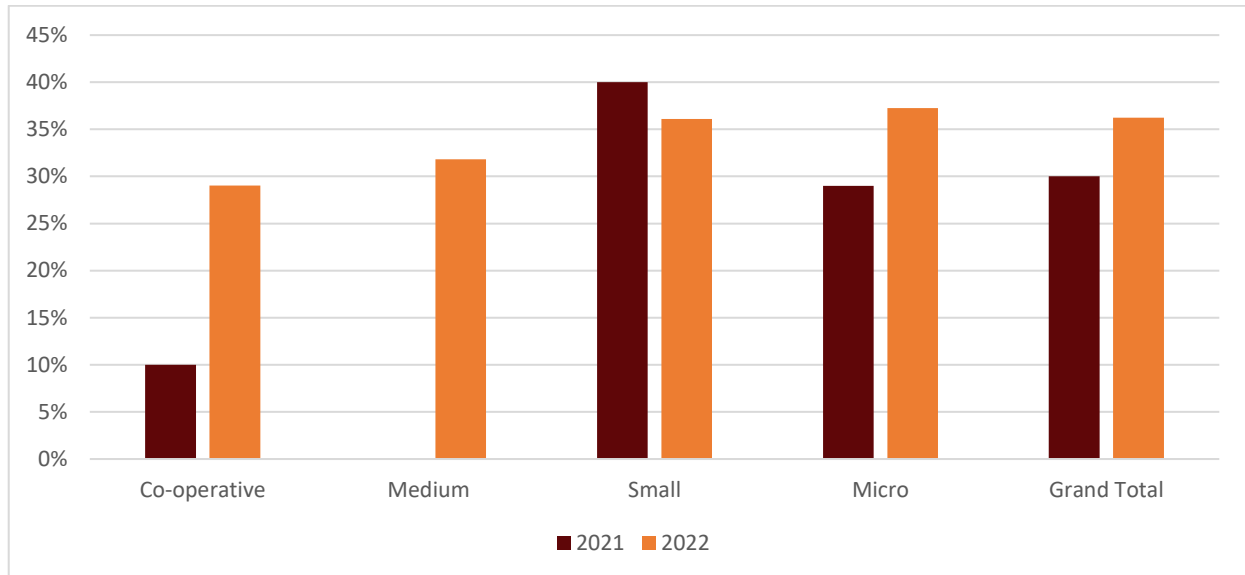


3.2.7 Managing business operations

Overall, there has been a slight increase in the percentage of enterprises that report struggling with managing business operations from 2021 to 2022, as shown in Figure 41 below. Those living with disabilities were 25% more likely to report struggling with managing operations than those without, significant at the 1% level. The youth and those operating in the informal sector were also more likely to report struggling with managing business operations, although this was not statistically significant.

⁶⁸ Source: primary research survey

Figure 41: Comparison of managing business operations as a reported challenge, by enterprise size (2021 and 2022)⁶⁹

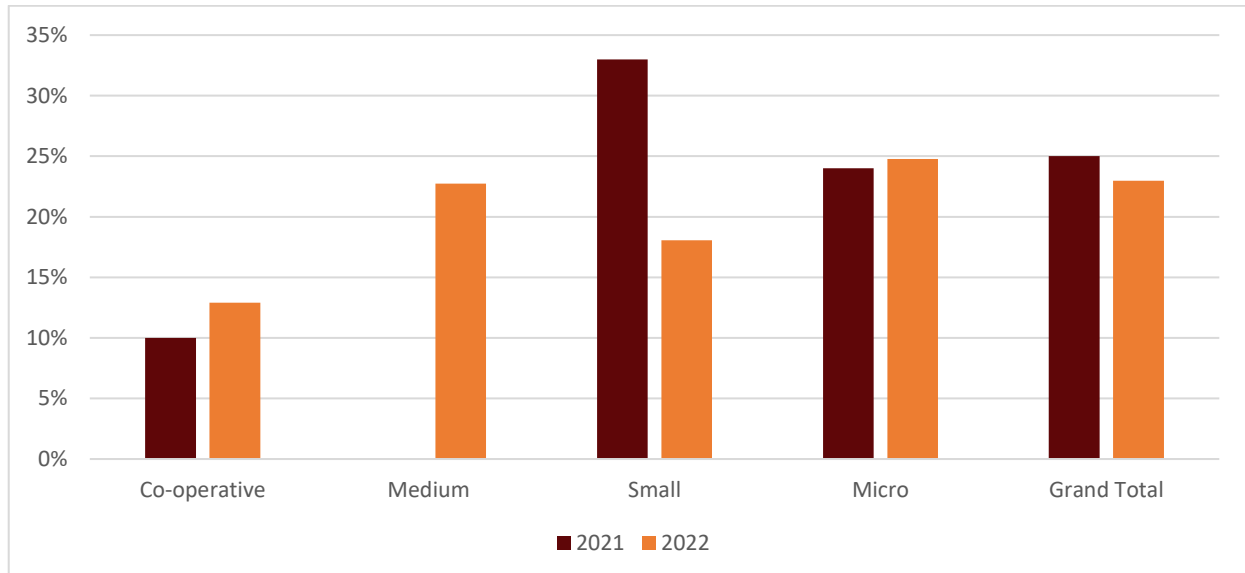


3.2.8 Finding suitable premises

While there has been an overall decrease in the percentage of businesses that report struggling with finding suitable or affordable premises, co-operatives and medium enterprises report this challenge in much higher frequency than they did in 2021, as illustrated in Figure 42. Despite this increase being highest among co-operatives and medium-sized enterprises, small businesses were 5% more likely to report struggling with finding premises than their medium counterparts. Those in cities and townships were more likely to report struggling with finding premises than their rural counterparts, and the youth were 12% more likely to report this challenge than older business owners.

⁶⁹ Source: primary research survey

Figure 42: Comparison of finding suitable premises as a reported challenge, by enterprise size (2021 and 2022)⁷⁰

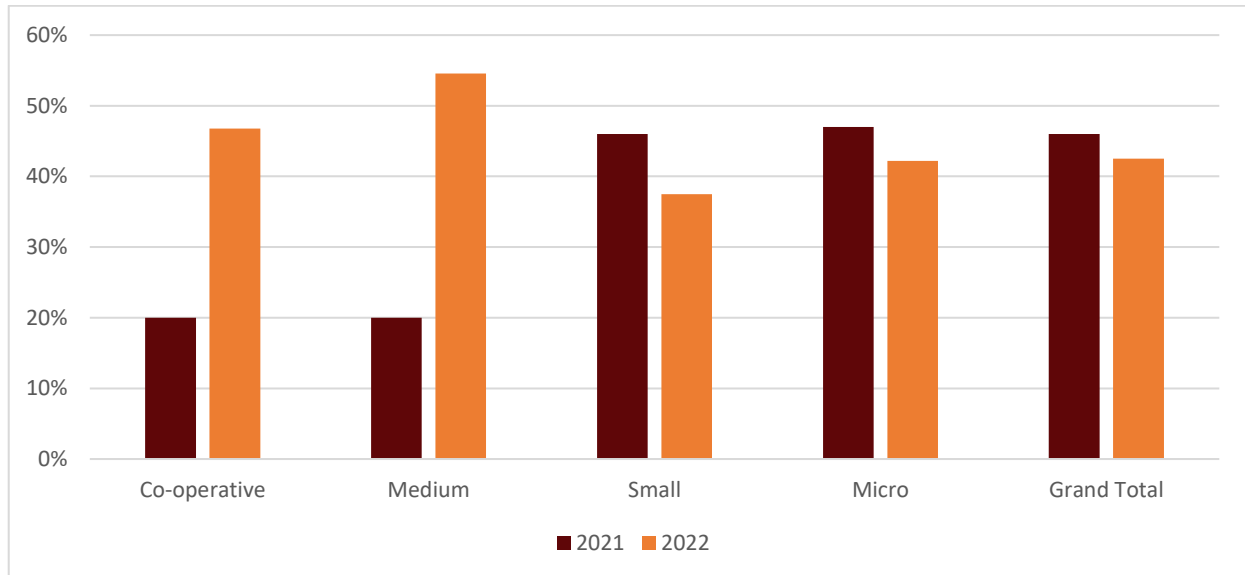


3.2.9 Finding equipment

Figure 43 shows the difference in incidence of finding equipment as a reported challenge by enterprises in 2021 and 2022. The graph shows that there has been a slight decrease in the total number of enterprises who report struggling with this challenge, however medium enterprises and co-operatives report struggling with this in much higher numbers than in 2021. Women were 7% less likely to report struggling with finding equipment than men, but this was not statistically significant. Those operating in townships were slightly more likely to report struggling with finding equipment than those operating in city centres, but this difference was only 1%.

⁷⁰ Source: primary research survey

Figure 43: Comparison of finding equipment as a reported challenge, by enterprise size (2021 and 2022)⁷¹

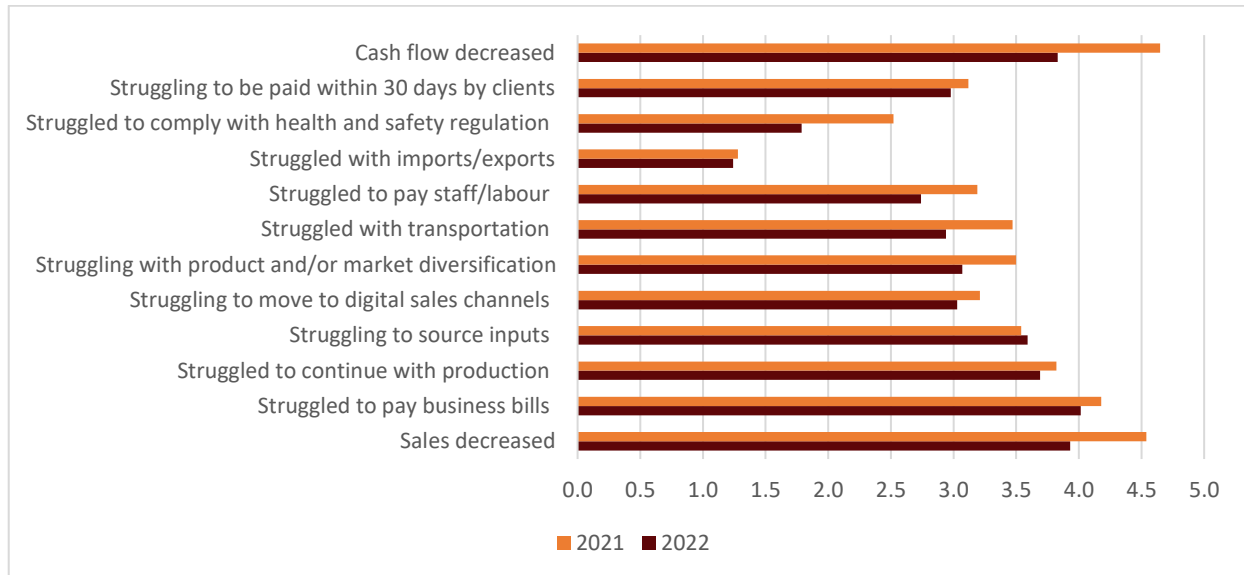


3.3. COVID-19 and the post-COVID impact on small businesses

The pandemic had clear and devastating impacts on small businesses in South Africa. As the country moves through recovery and into a “post-recovery” world, it is important to understand the key elements that businesses will need to focus on in order to be resilient and continue to grow in the post-COVID context. This section investigates the ongoing impacts of COVID-19 on small businesses and investigates the key business elements that they will need to survive and develop in the future.

⁷¹ Source: primary research survey

Figure 44: Comparison of struggles faced during the past 12 months, by enterprise size (score out of 5), 2021 and 2022⁷²



3.3.1 Decrease in sales

Figure 45 illustrates a comparison of the decrease in sales as a reported challenge by small businesses in 2021 and 2022. The reported severity of the challenge has significantly decreased from 2021, although over 30% of respondents still noted that a decrease in sales had an “extreme impact” on their businesses in the past year.

⁷² Source: primary research survey

Figure 45: Comparative impact of a decrease in sales, 2021 and 2022⁷³

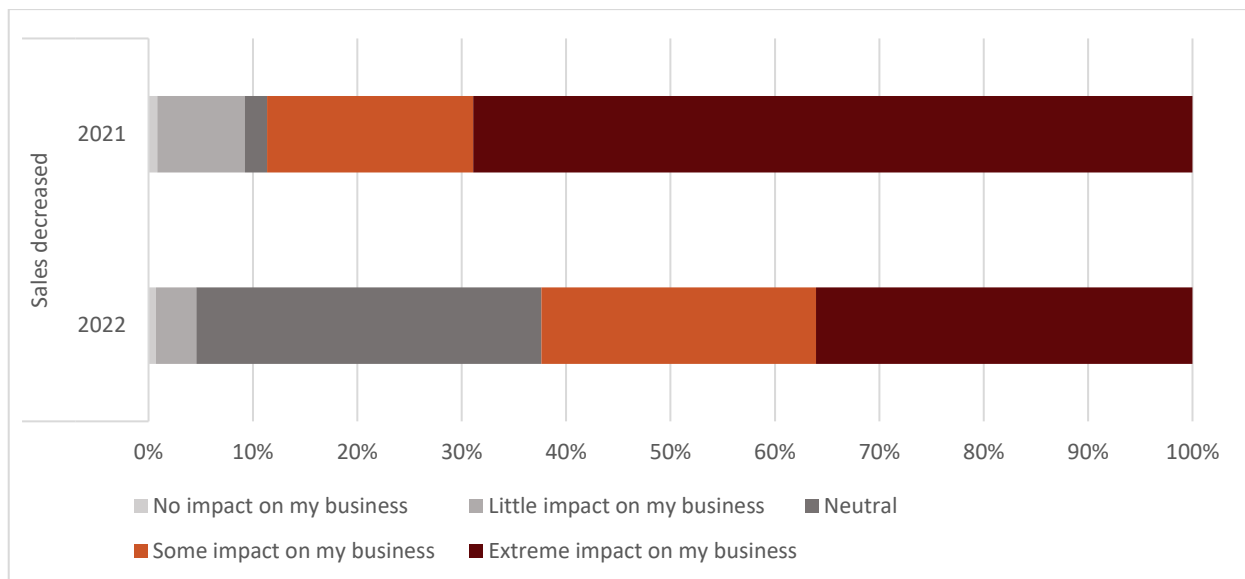
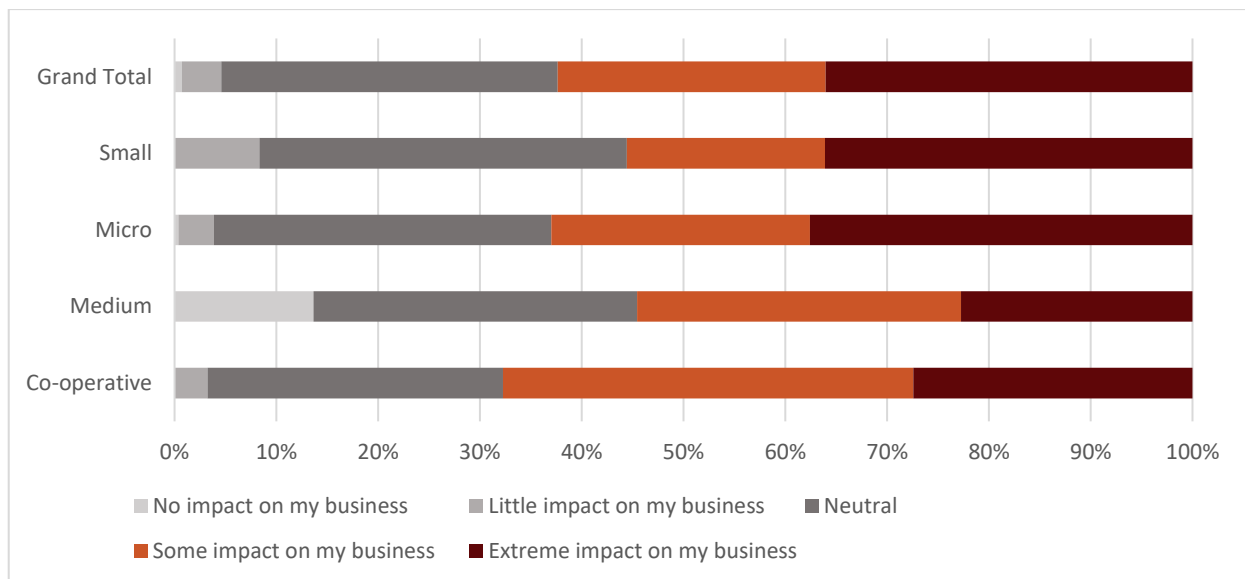


Figure 46 gives more detail on the impact of decreasing sales on small businesses in 2022, by showing the impact on different enterprise sizes. It becomes apparent that co-operatives report some impact on their business far more frequently than other groups, and that micro and small businesses report an extreme impact most frequently. These differences, however, were not statistically significant.

⁷³ Source: primary research survey

Figure 46: Impact of a decrease in sales, by enterprise size (2022)⁷⁴

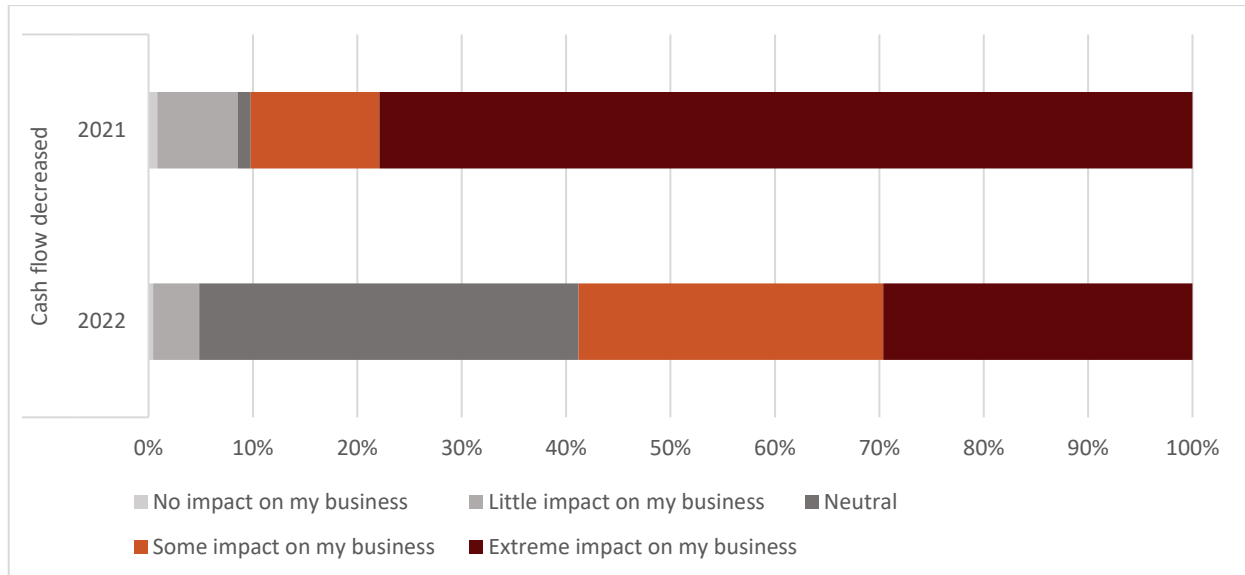


3.3.2 Decrease in cash flow

Figure 47 shows the comparative impact of a decrease in cash flow on small businesses between 2021 and 2022. Where nearly 70% of small enterprises reported that decreasing cash flow had an extreme impact on their business in 2021, only 30% reported this impact in 2022.

⁷⁴ Source: primary research survey

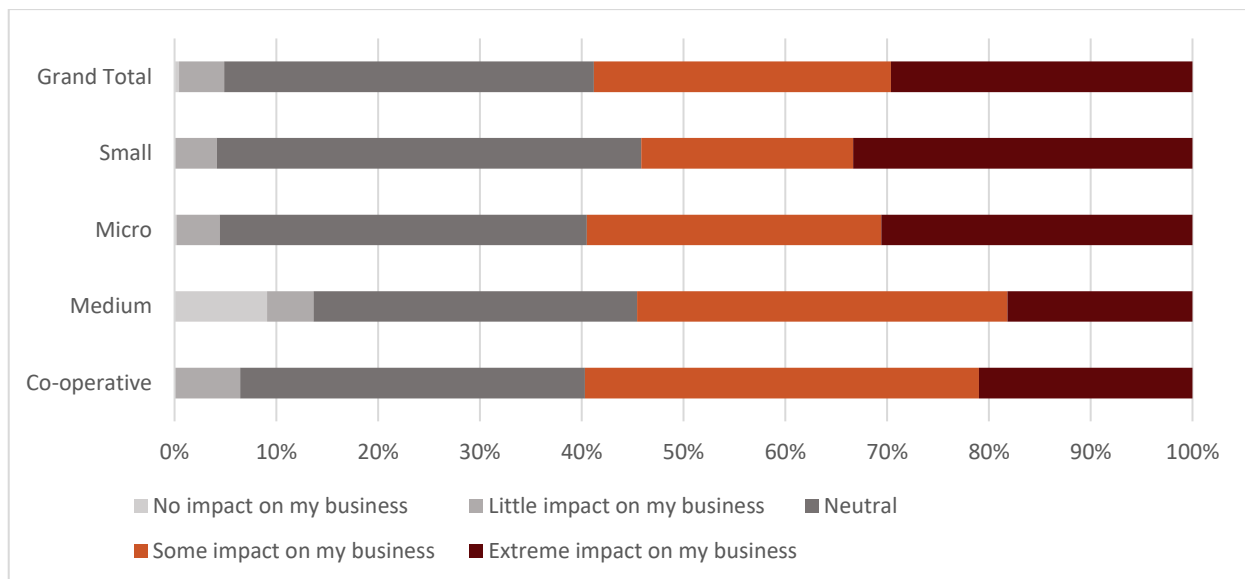
Figure 47: Comparative impact of decrease in cash flow, 2021 and 2022⁷⁵



The impact of decreasing cash flow was experienced in nearly equal measures for different enterprise sizes, as illustrated by Figure 48. Co-operatives were slightly more likely to report extreme impacts from decreasing cash flow than other types of businesses, but the difference was small and not statistically significant. Women were 10% more likely than men to report high impact from decreasing cash flow, although this was also not statistically significant. Young enterprises that had been in operation for 5 years or less were 16% more likely to report extreme impacts from decreasing cash flow, with the difference significant at the 1% level.

⁷⁵ Source: primary research survey

Figure 48: Impact of a decrease in cash flow, by enterprise size (2022)⁷⁶

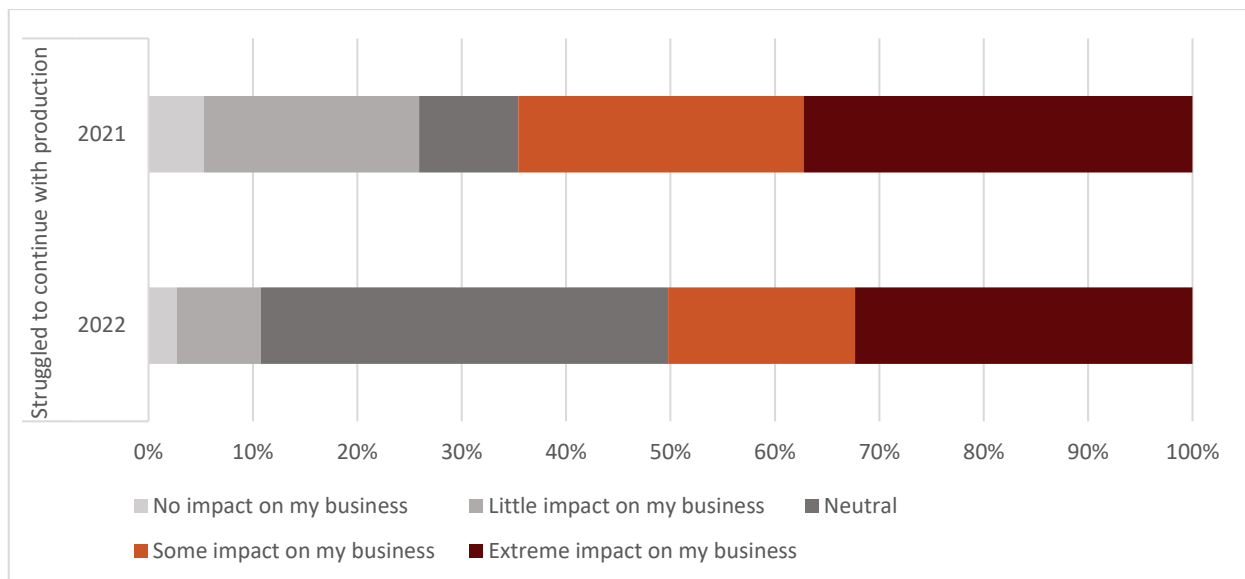


3.3.3 Struggling to continue with production

In 2022, roughly 50% of small businesses reported that struggling to continue with production had at least some impact on their business. This is a decrease of over 25 percentage points from 2021, where over 75% of respondents reported some impact from struggling with production on their businesses, as illustrated in Figure 49.

⁷⁶ Source: primary research survey

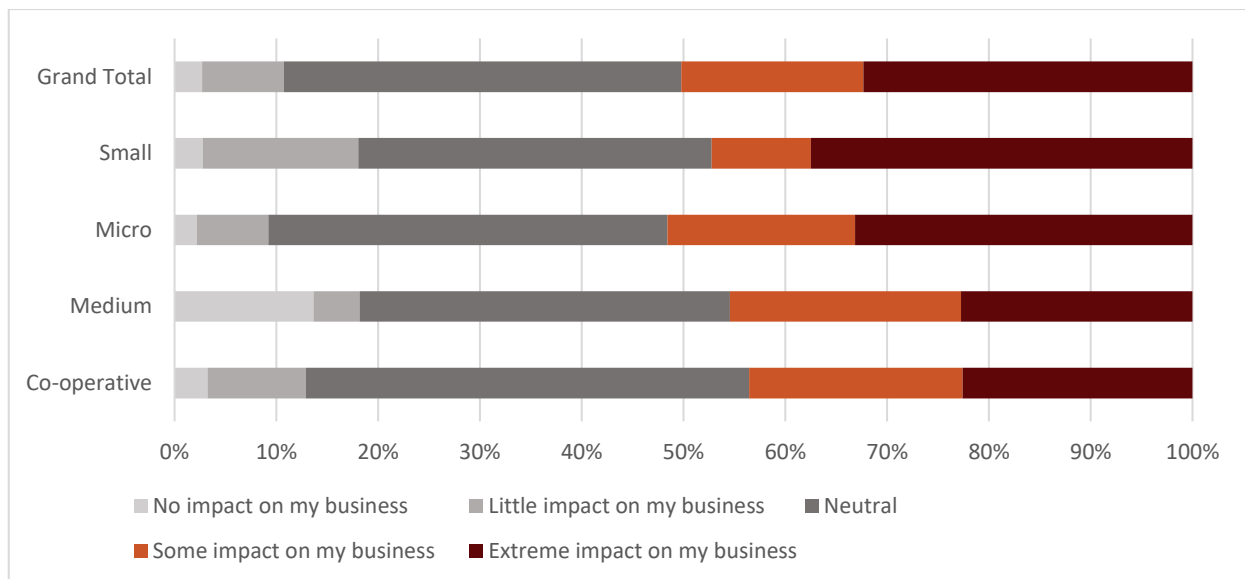
Figure 49: Comparative impact of struggling to continue with production, 2021 and 2022⁷⁷



Although there were no statistically significant differences across enterprise sizes, micro enterprises were 10% more likely to report an extreme impact on their business than medium enterprises and co-operatives reported struggling with continuing production least often.

⁷⁷ Source: primary research survey

Figure 50: Impact of struggling to continue with production, by enterprise size (2022)⁷⁸



Interestingly, informal enterprises were less likely than formal enterprises to report struggling with continued production, although women and the youth were 12% and 7% more likely to report this challenge as having an extreme impact on their business respectively.

3.3.4 Struggling to pay business bills

In 2021, nearly 80% of enterprises reported that struggling to pay business bills had at least some impact on their business. In 2022, this figure decreased to roughly 65%, as shown in Figure 51. Although this is still a high number, it remains encouraging that businesses are reporting lower impacts from this challenge. It is worth noting, however, that the reduction in businesses reporting an extreme impact on their business is only 8% from 2021 to 2022. Further analysis indicated that those businesses who reported extreme impacts in 2021 remained the businesses that struggled in 2022, while those who has experienced less severe impacts in the direct aftermath of COVID-19 were more likely to have experienced no impacts in 2022.

⁷⁸ Source: primary research survey

Figure 51: Comparative impact of struggling to pay business bills, 2021 and 2022⁷⁹

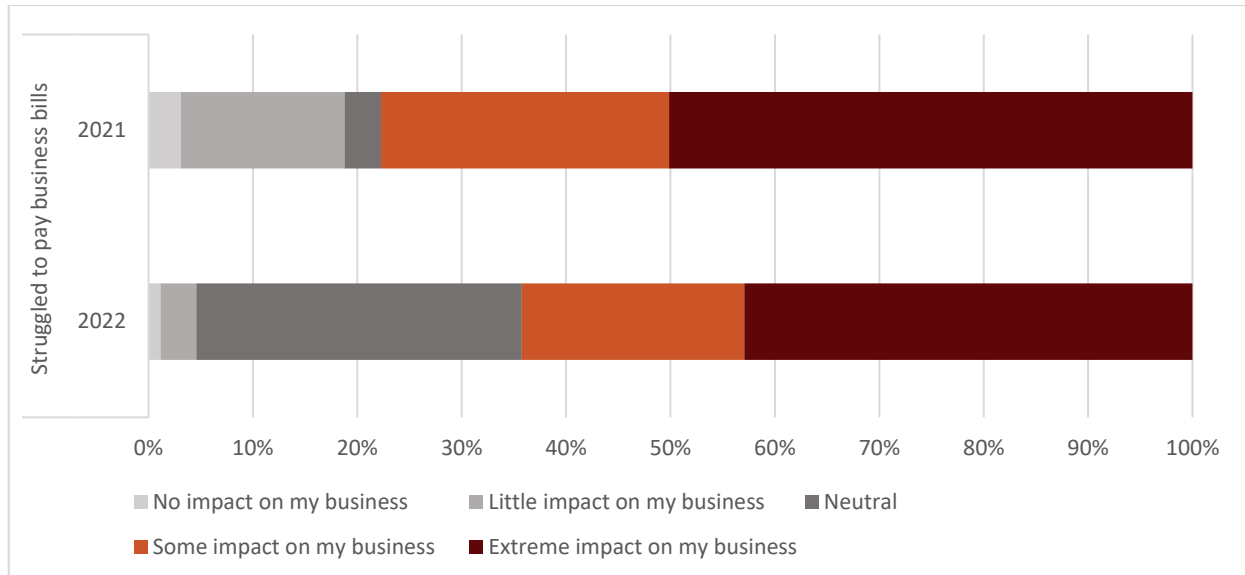
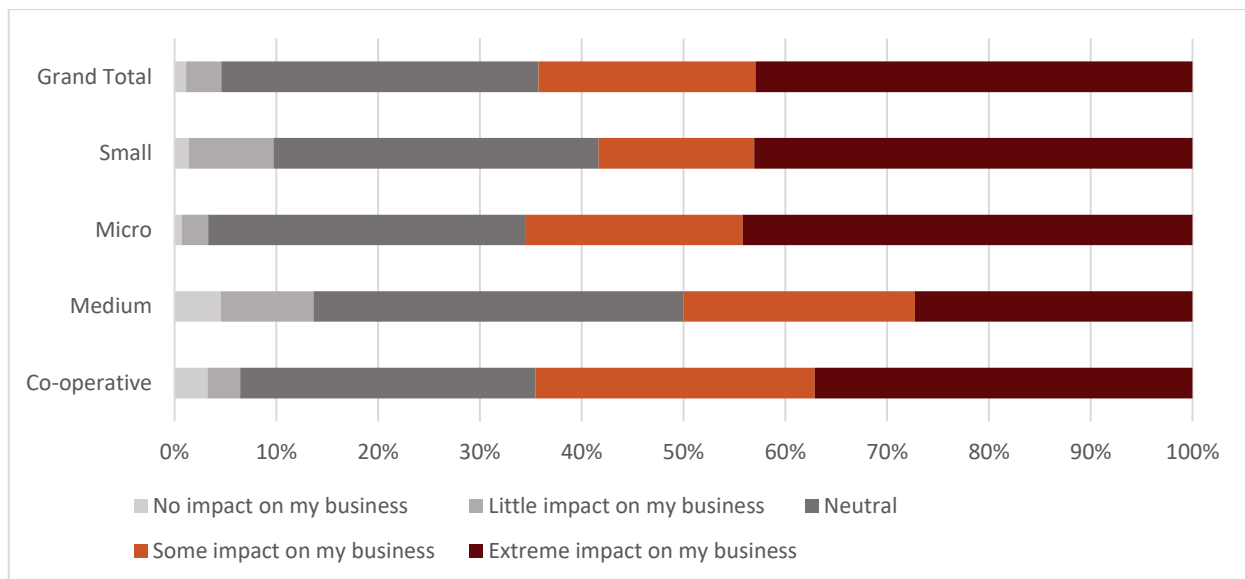


Figure 52 shows that medium enterprises were the least likely to report struggling to pay business bills as having an impact on their business, while co-operatives and micro enterprises were the most likely to report an extreme impact from struggling to pay bills. However, these differences were not statistically significant.

