



RESEARCH AGENDA

*DSBD Research Agenda
– Final Narrative*

June 2017

ABSTRACT

This report outlines the research conducted by IQ Business to develop an integrated Research Agenda for the Department of Small Business Development (DSBD).



**small business
development**

Department:
Small Business Development
REPUBLIC OF SOUTH AFRICA

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Executive Summary

In February 2017, the Department of Small Business Development (DSBD) commissioned a research project to develop a research agenda to address the development and growth within the SMME and co-operative sectors in South Africa. Through various research techniques, such as a Theory of Change, Root Cause Analysis, a survey and interviews with stakeholders working in the SMME and co-operatives developmental landscape, information was discerned on what research areas to include in this research agenda, how to implement the agenda, fund the research, disseminate it, and monitor and evaluate the implementation of the agenda. In this report, all the mentioned aspects will be discussed in more detail.

Limitations:

Some limitations were encountered in the DSBD Research Agenda project, below is an outline of some of the limitations.

Limitations (shortcomings) for the project:

- For the SMME & Co-operative online survey, a sample group was taken from the DSBD regional offices' database of contacts, i.e. registered SMMEs and co-operatives – this is a small sample of respondents and not representative of the whole sector. Furthermore, the database of contacts had to be updated to incorporate valid email addresses, which made the sample group smaller.
- For the inventory, access to internal and external documents regarding SMMEs needed to be collected in order to compile the inventory. In order to do this, IQ Business contacted the identified government organisations. In many cases government organisations could not be contacted due to the following: incorrect email address; incorrect contact number; the responsible person was unavailable; and only access to public documents was made available. Due to these challenges, the number of documents collected and recorded on the inventory was limited.
- For secondary research, there was a lack of representative research reports covering the SMME and co-operative market in South Africa (public access), other than the research undertaken by Seda, Sefa, the dti, and the DSBD as well. There was thus references made to relevant Seda, Sefa, the dti, and DSBD reports while conducting a situational analysis of the local market.
- Inventory of Reports: Many government organisations are only providing access to documents available on the public domain. While this is useful IQ Business can only provide an accurate account of all knowledge available on SMMEs by gaining access to all internal and external documents. IQ Business understands that the public, for various reasons, cannot view many government documents; however, the internal document will only be used to record the information in the inventory and then store the document in the folder that will be provided to the DSBD.
- Collection of reports for the Inventory: Lack of responses from government organisations is causing the collection the documents to stagnate. While IQ Business awaits responses from government organisations documents from the website and available to the public are being collected.

1. Background

Developing a Research Agenda for the DSBD is not unique or isolated – in fact most other Government organisations have an integrated research agenda to guide their research efforts. The main purpose of the DSBD Research Agenda is to specify areas that can be researched to contribute to an evidence-base to inform strategy and practice on SMME and co-operatives sectorial development. Research can contribute to an understanding of prevalent practices and good practice that can inform planning on further development and understanding of the small business market.

Despite how much and how often the term “research agenda” is used, there seems to be no agreed-upon, or formalized definition to be found. Many different entities may have a research agenda including entire fields of study, funding agencies, and governmental organisations. We propose the following definition of a research agenda:

A roadmap or framework that guides inquiry. A research agenda may be both global and specific. Ideally, it is used to specify gaps in knowledge in a specific area and serves to guide the direction and development of new projects

and research questions. A clear research agenda serves two important purposes. First, it can help to communicate to others what the area/field of study covers, and the level of expertise. Second, it serves to guide decision-making about what projects or specific research questions to pursue.

Strategies for Defining a Research Agenda:

It is never too early or too late to begin to develop a research agenda. It should not be considered static, as the process of developing an agenda is inherently reflective and ongoing. The best way to determine the general topic of the research agenda is to pay attention to the topics that interest the most. This might be discovered through reading the literature but these ideas may also surface through practical or field-based experiences. These opportunities help to refine what might be a more global topic area into more specific or narrow research questions that have practical significance.

2. Introduction

In order to produce quality solutions that underpin the central task of the DSBD, namely to scaffold and support the development and promotion of small businesses, an exhaustive understanding of the field and its applications is vital. Research is the most reliable method of ensuring relevant and applicable understanding, and for research to be comprehensive and coherent, a research agenda must be followed. This method ensures that information is garnered systematically and that strategies are cohesively put in place.

For the DSBD, the research agenda will take a contextual view that evaluates the historical context and progression of the development of small micro and medium-sized businesses and co-operatives from the past, and into the current day. In order to have a balanced and effective approach, the agenda will also be structured to consider political, socio-economic, environmental, legal and other macro-environmental factors and research that is based on these elements. The research agenda also, necessarily, makes provision for unexpected opportunities that may arise.

2.1. About the DSBD

The DSBD exists in order to bring about an environment which lends itself to the establishment, expansion and of course development of small to medium-sized businesses and co-operatives. This is achieved primarily through providing support, whether of financial or non-financial in nature, and through the use of partnerships in the public and private sectors. Within this ambit, the DSBD is mandated to gather research information and prioritise the findings of such research in order to integrate the approach used by the DSBD to develop and support the small businesses and cooperatives under its auspices.

It is in keeping with this aspect of the role of the DSBD that a research agenda, and a theory of change facilitating the goals of the new approach, must be collated. The Department of Small Business Development runs four incentive schemes aimed at supporting the SMMEs and cooperatives. These are namely; the Black Business Supplier Development Programme (BBSDP), Shared Economic Infrastructure Facility (SEIF), co-operative Incentive Scheme (CIS) and Enterprise development | NIBUS.

Vision

A radically transformed economy through effective development and increased participation of SMMEs and Co-operatives in the mainstream economy.

Mission

The Mission of the Department is to create a conducive environment for the development and growth of small businesses and cooperatives through the provision of enhanced financial and non-financial support services and leveraging on public and private partnerships.

2.2. DSBD Strategic Goals

The following Strategic goals outline was taken from the DSBD Strategic Plan for the fiscal years 2016/17-2020/21. The department's strategic goals over the next five financial years (2016/17-2020/21) will be to ensure that the department establish an effective and efficient administration; create an enabling environment for competitive small businesses and co-operatives; and develop sustainable small business and co-operatives in townships and rural areas.

It is envisaged that the attainment of the above-mentioned strategic outcome-oriented goals will place the department in a good position to become a steady enabler for a productive small business sector that could contribute to the creation of employment opportunities, especially in the townships and rural areas.

In the quest to deliver on its strategic objectives and targets, the DSBD will put a concerted effort on the implementation of its value chain operating model, which will require a structural and psychological shift.

Successfully implemented, the value chain model will enable the DSBD to lead and advocate for SMMEs and co-operatives sector driven performance, strategically identify gaps in the markets as well as in policy and identify opportunities that could be leveraged upon by stakeholders in the SMMEs and co-operatives arena.

In the main, the implementation of the value chain based model will allow for the following improvements:

- Value chain based product and services architecture;
- Address SMMEs and Co-operatives sector deficiencies;
- Position the department as the custodian of overall small business sector performance;
- Customer- centric; and
- Reduce complexity, enable performance measure for executive and promote accountability.

To this end, the DSBD has consulted extensively and will proceed to re-organise itself in alignment with the value chain model to adequately deliver on its mandate and address the felt needs of SMMEs and co-operatives, which include, but are not limited to skills development, infrastructure support, access to markets, access to finance and simplifying the regulatory environment. By pursuing the value chain approach, the DSBD, will, amongst others, **focus on a comprehensive research agenda** that will be aimed at identifying the key areas of support that SMMEs and co-operatives require, and design and introduce interventions that recognise the varying business needs that occur at different points of the business lifecycle.

Over the strategic plan period, the DSBD will review the strategy for SMMEs development and entrepreneurship to accommodate the recent economic activities and cycles. The DSBD plans to amend the National Small Business Act, 1996 to provide for policy clarity on matters pertaining to the definition amongst others. In this regard, attention will be given to nationwide consultation engagements. Other priorities include the implementation of the 30% set-aside public sector procurement programme by the public sector, which is a unit of work to be undertaken and led by National Treasury. Another key focus area is the research on legislative and regulatory protocols impeding SMMEs.

The DSBD will also continue to provide business support services to SMMEs and Co-operatives through direct support to informal businesses via the Informal and Micro Enterprise Development Programme. The DSBD will provide financial support to co-operatives through the Co-operatives Incentive Scheme (CIS) whilst small and medium enterprises are to be supported through the Black Business Supplier Development Programme (BBDSP) and other targeted interventions.

The DSBD will also continue to focus on building strategic partnerships with both the public and private sectors in order to intensify support to SMMEs and co-operatives. These partnerships are geared towards collectively facilitating and unlocking market opportunities for SMMEs and co-operatives; enhancing the capacity of SMMEs and co-operatives to meet supply demands at required standards. The latter will be realised through the introduction of mechanism akin handholding instruments such as incubation support and supplier development programmes.

The department will continue to provide oversight support to the Small Enterprise Development Agency (Seda) and Small Enterprise Finance Agency (Sefa) and work with them to implement some of government small business priority projects such as the SMMEs payment hotline and the Business Rescue Strategy.

The DSBD developed its Strategic Plan and Annual Performance Plan taking into consideration the approved and available budget allocation over the medium term period, and forecasted human resources requirements in the challenging operating environment.

3. Rational of the Research Agenda

The primary purpose of the DSBD SMME & co-operative research agenda is to specify research areas that can enable an evidence-base of knowledge that can be used by policy makers and practitioners to inform strategy and practice to assist the country in meeting its developmental goals through responsive business growth and development activities that are effective and efficient. Research is a critical aspect of business development, especially where it can inform policy makers and implementers on how effective implementation of policy interventions is. In this regard, a research agenda can provide direction for research whose results can inform planning processes within the DSBD, other government departments, sector organisations and training authorities (SETAs), service providers of small business development services, and employers.