⁷⁹ Source: primary research survey

Figure 52: Impact of struggling to pay business bills, by enterprise size (2022)⁸⁰



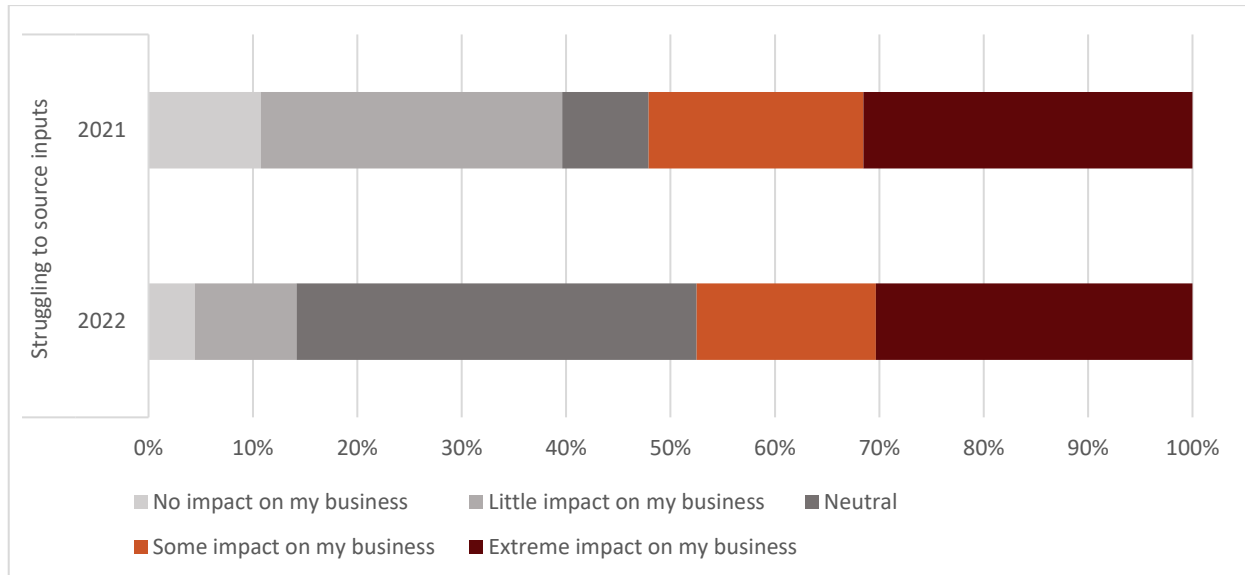
In addition to micro enterprises and co-operatives, those operating in townships were 16% more likely to report an extreme impact on their business, with this difference being statistically significant at the 1% level. Business owners with higher levels of education were somewhat insulated from this challenge and were slightly less likely to report any impact from struggling to pay business bills.

3.3.5 Struggling to source inputs

Figure 53 shows that there has been little change in the impact of struggling to source inputs from 2021 to 2022, with only a slight decrease in the number of enterprises that reported impacts from this challenge. The percentage of enterprises that reported extreme impacts from struggling to source inputs remained constant across both years, with further analysis showing that the same companies reported the same impacts in each wave of the survey. This suggests that those companies who had significant impacts have been unable to solve the challenges associated with sourcing inputs over the past year.

⁸⁰ Source: primary research survey

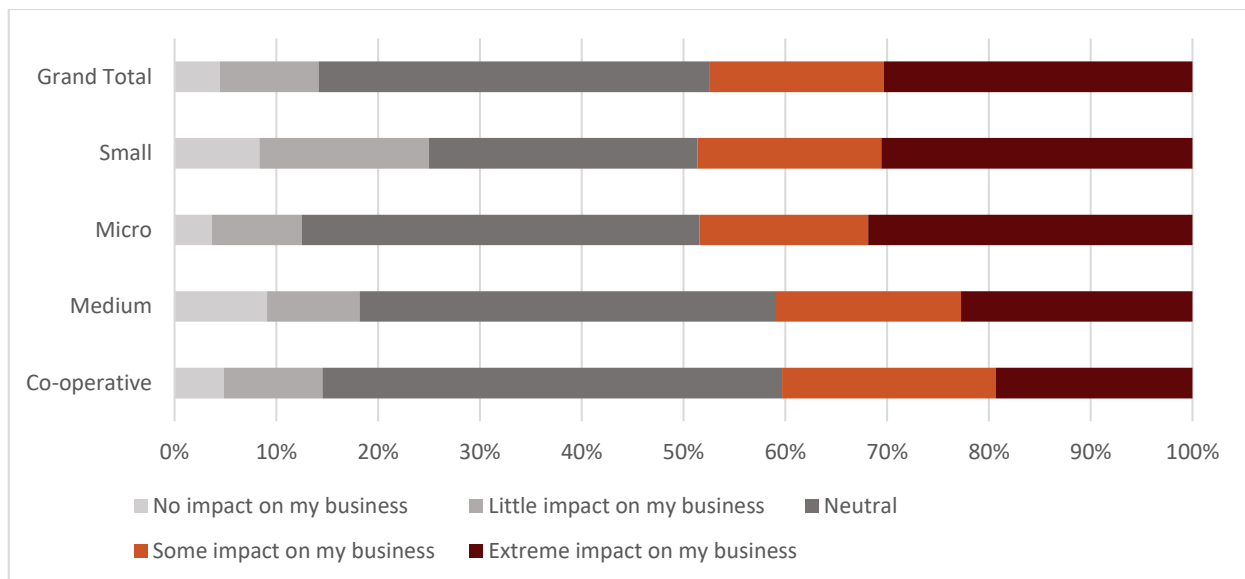
Figure 53: Comparative impact of struggling to source inputs, 2021 and 2022⁸¹



Co-operatives reported lower impacts from struggling to source inputs than other businesses, and small and micro enterprises reported impacts more frequently than medium enterprises. However, these differences were not statistically significant.

⁸¹ Source: primary research survey

Figure 54: Impact of struggling to source inputs, by enterprise size (2022)⁸²

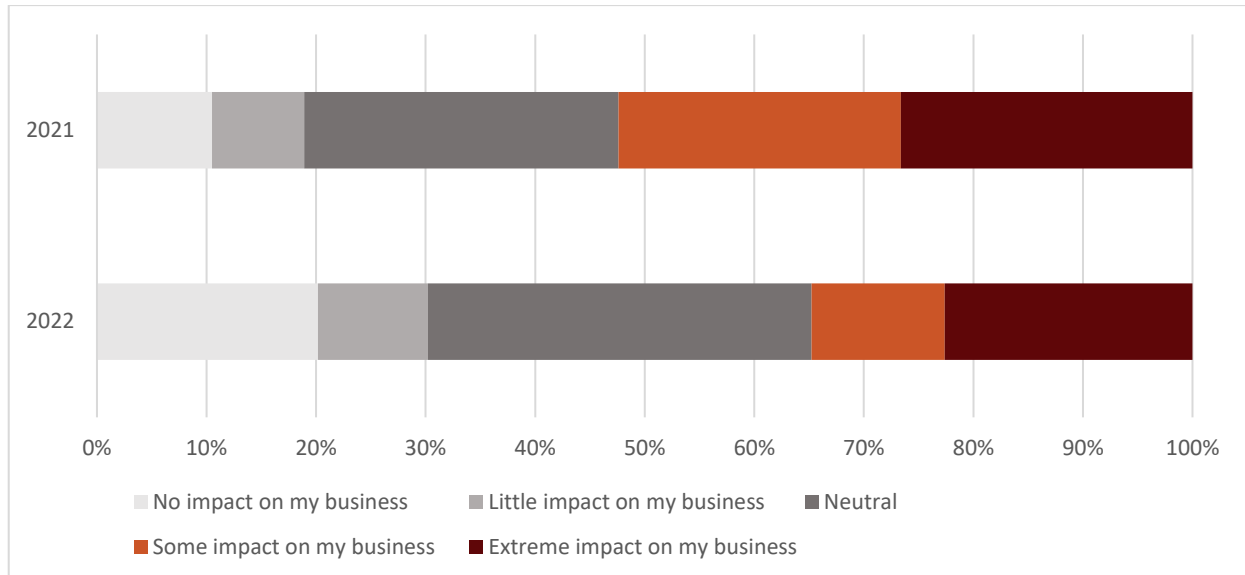


3.3.6 Struggling with diversification

35% of enterprises reported some or extreme impacts on their businesses from struggling with product or market diversification, compared to a little over 50% who reported the same in 2021. Once more, we find that those businesses who suffered significant impacts from this challenge in 2021 continued to have extreme impacts in 2022, while those who noted only “some impact” in 2021 were more likely to report no impact or neutral impacts in 2022.

⁸² Source: primary research survey

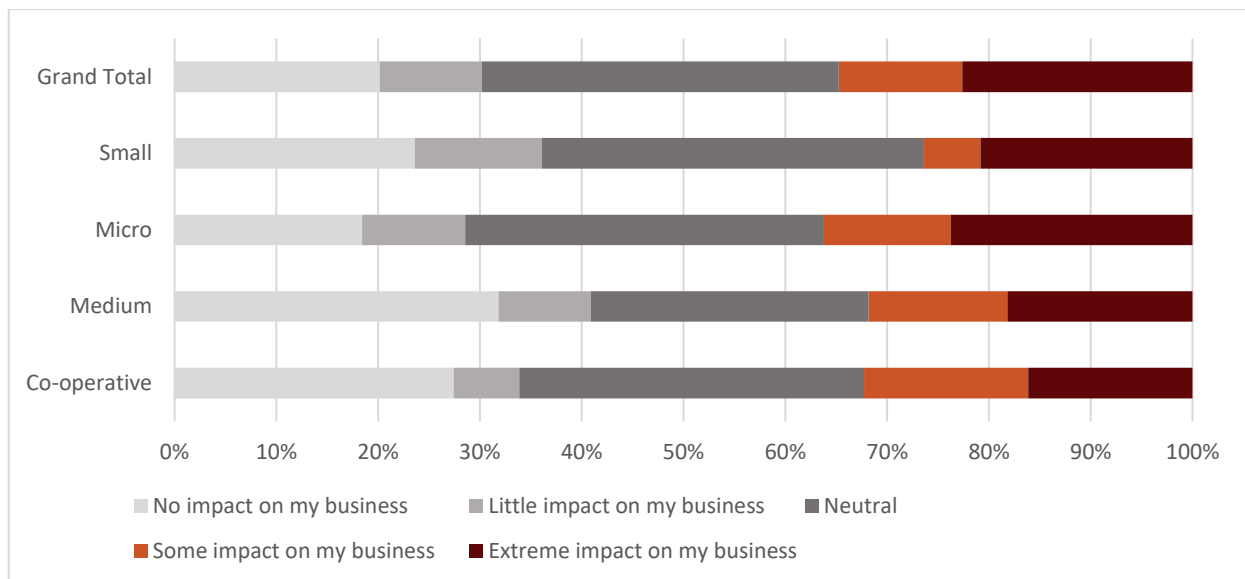
Figure 55: Comparative impact of struggling with product and/or market diversification, 2021 and 2022⁸³



Although micro enterprises reported struggling with diversification more frequently than other enterprises, as shown in Figure 56, this difference was not statistically significant. Enterprises that had been operating for 5 years or less were 23% more likely to report extreme impacts from struggling with diversification than older enterprises, with this difference being statistically significant at the 1% level. Informal enterprises were 27% more likely than formal enterprises to report extreme impacts, and those operating in townships were 21% more likely to report extreme impacts than those operating in city centres, both differences significant at the 5% level.

⁸³ Source: primary research survey

Figure 56: Impact of struggling with product and/or market diversification, by enterprise size (2022)⁸⁴



Section 4: Government support for the small business sector

The South African government has placed a lot of focus on small business as a means for overcoming the unemployment and poverty challenges in the country. With significant efforts being made to support the small business sector, this section aims to investigate the effectiveness of that support, as well as to understand the perceptions that small businesses and experts have regarding the government's role in supporting SMMEs and co-operatives.

4.1. Effectiveness of government support

In our 2021 research, we noted that there were several hurdles to SMMEs and co-operatives receiving government support. The research noted that incomplete applications, failure to meet the criteria for support programs, and time lags between application and receipt of support were some of the primary barriers to government support programs making impactful change⁸⁵.

⁸⁴ Source: primary research survey

⁸⁵ 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>>.

However, the very first barrier to successful government interventions remains a lack of awareness regarding government support programs.

Table 7 presents the percentage of respondents who reported having been aware of different government programs, by enterprise size. Overall, micro enterprises are less likely to know about government support programs than medium enterprises are, and co-operatives are less likely to be aware of support programs than other businesses. These differences, however, are not statistically significant and the size of the difference is small.

Table 7: Percentage of respondents who are aware of government support programs, by enterprise size⁸⁶

	Co-operative	Medium	Micro	Small	2022 Total	2021 Total
Automotive Investment Scheme	0,00%	4,55%	1,10%	4,17%	1,43%	1,82%
Black Business Supplier Development Programme	16,13%	13,64%	15,60%	25,00%	16,55%	36,97%
Business Process Services Incentive	6,45%	4,55%	4,95%	5,56%	5,14%	7,28%
Capital Projects Feasibility Programme	4,84%	4,55%	3,12%	4,17%	3,42%	4,90%
Co-operatives Incentive Scheme	14,52%	18,18%	9,17%	8,33%	9,84%	9,52%
Critical Infrastructure Programme	1,61%	4,55%	1,47%	1,39%	1,57%	2,10%
Enterprise Investment Programme	9,68%	4,55%	5,14%	5,56%	5,56%	9,38%
Export Marketing and Investment Assistance	0,00%	4,55%	0,37%	1,39%	0,57%	2,38%
Film and Television Incentive	0,00%	4,55%	0,37%	0,00%	0,43%	1,12%
Foreign Investment Grant	0,00%	0,00%	0,37%	0,00%	0,29%	2,24%
Incubation Support Programme	1,61%	4,55%	1,10%	1,39%	1,28%	4,62%
Manufacturing Competitiveness Enhancement Programme	6,45%	13,64%	10,46%	12,50%	10,41%	12,18%

⁸⁶ Source: primary research survey

Production Incentive	4,84%	4,55%	4,22%	1,39%	3,99%	5,18%
Sector-specific Assistance Scheme	1,61%	4,55%	1,65%	1,39%	1,71%	4,34%
Seda enterprise development programmes	27,42%	31,82%	35,05%	29,17%	33,67%	
Seda Technology Programme	8,06%	4,55%	9,91%	15,28%	10,13%	16,11%
Support Programme for Industrial Innovation	6,45%	9,09%	5,14%	1,39%	4,99%	6,72%
Textile Competitiveness Improvement Programme	1,61%	13,64%	1,65%	2,78%	2,14%	1,82%
The Technology and Human Resources for Industry Programme	1,61%	9,09%	2,94%	5,56%	3,28%	9,52%
Township and Entrepreneurship Programme (TREP)	11,29%	13,64%	11,74%	18,06%	12,41%	19,61%
Youth Challenge Fund (YCF)	6,45%	9,09%	10,64%	8,33%	9,99%	

Table 7 also shows that the most well recognized government support program is the Black Business Supplier Development Programme. Furthermore, the programmes that were most well-known in 2021 remain the most well-known in 2022. However, it is worth noting that the awareness of all programmes decreased from the 2021 survey to the 2022 survey, as shown in Figure 57 below. This, of course, should be impossible: it seems unlikely that those who were aware of certain government programmes in 2021 are no longer aware of them in 2022. This suggests that participants in the survey were not entirely truthful in their reporting on this question. Further research should be considered to understand what the true awareness of government programmes is.

Support us it's all we need or give us classes on how to run a business because we try and fail and try again. ~ Survey respondent

Figure 57: Comparison of awareness of selected government support programs, 2021 and 2022⁸⁷

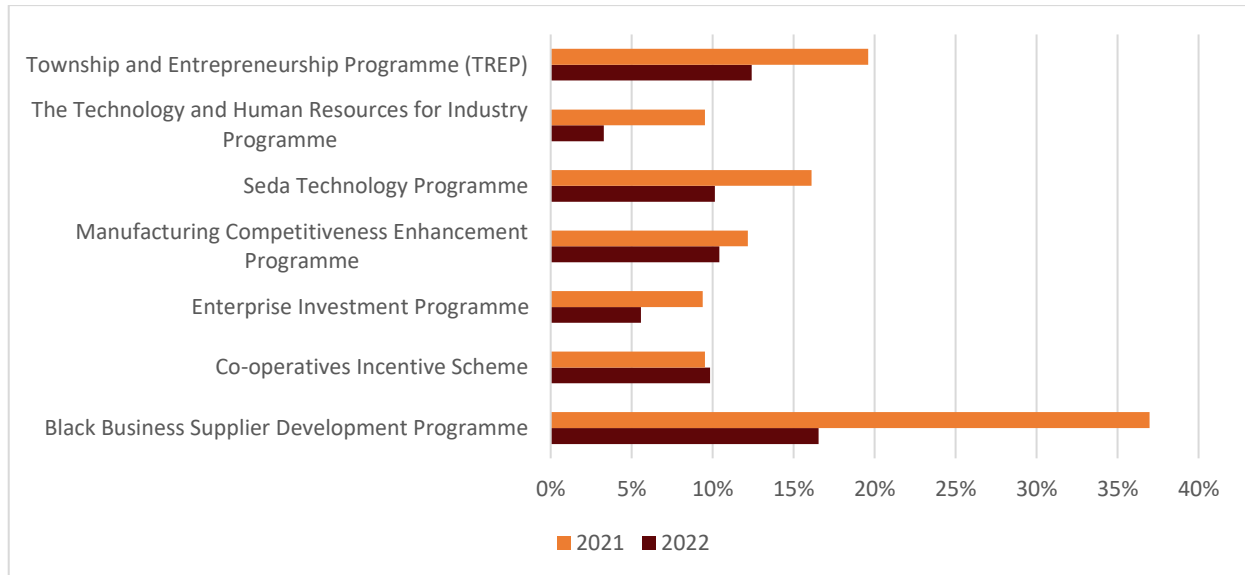
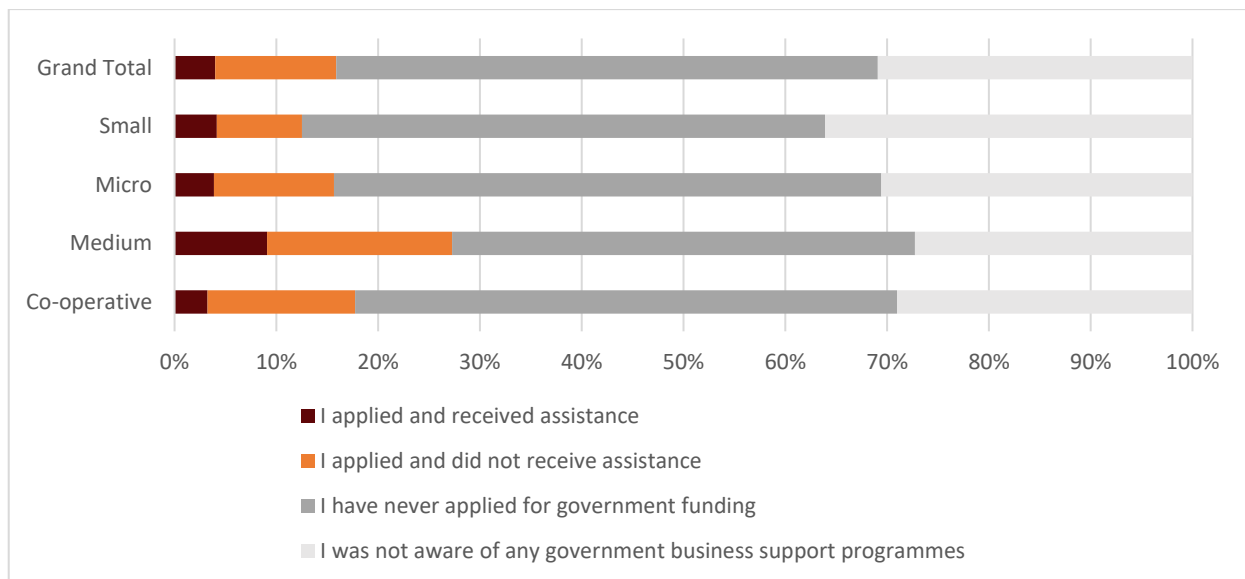


Figure 58 shows the distribution of enterprise application for government assistance, by enterprise size. The graph shows that a very small percentage of participants in our survey received government assistance (4%). Overall, 16% of the participants in our survey applied for government assistance, with 75% of those who applied being unsuccessful in receiving government assistance at all. Medium enterprises were most likely to have applied for assistance, and the most likely to have received it.

⁸⁷ Source: primary research survey

Figure 58: Distribution of enterprise application for government assistance, by enterprise size (2022)⁸⁸



Micro enterprises and co-operatives were least likely to receive government support, although this result was not statistically significant. Women, the youth, young enterprises and enterprises operating in informal sectors were all less likely to receive support than their counterparts. However, the small sample of those who received assistance overall means that we are unable to assess whether these results are statistically significant, nor determine the driving causes of them.

We can say the government is doing something but not much is being trickled down to the people. ~ Expert interview

In the expert interviews conducted for this research, many experts noted that government support is not reaching the individuals that need it most. Of the 16 experts interviewed, 10 believed that government support was only given to those with political connections. 85% of the survey respondents also believed that there was some form of nepotism or corruption in the distribution of government funding and support.

⁸⁸ Source: primary research survey

Although the low awareness of government support programmes is disheartening, one encouraging pattern in the data is that those who reported receiving government support in the 2022 survey were 12,6% more likely to report that their turnover had increased in the previous financial year. When we add those who reported receiving support from the 2021 survey, this result increases to 16%. However, this result is not statistically significant, and we are unable to determine whether receiving government support is a causal factor for these enterprises reporting increased turnover.

4.2. Perceptions regarding government role in the small business sector

Figure 59 shows a comparison on the reported sentiments towards the helpfulness of government support between 2021 and 2022. Although it is important to note that these graphs are derived from small sample sizes, it is encouraging to see that a smaller percentage of enterprises reported government support as being unhelpful (9% in 2022). In fact, both extreme positions lessened in 2022 as compared to 2021, where fewer enterprises reported government support as being extremely unhelpful or extremely helpful.

Figure 59: Comparative sentiments on the helpfulness of government support, 2021 and 2022⁸⁹

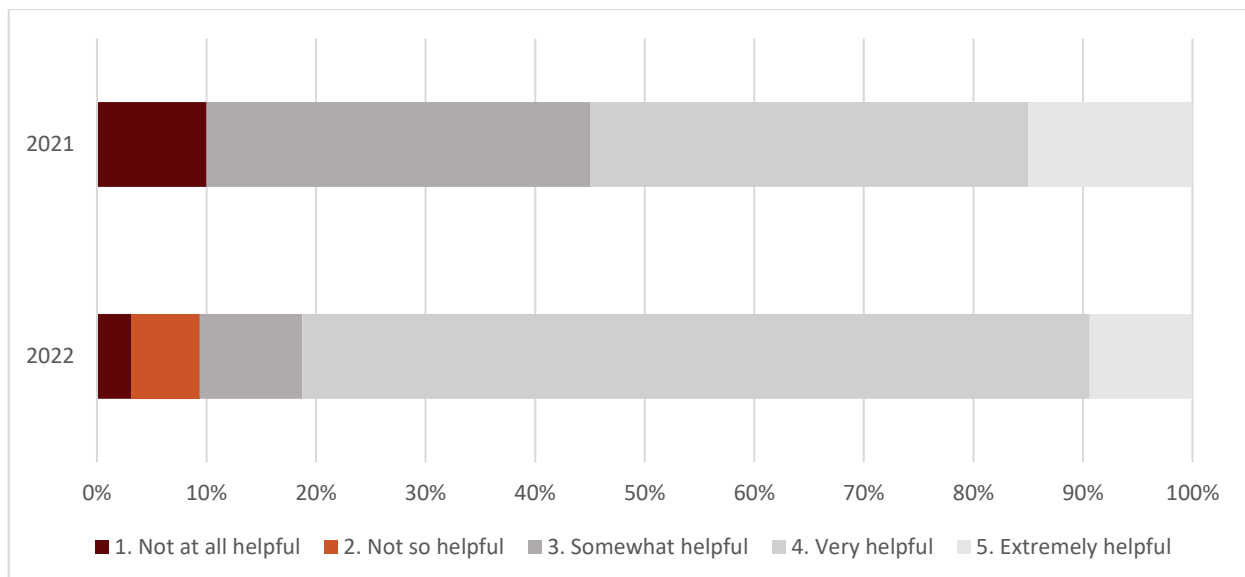


Figure 60 shows the sentiments on government helpfulness by enterprise size. It is interesting to note that only micro enterprises report government support as being unhelpful. Further analysis of the data showed that young enterprises and those operating in the informal sector were also more likely to report that government support was unhelpful, although the differences were small and not statistically significant. Those with disabilities were 15% less likely to report government support as being helpful, although this result was not statistically significant.

Generally, policy makers and decision makers are making decisions for people who they cannot relate to, nor do they have proper understanding of their portfolio. ~ Expert interview

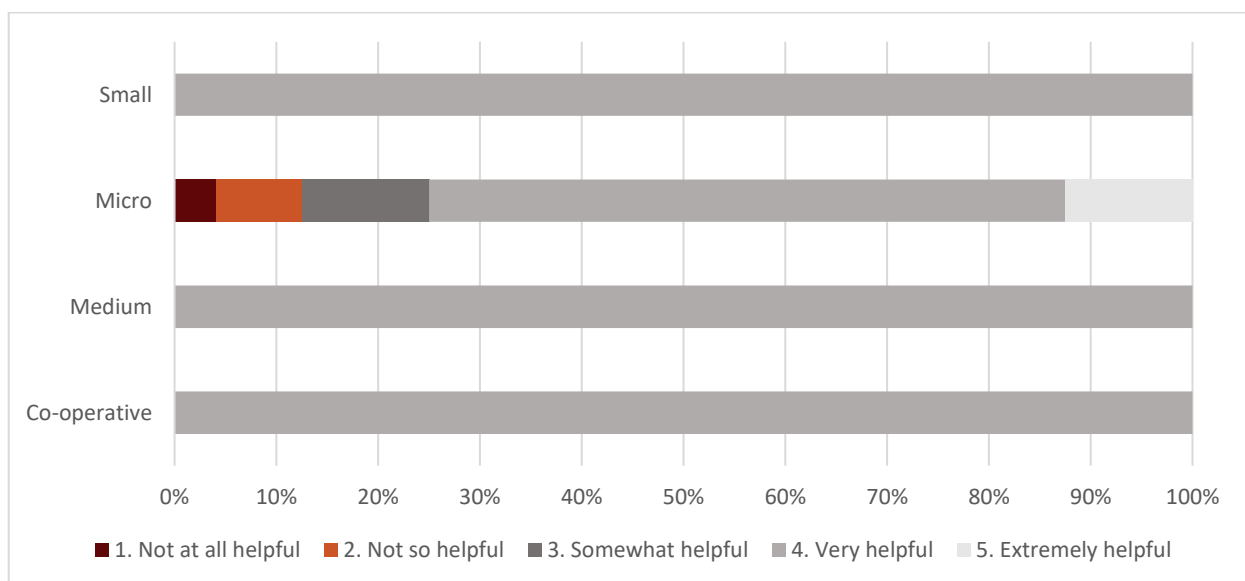
The expert interviews conducted for this research consistently noted that government itself is far removed from the experiences of the “people on the ground”. This meant that the support structures and programmes developed by government are not fit for purpose because those who are designing the programmes do not understand the daily experiences of the businesses that

⁸⁹ Source: primary research survey

they are trying to support. While the experts felt that government intentions are good, they believed that the implementation of these programmes is where the system falls apart. Interestingly, the qualitative responses in our survey indicated similar findings where a significant number of respondents simply asked that government officials and policymakers “visit [their] business” to see what it is that they are doing and what they need assistance with.

In the qualitative responses within the survey, we found that those enterprises that reported government assistance as being unhelpful felt that the value of the funds that they received was insufficient to make a meaningful difference in their business. One respondent noted that “the money did not even cover the cost of tyres”, when their application had been for financing to add an additional vehicle to their company assets.

Figure 60: Sentiments on the helpfulness of government support, by enterprise size (2022)⁹⁰



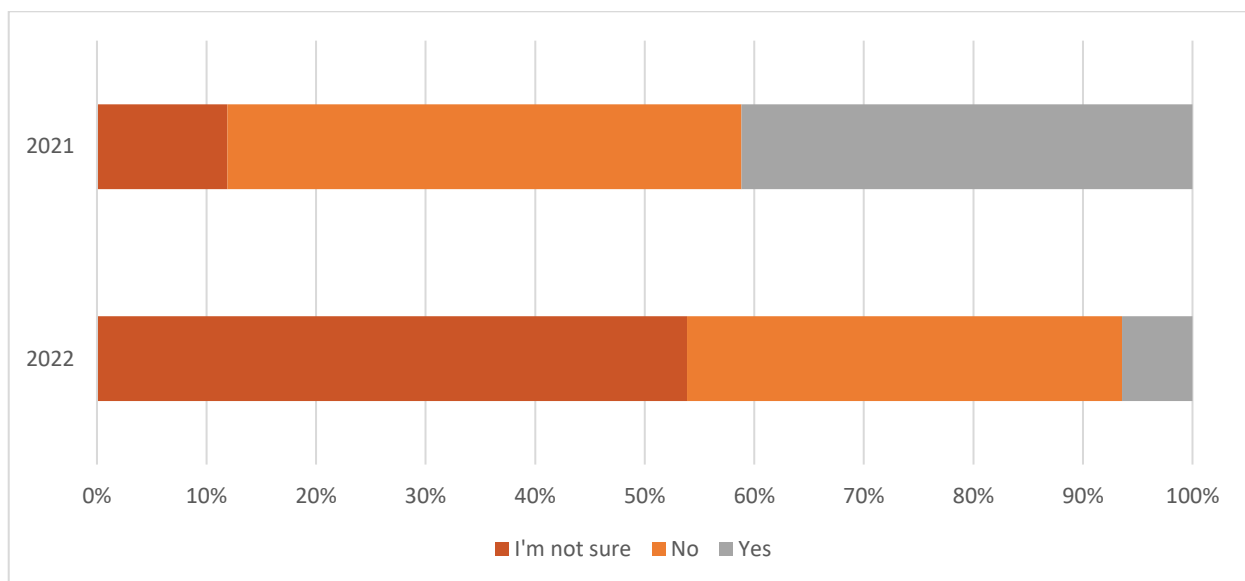
We turn our attention next to investigating whether business owners feel that government is doing enough to support the small business sector in the country. Figure 61 shows a comparison of

⁹⁰ Source: primary research survey

these sentiments between 2021 and 2022 and shows a concerning decrease in the percentage of respondents who believe that government is doing enough to provide the sector with support. While 41% of participants believed that government was doing enough to support small businesses in 2021, only 6% felt the same way in 2022.

*If we can narrow the gap between the policies and practices will be in the right track.
~Expert interview*

Figure 61: Comparative sentiments on whether SMMEs are getting enough support from government, 2021 and 2022⁹¹



Looking at the data in more detail, we find that the youth and Black Africans were 15% more likely to say that government was not doing enough to support SMMEs, although these differences were not statistically significant. Encouragingly, those in the informal sector were 12% more likely to say that government is doing enough, and co-operatives were 30% more likely to believe that government is doing enough, each significant at the 1% level.