3.1. Mandate for Small Business Development

Purpose of developing a research agenda:

- Highlight research priorities within DSBD and its agencies: SEDA and SEFA. Inform also stakeholders' (public and private sector) research priorities on the small business sector that requires investment, planning and resource allocation.
- Outline research needs within the small business continuum i.e. pre-start-up, start-up, survival, growth and expansion as well as supporting businesses in distress (business rescue), including sector specific research.
- It will set out the DSBD's proposed areas for research for the medium to long term (3-5yrs), to drive thought leadership in this area.

3.2. Problem Statement

- The current small business environment is fragmented, with different institutions providing independent support to the same entrepreneurs, leading to working in silos and producing a duplication of efforts, ultimately compromising on the country-wide positive impact.
- There is no reliable or verified nation-wide statistics to estimate the true contribution of SMMEs and co-operatives to the economy of South Africa.
- There is a plethora of SMMEs and co-operatives research contributions both within the public and private sectors, with variance in relevance, evidence-base and utilisation upon completion.
- There is a potential systems overload, where public service attempts to solve too many problems simultaneously, consequently leading to the inability to reach policy objectives that have been set.
- Lacking overall strategic planning to address critical research areas of support – requiring new knowledge, regarding SMMEs and co-operatives' growth, development and sustainability (relevant, verifiable, statistical data, evidence-based). Research that will play a critical role in informing current/new policy, strategy and programmes.

3.3. Strategic Ambition of the DSBD Research Agenda

The DSBD's ambition is to enable the creation of a sustainable, supportive, entrepreneurial society. To achieve this goal, a Theory of Change process was initiated, following is a summary of the process to date.

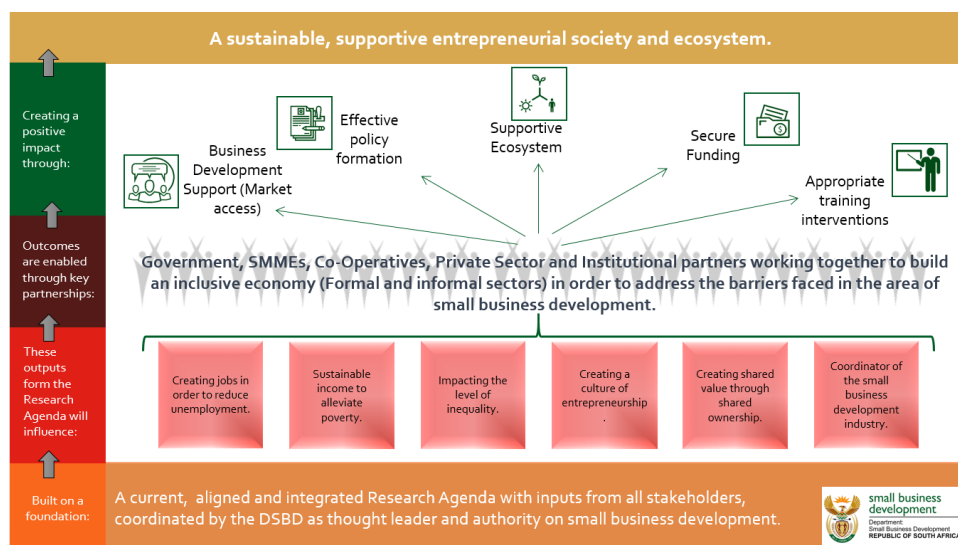
Importance of a Theory of Change process

- A ToC sets out what a project will do and how it will do it. It can be described as a guiding framework, which maps results and assumptions within all stages of an initiative. It reflects the underlying process and pathways through which the expected change, within a programme, is projected to occur:
- The ToC is visually represented by a linear sequence of steps that need to occur for a project to meet its desired outcomes. It generally consists of identifying the inputs, activities, outputs, and outcomes (from immediate, to long term); and
- It is important to note that a ToC is not static and the intention is to reflect on an ongoing basis the changes that do occur and analyse why and how they come about.

Below is a visual outline of the DSBD Theory of Change:

Narrative:

The National Development Plan (NDP) vision 2030 is for SMMEs and co-operatives to create 90% of new job opportunities – through better: procurement, access to finance (start-ups), a simplified regulatory environment, and reduced cost of doing business. The Department of Small Business Development's (DSBD) mandate, is to lead an integrated approach on the development and promotion of small, micro and medium enterprises (SMMEs) and co-operatives. In fulfilment of their mandate, it is critical for the DSBD to develop a comprehensive research agenda to align best practice, compare diverse theories and approaches that would effectively address the needs of SMMEs and co-operatives.



By supporting aspirant and emerging entrepreneurs – small businesses and co-operatives, as well as existing start-ups, the DSBD will contribute to the development of a robust and diverse small business sector that enables economic growth in a meaningful and sustainable way for the whole of South Africa.

This will enable the creation of a sustainable supportive entrepreneurial society: Small, micro and medium-sized enterprises (SMMEs) and co-operatives are absolutely critical to foster economic and social development in South Africa; contributing significantly to both GDP and employment. However, they face multiple challenges and constraints to their growth and development, leading to high rates of failure and preventing the sector from realising its full potential as an engine of economic transformation. The DSBD need to lead and coordinate an integrated and verified research agenda that would have an impact on reducing the effect of these barriers, to enable stronger growth of businesses which in turn will enable employment opportunities, improve quality of services delivered, and increase access to markets through integration into distribution and supply chains.

The Theory of Change for the Research Agenda is as follows:

If over the next three to five years:

A foundation is built through a current, aligned and integrated **Research Agenda** with inputs from all stakeholders, coordinated by the DSBD as a thought leader and authority on small business development. **And,** The outputs from the research agenda can be grouped in six key areas, namely it will positively influence the **creation of more jobs**, in order to reduce poverty. Secondly it would drive growth in **sustainable income** to alleviate poverty, and thirdly it will help to **eliminate the current levels of inequality**. A fourth output of the research agenda will be to contribute to the **creation of a culture of entrepreneurship**, by creating **shared value through shared ownership** – as a fifth output. The DSBD research agenda would lastly be the **coordinator of the small business and co-operative industry** development. **And,**

The outputs outlined above can achieve long term successful outcomes through the establishment and coordination of active and working partnerships. **Government, SMMEs, Co-operatives, Private Sector, as well as Institutional partners and stakeholders would need to foster active partnerships** to work together to build an inclusive economy in order to address the barriers faced in the area of small business development. There need to be a key focus on intergovernmental relations (IGR), with engagement of National, Provincial, District and Local Government and organised local government through support and provision of co-ordination; resources; information and research. **And,**

Then a positive impact will be achieved through **Business Development Support (generic / sector specific)** – assisting the target market to identify and develop successful products and services, with a growth in demand, and entering new markets, and be positioned to market readiness and successful access to markets. There will be an environment of inclusive and informed **Effective Policy Formation** that is absolutely focussed to benefit the formal and informal SMME and co-operative market. The enormous positive impact of a **Supportive Ecosystem** spans across the whole micro, small, and medium business sectors, and is one of the most important factors that would lead to economic growth and development to the benefit of everybody in South Africa. Through the roll out of effective and beneficial policies, there would be a strong basis to **Secure Funding** with effective monitoring and evaluation to ensure the maximum benefit of everybody. **Appropriate Training** interventions, programmes and interventions at all levels of education, from primary to post-tertiary is the only way to ensure sustainable growth and development of the entrepreneurial society that will propel South Africa into the future.

Then... The DSBD and all their stakeholders will be enabling and supporting a strong diverse small business sector and entrepreneurial ecosystem, SMMEs and co-operatives in both the formal and informal sectors, will be able to contribute to socio-economic growth across South Africa.

4. Methodologies Used

A range of research methodologies were used in developing the DSBD Research Agenda – below is an outline of some of the key methodologies utilised in this research project:

- Develop a Theory of Change (ToC) by analysing previously prioritised research themes/interventions within the SMMEs and co-operatives environment highlighting trends, problems and needs as outlined within the White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa (1995), National Small Business Act of 1996, as amended (2003 and 2004) and Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005);
- Delineate clearly the current research problems by conducting Root Cause Analysis through problem structuring, causal linkages and proposed research options, including feasibility of each option;
- Compile an inventory of existing research on SMMEs and co-operatives development within various spheres of government organisations;
- Secondary research will be conducted, reviewing all documentation deemed relevant for compiling a comprehensive research agenda for DSBD;
- Primary Research: Using workshop and focus group methodologies, plus in-depth interviews will be conducted with internal & external stakeholders, to identify problems experienced with research. An online survey will be conducted with SMMEs and co-operatives – to collect trends and issues faced by the sector, to inform the development of the research themes.

5. Situational Analysis: Small Business Market in South Africa

5.1. Overall small business market in South Africa

The term “Small Business” is a collective for Small, Micro, and Medium-sized businesses, as well as the Informal market, and emerging Co-operatives.

The National Development Plan of South Africa expects to create 11 million jobs by 2013 and to achieve an economic growth rate of 5.4% per annum. Given the current state of the economy, it is going to be a challenge. However, entrepreneurial activity can assist in improving growth and employment in the country, especially in innovation, and research and development (of which 90 percent will come from small and expanding businesses).

Small businesses have a vital role to play in creating jobs, increasing produce volumes, increasing exports, promoting innovation, and promoting entrepreneurship. Between 1998 and 2005, 90 percent of jobs created were in the SMME space. However, early-stage entrepreneurial activity rates in South Africa are about half of what they are in developing countries. Furthermore, the South African SMME sector is characterised by low survival rates (National Planning Commission, 2012).