⁹¹ Source: primary research survey

Approve our applications. Or let them check our applications. It looks like our applications go straight to the bin. ~ Survey respondent

It is worth noting that the decrease in positive sentiments since 2021 has largely been driven by an increase in uncertainty on the part of business owners. It is not the case that those who did believe that government was doing enough to support SMMEs now believe that they are not. Instead, those who were positive about governments efforts are now uncertain about them. It is possible that this change is driven by the changing circumstances following the end of the National State of Disaster and the concomitant changes in the business environment and government relief efforts. In the qualitative responses within the survey, we see that business owners feel despondent following a lack of feedback on their applications. Without knowledge of why their applications were denied, they feel that they are unable to improve. Several respondents also noted that they are being asked what government can do to support them, but that these questions seldom result in change. Business owners felt that government disregarded their voices and that the questions and surveys were only a means of pretending to care, but that no change would come from them.

We always answer this question. Are we going to get help, is the government to read them? ~ Survey respondent

Section 5: The future of SMMEs and Co-operatives

The 2021 research found that SMMEs and co-operatives have shown incredible resilience in the face of challenging circumstances. Despite this resilience, the sector remains in survival mode with limited space for growth and development, and limited ability to think towards the longer-term goals for the future. This section considers the opportunities in the small business sector and the support that the sector is looking for in order to realize these opportunities.

5.1. Opportunities for growth in the small business sector

Although the 2021 research for this study found that SMMEs were surprisingly positive about the future of business in South Africa, the 2022 research shows an increase in negative sentiments. Figure 62 illustrates this comparison and shows that 35% of respondents reported a negative outlook for the future of small business in the country, as compared to 28% who reported the same in the previous year. In addition to an increase in expressed negative sentiments, there has been a reduction in the positive sentiments expressed as well. In 2021, 36% of respondents reported a positive outlook for the future of small businesses, a figure that has decreased to 26% in 2022.

Figure 62: Comparative sentiments about the future of small business in South Africa, 2021 and 2022⁹²

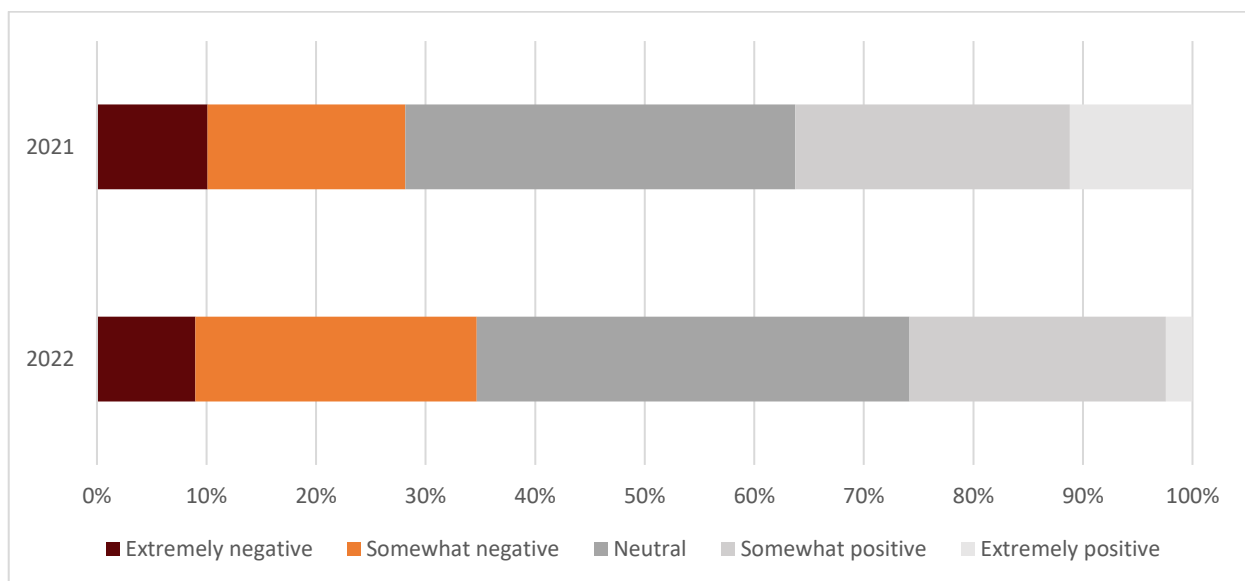
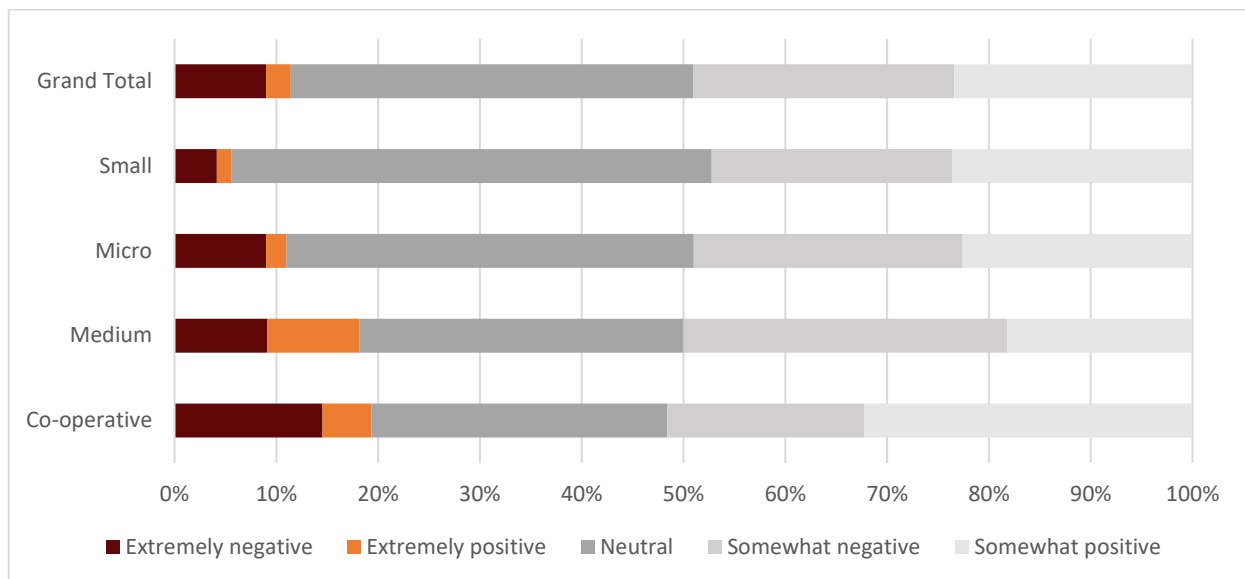


Figure 63 shows these sentiments for 2022, disaggregated by enterprise size. While cooperatives reported negative sentiments far more frequently than other businesses, micro enterprises were 13% less likely to report positive sentiments than medium enterprises, significant at the 10% level.

⁹² Source: primary research survey

Women were also 2% less likely to report positive sentiments, and those with disabilities were 21% less likely to report positive sentiments, although neither of these relationships were statistically significant.

Figure 63: Sentiments on the future of small business in South Africa, by enterprise size (2022)⁹³



They are survivalist in nature, so they don't think about innovation. [They don't look for things] that makes sense but looking for the first thing that makes an impact. This is where the opportunity is lost: it's not because they don't want to make an impact, but it's the environment they work in. ~ Expert interview

In the immediate future, SMMEs and co-operatives are focusing on stabilizing their finances and maintaining and increasing their client base, as shown in Table 8. The table shows scores given to seven different business goals, where higher scores correspond to a given goal being considered more important. The table shows that stabilizing finances and maintaining and

⁹³ Source: primary research survey

increasing client base are the most important goals for all SMMEs and co-operatives, regardless of size.

In the expert interviews conducted for this research, many experts noted that South Africa's SMMEs and co-operatives remain in survivalist mode, with limited ability to look towards the future and long-term growth plans. These comments echoed those that were made in the 2021 research, where it was noted that small businesses seldom developed with a "market-first" attitude, wherein the need in the market is investigated and shown before the business is started. Experts in the 2021 research, as well as the 2022 interviews, believed that this is a driving force behind the high failure rates of small businesses in the country.

Table 8: Important business goals, score out of 7 (2022)⁹⁴

	Co-operative	Medium	Micro	Small	Grand Total
Purchasing new equipment	2,85	2,00	2,65	2,60	2,65
Hiring more staff	1,05	1,55	1,22	1,17	1,21
Opening new branches	0,71	0,55	0,70	0,67	0,69
Improving digital skills	3,18	3,23	3,18	3,36	3,20
Maintaining and increasing client base	4,42	4,36	4,22	4,49	4,27
Stabilizing finances	5,26	5,41	5,50	5,24	5,45
Improving marketing	3,53	3,91	3,53	3,49	3,54

In fact, stabilizing finances has increased in importance since 2021, with its score increasing from 4,42 to 5,45 out of seven. Figure 64 shows the differences in the scores assigned to each of these goals between 2021 and 2022. In addition to the increased score for stabilizing finances, maintaining and increasing client base increased, as did improving marketing and improving digital skills. The relative importance of each of these goals also remained somewhat consistent across the two years, with the ranked goals staying in the same order with two exceptions:

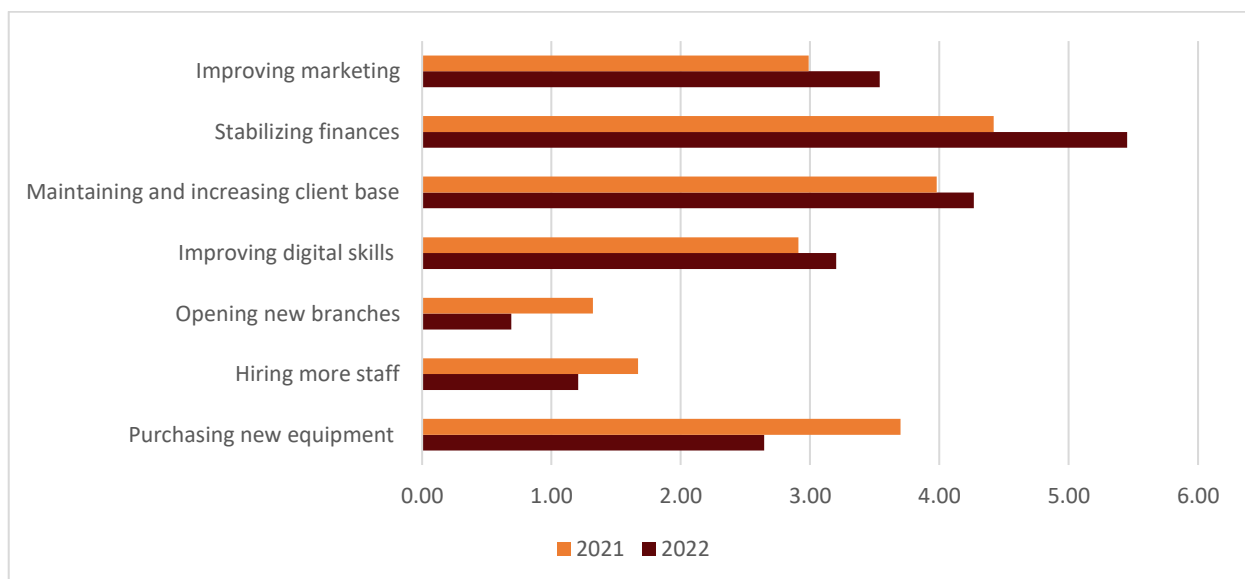
⁹⁴ Source: primary research survey

improving marketing and improving digital skills have become more important than purchasing new equipment.

Help me to register, this online thing it's complicated. ~ Survey respondent

In the qualitative responses to the survey, we noted that several business owners were looking to register their businesses but were unable to do so due to a lack of knowledge, low digital skills, or high data costs. While many indicated a desire to register, this was primarily driven by a need for government assistance, and the belief that financing and other support is not granted to unregistered companies.

Figure 64: Comparison of important business goals, 2021 and 2022⁹⁵



Taking a closer look at these goals, we note that Black Africans are 47% more likely to report stabilizing finances as a top priority, as compared to white South Africans⁹⁶. While the youth and

⁹⁵ Source: primary research survey

⁹⁶ 1% level of significance

co-operatives are 15% and 12% more likely, respectively, to report maintaining and increasing their client base as a top priority, these results were not statistically significant. Women were 21% more likely than men to prioritize improving their marketing and 19% less likely than men to report purchasing new equipment as a priority⁹⁷.

While the above discusses the primary, immediate goals reported by small businesses, Table 9 reports the business elements that respondents felt would be important for the future of their businesses. These scores are out of a total score of 9, where higher scores correspond to an element having been ranked more highly in importance. For all businesses except small enterprises, changing business strategy was ranked as the most important business element for the future of small businesses. Second to this, businesses ranked digitizing business operations and reducing costs as the most important business elements.

Table 9: Important business elements for the future of small businesses, score out of 9 (2022)⁹⁸

	Co-operative	Medium	Micro	Small	2022
Learning new skills for the business	6,13	6,14	5,97	5,76	5,97
Diversifying clients	3,60	3,68	3,57	3,85	3,61
Changing the business strategy	6,47	8,23	7,27	6,40	7,14
Digital marketing	5,90	5,82	5,45	5,92	5,55
Digitizing business operations	6,16	5,77	6,09	6,44	6,12
Reducing costs	6,11	5,27	6,09	5,88	6,05
Improving our operations	4,53	4,36	4,75	4,89	4,73
Improving the quality of products/services	3,15	3,00	3,43	3,46	3,39
Diversifying products	2,95	2,73	2,38	2,40	2,44

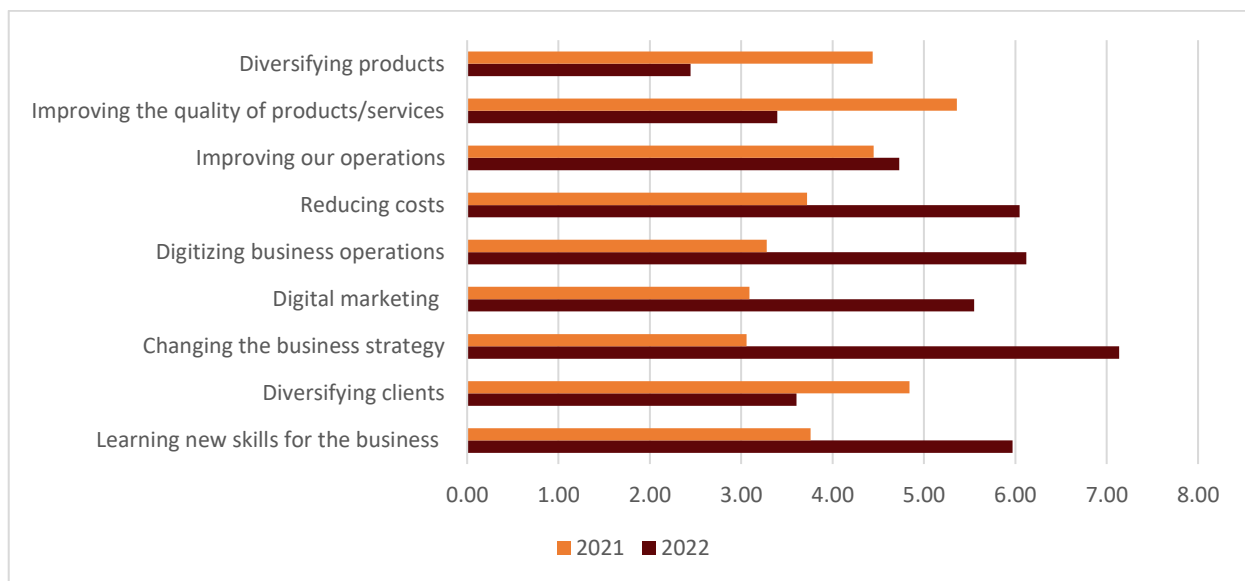
Figure 65 shows the scores presented in the table above and compares them with the same scores given in the 2019 survey. There have been significant shifts in what is deemed important by small businesses since 2021, with the most notable shift being the change in importance of

⁹⁷ Both statistics significant at the 10% level

⁹⁸ Source: primary research survey

business strategy. In the 2021 research, changing the business strategy was one of the lowest-ranked elements – a fact, which was noted with concern, because experts overwhelmingly argued that a change in business strategy would be vital to the success of small businesses in a post-COVID world. It is encouraging, then, to see that this element has become the most important element reported by small businesses in 2022.

Figure 65: Comparison of important business elements for the future of small businesses, 2021 and 2022⁹⁹



Digitizing business operations and improving digital marketing were also ranked relatively low in the 2021 research, whereas both scored highly in 2022. It is worth noting that the scores in 2022 were much more evenly distributed, with a large variation in the reported level of importance for each element. This suggests that SMMEs and co-operatives are beginning to look beyond the simple survival of their enterprises and towards building resilience for the future.

Looking at the data in more detail, we note that Black Africans are 65%¹⁰⁰ more likely than white South Africans to report diversifying products as the most important businesses element.

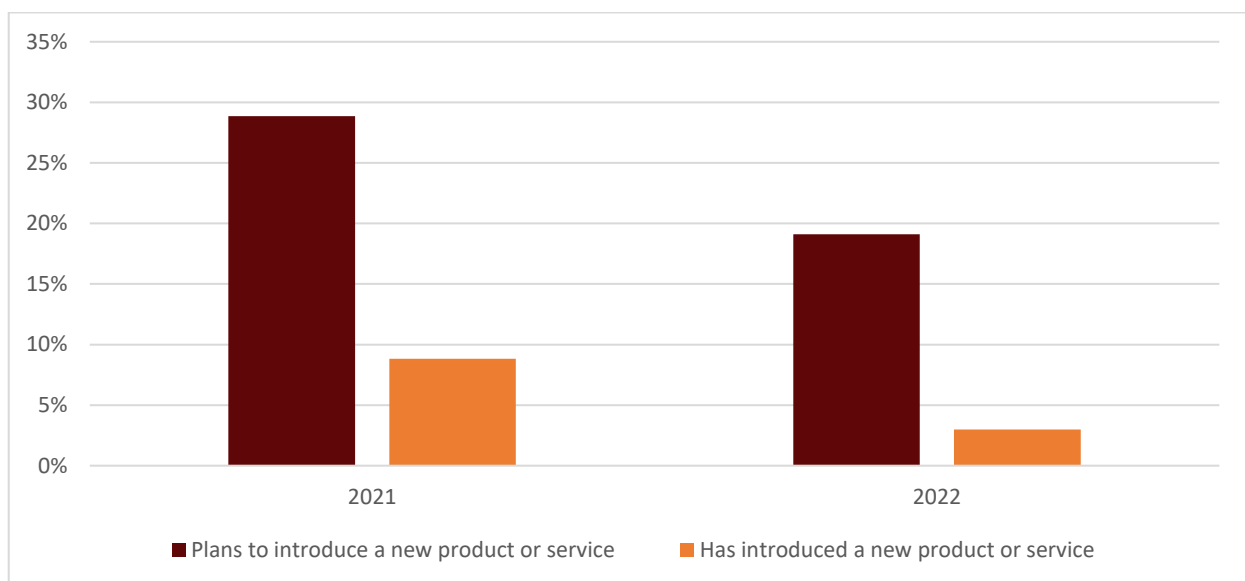
⁹⁹ Source: primary research survey

¹⁰⁰ 5% level of significance

Enterprises that have been running for five years or less are most likely to report diversifying clients as the most important business element and are 25% more likely than older enterprises to prioritize this element¹⁰¹.

Younger enterprises are also slightly more likely to report improving quality of products/services as a priority than are older enterprises, a sentiment that is shared by business owners who have higher levels of education¹⁰². Interestingly, micro enterprises are 27% less likely than medium enterprises to report reducing costs as an important business element¹⁰³. Businesses operating in townships are 32% more likely than other businesses to report digitizing operations as a priority¹⁰⁴ and informal businesses are 45% more likely than formal businesses to prioritize improving digital marketing¹⁰⁵.

Figure 66: Comparison of new product development, 2021 and 2022¹⁰⁶



¹⁰¹ 10% level of significance

¹⁰² Both findings significant at the 10% level

¹⁰³ 1% level of significance

¹⁰⁴ 10% level of significance

¹⁰⁵ 10% level of significance

¹⁰⁶ Source: primary research survey

One of the things that experts in 2021 noted as an important component for the success of SMMEs in a post-COVID world was a focus on product and service diversification¹⁰⁷. Figure 66 illustrates the outcomes from one of the measures on product diversification in our survey: the actual and planned introduction of new products or services. The figure shows that a decreasing percentage of SMMEs and co-operatives plan to introduce a new product in the near future (19%) and that only 3% of SMMEs and co-operatives did introduce a new product in the past 12 months. These figures are significantly lower than 2021, where 9% of participants had introduced a new product and nearly 30% had plans to do so.

Figure 67: Planned and actual new product development, by enterprise size (2022)¹⁰⁸

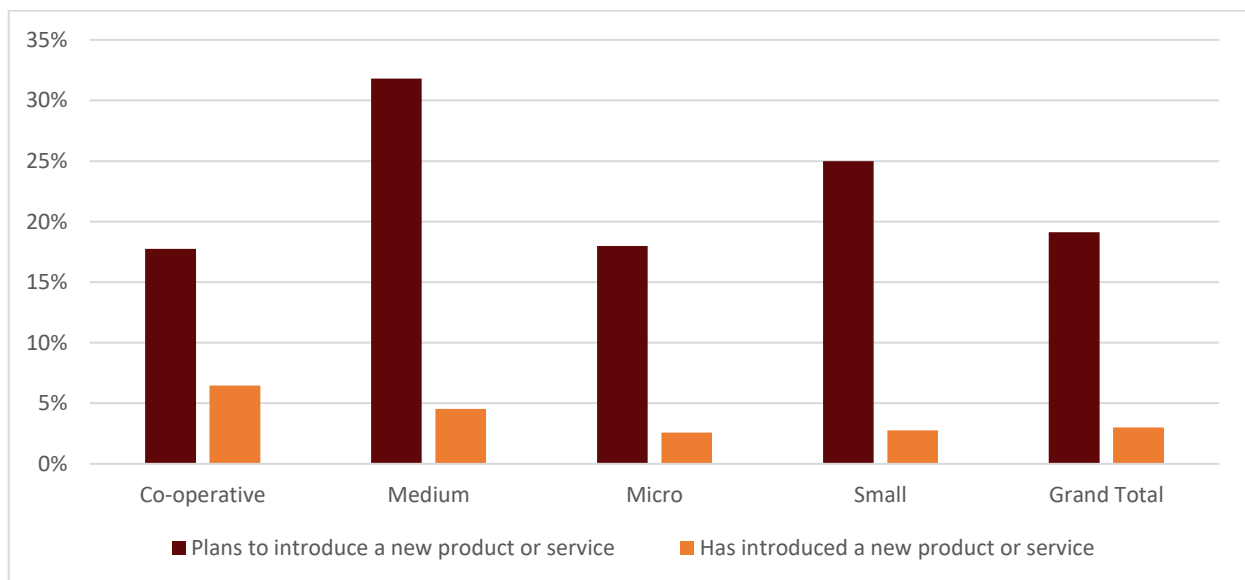


Figure 67 shows a more detailed breakdown of the planned and actual introduction of new products, by enterprise size. We note that co-operatives reported the highest percentage of new products, while medium enterprises reported the highest incidence of intention to introduce a new product. While there were no statistically significant differences across groups, further analysis of the data showed that the youth and women were slightly more likely to have introduced a new

¹⁰⁷ International Trade Center, *The SME Competitiveness Outlook 2020: COVID-19: The Great Lockdown and Its Impact on Small Business* (Geneva, 2020) <www.intracen.org>.

¹⁰⁸ Source: primary research survey

product while informal enterprises were slightly less likely than formal enterprises to have done the same.

5.2. Supporting SMMEs and co-operatives in the post-COVID world

We now turn our attention to the support that SMMEs and co-operatives are looking for in a post-COVID world. Table 10 shows the desired support identified by respondents in our survey, with each intervention receiving a score out of 10 where higher values correspond to higher importance placed on a given intervention.

Table 10: Desired support, by enterprise size, score out of 10 (2022)¹⁰⁹

	Co-operative	Medium	Micro	Small	Grand Total
Provision of utilities, such as water, electricity, and ablution facilities	2,032	1,636	2,064	1,847	2,026
Developing business plans	3,242	2,636	2,468	2,708	2,567
Better premises	7,419	7,091	7,394	7,472	7,395
Storage facilities for my equipment	3,097	3,818	3,446	3,639	3,446
Other training for my staff	3,532	3,364	3,540	3,597	3,539
Reduced taxes	3,339	2,455	3,171	3,292	3,176
Reduced regulation	4,871	5,364	5,061	5,111	5,059
Better equipment	7,290	7,364	7,429	7,194	7,391
Financing	9,694	9,818	9,796	9,750	9,783
Training for myself and my risk in business management	4,984	5,364	5,133	4,986	5,112
Training for myself and my staff in business management	5,500	6,091	5,499	5,403	5,508

Unsurprisingly, access to finance remains the most valued and sought-after intervention for all enterprises. In fact, if we were to sort the scores for each enterprise size from highest to lowest, we would find that micro, small and medium enterprises all have the same order of importance

¹⁰⁹ Source: primary research survey

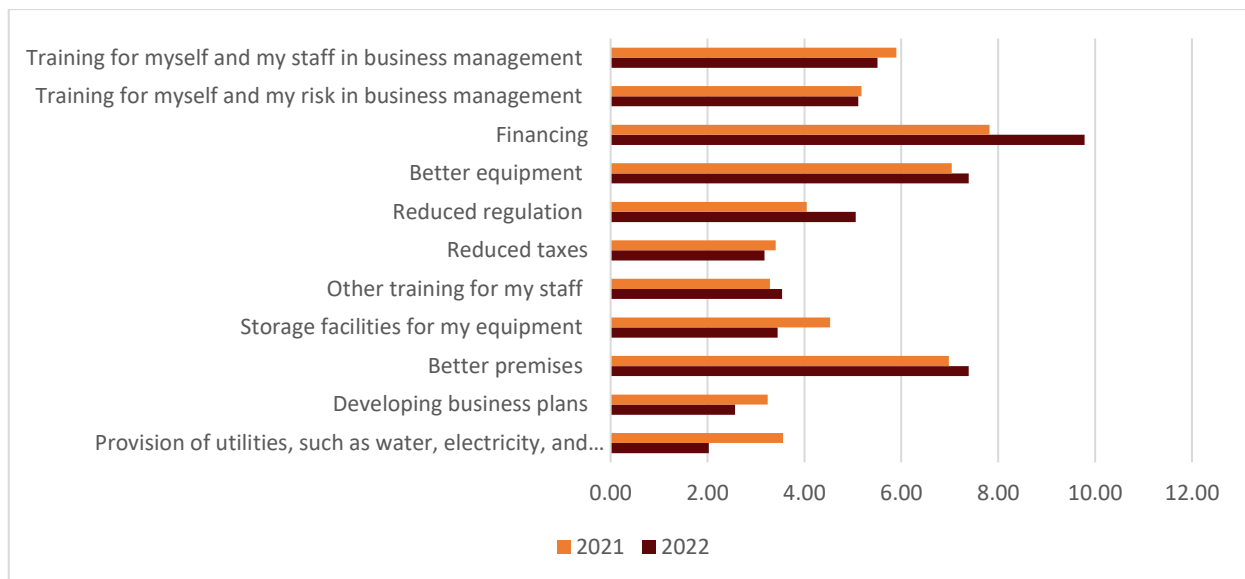
for each intervention type. Co-operatives are also consistent with the remainder of the group, with the exception that storage facilities are less important for cooperatives than for the other businesses, and reduced taxes are more important for them.

They need a women empowerment network that they can gain access to so they can build on the soft skills. ~ Expert interview

In the expert interviews, networking was noted as a primary intervention that could assist small businesses. This networking should aim to assist small businesses with finding new clients and suppliers, as well as finding mentors and advice for the challenges that they face. This type of intervention was recommended by 8 of the 16 experts interviewed.

Figure 68 illustrates the comparative scores for these different interventions across 2021 and 2022. Storage facilities have become relatively less important to small businesses over the past year, while reduced regulation has become relatively more important during the same period. A closer look at the data shows that Black Africans are 41% more likely to want financial support, relative to white South Africans, and that those operating in townships are 52% more likely to want business management training. Black Africans are also 76% more likely to prioritize risk management training but are 57% less likely to want storage facilities. Micro enterprises are also 32% more likely to want the provision of utilities than their larger counterparts, and women are 8% more likely than men to want a decrease in regulation.

Figure 68: Comparison of desired support, 2021 and 2022¹¹⁰



How can we expect them [small businesses] to move forward if they don't know the basics, if they don't have the tools and know how? ~ Expert interview

The experts in our interviews noted that a big challenge facing small businesses is a lack of access to the basics. This included basic education, such as financial and digital literacy, as well as access to basic infrastructure. Across all 16 interviews, experts noted that access to basic knowledge, tools and infrastructure should be the focus of government interventions for the time being and that extended interventions should be de-prioritized until such a time as the foundational structures in the country are in place.

¹¹⁰ Source: primary research survey

Section 6: Special Interest Case Studies

In the 2021 research, we noted that women, the youth and those living with disabilities faced unique challenges as business owners and were also less likely to access government support. In addition to this, we found that there was limited research on co-operatives and the informal sector to establish the particular challenges and needs of these groups. This section aims to overcome these gaps by investigating the specific experiences of women, the youth, those living with disabilities, the informal sector and co-operatives.

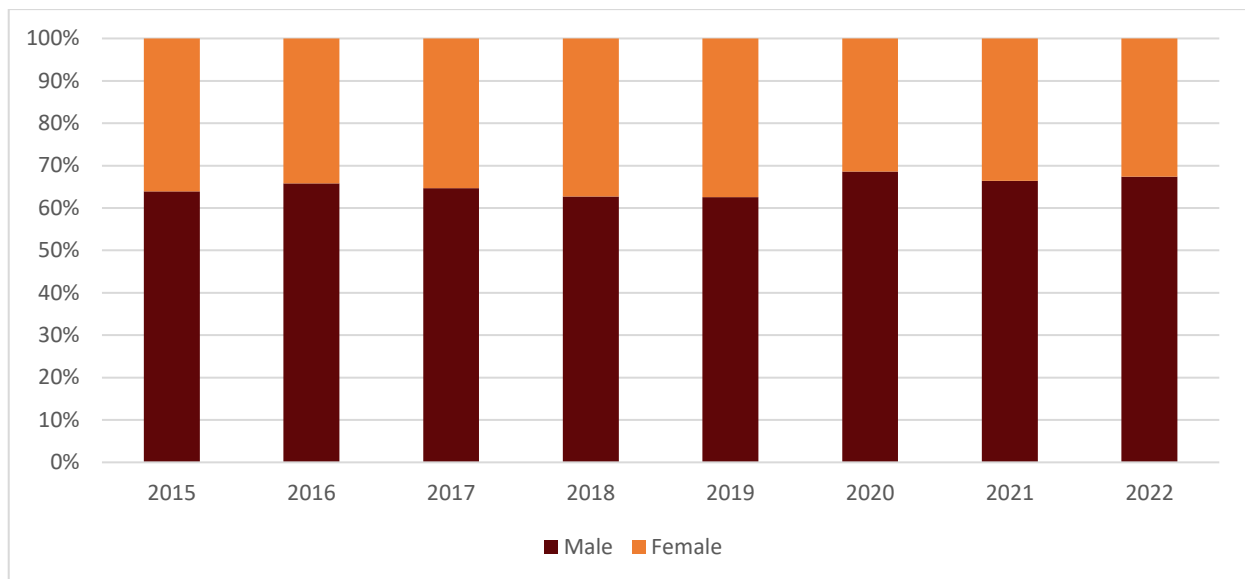
6.1. Women, the youth and those living with disabilities as business owners

6.1.1 Women as business owners in South Africa

In the most recent Quarterly Labour Force Survey, STATS SA found that 47% of South African women were recorded as economically inactive, suggesting that the production potential of women in the country remains unused¹¹¹. While the pandemic saw more people re-entering the labour market, women tend to struggle more than men with unemployment. Despite this, our 2021 report indicated that women business ownership has decreased since 2010. Figure 69 shows the percentage of business owners that are women over time, illustrating that this decline has continued into 2022: in 2021, 33,6% of all business owners were women, compared to 32,6% in the first quarter of 2022.