In addition, South Africa's entrepreneurial activity is lagging behind developing countries. According to the Global Entrepreneurship Monitor, South Africa had the fifth lowest in early stage entrepreneurial activity. The main reason

for this low entrepreneurial activity is the unfavourable business environment in South Africa as legislation is disabling and unsupportive (Simodisa, 2014). The ease of doing business places South Africa 131st for starting a business and 74th overall (this is out of 190 countries) (World Bank, 2017).

Government needs to assist in improving the environment for small business by creating framework conditions to influence the business environment, in order to address policy and market failures that dampen entrepreneurial activity and limit the scope for innovative small firms to grow (Ethekewini Municipality, 2013). The South African government has met this need by establishing the Department of Small Business Development in 2014. The aim of the department is to facilitate the promotion and development to of small businesses (Seda, 2016).

With the recent credit-rating downgrade in South Africa, SMMEs are expected to be affected as access to credit will decline and the cost of borrowing will increase. Although the times are uncertain SMMEs should not suspend activity, as there are several factors that can be considered with managing existing debt or seeking new funding. In addition, South Africa should be backing entrepreneurs now more than ever as SMMEs could improve growth in the country (Paper, 2017).

5.2. Literature review of challenges facing small businesses in South Africa

The National Development Plan is the strategic plan to reduce poverty and inequality in South Africa by 2030. The plan lists areas of improvement and in some cases provides targets. In the Economy and Employment section, the plan discusses how small business can assist in job creation and economic growth generation.

Furthermore, the DSBD derives its legislative mandated from South African Constitution. In addition, a legislative framework that ensure small business development occurs governs the DSBD. The legislation is to ensure the DSBD promotes the development of small businesses, good practice is adhered to, the procurement procedures are aligned to the aims of the Broad-Based Black Economic Empowerment Act, legislation that assists co-operatives and their development, and the promotion of black economic empowerment. In particular, the legislation are:

- National Small Business Amendment Act (No. 29 of 2004): ensured the establishment of the National Small Business Advisory Council and the Small Enterprise Development Agency; provides guidelines for organs of the state in order to promote small business in South Africa, and to provide for matter incidental.
- Preferential Procurement Policy Framework Act, 200 (No. 5 of 2000): The Act ensures government's preferential procurement procedures are aligned with the aims of the Broad-Based Black Economic Empowerment Act, 2003 and the associated Codes of Good Practices.
- Co-operatives Act, 2005 (No. 14 of 2005): The Act provides for the formation and registration of co-operatives; the establishment of a co-operatives Advisory Board; the winding up of co-operatives; the repeal of Act 91 of 1981; and any matters connected.
- Broad-Based Black Economic Empowerment Act, 2003 (No. 53 of 2003): The Act establishes a framework for the promotion of black economic empowerment; to empower the Minister to issue Codes of Good Practice and publish transformation charters; to establish the Black Economic Empowerment Advisory Council; and to provide for matters connected therewith.

Therefore, the South African government needs to do more to improve the entrepreneurial activity in the sector. The NDP notes that there are various advantages of growing the sector. These are reduced level of economic concentration, higher levels of competition, and increased opportunities for B-BBEE.

In addition, the NDP provides proposal on how to support the development of small businesses (National Planning Commission, 2012). These are:

- Public and private procurement
- Regulatory environment
- Access to debt and equity finance
- Small-business support services
- Address the skills gaps

In order to develop the SMME and co-operatives sector in South Africa, the challenges facing the sector needs to be addressed. The remainder of this report will discuss these challenges.

Access to finance is a major obstacle in the development of small businesses. The dti notes that co-operatives have limited access to finance when compared to other forms of enterprises. This is due to financial institutions and government entities not understanding the structures of co-operatives. The dti also mentions that between 2010 and 2012 only 24.5% of co-operatives that applied for loans were successful and only 34% of co-operatives who applied for grants were successful (dti, 2012). Seda (2016) finds that South African bankers and lenders prefer to invest or provide funding where the small business be in the later stage of development. These funders are less likely to lend to start-up SMMEs. However, the study does find that access to funding is dependent on location. In Gauteng and the North West, SMMEs have access to more finance than other provinces. In addition, interest rate hikes have a negative impact on small businesses. Lastly, banks only have products that are suitable for large corporations. FutureGrowth (2016) finds that if SMMEs have easy access to finance their operational capacity and efficiency can increase their levels of income generation. This can assist in reducing poverty and income inequality as SMMEs will be able to employ more and contribute to economic growth through their ability to react quickly to changing market conditions. However, FinMark Trust (2015) finds that the lack of access to finance forces SMMEs to resort to informal finance.