¹¹¹ Stats sa , 'Nearly Half of SA Women Are out of the Labour Force in Q2:2022 ' , *Quarterly Labour Force Survey*, 2022 <<https://www.stats sa .gov.za/?p=15668>> [accessed 28 August 2022].

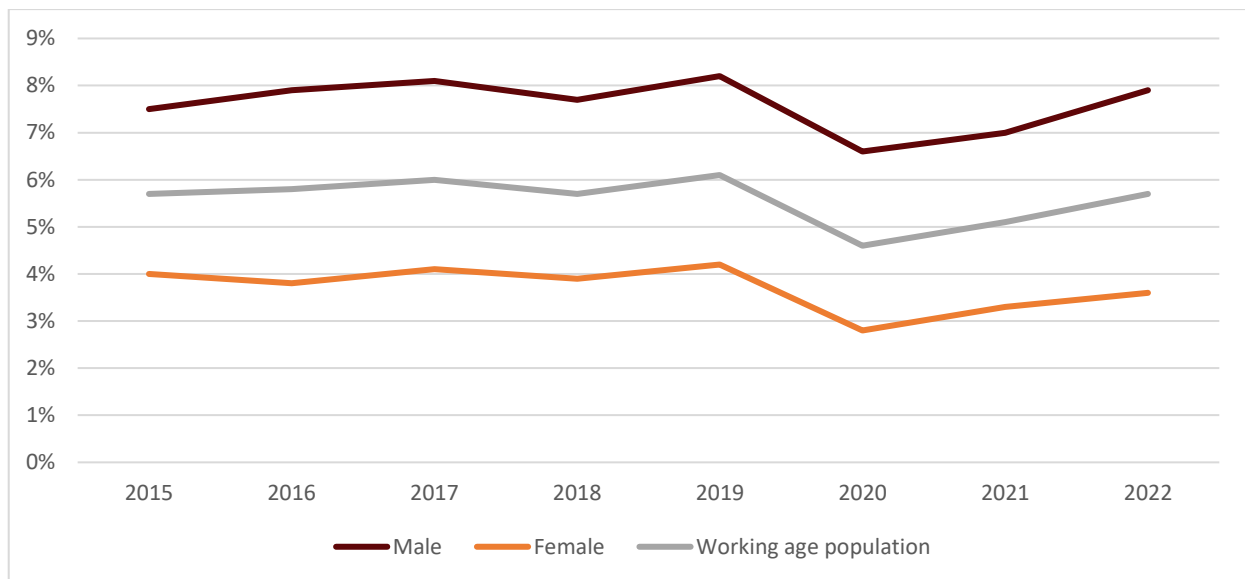
Figure 69: Gender composition of business owners over time



Similarly, while 8% of economically active men in the labour force are business owners, only 4% of economically active women own their own businesses, as shown in Figure 70 below. Women's participation as business owners has remained lower than that of men over the last decade and has consistently been lower than that of the working age population. This is in line with global findings, where women in Africa tend to have a more difficult time in converting entrepreneurial intentions into new businesses and are much less focused on internationalization and expanding beyond local markets¹¹².

¹¹² René Heavlow Amanda B. Elam, Karen D. Hughes, Maribel Guerrero, Stephen Hill, Catharina Nawangpalupi, María del Mar Fuentes, Juan Pablo Diane González, Ana Fernández Laviada, Catalina Nicolas Martínez, Murcia Alicia Rubio Bañón, Murcia, Nihel Chabarak, Candida Brush, *Women's Entrepreneurship Report*, 2021.

Figure 70: Business owners as a percentage of population groups, by gender

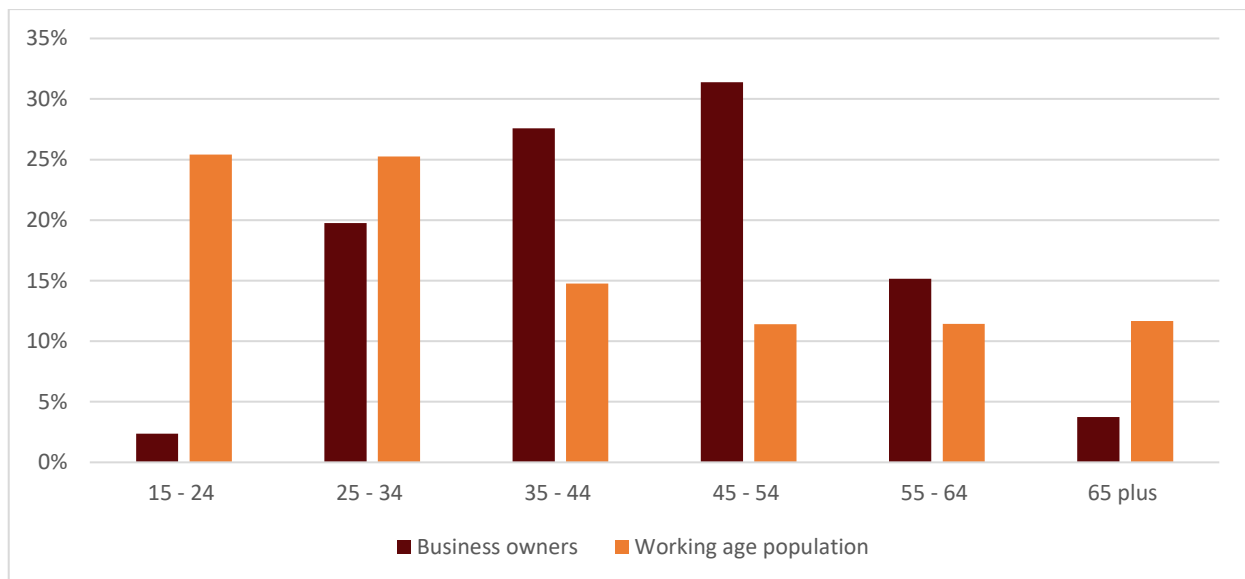


While international evidence suggests that most women business owners are between the ages of 35 and 45¹¹³, lower-income countries tend to have younger female entrepreneurs¹¹⁴. In South Africa, women business owners tend to be aged between 35 and 54, with most being married and having children. The age distribution of women business owners is shown in Figure 71 **Error! Reference source not found.**, below.

¹¹³ Agholor Ewere Deborah and others, 'Challenges Faced by Women Entrepreneurs and Strategies Adopted by Women Entrepreneurs to Ensure Small Business Success in Nkonkobe Municipality, South Africa', *Journal of Economics*, 6.1 (2015), 37–49 <<https://doi.org/10.1080/09765239.2015.11885015>>.

¹¹⁴ Amanda B. Elam, Karen D. Hughes, Maribel Guerrero, Stephen Hill, Catharina Nawangpalupi, María del Mar Fuentes, Juan Pablo Diane González, Ana Fernández Laviada, Catalina Nicolas Martínez, Murcia Alicia Rubio Bañón, Murcia, Nihel Chabrak, Candida Brush,.

Figure 71: Age distribution of women business owners



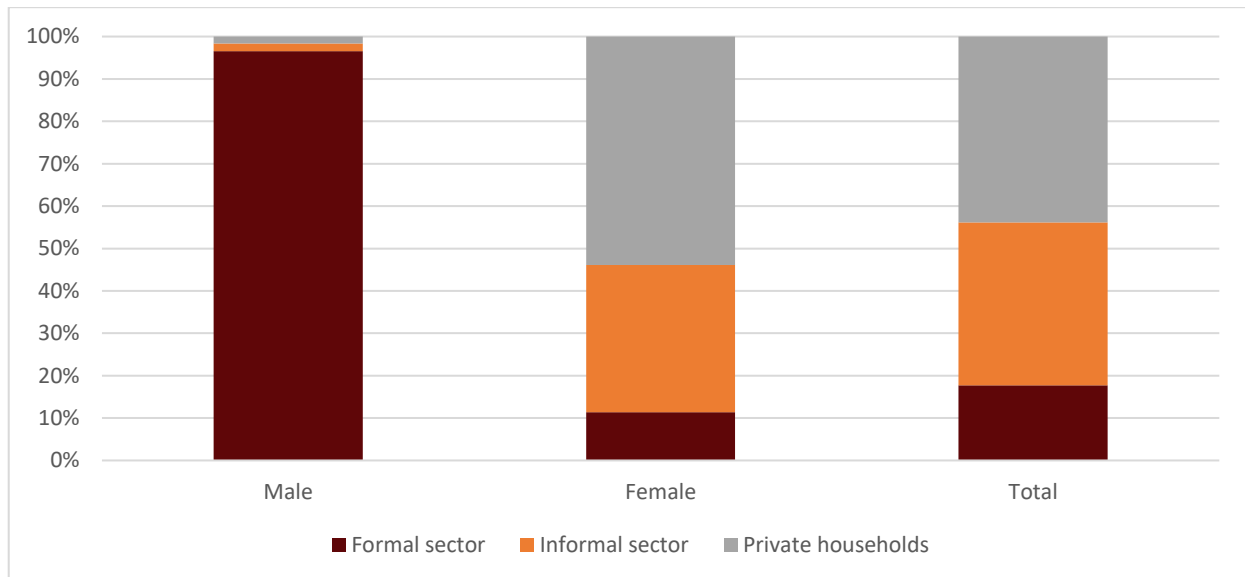
In the developing world, research suggests that women are motivated to start their own businesses out of a sense of personal integrity, where a desire for independence, control and flexibility are combined with a desire to live based on a set of personal value systems that women struggle to find within the organizations at which they have been employed¹¹⁵. In stark contrast, the developing world finds that women entrepreneurs and business owners are largely necessity-driven, where the push to begin their own businesses comes from simply having no other way to generate an income and provide for their families¹¹⁶.

This is supported by the data analyzed for this study, where women business owners were far more likely to operate in private households and the informal sector than their male counterparts, as shown by Figure 72 below. Women business owners in South Africa are also slightly more likely to operate in rural areas and are significantly more likely to work in wholesale and retail and in personal services than their male counterparts.

¹¹⁵ Deborah and others.

¹¹⁶ Colin C. Williams and Abbi Kadir, 'Contesting the Underperformance Thesis of Women Entrepreneurs: Firm-Level Evidence from South Africa', *International Journal of Management and Enterprise Development*, 17.1 (2018), 21–35 <<https://doi.org/10.1504/IJMED.2018.088327>>.

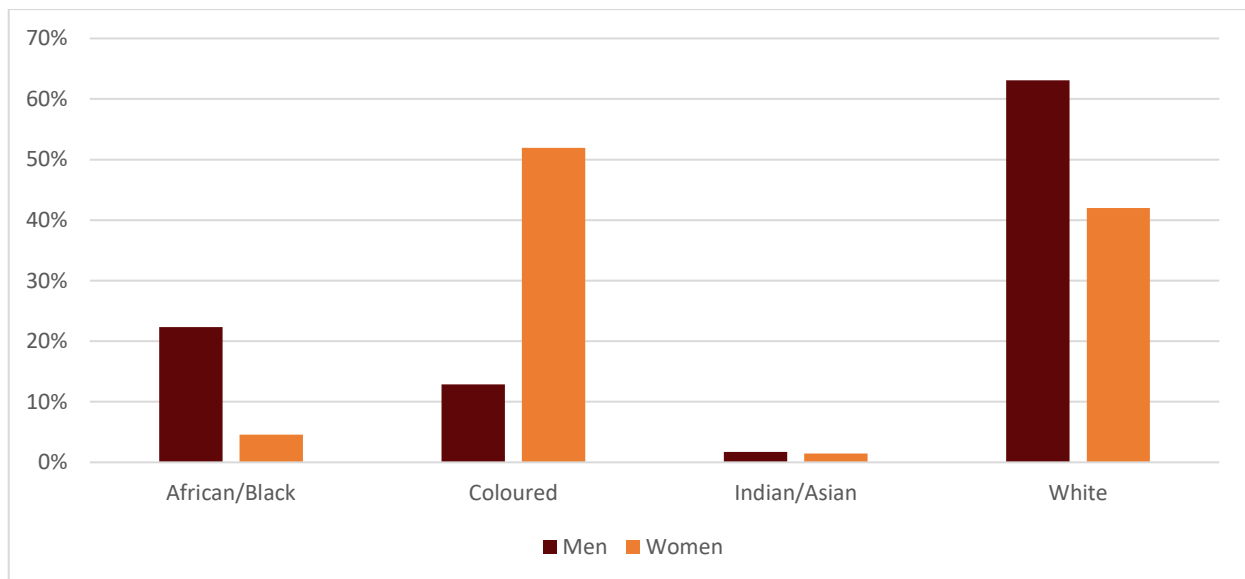
Figure 72: Sector distribution of business owners, by gender



While most small businesses face unique challenges to entrepreneurship, women business owners face “particular gender-based problems and challenges”¹¹⁷ when starting and running a business. Our 2021 research showed that Black African women were the most likely to struggle with accessing support for their businesses, and research shows that these women are also the most likely to struggle with securing employment. Despite this, Black African women make up only 5% of all women business owners in the country, as illustrated by Figure 73.

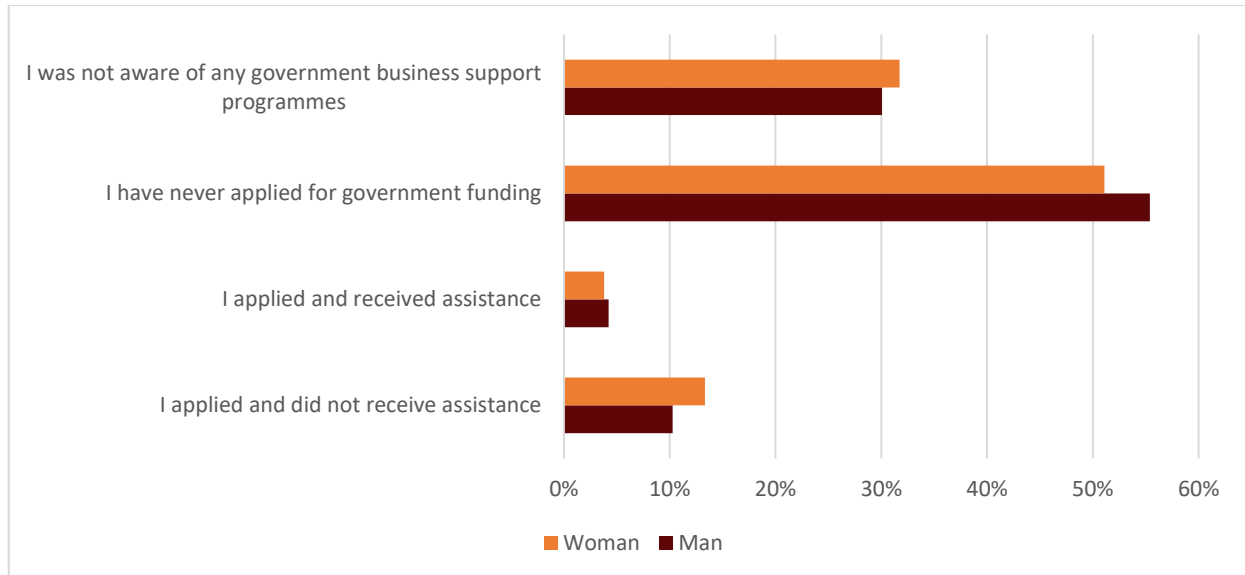
¹¹⁷ Deborah and others.

Figure 73: Population group distribution of business owners, by gender



Women face unique challenges in business ownership and research suggests that they are less able to access government support than men. For instance, while access to finance is a significant challenge faced by most small business owners, women report struggling to access finance more than what men do. In the South African context, women are also less likely to access government support. As illustrated in Figure 74, while women were more likely to apply for government support, they were less likely than men to receive this support.

Figure 74: Access to government support, by gender (2022)¹¹⁸

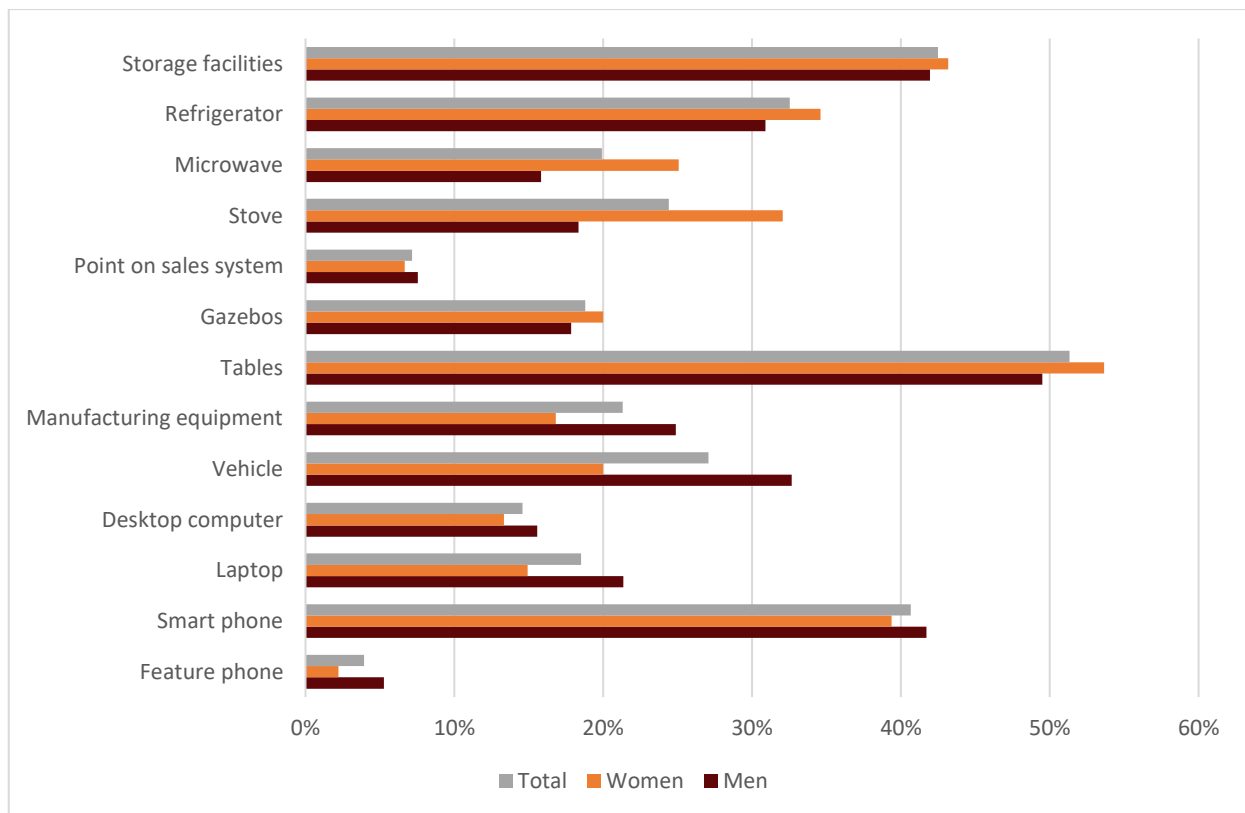


Women business owners also face unique gendered constraints to business ownership with regards to the time and resources that they have available to them. In South Africa, women tend to have lower incomes, lower savings rates and higher domestic burdens than men¹¹⁹. With higher demands on their time outside of work, less capital and lower access to finance, women entrepreneurs face significant struggles in their efforts to establish their businesses. Figure 75^{Error! Reference source not found.}, above, illustrates the reported asset ownership of businesses in our survey in 2021. The data shows that women business owners are more likely than men to own assets associated with face-to-face enterprises and personal services businesses – such as tables and gazebos - and are less likely than men to own higher-value assets such as laptops and smartphones.

¹¹⁸ Source: primary research survey

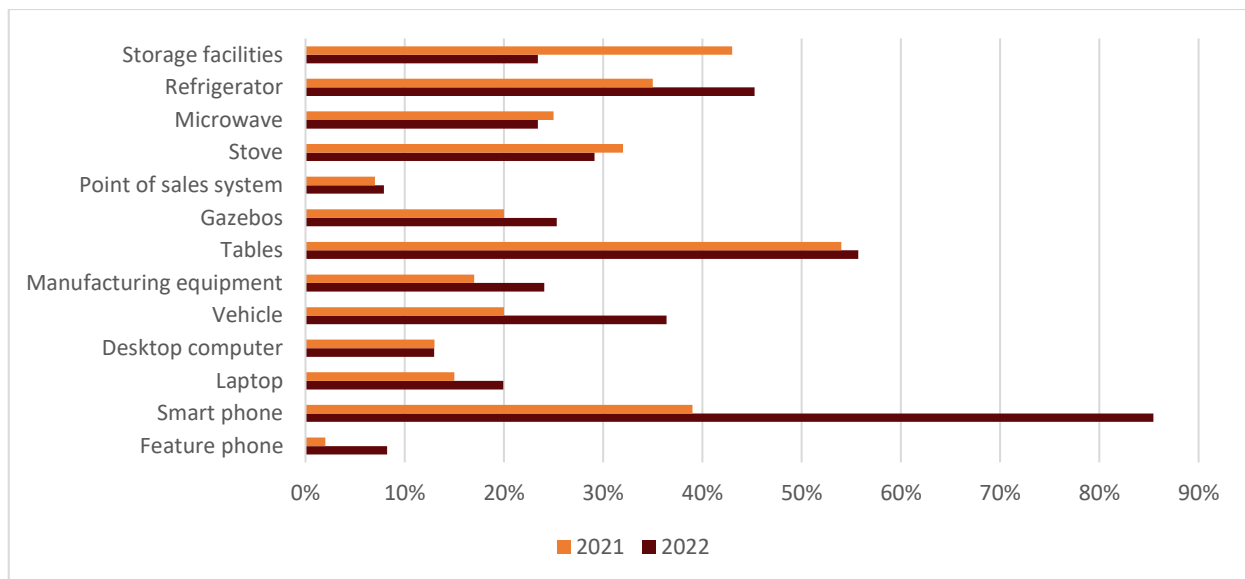
¹¹⁹ Williams and Kedir.

Figure 75: Business asset ownership in South Africa (2021)



2022, however, saw a different picture emerge: women increased their asset ownership by significant amounts, often outperforming their male counterparts. Nearly 90% of women business owners in our survey owned a smartphone, compared with only 40% in 2021. Figure 76 shows the comparison of asset ownership by women business owners between 2021 and 2022. We see that women have increased their ownership of most assets, excluding storage facilities, microwaves and stoves. Significant increases have also occurred in high-value assets, such as a business vehicle where nearly 40% of women business owners in our survey report owning one in 2022.

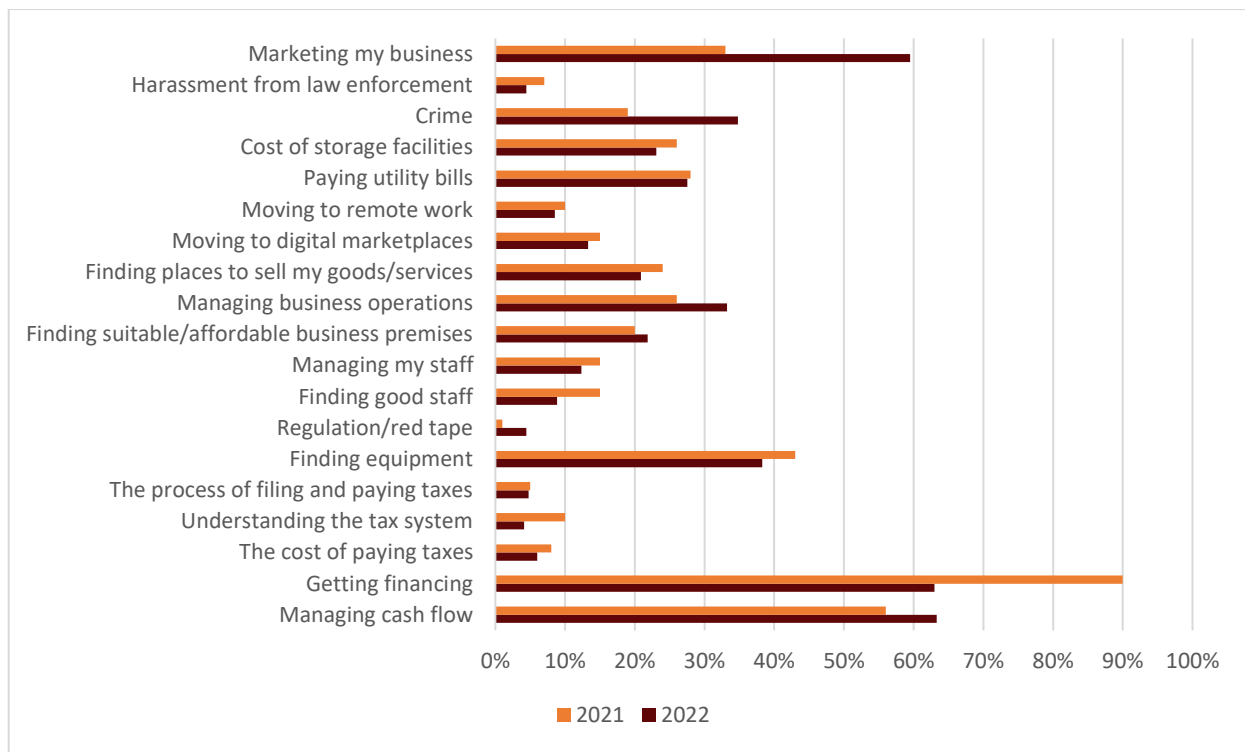
Figure 76: Comparison of asset ownership by women business owners, 2021 and 2022¹²⁰



When investigating the challenges experienced by women business owners, our research shows that getting financing is the most frequently reported challenge in both 2021 and 2022, as shown in Figure 77. Managing cash flow and marketing their business were the next most commonly reported challenges by women. While women are statistically less likely to receive government assistance, the 2022 research showed no statistically significant relationship between gender and the reported challenges faced. In other words, men and women were equally likely to struggle with any given challenge.

¹²⁰ Source: primary research survey

Figure 77: Comparison of reported challenges faced by women business owners, 2021 and 2022¹²¹



Odeku¹²² investigated the impacts of COVID-19 on women entrepreneurs and found that the nature of women-owned businesses also makes them more susceptible to economic shocks. Women are most likely to operate small retail and wholesale businesses, personal service businesses and businesses operating in tourism and catering. These enterprises were all considered non-essential during the COVID-19 lockdowns and were, therefore, severely impacted by the pandemic. Furthermore, these industries are highly dependent on discretionary spending from consumers and, with increasing consumer prices and unemployment, demand for these products and services is extremely volatile.

Figure 78 illustrates the reported struggles faced by women business owners during COVID-19, as reported in our survey. These findings reinforce Odeku's results, with decreased sales and

¹²¹ Source: primary research survey

¹²² 'The Plight of Women Entrepreneurs During COVID-19 Pandemic Lockdown in South Africa', *Gender and Behaviour*, 18.3 (2020), 9–25.

struggles with cashflow being the struggles that had the biggest impact on women business owners during the pandemic.

Figure 78: Struggles faced by women business owners (2021)¹²³

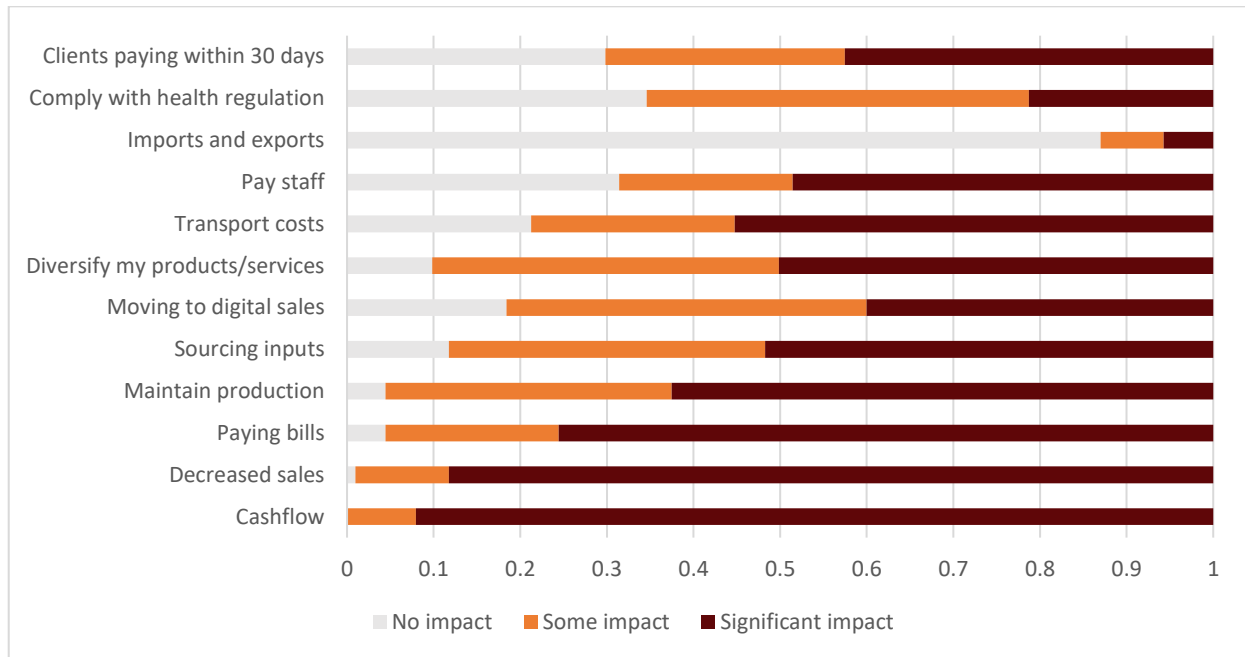
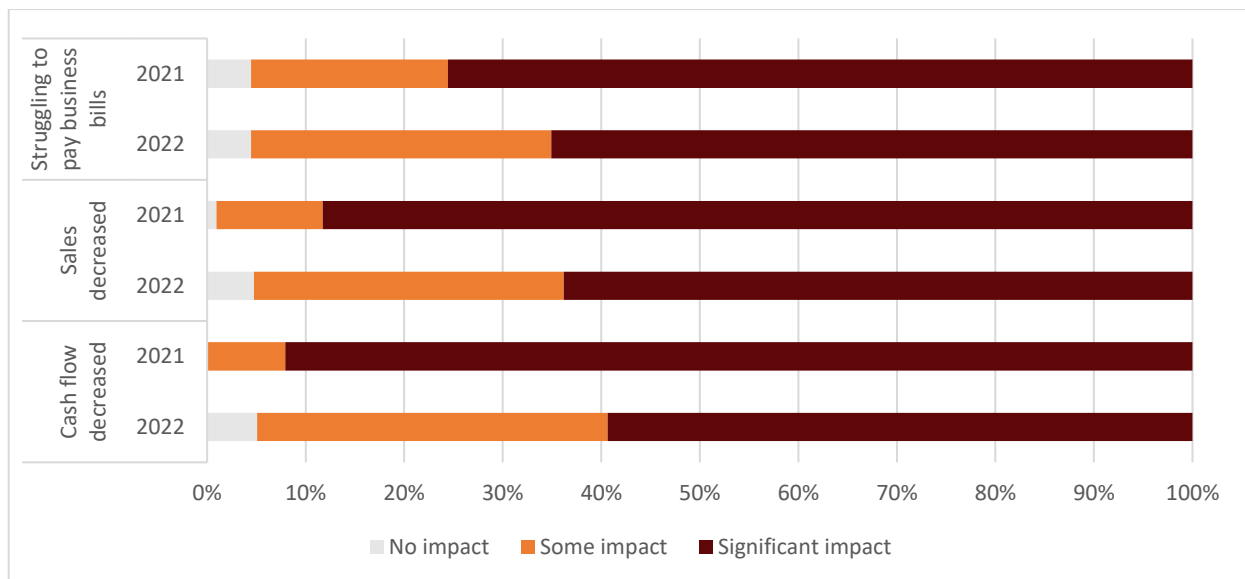


Figure 79 takes a closer look at these challenges and compares the reported incidence of the top 3 challenges for women in the 2021 and 2022 survey. We see that, overall, the severity of impact lessened in 2022 with fewer women reporting these challenges as having a significant impact on their businesses.

¹²³ Source: primary research survey

Figure 79: Comparison of top 3 challenges faced in the past 12 months, 2021 and 2022¹²⁴



In addition to the above challenges, research suggests that both perceived and actual skills and knowledge gaps are limiting to female entrepreneurs. Research also shows that women-owned enterprises are usually viewed as less successful than male-owned enterprises¹²⁵ and that women, in general, have less access to role models and mentors in the business world¹²⁶. Globally, women report an average of 20% lower confidence than men in their ability to start a business¹²⁷ and women in South Africa are even more likely to report low confidence in their own skills¹²⁸.

¹²⁴ Source: primary research survey

¹²⁵ Williams and Kadir.

¹²⁶ Amanda B. Elam, Karen D. Hughes, Maribel Guerrero, Stephen Hill, Catharina Nawangpalupi, María del Mar Fuentes, Juan Pablo Dianez González, Ana Fernández Laviada, Catalina Nicolas Martínez, Murcia Alicia Rubio Bañón, Murcia, Nihel Chabrak, Candida Brush,.

¹²⁷ Amanda B. Elam, Karen D. Hughes, Maribel Guerrero, Stephen Hill, Catharina Nawangpalupi, María del Mar Fuentes, Juan Pablo Dianez González, Ana Fernández Laviada, Catalina Nicolas Martínez, Murcia Alicia Rubio Bañón, Murcia, Nihel Chabrak, Candida Brush,.

¹²⁸ Odeku.

Of course, the challenges experienced by women entrepreneurs in South Africa is not unique. In a longitudinal study conducted in Kampala, Uganda, Monteith and Camfield¹²⁹ use a series of qualitative interviews over 4 years to investigate the life cycle of female-owned businesses and the importance of familial support in establishing successful enterprises. Their findings were that entrepreneurship and business ownership by women was both motivated and sustained by family: women began businesses as a means for supporting parents, children and extended family.

While entrepreneurial activities were focused on supporting their families, they were also developed as a process of negotiation with these families: gender-based constraints on income and movement meant that young women often had to negotiate with parents and aunts to find partners to assist in establishing their businesses. These partners were usually other female family members, whose support was often granted on the condition of the business supporting their own family. Extended family networks form the basis for most business “plans” for these women and form both a source of inputs and sales for many new business owners.

Having started a business, the long-term success and sustainability thereof often relied on the support of their spouses. Women business owners were significantly constrained in their ability to expand, develop and grow their businesses by the degree to which their spouse was supportive of their entrepreneurial activities. Where spouses felt that the business reduced a woman’s domestic inputs – or where they were uncomfortable with the level of independent income that the women were receiving – businesses often remained small or even closed.

On the other hand, when spouses felt that a woman’s business was able to contribute to the long-term growth and stability of the family, the businesses were more likely to grow. This research highlights the social and cultural constraints on entrepreneurship for many women in Africa: even when they are able to pursue entrepreneurship and advance their own businesses, this effort remains driven by the extent to which it can positively contribute to the rest of the family, rather than by the woman’s desires and interests alone.

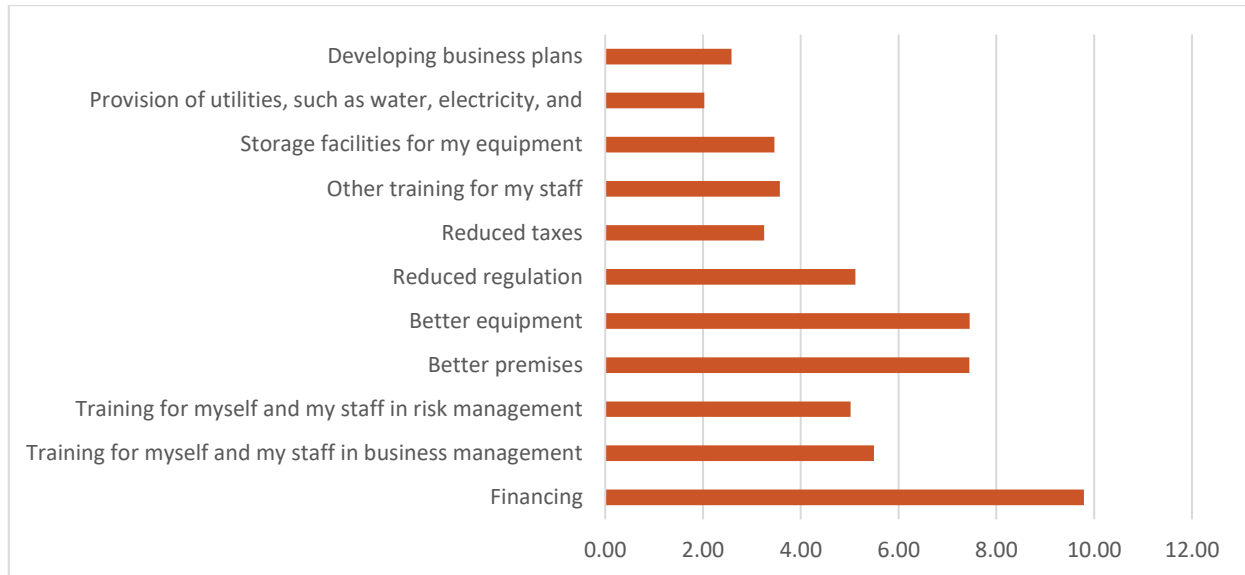
¹²⁹ ‘Business as Family, Family as Business: Female Entrepreneurship in Kampala, Uganda’, *Geoforum*, 101, February (2019), 111–21 <<https://doi.org/10.1016/j.geoforum.2019.03.003>>.

In the expert interviews, several experts noted that while there are strong policies in place to support women entrepreneurs, these policies have yet to translate to changes in the lived experiences of women in the country. One expert noted that women still feel the need to work with a male counterpart to make progress with their businesses, and that they write male names on applications for support, in order to increase their chances of receiving this support.

The change is on paper. Women put down male names. The change is there but there is a trivial change. Women still feel that the sector is male dominant and that they will only be successful if they are linked to a male. ~ Expert interview

When considering the support that women entrepreneurs in South Africa are looking for, we find women prioritize financing, equipment and premises in the support that they are looking for, as shown in Figure 80, below. When asked about their immediate business goals, women entrepreneurs reported that stabilizing finances was the most important goal in the short term. Second to this was maintaining and increasing their client base.

Figure 80: Types of support wanted by women entrepreneurs, 2022¹³⁰



With regards to the longer-term plans that they believed would be important for the future of their businesses, women believed that diversifying their products and clients would be most important in creating a resilient business for the future. Despite this, only 19% of women business owners in our survey reported plans to introduce a new product or service, and less than 4% had introduced a new product or service in the past year (see Figure 81).

¹³⁰ Source: primary research survey

Figure 81: Actual and planned changes to products and business operations reported by women business owners, 2022¹³¹



In spite of all the challenges that women entrepreneurs in the country face, the survey data showed that they were 6% more likely than men to report an increase in turnover in the past 12 months. While women-owned businesses are, clearly, resilient there is much that can be done to improve government support granted to these businesses.

6.1.2 The Youth as business owners in South Africa

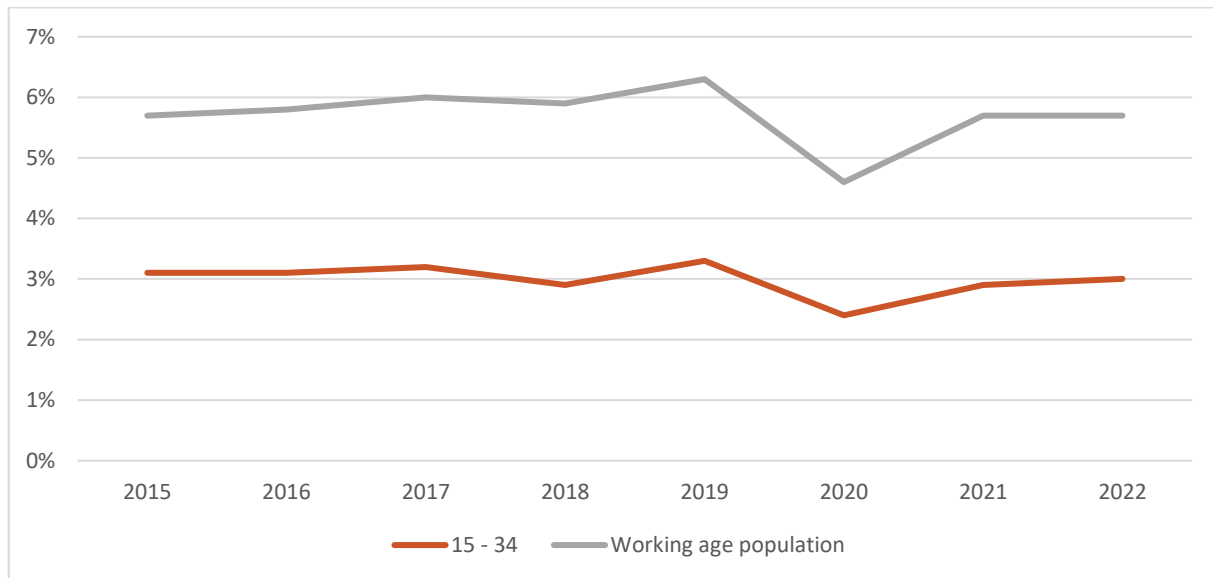
Youth unemployment has been of significant concern in South Africa from as early as 2002, when Mamphela Ramphele – a director at the World Bank – stated that “unemployment remains the biggest thief of hope amongst young people”¹³². In 2022, youth unemployment rates reached 66,5%, with over 7 million youth having left the labour market due to discouragement and losing hope of finding work. Although entrepreneurship has been considered a potential solution to the

¹³¹ Source: primary research survey

¹³² Elli Yiannakaris, ‘Youth Entrepreneurship: A Realistic Strategy for Alleviating Youth Unemployment?’, in *Youth in South Africa: Agency, (in)Visibility and National Development*, 2022.

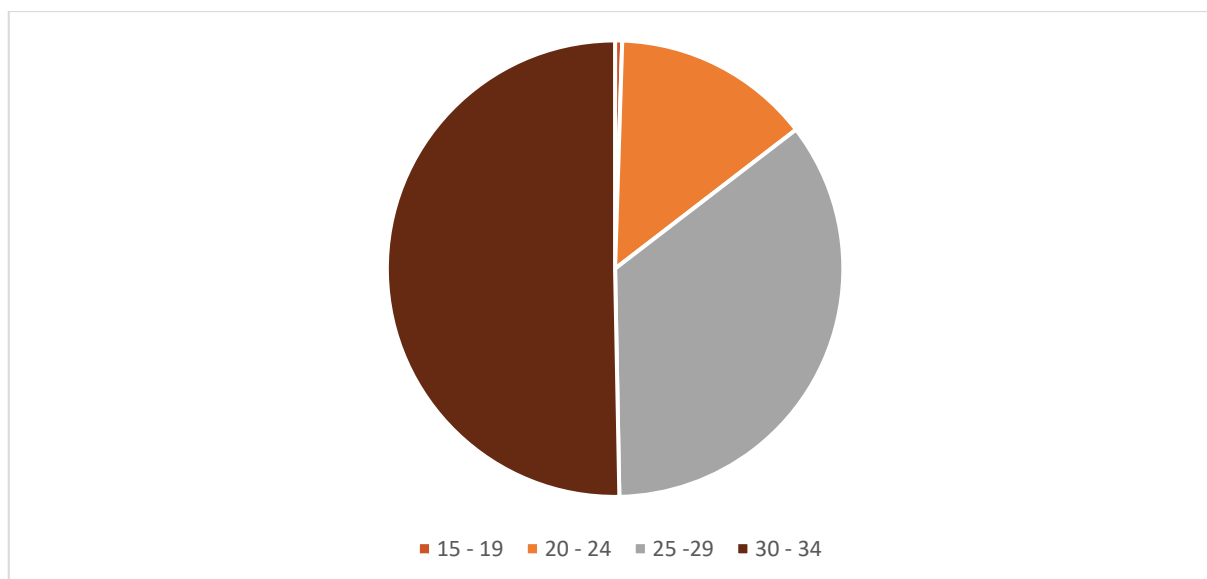
problem of youth unemployment, the percentage of youth who have their own business is only 3% and has remained relatively constant over time, as shown in Figure 82.

Figure 82: Percentage of youth that are business owners



Among the youth, business ownership appears to increase with age, with the bulk of young business owners being between 30 and 34 years of age, as shown in Figure 83. The graph clearly shows that youth business ownership increases with age, with less than 1% of all youth business owners being between 15 and 19 years old.

Figure 83: Age distribution of young business owners



The majority of youth business owners are Black African, with most population groups showing similar patterns in business ownership among the youth and the working age population, as shown in Figure 84. The only exception is for white South Africans, where there are fewer business owners among the youth than among the working age population. This is likely due to the fact that white South Africans are significantly more likely to complete both secondary and tertiary education and are more likely to complete these as full-time students¹³³.

Youth entrepreneurs go into it by default because there's no other option. What generally tends to happen is as much as necessities is the matter of invention; it's not necessarily the matter of innovation. ~ Expert interview

The expert interviews indicated that the youth often start businesses out of desperation, and as a means to earn an income while they continue to look for full-time work. This means that their businesses are not intended as long-term solutions or endeavors and that they do not take the

¹³³ Servaas Van Der Berg and Heleen Hofmeyr, *An Incomplete Transition: Overcoming the Legacy of Exclusion in South Africa*, 2018.

time to plan out sustainable business models. Instead, they use informal businesses as a quick way to work towards some income while they wait for a more permanent solution.

Figure 84: Distribution of young business owners by population group

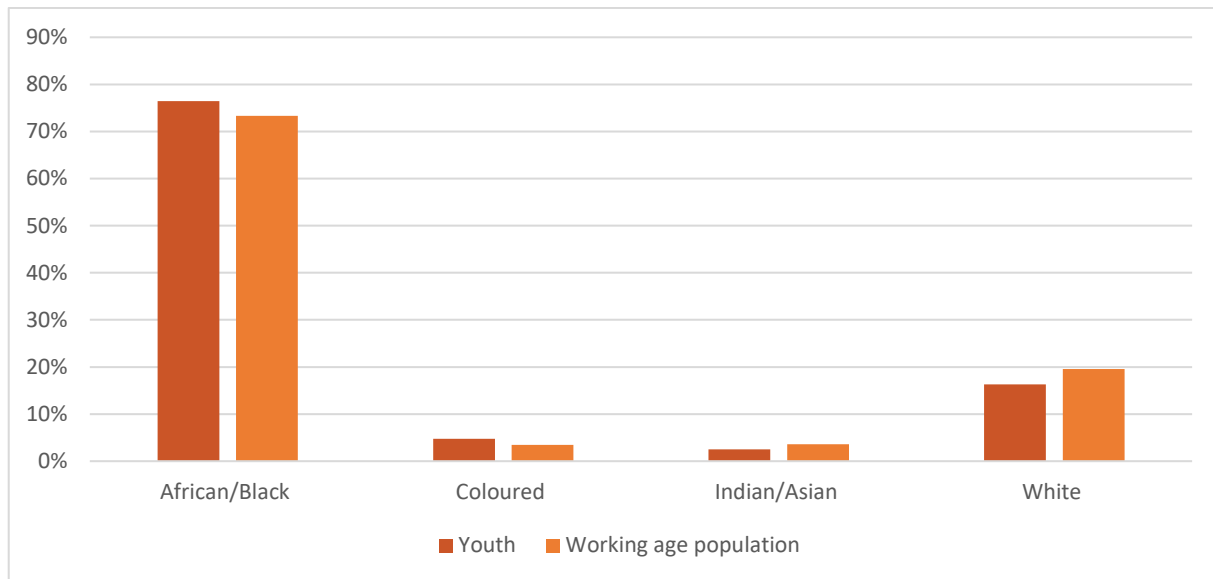


Figure 85 shows the distribution of youth business owners compared to business owners in the working age population across geography types. We see that there are no significant differences in the geographies where youth are likely to work when compared to the working age population as a whole. However, the youth are far more likely to own business that operate informally than business owners in general in South Africa, with 81% of youth business owners operating informally compared to 62% across the working age population (see Figure 86).

Figure 85: Geographic distribution of young business owners

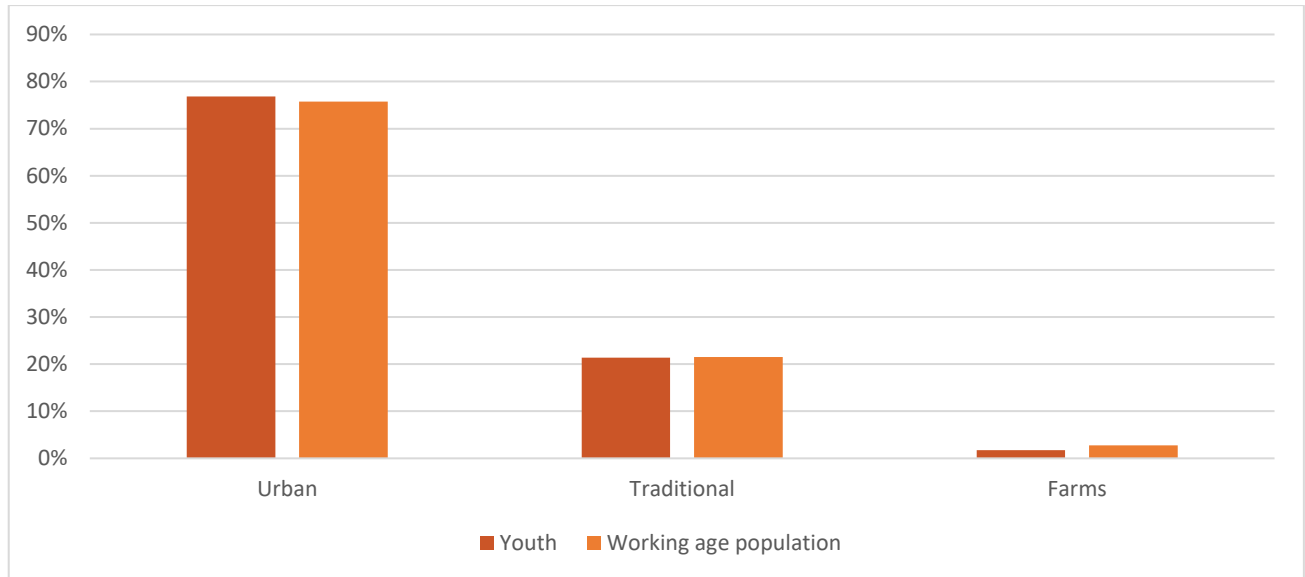
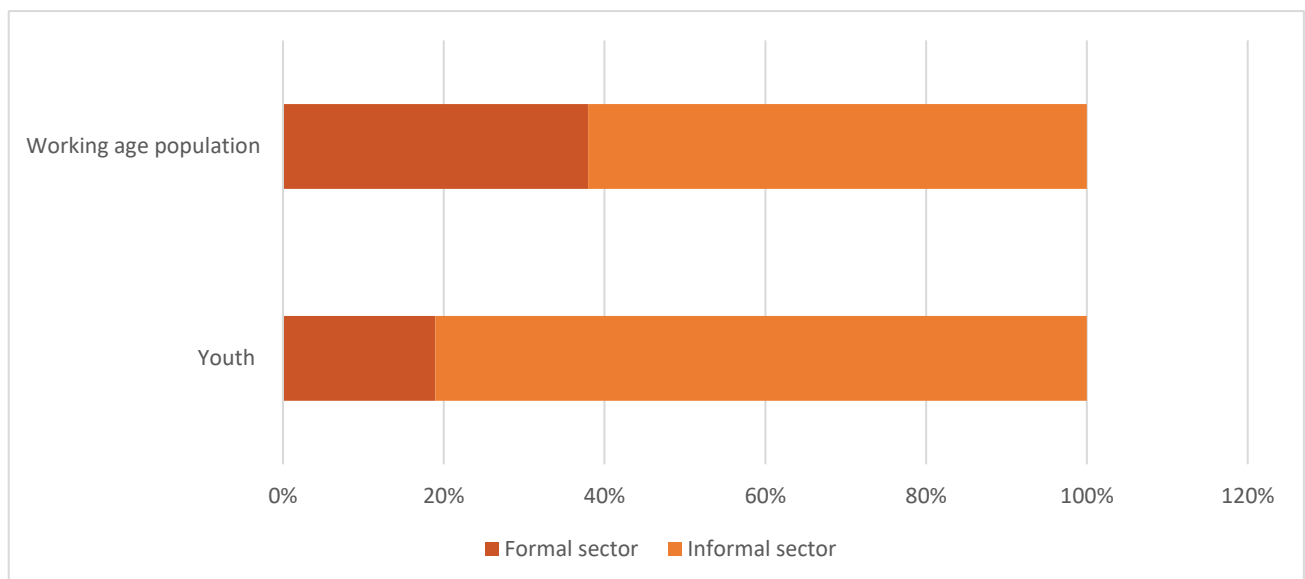


Figure 86: Business owners by sector and age group



Importantly, while government has argued that youth entrepreneurship is a potential solution to the low levels of youth employment in the country, other research has also suggested that low

youth engagement in small business ownership could be the driving force behind lagging SMME performance in the country¹³⁴. However, youth entrepreneurial intention in the country remains low, alongside the actualized entrepreneurial efforts¹³⁵. Where research showed that women had high intentions for starting businesses, but struggled to realize these intentions, the intentions themselves remain low among the youth in the country. This was echoed in the expert interviews, which argued that the education system is not designed to produce entrepreneurs and businesspeople. The experts believed that a redesigned education system with a focus on “getting the basics right” and developing entrepreneurial skills would improve outcomes for the youth and for small businesses in general.

The education system has failed, because the education was not developed to produce entrepreneurs. ~ Expert interviews

When investigating the driving force behind low entrepreneurial intentions, Fatoki and Chindoga¹³⁶ found that lack of savings, fear of crime and not having any business ideas as the primary challenges to starting a business. Importantly, lower-income participants also listed not having any support and not knowing anyone who was an entrepreneur as additional barriers to considering entrepreneurship¹³⁷. These findings were echoed by Gwija et al¹³⁸ who found that South African youth were predominantly deterred from engaging in entrepreneurial activities due to a lack of knowledge on the support structures available and feeling that their community would not support their venture.

¹³⁴ Jean-marie Mbuya, Chuma Diniso, and Amanda Mphahlele, ‘Youth Entrepreneurship in South Africa : A Progress Review’, 2021, pp. 1–18.

¹³⁵ Olawale Fatoki and Lynety Chindoga, ‘An Investigation into the Obstacles to Youth Entrepreneurship in South Africa’, *International Business Research*, 4.2 (2011) <<https://doi.org/10.5539/ibr.v4n2p161>>.

¹³⁶

¹³⁷ Fatoki and Chindoga.

¹³⁸ ‘Challenges and Prospects of Youth Entrepreneurship Development in a Designated Community in the Western Cape, South Africa’, *Journal of Economics and Behavioral Studies*, 6.1 (2014), 10–20 <<https://doi.org/10.22610/jebbs.v6i1.465>>.

Of course, lack of finance is a consistent challenge faced by any SMME owner – whether young or old – but our research argued that providing funding is not always the right solution. Indeed, even when funding and loans are appropriate interventions, there are many challenges that need to be overcome to ensure its effectiveness. A study of financing interventions provided to youth entrepreneurs in Kenya investigated the effectiveness of government loans in improving business outcomes for young entrepreneurs¹³⁹.

The study found that lending conditions hinder youth access to finance and significantly impact the effectiveness of financing as an intervention if it was granted. The largest barriers to accessing finance in this study were red tape on loan processing and applications, as well as requirements around age and business registration¹⁴⁰. With regards to the effectiveness of loans as a government intervention for the youth, disbursement times were a significant predictor of whether a loan would be effective in improving the long-term outcomes of an enterprise. Long disbursement times usually worsened the financial status of an enterprise, as loans were usually applied for when the entrepreneur was in urgent need of bridging capital or other funding to take up a time-sensitive opportunity¹⁴¹.

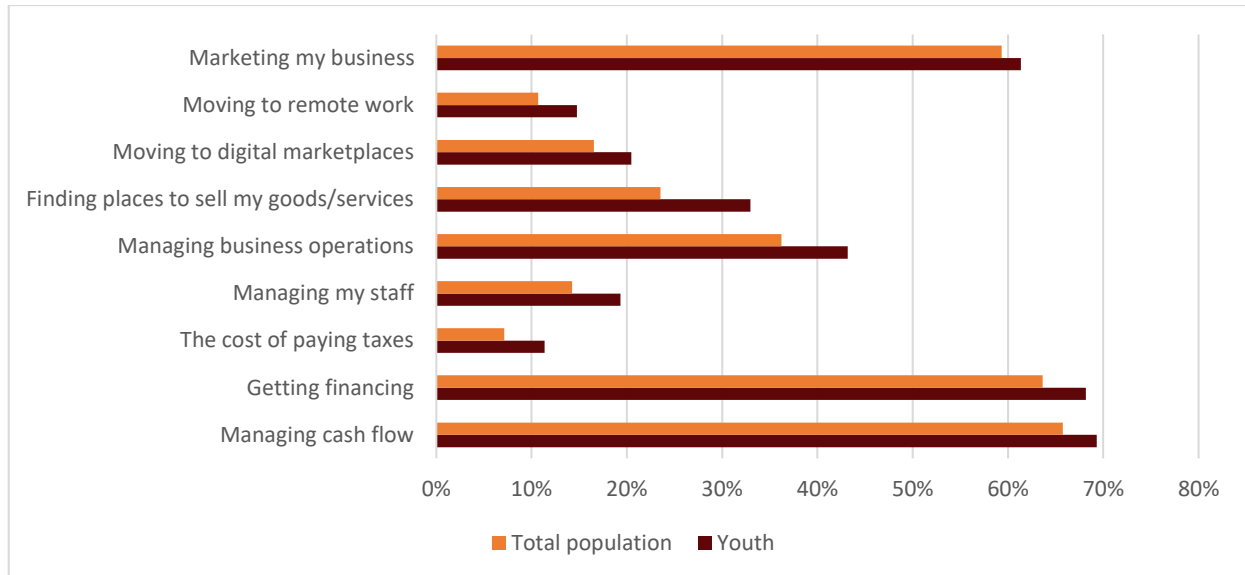
In our study, several challenges were reported more frequently by the youth than by the general population, with these differences being statistically significant at the 10% level. Figure 87 illustrates these challenges. The most common of these are managing cash flow, getting financing and marketing my business. The youth also struggled significantly more than the general population with the cost of paying taxes and managing both business operations and their staff.

¹³⁹ Abdulahi Gababa Issa and Felix Kiruthu, 'EFFECT OF YOUTH ENTERPRISE DEVELOPMENT FUND ON THE PERFORMANCE OF YOUTH ENTERPRISES IN MARSABIT COUNTY, KENYA', *International Academic Journal of Law and Society* /, 1.2, 138–64 <http://www.iajournals.org/articles/iajls_v1_i2_138_164.pdf> [accessed 21 August 2022].

¹⁴⁰ Gababa Issa and Kiruthu.

¹⁴¹ Gababa Issa and Kiruthu.

Figure 87: Most important challenges faced by young entrepreneurs, 2022¹⁴²



Interestingly, the youth were also more likely to report struggling with moving to digital marketplaces and to remote work. This is of particular interest as one would expect that the youth are more digitally-savvy than their older counterparts. One potential explanation for youth finding marketing and the move to digital marketplaces to be more challenging is a lack of access to the technology required to effectively work online. While our research does suggest that young business owners have fewer assets than business owners more generally (see Figure 88), smartphone and laptop access is almost equal between the two groups, suggesting that this is not the driving force behind these challenges.

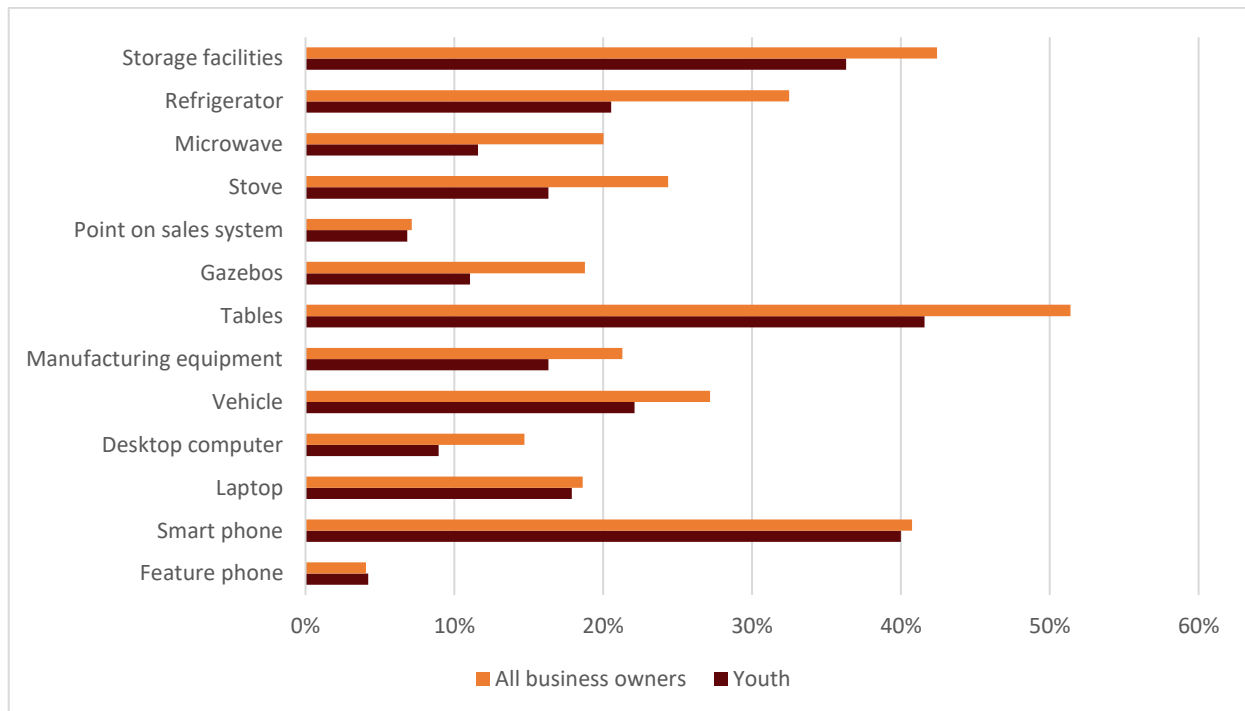
They don't have the luxury to go into a tech space to learn more on how to create new innovations. So, they start off with selling fast foods, setting up salons etc. ~ Expert interview

The expert interviews argued that technology-based businesses require higher capital investments, more advanced business skills and higher risk than many other business

¹⁴² Source: primary research survey

opportunities in the communities. This was the primary reason given for a lack of digital uptake and technology-based businesses among the youth.

Figure 88: Asset ownership of youth business owners, 2022



Another hypothesis is that young people struggle more with these aspects of their businesses because they understand the importance of them and place higher value on these elements. The data supports this argument somewhat: when asked to rank their goals from most to least important, both young business owners and others prioritized first getting new clients and stabilizing finances. Improving marketing and digital skills were ranked as the third and fourth most important goals for young business owners, while these were among the least important objectives for older business owners.

This difference in priorities is an important component to explore further in this years' research and with the experts on youth entrepreneurship in the country because significant research

suggests that a focus on marketing, and an ability to digitize sales, distil market insights and identify and evaluate innovations and business ideas are the key indicators for success for young entrepreneurs¹⁴³.

In a detailed study conducted in Kenya, researchers found that marketing skills – which included traditional marketing, as well as the development of long-term business strategy – was a stronger indicator of business success than either financial or project management skills for young entrepreneurs¹⁴⁴.

One of the implications of this research is that training should be a priority intervention by governments aiming to support young entrepreneurs. In fact, a study conducted in Swaziland indicated that targeted training programmes in entrepreneurial and business skills was a more effective intervention for combatting youth unemployment than subsidizing job searches¹⁴⁵. Targeted training programmes were also more effective among young business owners and entrepreneurs than they were among older business owners, when measuring effectiveness by business outcomes such as turnover and profitability¹⁴⁶.

Furthermore, business sustainability was improved more through targeted training programs than through subsidising expert assistance – teaching young entrepreneurs how to do marketing that is appropriate for and relevant to their business was more effective at improving business sustainability than subsidizing the use of marketing experts to manage the business marketing on behalf of the business owner¹⁴⁷.

¹⁴³ Ishmael Obaeko Iwara and J Zuwarimwe, 'ENDOGENOUS ATTRIBUTES OF SUCCESSFUL YOUTH ENTREPRENEURS IN SELECTED WARDS OF THULAMELA LOCAL MUNICIPALITY', 2018.