Access to markets is the second major challenge affecting small businesses. The lack of access to markets for products and services has led to the failure of many small businesses. Local government has attempted to improve business infrastructure support however, this is still at an infancy stage (dti, 2012). Seda (2016) finds that accessing markets is a fundamental requirement by credit providers to access funding and mentorship in the early stages of the business's development. Small businesses who are severely affected are rural business as they are located in remote areas. In addition, FastMoving (2017) states that the preferential procurement requirements are incorrect, as large corporations place undue pressure on smaller SMMEs's pricing structure. Lastly, SMMEs in the plastic and chemical industry found that strong competition from Asian countries (such as China) were affecting sales and marketing due to the influx of imports into South Africa (Seda, 2013). In addition, SMMEs need better market intelligence and support in accessing mainstream distribution channels for their products or services (Seda, 2012).

Technology plays a vital role in improving efficiency and output. In South Africa, technology is becoming relevant in businesses. 66 percent of businesses cited technology has "very important" to the running of their business (Sanlam, 2017). However, many small businesses do not have access to the appropriate technologies, as it is expensive. This leads to the creation of poor quality products and a lack of access to markets (dti, 2012). In addition, lack of access to capital makes it difficult to access these technologies and to constantly keep abreast with innovation.

Infrastructure, such as electricity, water, sanitation, transport, energy and telecommunications are important for the operation of any business. While load shedding no longer occurs in the country, power cuts have negative impact on small businesses as it reduces their production capacity and leads to lower turnover. This gives rise to a low growth rate among SMMEs. The lack of access to physical infrastructure is another challenge and this affects mostly small businesses in Gauteng. Once again, access to infrastructure is dependent on location. Small businesses in the North West have problems relating to utilities, whereas small businesses in Mpumalanga and the Northern Cape have access to amenities and space (seda, 2016; seda, 2013). In addition, there is also a lack of access to business or development infrastructure facilities (dti, 2012).

The **regulatory environment** in South Africa is also not conducive to business development. South African laws make it difficult to lay off staff when the business can no longer afford them or if the workers become unproductive. Labour laws in South Africa are restrictive and do not take into account cyclical downswings that small businesses face. Labour costs are also high and make it costly to do business in the country (seda, 2016). In addition, SMMEs are burdened by the costs of licensing, registration and settling of legal claims. In addition, the lack of protection for SMME intellectual property rights exposes them to international competition and makes it difficult for SMMEs to expand their market share. SMMEs also have limited access to foreign partners and investors, making it difficult for the business to expand into foreign markets (seda, 2016).

Management and technical skills are imperative for operating a business. However, unemployed people who do not have these skills or business experience initiate many small businesses, especially co-operatives. The lack of skills may undermine the success of the business (dti, 2012) (Moloi, 2013). According to Mafoyané (2015) 80 percent of startups in South Africa fail due to the lack of business support, which provides skills development. The NDP also

notes that the country is at a shortage for business skills (such as accounting and sales capabilities), which limits entrepreneurship capacity and constrains economic growth (seda, 2016).

Other challenges include:

- Many co-operatives fail due to **lack of trust** between members. Co-operatives require a high level of trust, shared vision, approach, financial trust and strong social ties to be successful (dti, 2012).
- **Co-operatives do not cooperate with each other**, which leads to businesses missing opportunities (dti, 2012).
- **Research and development** is a pivotal aspect for economic growth in any country. Therefore, small businesses should focus on creating innovative firms. However, there is low levels of research and development in the country.
- **Crime** affects formal and informal SMMEs negatively as it forces SMMEs to increase security spending. This spending increases the business's cost of doing business (seda, 2016).
- The **economy and its factors** (monetary policy, fiscal policy, interest rates, inflation rates, and foreign exchange rates) influence small businesses in various ways. The South African economy is experiencing weak economic growth with high inflation and high interest rates, which hamper the growth of small businesses, profitability and sustainability. In terms of rising interest rates, the repayment of loans will increase and the access to credit will become difficult. This will have a negative impact on the cash flow of small businesses (Tsele, 2015).

Summary of challenges facing small business in South Africa**Access to finance**

- Financial institutions do not understand small business structures
- Funders prefer to lend during later stages of development
- Access to finance is dependent on location

Access to markets

- Leads to the failure of many small businesses
- Rural small businesses mostly affected
- Preferential procurement requirements put pressure on SMMEs

Technology

- Vital for improving efficiency and output
- Expensive
- Requires capital, which is difficult for many small businesses to access

Infrastructure

- Power cuts have a negative impact on small businesses as productivity is reduced
- There is also a lack of physical infrastructure
- Access to infrastructure is dependent on location

Regulatory environment

- Regulatory environment in South Africa is not conducive for the development of small businesses
- Labour laws are restrictive and labour costs are high
- Small businesses are burdened by the costs of licensing, registration and settling of legal claims

Management and technical skills

- Education in business is vital when starting a company
- However, many small business owners do not have the skills
- This undermines the success of the business

Other challenges faced by small businesses

- Lack of trust between co-operative members
- Co-operatives do not interact with each other
- Lack of research and development
- Crime
- Macroeconomic factors

Challenges faced by government in developing the small business sector

- Inadequate economic and social impact statistics
- Lack of co-ordination between the departments in the public sector
- Limited support from existing government enterprise development agencies
- Policy
- Limited promotion and awareness
- Small business prefer to remain informal

5.3. Challenges faced by government in supporting SMMEs and co-operatives

The South African government has recognised the importance of SMMEs in the economy, as can be noted in the National Development Plan. Since 1994 the government has been developing and implementing programmes to transform the South African economy. A few of these programmes were the Small Enterprise Development Agency (Seda), and the Department of Small Business Development (DSBD). These programmes focussed on development small businesses in South Africa (Kumah & Omilola, 2014).