¹⁴⁴ R.W. Miano, 'ENTREPRENEURIAL COMPETENCIES AND PERFORMANCE OF YOUTH ENTERPRISES IN MANYATTA CONSTITUENCY, EMBU COUNTY, KENYA' (Kenyatta University, 2018).

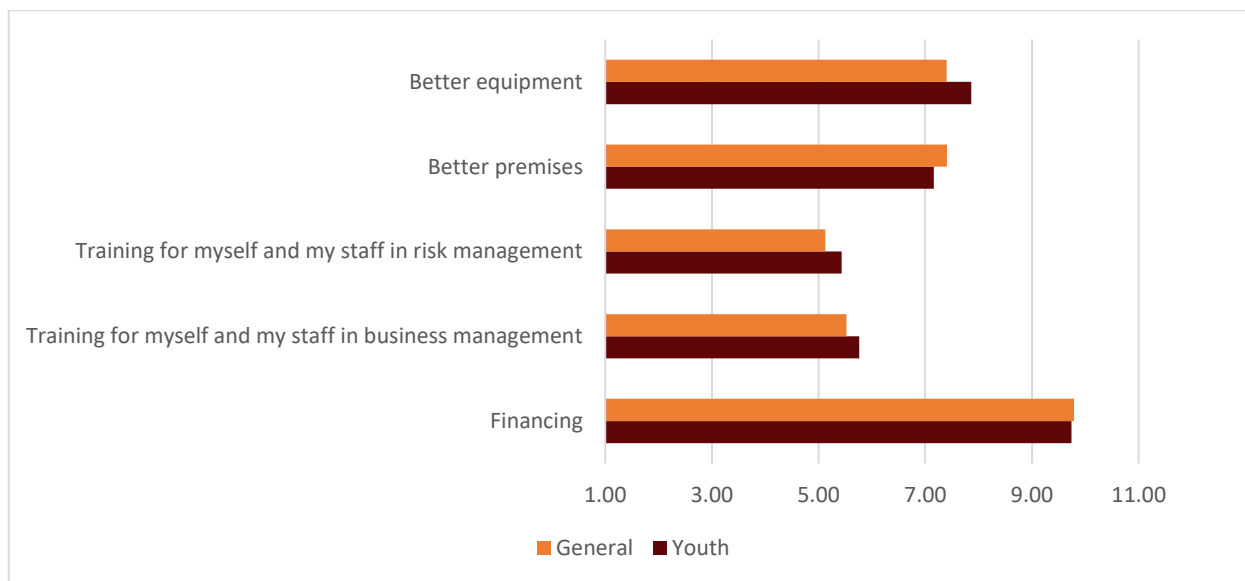
¹⁴⁵ Zuzana Brixiová, Mthuli Ncube, and Zorobabel Bicaba, 'Skills and Youth Entrepreneurship in Africa: Analysis with Evidence from Swaziland', *World Development*, 67 (2015), 11–26
<<https://doi.org/10.1016/j.worlddev.2014.09.027>>.

¹⁴⁶ Brixiová, Ncube, and Bicaba.

¹⁴⁷ Brixiová, Ncube, and Bicaba.

Indeed, when considering the types of support wanted by business owners, we see that the youth score training relatively highly, as shown in Figure 89 below. The graph illustrates the top 5 most desirable interventions, as reported in our survey. While the difference between the youth and the general population is small, the youth are statistically more likely to choose training interventions than their older counterparts.

Figure 89: Support wanted by young business owners, 2022¹⁴⁸



6.1.3 Entrepreneurship and those living with disabilities

The South African Disability Business Chamber (SADBC) reports that less than 5% of People with Disabilities (PWD) in the country have completed their matric¹⁴⁹. Given this, along with the stigma associated with disabilities in general, PWDs are one of the most at-risk groups in South Africa with regards to employment outcomes. The SADBC argues that government efforts to assist PWDs have focused on training and upskilling in areas that are “under constant threat of retrenchment, or imminently threatened by the Fourth Industrial Revolution”¹⁵⁰.

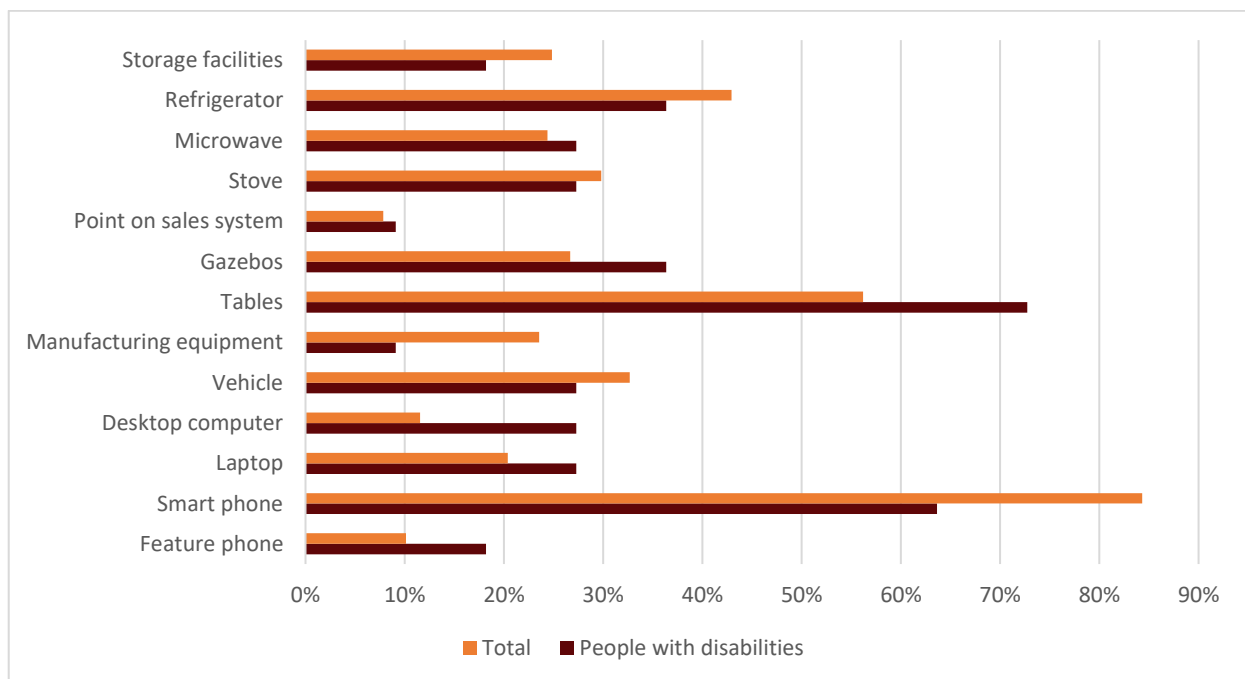
¹⁴⁸ Source: primary research survey

¹⁴⁹ Natinal Treasury, *South African Disability Business Chamber*, 2000.

¹⁵⁰ Natinal Treasury.

While an estimated 5000 enterprises are listed on the Central Supplier Database at the National Treasury, less than 2000 of these companies meet the minimum registration and bank account requirements to be used as government suppliers¹⁵¹. These statistics are likely even worse for those living with disabilities although a large constraint for this group is lack of adequate data on PWD entrepreneurs in the country. This is supported by the findings from this research. Figure 90 illustrates the asset ownership of people living with disabilities compared to the general population, and we see that those living with disabilities are likely to have fewer assets than others. The only exceptions are feature phones, tables and gazebos, which are relatively low-value assets in the business context.

Figure 90: Asset ownership for people living with disabilities compared to general population, 2022¹⁵²



¹⁵¹ Natinal Treasury.

¹⁵² Source: primary research survey

In fact, a significant reason for the inclusion of PWDs and entrepreneurship in this report is an effort to reduce the knowledge and information gap on business owners with disabilities in the country. Research leaves no doubt that PWDs have worse labour market and income outcomes than those not living with disabilities¹⁵³. This is despite the fact that an estimated 16% of the adult population worldwide is disabled, with higher disability rates in lower-income and developing countries¹⁵⁴.

Given this, some experts have argued that self-employment can be used as a potential vocational tool to assist those living with disabilities to integrate more quickly into the traditional labour market. Even if this is not the case, self-employment is generally the solution proposed by most governments for groups that face specific and significant constraints to employment. This most certainly describes PWDs and, as such, efforts to improve entrepreneurship and self-employment among this cohort should be investigated further.

They are invisible. There's a lot of talk but nothing gets done. How can she [government] understand how to meet their needs if she doesn't know what they are? ~ Expert interview

In our research, only one study¹⁵⁵ was found that investigated the barriers to entrepreneurship for PWDs in South Africa, in particular. Another was identified that examined the case for Australia¹⁵⁶, and another in Spain¹⁵⁷. These three studies are summarized here. Importantly, only 17 respondents in the 2021 survey reported living with disabilities. In our 2022 survey this number

¹⁵³ John Kitching, *ENTREPRENEURSHIP AND SELF-EMPLOYMENT BY PEOPLE WITH DISABILITIES Background Paper for the OECD Project on Inclusive Entrepreneurship*, 2014 <http://ec.europa.eu/europe2020/index_en.htm>.

¹⁵⁴ Kitching.

¹⁵⁵ Eugene Tafadzwa Maziriri, Welcome Madinga, and Thobekani Lose, 'Entrepreneurial Barriers That Are Confronted by Entrepreneurs Living with Physical Disabilities: A Thematic Analysis', *Journal of Economics and Behavioral Studies*, 9.1 (2017), 27 <<https://doi.org/10.22610/jebis.v9i1.1555>>.

¹⁵⁶ Alex Maritz and Richard Laferriere, 'Entrepreneurship and Self-Employment for People with Disabilities', *Australian Journal of Career Development*, 25.2 (2016), 45–54 <<https://doi.org/10.1177/1038416216658044>>.

¹⁵⁷ Pilar Ortiz García and Ángel José Olaz Capitán, 'Entrepreneurship for People With Disabilities: From Skills to Social Value', *Frontiers in Psychology*, 12.July (2021) <<https://doi.org/10.3389/fpsyg.2021.699833>>.

was even lower, with only 11 respondents reporting living with disabilities. This sample is too small to draw generalizable findings from the first year of the survey. However, the use of expert interviews, along with the case studies discussed here, will be used to inform an analysis of the survey data and to draw conclusions regarding the experiences of PWDs as business owners in the country.

The studies mentioned above generally focus on the challenges experienced by PWD in entrepreneurship and business ownership. It is not surprising that discrimination is among the first of the challenges mentioned in all three studies. Discrimination against those with disabilities is showcased in several forms, the most common of which is simple misinformation and misunderstanding: potential clients lack sufficient knowledge on disabilities to feel confident that PWDs are capable of supplying quality goods and services¹⁵⁸. In this case, those with visible disabilities often fare worse than those who live with “invisible” disabilities, or who work in industries where their disabilities are less likely to be known to a potential client.

One of the things that are challenging is accessing the resources. For example, when one needs to attend a meeting at a platform where they need to receive information about a project or tender, most of the people living with a disability would not be accommodated with equipment's that assist them to read the information shared with them such as braille, digital copies or audio copies ~ Expert interviews

In South Africa, in particular, discrimination against those living with disabilities extended beyond simple prejudice and misinformation. Instead, business owners reported facing active discrimination wherein potential clients were unwilling to support their business based solely on the fact that the owner of the business was disabled¹⁵⁹. This discrimination was not based on lack of confidence in the ability of the business to accomplish the work but is reported to be based on

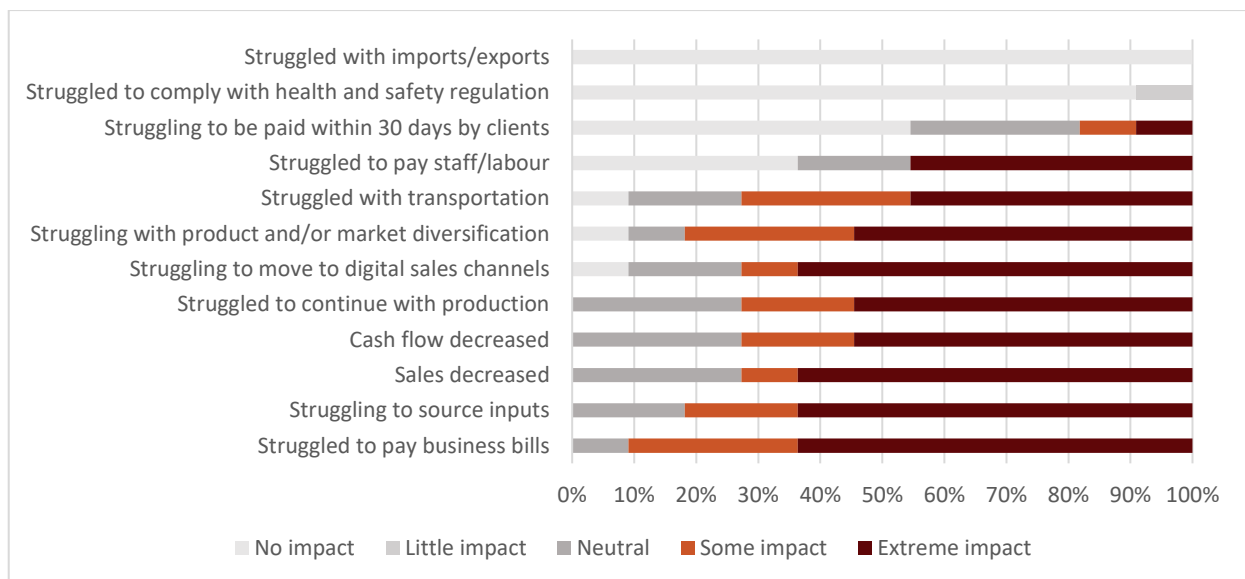
¹⁵⁸ Maziriri, Madinga, and Lose.

¹⁵⁹ Maziriri, Madinga, and Lose.

a belief that those living with disabilities are “inferior”, as well as superstitions that working with PWDs would bring bad luck to the client¹⁶⁰. While our research shows that those living with disabilities struggle with similar challenges to other business owners (see Figure 91), they are statistically more likely to report struggling to be paid within 30 days by a client. Furthermore, they are significantly more likely to report struggling to source inputs, which may be the result of discrimination.

The fact is that these People living with disabilities are in most cases live in communities that have a perception that PWD can't do able to do much, stay at home or not go to work. ~ Expert interview

Figure 91: Impact of challenges on business owners living with disabilities, 2022¹⁶¹



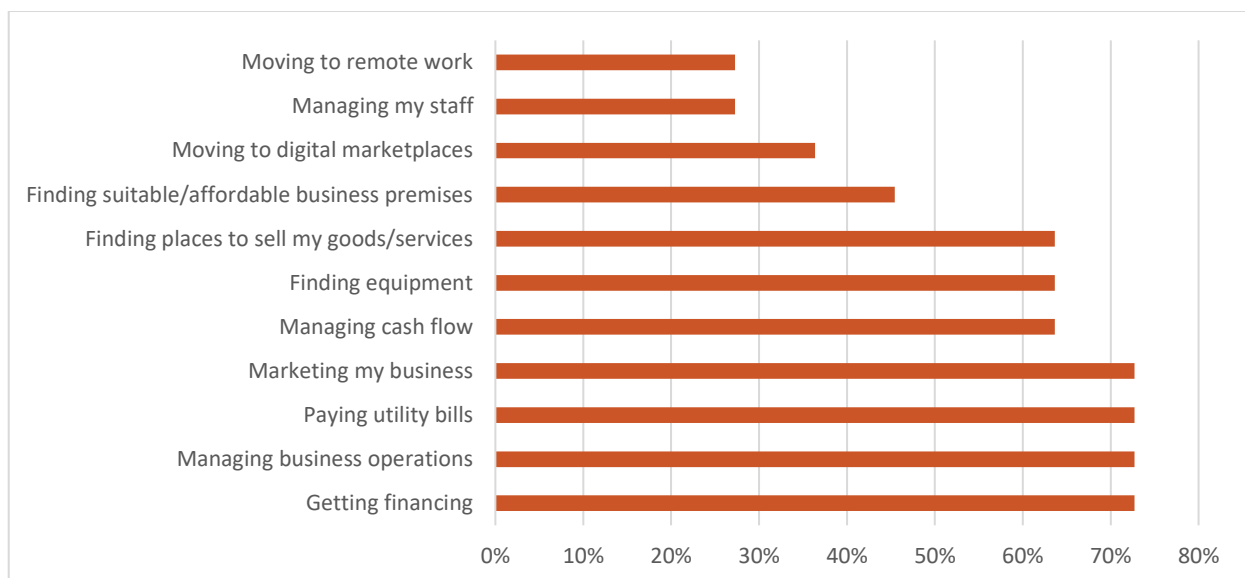
¹⁶⁰ Maziriri, Madinga, and Lose.

¹⁶¹ Source: primary research survey

Lack of access to finance and start-up capital is also reported as a significant challenge for PWDs and a barrier to starting their own businesses. In all three countries, PWDs are less likely to have access to steady income and have lower savings than those who do not have a disability¹⁶². PWDs also tend to have lower asset ownership levels than those living without disabilities, thereby reducing the collateral that can be used to apply for business funding¹⁶³. Because of their low income-earning opportunities, many PWDs already rely on financial support from the government and their families for survival and report being unwilling to request further financial support for the purposes of starting a business¹⁶⁴.

Our own research supports this, with 73% of PWDs reporting struggling with getting financing. This group was 6% more likely to report this as a challenge when compared to the rest of the population. Importantly, PWDs were 28% more likely to report struggling with crime than other groups, with this result statistically significant at the 5% level.

Figure 92: Top business challenges faced by those living with disabilities, 2022¹⁶⁵



¹⁶² Maziriri, Madinga, and Lose; Maritz and Laferriere; Ortiz García and Olaz Capitán.

¹⁶³ Maritz and Laferriere.

¹⁶⁴ Maritz and Laferriere; Ortiz García and Olaz Capitán.

¹⁶⁵ Source: primary research survey

Related to the above, PWDs in South Africa report a lack of networks and networking opportunities as a significant barrier to starting and sustaining their businesses¹⁶⁶. Often isolated in their lives, PWDs who do not have strong support structures from family, friends and other social groups struggle to find and meet with potential clients, funders or mentors to assist with their business endeavors¹⁶⁷. In the Spanish case, where extended family bonds are extremely strong, PWDs were far less likely to report lack of access to networks as a constraint to starting a business than in the South African and Australian cases¹⁶⁸.

A network, support not just financial (because it doesn't solve all the problems) but a structured support network, leverage, government initiatives etc. to help them move beyond this. These resources are not known or structured in a way that enables as much as they could. ~ Expert interview

Typically, PWDs have additional struggles in starting and operating their businesses because of a lack of skills, education and training¹⁶⁹. Globally, those living with disabilities tend to have lower educational outcomes than those living without disabilities and – in South Africa in particular – business owners living with disabilities report a lack of education and training programmes that are targeted to their specific needs and challenges¹⁷⁰. The physical operation of a business is different for those living with disabilities, especially when these are physical disabilities. They often incur higher costs due to physical constraints that require the hiring of additional staff or the purchase of specialized equipment¹⁷¹. These features have significant impact on business plans and business models and require a new way of thinking about operations, production, marketing and pricing in order to ensure a sustainable business.

¹⁶⁶ Maziriri, Madinga, and Lose.

¹⁶⁷ Maziriri, Madinga, and Lose.

¹⁶⁸ Ortiz García and Olaz Capitán.

¹⁶⁹ Ortiz García and Olaz Capitán; Maziriri, Madinga, and Lose.

¹⁷⁰ Maziriri, Madinga, and Lose.

¹⁷¹ Maziriri, Madinga, and Lose; Maritz and Laferriere.

Figure 93: Access to government support for those living with disabilities, 2022¹⁷²

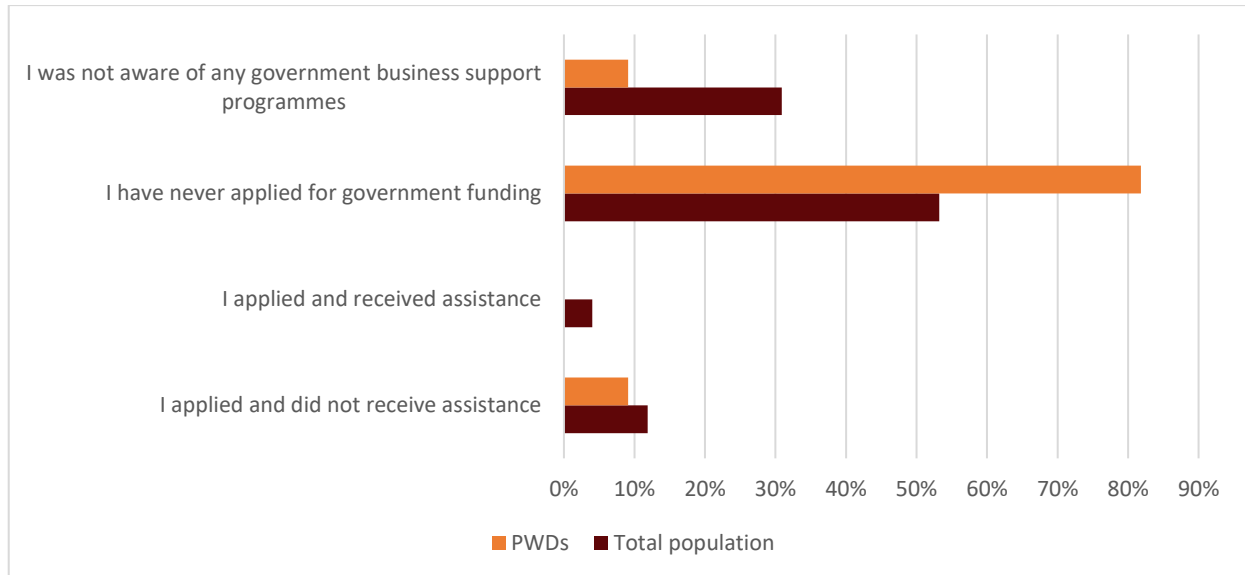
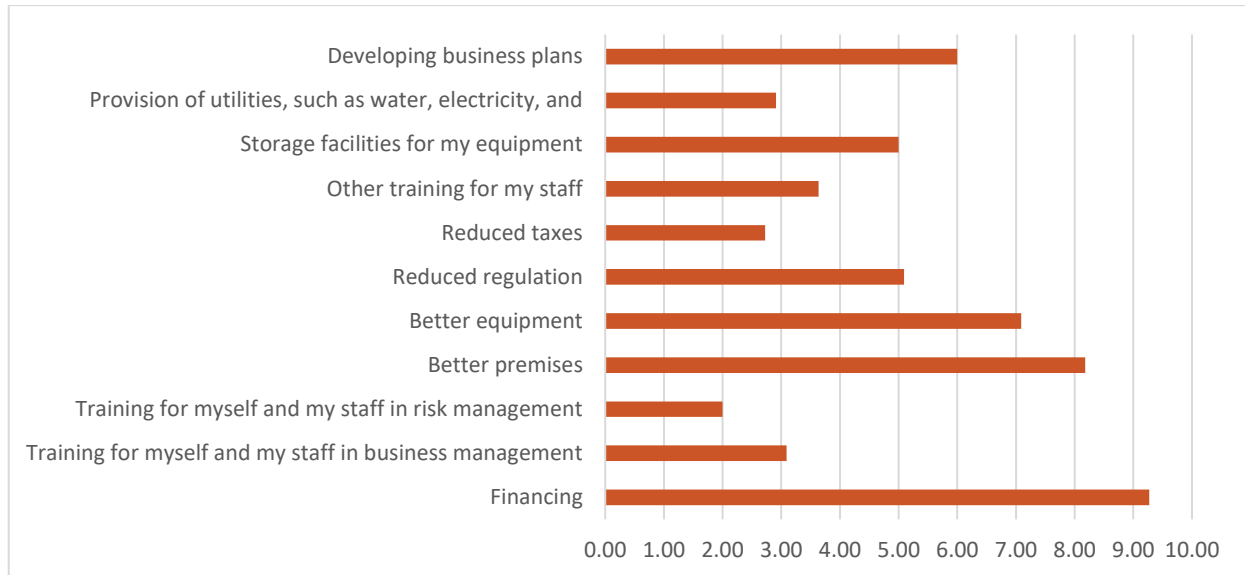


Figure 93 compares the access to government support for those living with disabilities compared to the total population. While PWDs did not report having received any government assistance in our sample, they were much more likely to have simply not applied for any funding or support programmes. Those living with disabilities were also significantly more likely to report that government support was not helpful to them. When considering the type of support wanted by PWDs, we note that they also prioritize funding to the same extent as the general population. In contrast to the general population, however, PWDs also prioritize better premises and equipment, and the development of business plans and de-prioritize training relative to the other interventions available.

¹⁷² Source: primary research survey

Figure 94: Support wanted by those living with disabilities, 2022¹⁷³



6.2. The role of co-operatives in South Africa's small business sector

Although typically operating in agriculture, co-operatives now operate in almost every sector of the economy, with nearly 1 billion people worldwide being members of a co-operative¹⁷⁴. The primary concept behind a co-operative is to combine the business objectives of profitability and income-earning potential with social responsibility, with many experts arguing that the co-operative model is a proven model for effective business management¹⁷⁵. Despite this, experts in the 2021 round of this research noted that there is general skepticism around the feasibility of co-operatives in South Africa, with several individuals noting that the business case for co-operatives has failed to prove itself in the country.

¹⁷³ Source: primary research survey

¹⁷⁴ International Co-Operative Alliance, *A Matter of Principle: Co-Operatives in Development*.

¹⁷⁵ International Co-Operative Alliance, *A Matter of Principle: Co-Operatives in Development*.

Despite this, there has been limited research conducted on co-operatives alone in the country. Instead, most research has combined co-operatives with SMMEs and assumed that the challenges, opportunities and experiences of co-operatives are consistent across both these groups. This has resulted in small sample sizes for co-operatives, as they make up a relatively small portion of enterprises, when compared to more traditional SMMEs. This case study aims to reduce this knowledge gap by investigating the case of co-operatives in particular, and investigate the experiences, challenges and opportunities faced by these enterprises in the country.

6.2.1 A history of co-operatives in the country

Co-operatives in South Africa are governed by the Co-operatives Act No 14 of 2005, which was developed based on international principles. Having identified a need within a community, co-operatives are formed through the election of a steering committee who take ownership of the registration process. Thereafter, a formation meeting is held to establish the objectives of the co-operative, the board members, input costs and profit-sharing mechanisms. Thereafter, simple registration with the CIPC creates the co-operative.

Figure 95: Co-operative registrations since 2010¹⁷⁶

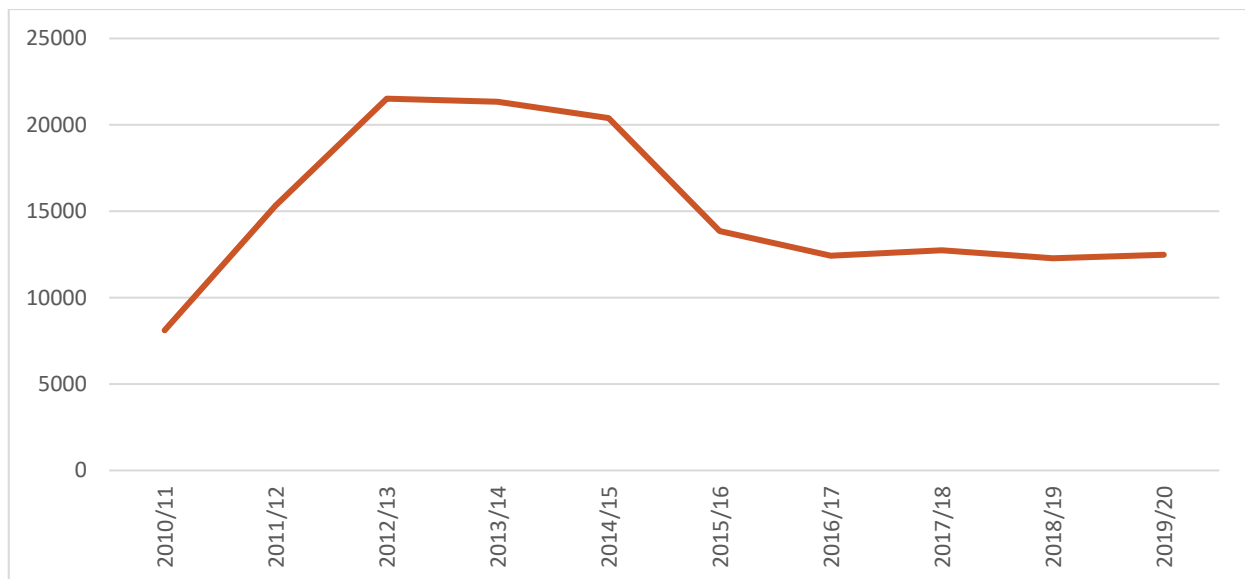


Figure 95 shows a historical view of co-operative registrations in South Africa since 2010/11. Having reached a high of 21 515 registrations in the 2012/13 financial year, co-operative registrations have continued a downward trend since then. In the 2019/20 financial year, the CIPC reported only 12 478 registrations. By their very nature, one would expect fewer co-operative registrations than that for traditional businesses, but the downward trend in the annual number of registrations suggests a decreasing interest and faith in the co-operative business model.

As with more traditional SMMEs, co-operatives tend to fail during the emerging stage, when capital and financing are the largest constraints for members¹⁷⁷. Although this is likely to be the time when enthusiasm and buy-in is highest, people typically agree to co-operative rules and ideas in an effort to escape poverty or existing challenges in their lives¹⁷⁸. When the start-up phase of the co-operative is unable to resolve these personal and financial challenges and, indeed, may see them worsen temporarily, members are likely to lose faith or investment in the concept.

¹⁷⁶ Source: CIPC

¹⁷⁷ J. Moxom and others, *Young People and Co-Operatives: A Perfect Match?*, 2021.

¹⁷⁸ Moxom and others.

Despite this, co-operatives are a business model that can bring great success within the South African context. The nature of a co-operative is to share costs to achieve economies of scale, with a view to distributing profits in a way that all members feel is fair. It aims to use member networks, skills and assets to benefit the entire community, without placing the strains of business and entrepreneurship on one person alone¹⁷⁹.

In general, co-operatives are governed by seven key principles that differentiate them from traditional businesses¹⁸⁰. These are:

- Open and voluntary participation
- Democratic control by members
- Member economic participation
- Autonomy and independence
- Education training and information
- Cooperation among co-operatives
- Concern for community

Historically, in South Africa, co-operatives development has undergone two primary phases: a white-dominated phase during the Apartheid regime and the post-Apartheid phase¹⁸¹. In the first phase, agricultural co-operatives run by white South Africans had an estimated 142 000 members, with total assets of R12,7 million in the early 1990s¹⁸². After the election of the democratic government in 1994, many of these co-operatives were transformed into traditional businesses and co-operatives lost their share in the market.

¹⁷⁹ International Co-Operative Alliance, 'Moving from Ideas to Youth Empowerment: Fostering Entrepreneurship and Financial Literacy Education through School Co-Operatives in Africa', in *3rd Africa Co-Operative Youth Conference*, 2018.

¹⁸⁰ Hlengiwe Ntongolozzi Dube, 'Vulnerabilities of Rural Agricultural Co-Operatives in Kwa-Zulu Natal: A Case Study of Amajuba District, South Africa' (University of KwaZulu Natal, 2016).

¹⁸¹ Dube.

¹⁸² Dube.

At this stage, the government began focusing on co-operative development as a means of poverty alleviation in the country, with a particular focus on agricultural co-operatives. However, by 2009 it became clear that the co-operatives of the country were not yet achieving this goal¹⁸³. In that same year, the Department of Trade and Industry (DTI) found that of the 22 030 co-operatives registered in the country, only 2 644 (12%) were economically active¹⁸⁴.

Although co-operatives have expanded beyond agriculture in South Africa, the majority of registered co-operatives still operate in the agricultural sector (30%), with services and multipurpose co-operatives making up the majority of the remaining industries (17% and 14%, respectively)¹⁸⁵. However, this data dates back to 2009, with no updated information having been published since.

6.2.2 The challenges and opportunities for co-operatives

Co-operatives, unlike traditional businesses, rely on a collection of members to ensure that the enterprise grows and operates in a stable way. All of these members are expected to contribute towards the organisation, and each has decision-making power within the enterprise.