In 2015, the minister of the Department of Small Business Development, Minister Lindiwe Zulu, stated that national, provincial and local government must work together. Furthermore, there should be collaboration between the private and public sector as well (Zulu, 2015).

While government is actively involved in assisting small businesses in developing and growing, government is facing challenges in serving this role. These challenges are discussed below.

Firstly, there is inadequate economic and social impact statistics to provide a clear indication of the sector. This is the result of inadequate market transparency and poor appreciation of the co-operative business model. Government needs to monitor and evaluate the evolving support process for co-operatives, although the dti finds that it has been adequate. In addition, there is data available from the Registrar of Co-operatives, although it has been limited (dti, 2012).

Secondly, there is a lack co-ordination between the departments in the public sector to address the challenges facing small businesses. The roles and contributions of the different spheres must be defined clearly (dti, 2012).

The third challenge is the limited support from existing government enterprise development agencies for co-operatives, as the support has been negligible, unfocused, uncoordinated and lacked systematic and sustained targeting on co-operatives. The reason for this lack of support is the core mandate for these agencies is not co-operative development (dti, 2012).

Policy is another challenge that government faces. Most policy interventions are tailored for specific market segments, sector or co-operatives.

The fifth challenges is the limited promotion and awareness of small businesses. The various players in the economy (public, private and society in general) do not understand the small business model (dti, 2012).

Lastly, some small businesses prefer to remain un-formalised (such as stokvels) due to the perceived hassle associated with registering (dti, 2012).

Aside from national challenges, challenges are also experienced at a provincial level. These challenges include: lack of commitment by some entrepreneurs; entrepreneurs do not understand the projects offered by Seda; SMMEs often do not take the idea to financial institutions even though the idea has been assessed to be viable; operational systems and procedures are not yet effective; and in some cases there is a lack of capacity to service the whole province for South African Micro-Finance Fund (Samaf) (Mbedzi, 2011).

5.4. Primary Research on Small Business Challenges

A small scale primary research project was undertaken to gain insight into the challenges which South African SMME's face. The results from this primary research survey collaborate the findings from the secondary research and therefore the degree of trust in the findings is increased through this triangulation of findings.

Methodology

A mixed methods approach was used to gain insights from registered SMMEs as well as from the information sector. A survey approach as well as in-depth interviews were used with the purpose of collaborating the secondary research findings, and provide additional insight that might be beneficial to the design of a research agenda.

Online survey

An online survey was designed to measure the challenges which small businesses and cooperatives face. The online survey was sent to a database of contacts received from the DSBD (gathered from SEDA's national offices). The database contained 420 verified email addresses and 45 responses were received, this represents a response rate of 11% - given that the general accepted response rate for online surveys are between 8% - 12% as a market standard. The data was analysed using the statistical programme SPSS.

At least 50% of the sample are black owned businesses, although this number might be as high as 80% (not all data populated). The sample represents mostly formal micro businesses (between 1 and 5 employees), and covers a range of different sectors, from agriculture, services to retail and manufacturing.

An infographic of the sample characteristics are provided below in Figure 1.