In a 2016 study of agricultural co-operatives in Kwa-Zulu Natal (KZN), Dube¹⁸⁶ it was reported that the most commonly reported challenge faced by co-operatives was a lack of interest from its members. This lack of interest was compounded by internal conflicts and poor management, which often resulted in the failure of the co-operative¹⁸⁷.

¹⁸³ Dube.

¹⁸⁴ Dube.

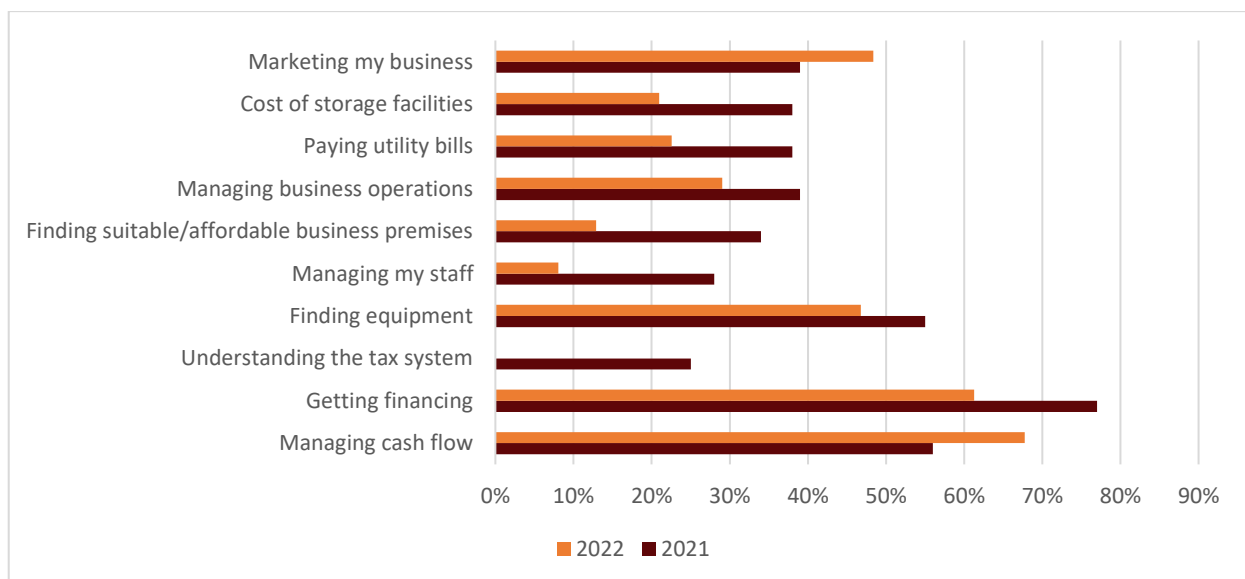
¹⁸⁵ Dube.

¹⁸⁶ Hlengiwe Ntongolozzi Dube, 'Vulnerabilities of Rural Agricultural Co-Operatives in Kwa-Zulu Natal: A Case Study of Amajuba District, South Africa' (University of KwaZulu Natal, 2016).

¹⁸⁷ Dube.

Of course, co-operatives also struggle with the same challenges that more traditional businesses face, with access to finance and a lack of training and skills being other commonly reported constraints among co-operative members¹⁸⁸. Figure 96 illustrates the top 10 challenges reported by co-operatives in our 2021 survey and compares the incidence of these challenges with the reported incidence in 2022. The first thing worth noting is that the top 10 challenges remained consistent from 2021 to 2022, although the incidence of these challenges changed between the two years. In most cases, the percentage of cooperatives who reported struggling with any given challenge decreased from 2021 to 2022. Noteworthy examples include access to finance and understanding the tax system, the latter of which was not noted as a challenge by any cooperatives in 2022. Only two challenges saw an increase in the incidence of reporting over this period: struggling with cash flow and struggling to market their business. In both cases, co-operatives reported struggling with these challenges more often than other businesses did.

Figure 96: Comparison of challenges faced by co-operatives in South Africa, 2021 and 2022¹⁸⁹



¹⁸⁸ Dube.

¹⁸⁹ Source: primary research survey

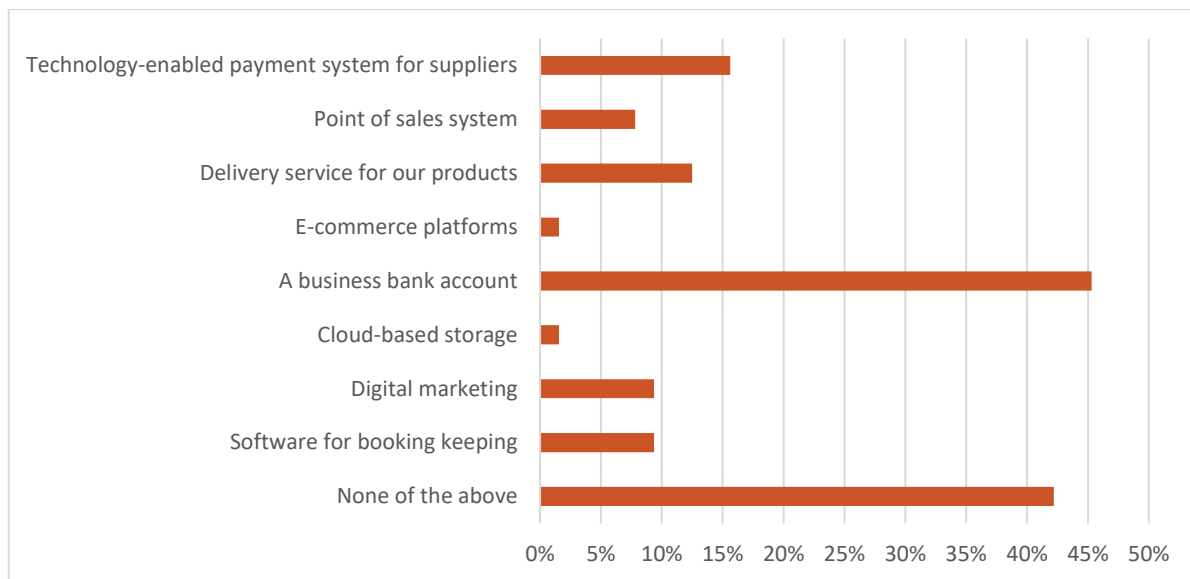
Although co-operatives make use of collected efforts for marketing and networking, the diffusion of responsibility among members means that these efforts are often not focused or aligned between members¹⁹⁰. This results in marketing efforts that are not able to reach the full potential of the co-operative, given the number of members.

Although regulation was not listed in the primary challenges faced by co-operatives in our survey, other research indicates that co-operatives often struggle with red tape, regulation and general compliance with business best practices¹⁹¹. Figure 97 shows the technology usage among co-operatives in our 2021 survey and illustrates that over 40% of the co-operatives survey don't use any of the technologies listed. Only 45% of the cooperatives surveyed use a business bank account and very few use bookkeeping software or point of sale systems. This shows that the operational management of co-operatives remains a challenge in the country, although it may not be reported as such by co-operatives themselves.

¹⁹⁰ International Co-Operative Alliance, 'Moving from Ideas to Youth Empowerment: Fostering Entrepreneurship and Financial Literacy Education through School Co-Operatives in Africa', in *3rd Africa Co-Operative Youth Conference*, 2018.

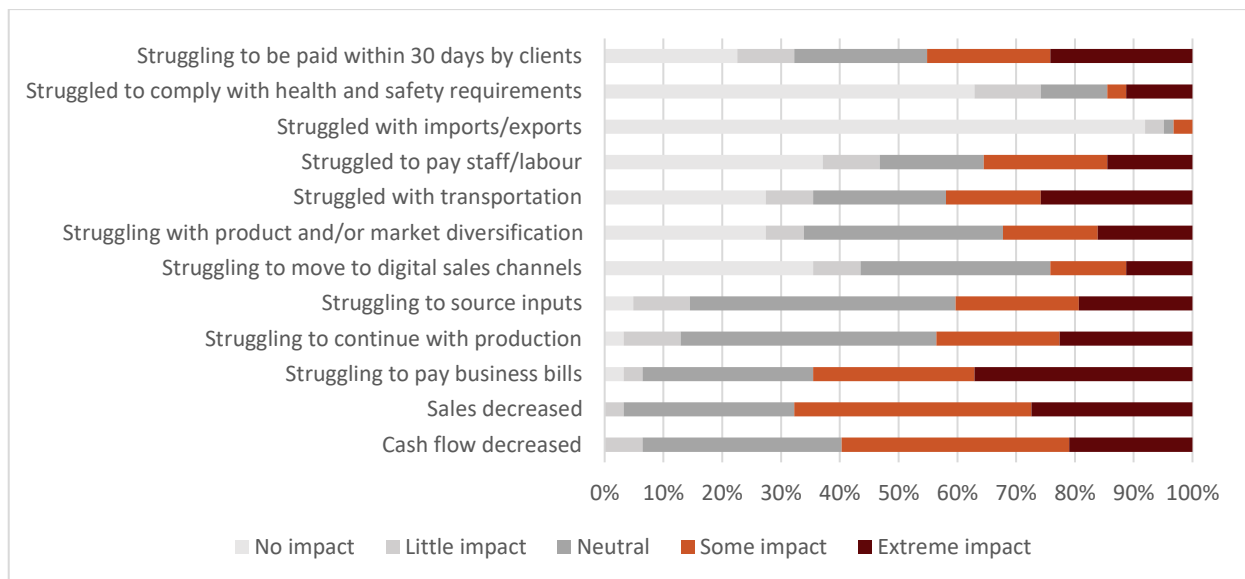
¹⁹¹ Gian Nicola Francesconi and Fleur Wouterse, 'Building the Managerial Capital of Agricultural Cooperatives in Africa', *Annals of Public and Cooperative Economics*, 90.1 (2019), 141–59 <<https://doi.org/10.1111/apce.12218>>.

Figure 97: Technology usage among co-operatives



In Figure 98 we see the challenges that co-operatives reported having experienced in the past 12 months. The most impactful challenge reported by co-operatives is struggling with a decrease in sales, followed by struggling to pay business bills and a decline in cash flow. These challenges are similar to those reported by other business owners in the 2022 survey.

Figure 98: Challenges faced by co-operatives in the past 12 months, 2022¹⁹²



6.2.3 Supporting co-operatives

While there is no significant difference in awareness of government support programmes between co-operatives and other small businesses, we note that co-operatives are somewhat less likely to receive government assistance than other small businesses. Figure 99, below, shows the percentage of co-operatives who had knowledge of and access to government support in our 2022 survey and compared these to all other small businesses in our survey. We see that while 4% of other small businesses applied for and received government support, only 3% of co-operatives reported the same. The sample size is too small to draw statistical inferences on these differences. Despite this, it is also worthwhile noting that co-operatives were more likely to report having applied for government assistance but *not* receiving it than other small businesses in our survey were.

¹⁹² Source: primary research survey

Figure 99: Access to government support by co-operatives, 2022¹⁹³

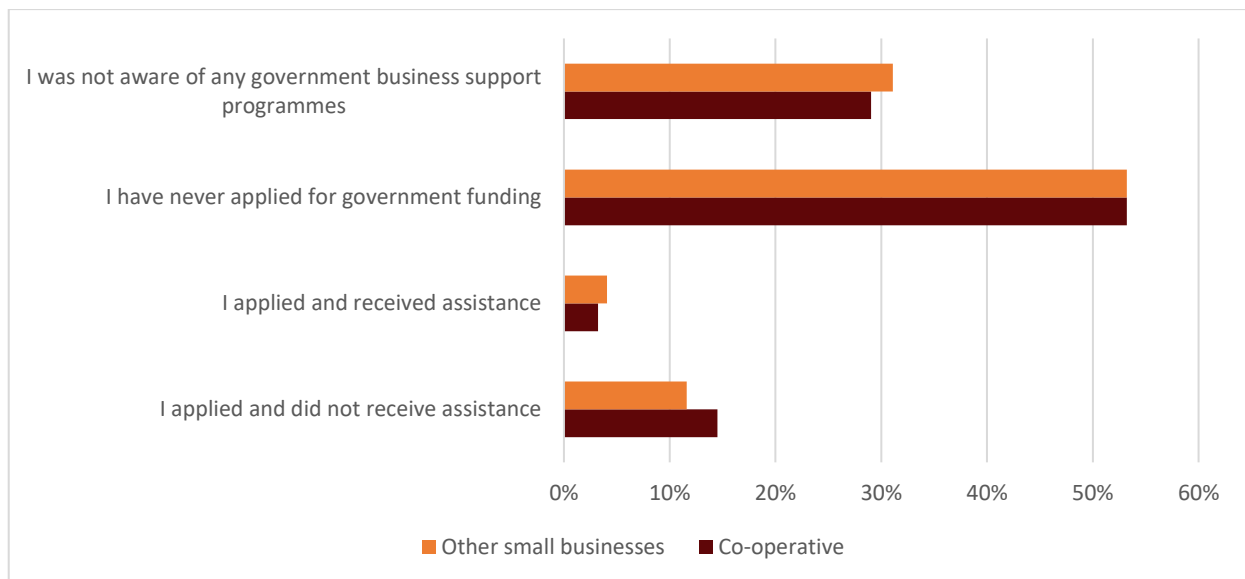


Figure 100 shows the important business goals reported by co-operatives in 2022. These goals, alongside the longer-term objectives discussed in Figure 101 can guide government in assessing where and how co-operatives need support. We see that stabilizing finances is, currently, the most important business goal for co-operatives. This is consistent with other small businesses as well. The second most important business goal for co-operatives is maintaining and growing their client base, which is also consistent with other small businesses. These business goals suggest that government interventions aimed at assisting co-operatives with reaching – and securing – new potential clients is a potential non-financial intervention that can immediately benefit co-operatives.

¹⁹³ Source: primary research survey

Figure 100: Business goals for co-operatives, 2022¹⁹⁴

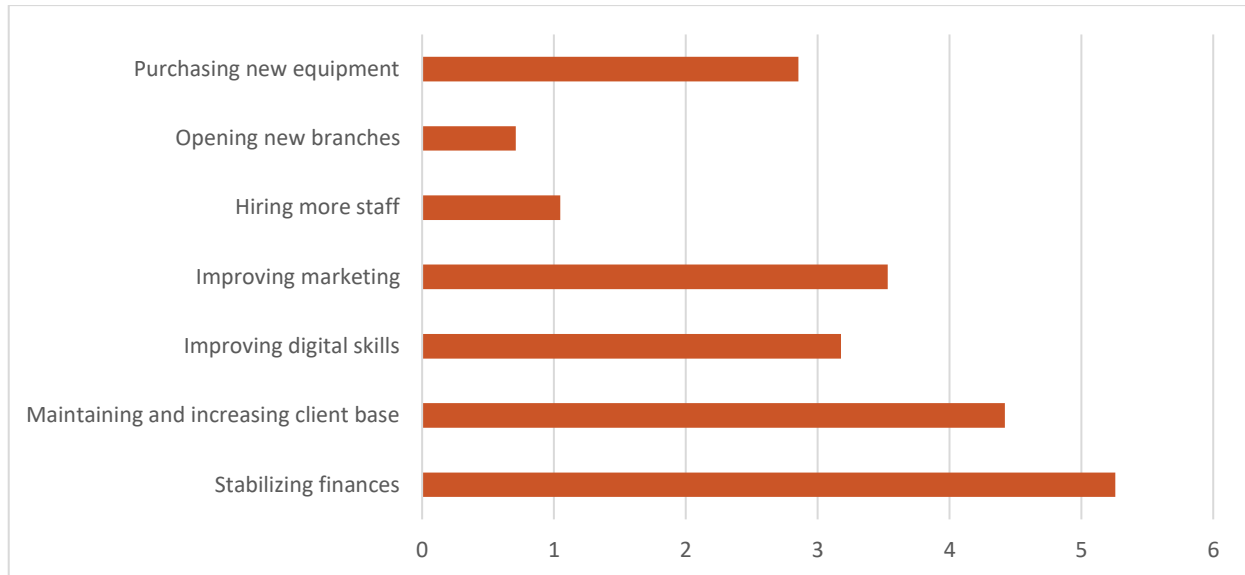


Figure 101 illustrates the longer-term view and shows the important business elements that will enable co-operatives to continue to grow in the future. Here we see some movement away from other businesses, where co-operatives place a higher importance on diversifying clients and products than other businesses do. This is encouraging, as experts noted that this diversification would be a key contributing factor to the resilience of SMMEs and co-operatives in the post-COVID and post-recovery world. However, the low focus on digitization may present a concern for policymakers, as co-operatives may not be prepared for an increasingly digitized market.

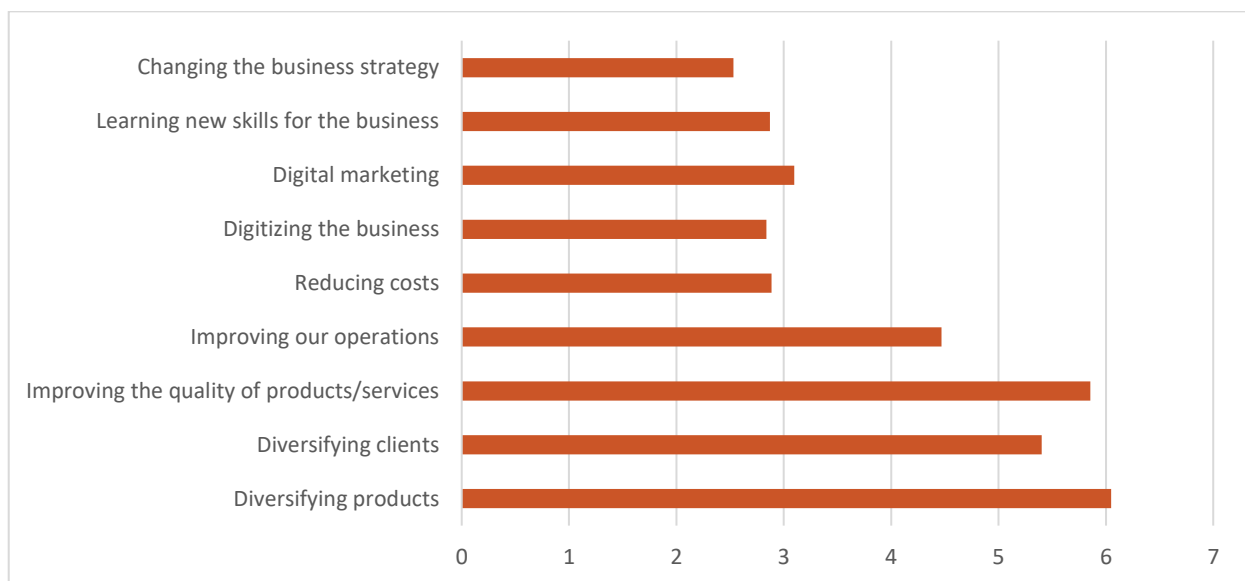
Cooperatives should try to implement counselling because people need to get along. People not getting along results to these cooperatives disbanding. ~ Expert interview

In the expert interviews, three primary interventions were identified as being beneficial to co-operatives. The first was an intervention to improve soft skills and relationships among co-operative members. The second was interventions to improve digital literacy and skills, and to

¹⁹⁴ Source: primary research survey

help co-operatives adopt new technologies in their production efforts. Finally, networking interventions that can assist co-operatives with sourcing inputs and finding new markets were recommended.

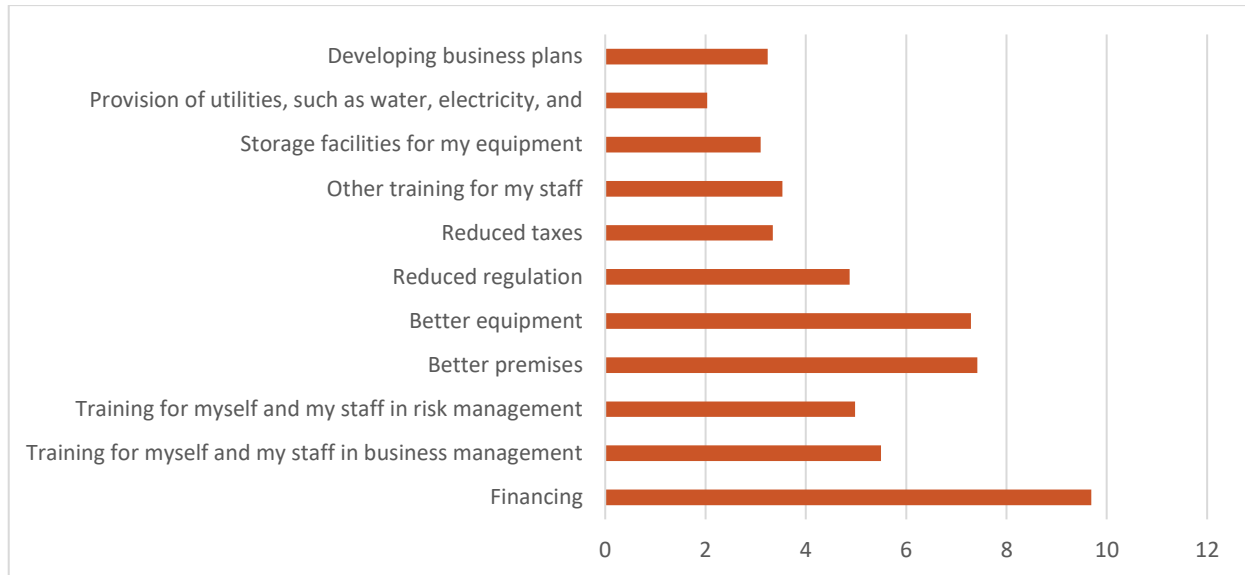
Figure 101: Important business elements for the future, as reported by co-operatives, 2022¹⁹⁵



Unsurprisingly, co-operatives are most likely to want support in the form of financing (see Figure 102). Of course, financing gives the greatest control to the co-operative or business in terms of where and how the resources are allocated but our expert interviews suggest that these are often not allocated in a way that builds resilience into the co-operative. Instead, it is usually used as a short-term solution for cash flow challenges. Unlike other small businesses, co-operatives also ask for better premises and equipment as important types of support wanted, which deviates from the general support desired by small businesses, as these focused on training.

¹⁹⁵ Source: primary research survey

Figure 102: Support wanted by co-operatives, 2022¹⁹⁶



6.3. The informal sector and small business

Over recent years, significant focus has been placed on how to bring informal businesses into the formal sector. Research from last year suggested that this strategy may be premature and that the goal of formalization should only be considered when enterprises have developed to the degree that formalization will further their own growth, and when SMMEs would be able to survive the process itself.

The experts interviewed in 2021 noted that the objective of formalization may be actively damaging informal enterprises, as it excludes them from many forms of government support and, in many cases, results in failure of otherwise functioning businesses because the pressures of formalization are too much for the owner to manage. Furthermore, experts noted that the informal economy is, by nature, a mechanism for combatting poverty and unemployment and that it is the flexibility of informality that allows the sector to accomplish these goals.

¹⁹⁶ Source: primary research survey

To date, most research on informal SMMEs has focused on the barriers to formalization. This case study aims to understand how the informal sector can be supported and grown, and whether formalization should be the end objective for government.

6.3.1 The informal sector and small business in South Africa

The national lockdowns of COVID-19 brought with it new studies into the informal sector of South Africa. With movement in the formal economy being limited, informal enterprises were both extremely hard hit by the pandemic and were often the only way that low-income individuals could gain access to the goods and services they needed.

*The informal sector, based on the observation, has always wanted to remain informal. ~
Expert interview*

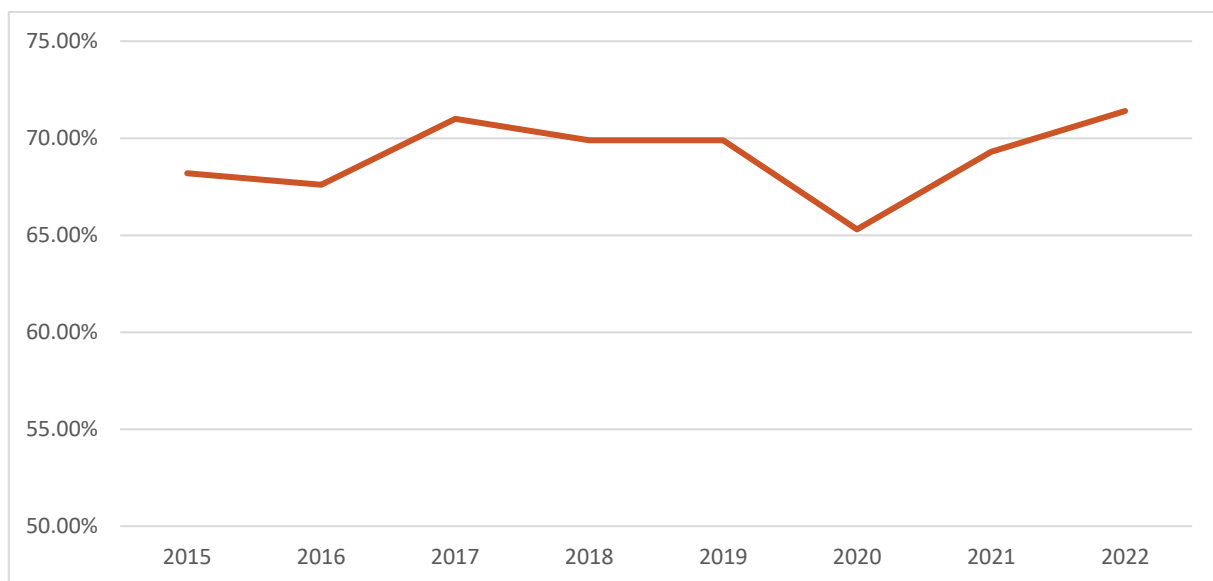
While it is easy to assume that informality exists simply as a result of joblessness, the informal economy also works to serve those in hard-to-reach areas where traditional, formal enterprises generally do not operate. Townships and informal settlements are good examples of this: geographically distant from city centers where more formal enterprises tend to operate, informal enterprises serve millions of people living in these areas, while reducing the costs of living for these individuals by reducing transport and time costs associated with getting their necessary goods and services.

Despite significant efforts by government to shift informal enterprises into the formal sector, the share of small businesses that operate informally has remained fairly consistent over time, as shown in Figure 103, below. Over 70% of all businesses in the economy operate in the informal sector, with the lowest share of informality occurring in 2020 (65,3%) due to the national lockdowns. This shift in distribution highlights an important feature of the informal economy: it is extremely volatile and responsive to economic shocks and changes.

Where those operating in the formal sector are likely to make product and service change slowly, over time, those operating in the informal sector move quickly in and out of business, depending

on the needs of the owner. The informal sector also shows greater agility in terms of the products and services on offer: where formal enterprises build a limited number of production lines and offer a limited set of services, those in the informal sector respond more quickly to what is available and what is in demand, shifting their products and services to match the needs of their clients, as well as the capabilities and constraints of the entrepreneur.

Figure 103: Share of business operating in the informal sector over time



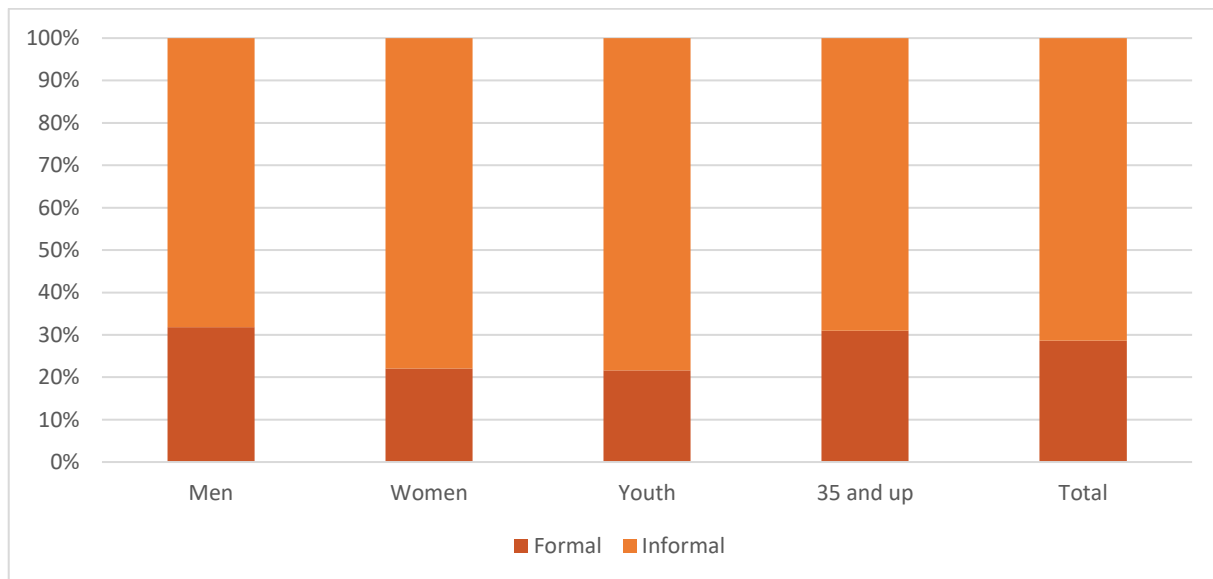
Despite its bad reputation, the informal sector contributes a significant amount to the South African economy each year. The sector accounts for an estimated 18% of the country's GDP and 17% of all employment¹⁹⁷.

With regards to a profile of informal business owners, Figure 104 shows the sector distribution by gender. 78% of all women business owners operate in the informal sector, compared to 68% of men. Women are, therefore, more likely to operate in the informal sector than men are. Similarly,

¹⁹⁷ B Hamilton, 'Informal Sector in Dire Situation, yet Contributes Billions to Economy', *Lowvelder*, 2020
<<https://lowvelder.co.za/619561/informal-sector-in-dire-situation-yet-contributes-billions-to-economy/>>.

78% of youth business owners operate in the informal sector, compared to 69% of those aged 35 and older.

Figure 104: Sector distribution by gender, 2022



Despite the volatility and rapid changes in the sector, these characteristics have remained consistent over time and informal business owners are more likely to be Black African women aged 34 and younger. The sector, then, is comprised predominantly of the most marginalized in the South African society, with business owners facing disadvantages based on race, gender and age as well as the informality itself.

The volatility in the informal sector extends equally to its contribution to employment. While it certainly acts as a cushion for those who are unemployed, the sector itself contributes relatively little to employment in South Africa and the employment it does provide is unstable and often low-income. International trends show that employment in the informal sector decreases as governments loosen employment regulations and create legislation and interventions to better

support formal SMMEs¹⁹⁸. In Africa, however, this pattern is not so consistent: in a study of nine sub-Saharan countries, six countries saw an increase in the share of employment provided by the informal sector over time¹⁹⁹.

Informal jobs and enterprises in South Africa predominantly operate in wholesale and retail (42%), construction (16,6%) and community, social and personal services (16,1%)²⁰⁰. Men typically work in construction, transport and manufacturing while women typically work in trade, personal services and manufacturing within the sector²⁰¹.

6.3.2 The challenges and opportunities for the informal sector

As with all small enterprises in South Africa, access to finance is a primary challenge faced by informal enterprises. Because many of these enterprises operate in wholesale and retail and manufacturing, cash flow and input capital are particularly challenging for these business owners²⁰². Figure 105 shows the primary challenges reported by informal business owners in our 2021 and 2022 surveys. Although finance and cashflow were the most commonly reported challenges, these businesses had many other struggles that were reported at similar levels across our sample. Unique challenges that were not frequently reported by formal enterprises included crime, the cost of storage facilities, and finding suitable premises. Unlike formal businesses, informal enterprises reported many of these challenges at higher levels than in 2021. Crime, in particular, increased by nearly 90% as a reported challenge from 2021 to 2022.

¹⁹⁸ F. Fourie and C. Skinner, *The South African Informal Sector: Creating Jobs, Reducing Poverty*, HSRC Press, 2018.

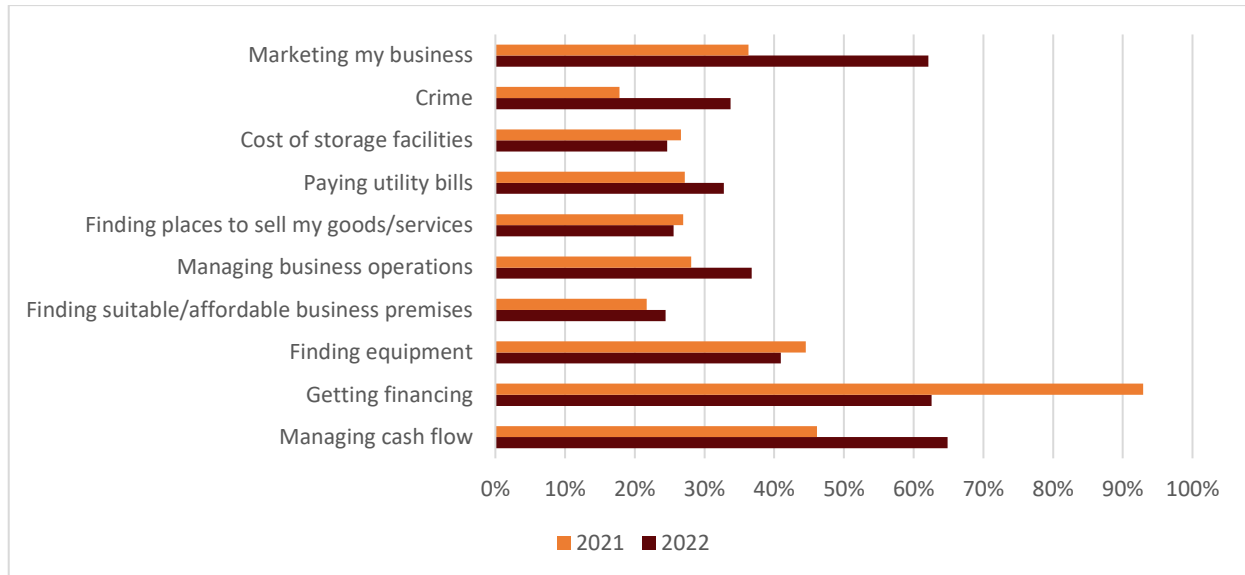
¹⁹⁹ Fourie and Skinner.

²⁰⁰ Fourie and Skinner.

²⁰¹ Fourie and Skinner.

²⁰² Fourie and Skinner.

Figure 105: Primary challenges reported by informal business owners, 2021 and 2022²⁰³



Lack of knowledge and skills are also a significant barrier to growth for informal enterprises. Figure 106 shows the technologies used by informal businesses, as reported in our 2021 and 2022 surveys. Nearly 80% of participants reported not using any technologies at all in 2021. It is encouraging to see dramatic changes in the uptake and usage of these technologies since, with 60% of informal enterprises having a business bank account and over 40% using digital marketing. Despite this encouraging increase in the usage of technology, informal enterprises are still 28% less likely to use important business technologies than formal enterprises.

Motivator is mainly lack of opportunities in the employment sector. Lack of businesses that are opportunity driven or problem driven. Mainly have the need to survive. ~ Expert interviews

Much as with the youth, the experts noted that the informal sector is usually used as a mechanism for survival, and not as a long-term plan for stable income. It is, therefore, a resilience tool used to respond to income instabilities for individuals and families. Because of this, long-term business

²⁰³ Source: primary research survey

plans and development are seldom priorities for these business owners, as they do not intend to be in business long enough to make these necessary.

Figure 106: Technologies used by informal businesses, 2021 and 2022²⁰⁴

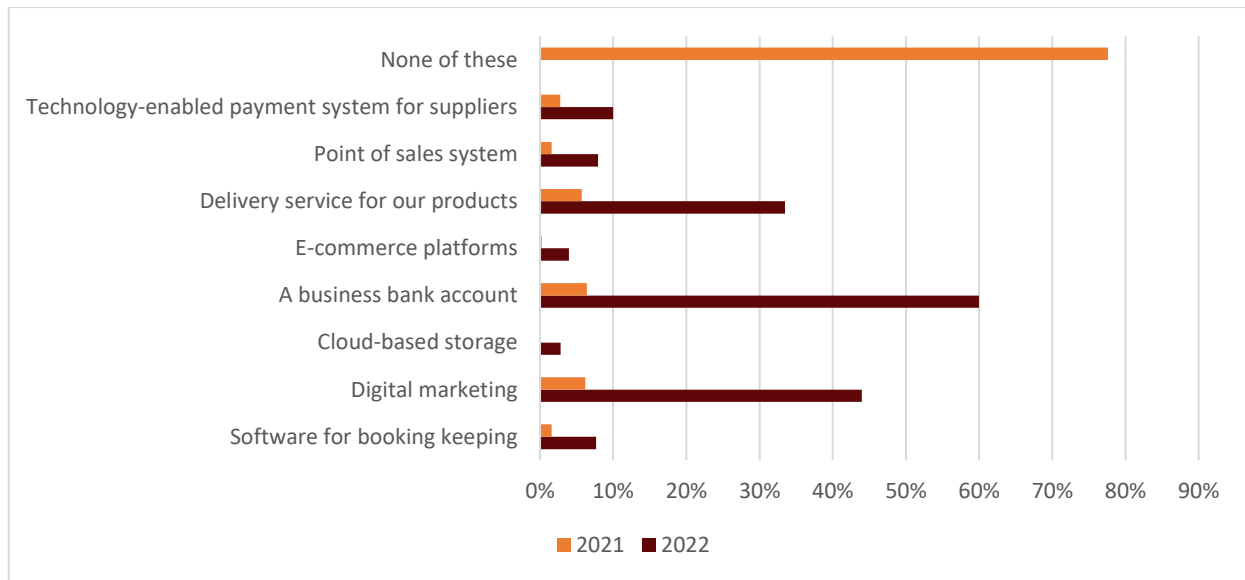
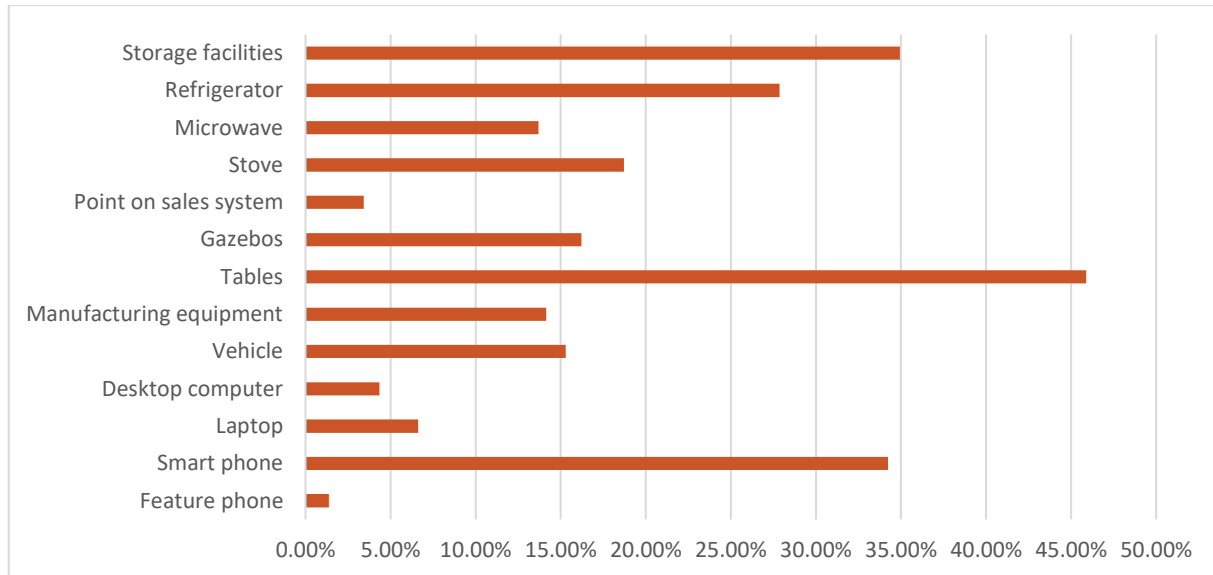


Figure 107 shows the reported asset ownership by informal enterprises in our 2022 survey. Smartphone ownership is much lower than for formal enterprises in our survey, although the ownership of low value assets, such as tables, is much higher. Research suggests that ownership for important assets and machinery – especially tables, gazebos, smartphones, stoves and microwaves – are significant predictors for the likelihood of an informal enterprise staying operational and making a profit²⁰⁵.

²⁰⁴ Source: primary research survey

²⁰⁵ Fourie and Skinner.

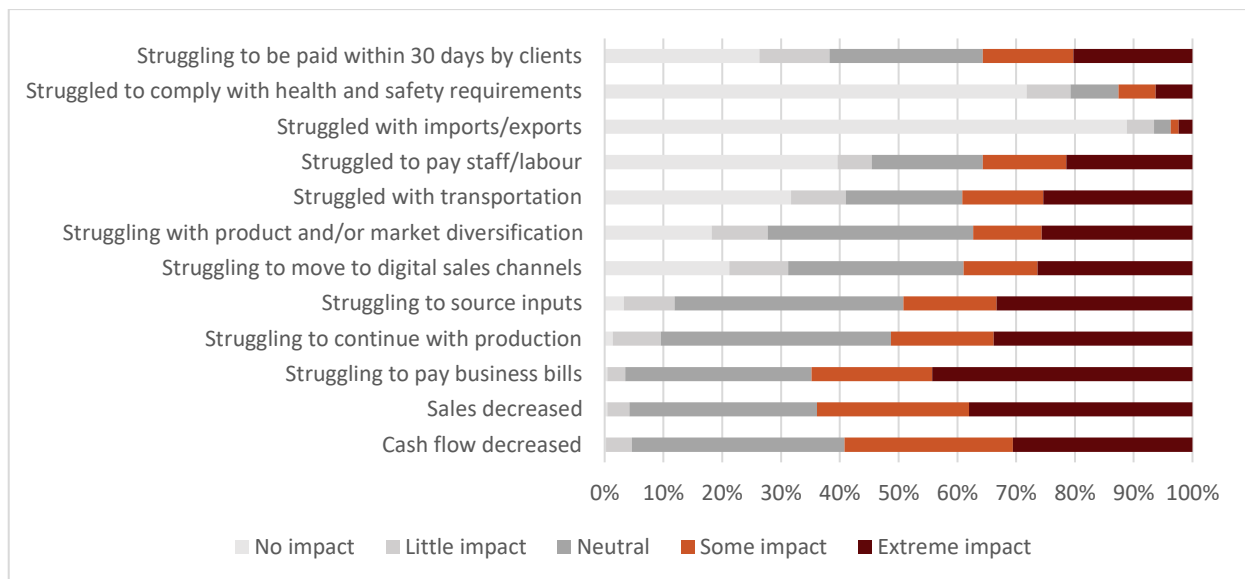
Figure 107: Asset ownership by informal enterprises, 2022²⁰⁶



When considering the challenges faced by informal enterprises in particular, it is interesting to note that the impact of these challenges tends towards the extremes: there is a very small percentage of challenges that are noted as having a neutral or small impact on businesses. Instead, informal enterprises report either no impact or extreme impacts. This is a distinctly different pattern to that in the formal sector, where the reported impacts of various challenges were far more evenly distributed. Despite this difference, Figure 108 shows that the specific challenges faced by the informal sector are similar to those faced in the formal sector, with a decrease in cash flow, decline in sales and struggling to pay business bills being the most impactful challenges faced.

²⁰⁶ Source: primary research survey

Figure 108: Impact of challenges faced by informal enterprises, 2022²⁰⁷



6.3.3 Supporting and developing the informal sector

Having gained a more nuanced understanding of the challenges faced by enterprises in the informal sector, we now turn our attention to the ways in which government can support these businesses. Figure 109 shows the most important business goals reported by informal enterprises in our 2022 survey. As with formal enterprises, the informal sector places the highest level of importance on stabilizing finances and maintaining and increasing their client base. In addition to these, the informal sector also scores improving marketing and improving digital skills very highly, suggesting that government training programmes in these areas may be beneficial.

Pre-investment- business support is the key challenge that we find that informal sector struggle with. ~ Expert interview

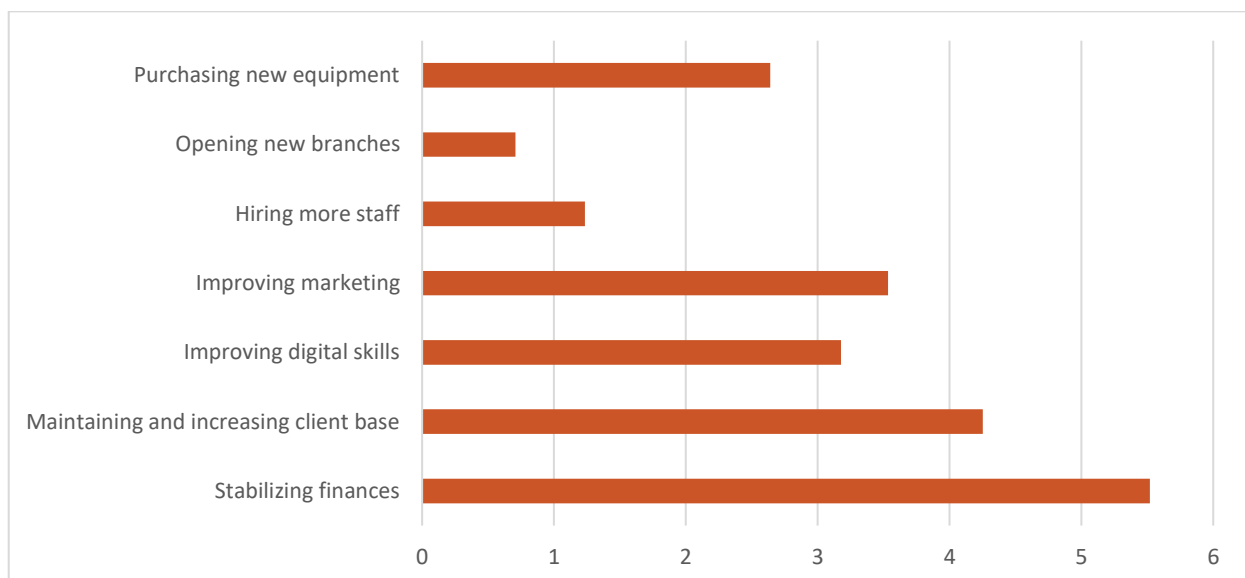
The expert interviews indicated that the primary failing of government support structures for the informal sector is that the drive for formalization does not account for the lack of skills and

²⁰⁷ Source: primary research survey

knowledge that informal business owners are faced with. Businesses are driven to formalization – often by a need to gain access to support – without the skills necessary to make these formal businesses successful.

I think you only getting funds when your business is registered. ~ Survey respondent

Figure 109: Business goals for informal enterprises, 2022²⁰⁸



At present, the informal sector is less likely to receive assistance from government, even though they are more likely to apply for assistance. This is illustrated in Figure 110, below. While a lack of awareness and information are significant barriers to all enterprises in receiving government support in South Africa, the informal sector has the same degree of awareness of government support programmes as the formal sector, suggesting that this is not the cause of the difference in receiving support.

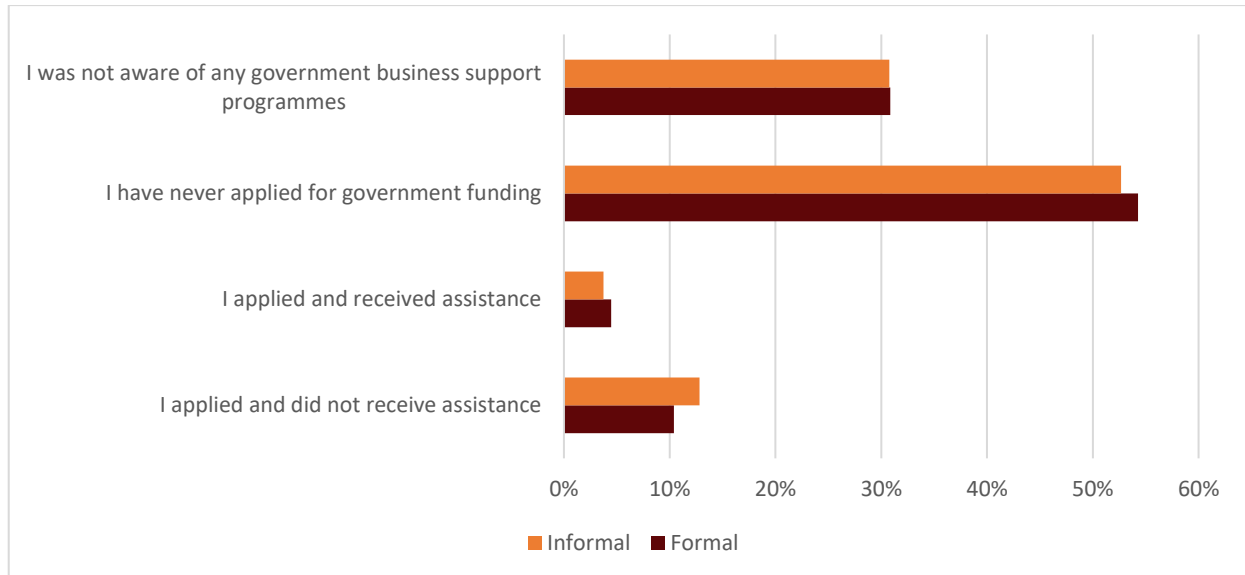
²⁰⁸ Source: primary research survey

I've been in street's for more than 10 years and I know nothing about government help. Support from government doesn't exist for people like us. ~ Survey respondent

Both the survey respondents and experts interviewed believed that government policies are not designed for the informal sector, and that the support available to SMMEs is only available to those operating in the formal sector. This resulted in negative impressions from business owners regarding government. Experts argued that the failure to design policies that support the informal sector directly is a driving force behind the high failure rates for businesses more generally in the country. Without government support during the informal stages of business development, business owners are unable to adequately prepare for the challenges that come with formalization and are more likely to fail. Worse, they fail after receiving investments or government support, which often leaves the business owner in a worse position, as they now have debts that need to be repaid.

Government is not willing to design policies that deal with informal sector. They want all business to be formalized, without understanding what need to be done. ~ Expert interview

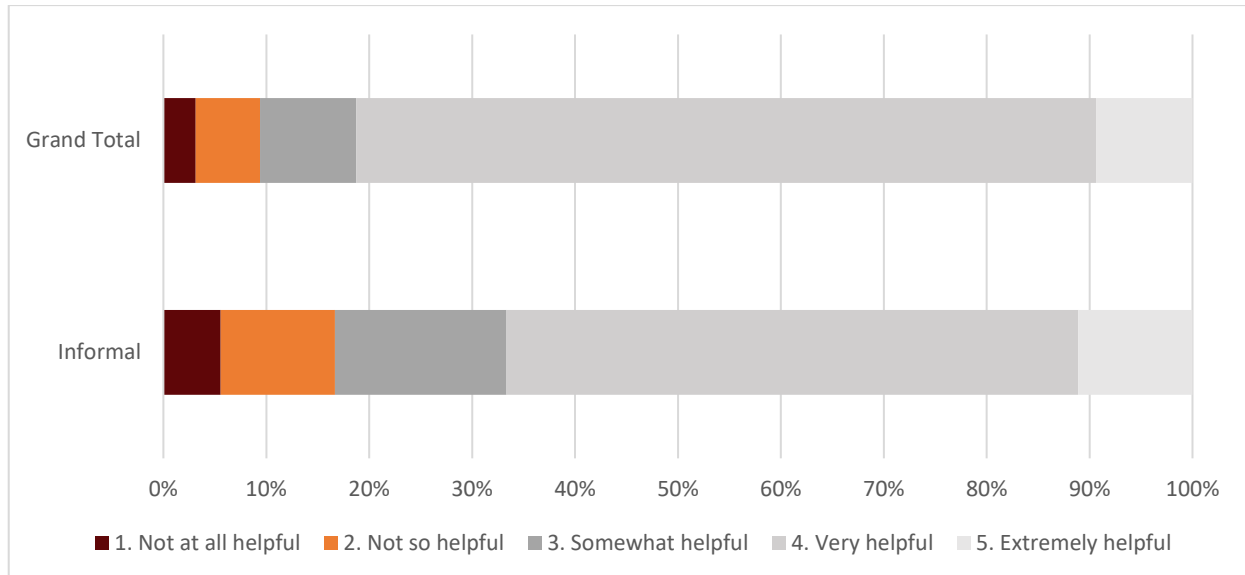
Figure 110: Access to government support for the informal sector, 2022²⁰⁹



When looking at the perceived helpfulness of government assistance for the informal sector, we see that they are slightly more likely than the formal sector to report government support as being unhelpful. The expert interviews indicate that the cause of this is likely that government support programmes are not adequately designed to support and assist informal sector enterprises.

²⁰⁹ Source: primary research survey

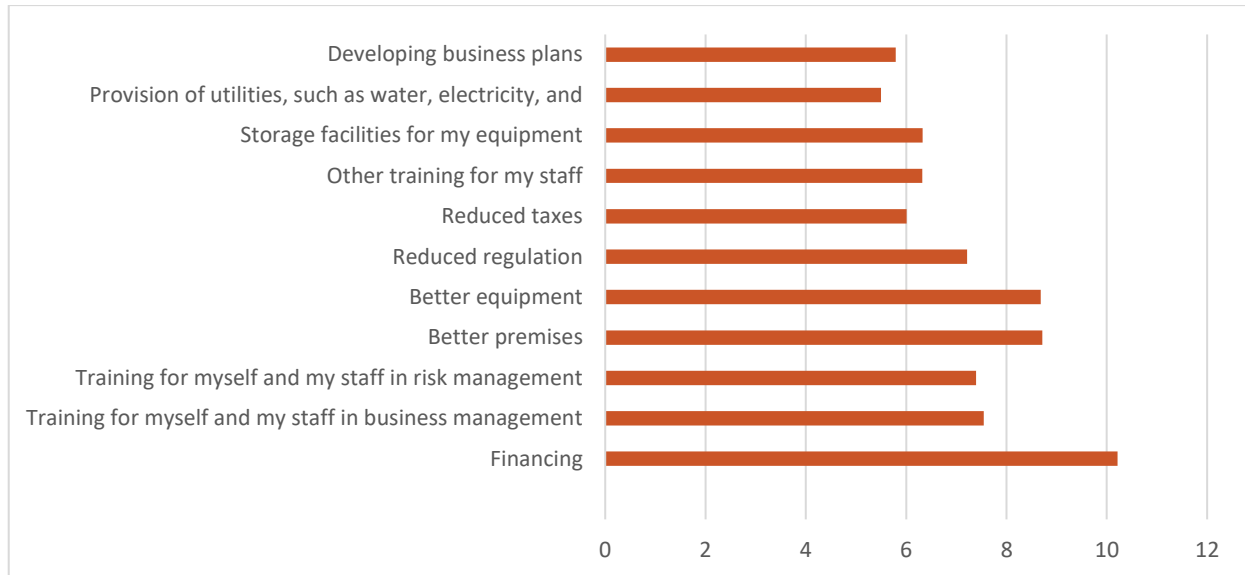
Figure 111: Perceived helpfulness of government support for the informal sector, 2022²¹⁰



Looking to the types of support that the informal sector is looking for, it's not surprising to see financing being the most-desired type of support. However, unlike the formal sector, the informal sector places high levels of importance on better equipment and premises. It is interesting to note the high scores placed on reduced regulation and reduced taxes within the informal sector, as one would expect these challenges to have little impact on informal enterprises.

²¹⁰ Source: primary research survey

Figure 112: Support wanted by the informal sector, 2022²¹¹



Section 7: Conclusions and recommendations

In conclusion of this report, it is worthwhile discussing the notable changes in the experiences of SMMEs from 2021 to 2022. This section will discuss these and then go on to discuss the primary findings and recommendations of this research.

Overall, we find that the small business landscape in South Africa is stabilizing to a new, post-COVID normal. SMMEs and co-operatives report lower impacts from the pandemic and related externalities, with the sector settling into more consistent and stable operational patterns. This is particularly evident when looking at the severity of impact for different challenges that SMMEs and co-operatives face. The second wave of the research shows that participants reported less severe impacts from the challenges that they face, with fewer enterprises reporting extreme impacts on their businesses.

²¹¹ Source: primary research survey

One of the ways in which this is illustrated is in the percentage of respondents who reported struggling with access to finance. While this remains a challenge for SMMEs and co-operatives, with 64% of respondents reporting struggling with access to finance, this is significantly lower than the 2021 survey where 90% of respondents reported struggling with the same.

Although this is a positive shift in the small business landscape, there are other challenges which have seen an increase in importance for small businesses. 2022 saw an increase in the percentage of respondents reporting struggling with crime (14 percentage points) and with marketing, where nearly 69% of enterprises reported struggling in 2022 as compared to only 20% in 2021. This struggle with marketing may be driven by a more positive change in the business landscape, where the percentage of enterprises using digital technologies has dramatically increased from 2021 to 2022.

Overall, 2022 saw an increase in the number of businesses operating informally, with 71% of enterprises reporting working in the informal sector in 2022, as compared with 68% in 2021. There has also been an increase in uncertainty about the future and the role of government in the small business sector, with a slight increase in the negative sentiments about the future of small business in the country.

7.1. Findings and recommendations

Finding 1: The historical challenges faced by SMMEs, and co-operatives have begun to change, with new challenges becoming more salient.

The 2022 research has found that the historical challenges faced by SMMEs, and co-operatives are becoming less salient, with new challenges coming to the fore. While many of the historical challenges remain a concern for small businesses, the relative importance and impact of these has decreased over time. Even access to finance, which has historically been the strongest challenge faced by small businesses, is seeing a decline in the number of small businesses reporting this as a challenge.

While these shifts are positive for the sector, there is little research indicating what has caused the change. Without this research, it is impossible for the DSBD to establish lessons on successful interventions which may then be used to further develop the sector.

Recommendation 1: The DSBD should conduct research into the causes of the changing challenges faced by SMMEs and co-operatives.

This research should pay particular attention to the economic, regulatory, and policy changes that resulted in the reduced incidence of reporting for the historical challenges. Furthermore, this research should emphasize the ways in which the DSBD can learn from these changes in order to develop policies and interventions that may further assist SMMEs and co-operatives in the future.

This research should aim to identify key lessons and guiding principles that can be used when developing interventions and policies for the sector. Instead of focusing on case studies or replication of existing programmes and interventions, the research should aim to identify best practices that can be used to develop interventions that may address different challenges that SMMEs and co-operatives may face in the future.

Finding 2: Access to government support remains limited, with lack of awareness being a primary constraint.

Low awareness of government programmes and support initiatives continue to limit the impact and effectiveness of government support. The awareness of programmes appears to have decreased over the past year. This anomaly in the reporting suggests that there may be more nuance to the finding than what there first appears.

Recommendation 2: The DSBD should conduct more detailed research to understand the awareness of and perceptions on government support for the small business sector.

Further investigation of the qualitative inputs in the survey suggest that the reported awareness may reflect belief or faith in government programmes, rather than simple awareness. Another

potential explanation is that respondents are aware of the programmes but are reporting on their awareness of the process for applying for assistance.

While the research conducted here is unable to untangle the details and nuances of the perceptions on government assistance, the evidence suggests that there are nuanced challenges to accessing government support which should be further explored. As such, we recommend that the DSBD conduct dedicated research on the awareness of government programmes, the perceptions and sentiments towards these programmes, and the accessibility of the application process.

Recommendation 3: The DSBD should conduct dedicated research on enterprises that have received government support to identify the causes for disparities in access to support.

While the research found that women, the youth and micro enterprises are less likely to receive support, relative to their counterpart, there was an insufficient sample of those who had received support to determine the root cause of these disparities. As such, we recommend that the DSBD conducts research that focuses on investigating the differences between enterprises that received government support and those that did not, in order to establish the driving factors that enable businesses to successfully apply for support, and the barriers to access found by marginalized groups.

Finding 3: Small businesses feel that the government does not understand their needs and experiences.

In both the expert interviews and the qualitative responses from the surveys, it became apparent that a driving force behind lack of engagement with government and poor perceptions of government support for SMMEs lies in the perceived failure of government to understand the “lived experiences” of small businesses and their owners.

The research found that small businesses believe that government does not truly understand them, and that government is primarily driven by a desire to win votes, without a genuine knowledge of the small business context.

Recommendation 4: The DSBD should partner with provincial departments to visit small businesses on location to better understand the experience of these enterprises.

The DSBD and provincial governments should collaborate to conduct in-person research with small businesses, as well as to do site visits to understand the contexts in which these businesses operate. This campaign should be conducted with the dual purpose of generating a better understanding of the experience of SMMEs and co-operatives, as well as to spread information about government initiatives and support programmes.

Finding 4: Small businesses lack networks and mentors to assist with developing their businesses and learning.

Both the expert interviews and qualitative responses from the surveys indicated that small businesses are eager to learn and are hopeful of improving their business skills. However, without adequate education, access to strong infrastructure, and reliable support networks, these businesses are likely to face more challenges and experience lower resilience.

Networks and mentors were identified by experts as a key intervention which is required to create resilient enterprises with long-term potential and effective growth. However, these networks are severely lacking, especially for marginalized groups such as women, the youth and those living with disabilities.

Recommendation 5: The DSBD should investigate interventions that aim to develop and maintain business networks, which connect small businesses to potential markets and mentors.

This network intervention should aim to provide both practical assistance in the form of access to markets, as well as softer support in the form of mentorship and business coaching.

For marginalized groups in particular, this network intervention should highlight successful entrepreneurs that can become role models for others within the group, and who can showcase the potential for success within the South African context.

Finding 5: Small businesses in South Africa are generally survivalist in nature, with the business owners not seeing them as opportunities for long-term income generation.

Overwhelmingly, the experts interviewed indicated that small businesses in South Africa are survivalist in nature and are born of a need to find some source of income while searching for full-time employment. This was especially true for women, the youth and those operating in the informal sector. There are several important implications from this finding. First, without long-term plans, business owners are less likely to build businesses that are resilient and likely to grow.

Second, the survivalist nature of these businesses mean that they are not market-oriented and responding to market needs. Instead, they tend to rely on short-term opportunities that require little investment or capital to start.

Finally, without the innovation components of market-oriented businesses, the small business in South Africa struggle to diversify and innovate when faced with changing market and economic conditions, which make it more difficult for them to survive in the long term.

Finding 6: A lack of diversification and digitization remain constraints to the long-term success of small businesses and co-operatives in the country.

Small businesses in the country continue to struggle with diversifying products and services. Furthermore, few businesses report this as a priority for the near future. However, experts argue that diversification is a key to successful business development, especially in terms of growth and long-term resilience.

South African SMMEs, however, are not prioritizing this diversification. Their reasons are both a lack of funds and knowledge, as well as not seeing the need for diversification. Furthermore, low digital skills means that there remain low levels of uptake on technologies and business digitization, which makes access to markets more limited for businesses and limits their ability to reduce costs and innovate on product development.

Recommendation 6: The DSBD should partner with the Department of Education to promote entrepreneurship, business skills and innovation at a school level.

Foundational education in entrepreneurship should include basic skills such as developing business plans and financial management. However, they should expand beyond this to teach students how to identify market opportunities, conduct market research and assess the viability of business ideas. Finally, these education programmes should include digital skills and soft skills, such as people management, in order to allow future entrepreneurs to adopt and use technology to improve the productivity and profitability of their businesses.

Finding 7: The informal sector requires pre-formalization support in order to improve business survival rates.

While many businesses operating in the informal sector are averse to formalization, there is a large percentage of informal businesses who would be willing to formalize if they received adequate government support during and after the formalization process. The experts interviewed for this research indicated that a large constraint for informal businesses is a lack of pre-formalization support and training to ensure that the business is ready to survive post-formalization.

The experts argue that many of the biggest challenges faced by small businesses in the country are compounded and worsened once formalized, and that the drive for formalization may negatively impact businesses if they do not yet have the skills required to survive and grow once they have formalized.

Recommendation 7: The DSBD should design an end-to-end support programme that uses the life cycle of small businesses as a guide to develop and provide appropriate support.

Government support should be tailored to the stage in which a business is currently operating, with the objective of the support being to prepare the business for the next stage in their life cycle. This programme should be designed so that businesses can move through the programme from start-up phase through to being a more stable, growing business that has reached targeted levels of employment and turnover.

Using a life-cycle approach to business support would enable government to provide support that is appropriate to the business and the business owner, and the skills and resources available to them at the time of seeking support. Careful consideration should be given to the different targets and stages of the programme so that businesses are not “pushed through” before they are truly able to sustain the next stage in their development.

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