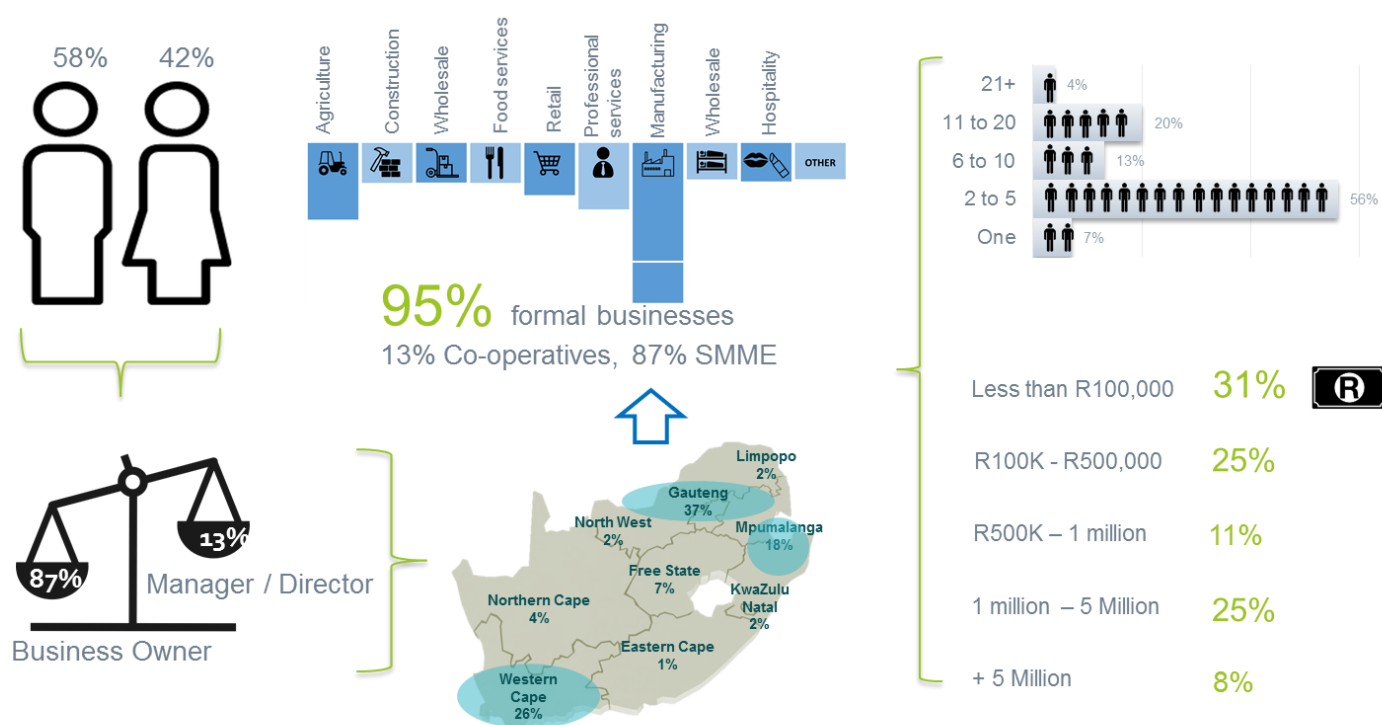


Figure 1: Infographic is sample demographics

Findings from online survey

• Key research challenges

The research survey participants were asked to list the biggest problems that keep them up at night and then SMMEs themselves identified the root causes for their main concerns. A description of the main challenges mentioned are provided below:

Key business problems SMME's experience tend to be focused on five key areas (in this order):

1) Managing day to day finance or cash flow

The most mentioned problem areas by SMME's is managing money day to day. This involves being able to sell enough and be paid in time, in order to have cash flowing in the business to continue to buying-selling cycle. Raw materials, products and/or services as well as standard running costs like salaries and bills like rent, water, electricity, phone etc. all form part of the cash flow system and need to be managed in order to keep the business afloat. Any fluctuations in any of these prices shake a business that hasn't got a decent cash flow to cover uncertainty.

The **ROOT CAUSES** of unmanaged cash flow seems to lie in the following factors:

- Lack of knowledge on how to manage cash flow for a small business
Quote: *"Starting a business out of your pocket with no financial help from any financial Institution."*
Quote: *"Better financial management either through getting a coach to come in and assist. But the main aim would be to find ways of building company reserves"*
- Bad paying clients & management therein
- Longer payment cycles for some clients e.g. government
Quote: *"The bottle neck process of invoicing government and the payment process"*
- Managing the timeframe between being paid and making the next sale
Quote: *"Efficiency, due to the financial obstacles that we are facing we sometimes fail to deliver product of a customer in time we haven't got vehicle to order the material we sometimes place orders and they deliver at their own time and don't have enough material we normally used another order payment to finish other the product. Staff payment also a challenge and rent if we didn't get enough customers."*
- Lack of forecasting/planning ahead (esp. for downtime periods)
Quote: *"Usually we start business with what we have and not enough to cater for dark times in business"*
- Lack of staff (number or skills) to monitor finances
Quote: *"Lack of management within the organization, poor communication, and lack of skilled people in organization."*
- Lack of control over uncertain factors like economy, climate, material cost increases
Quote: *"If Eskom can listen to us and sell electricity at the reasonable rate."*
- Debt not being managed
- Running costs like electricity which are increasing

2) Capital or access to large funds

Close to managing smaller amounts of money in day to day cash flow, their next key concern is around access to funding in larger amounts. Funding refers to investing in the business in order to operate and function better – like purchasing stock in bulk to sell at higher margins, or attending industry events to keep up with trends or have access to potential business, training to upskill and over deliver, or buying modern equipment in order to function at a more optimal level. Access to funding helps SMME's to compete and better their offering with a long term view in investing today for tomorrow and the future growth of the business.

The **ROOT CAUSES** of the lack of access to funding seems to lie in the following factors:

- Lack in government support in funding
Quote: *"Government must keep their commitment to rural women. We have a 100% BEE Women project but here we are dreamers. Don't get the necessary support"*
- Red tape in funding application and qualifying
- Lack of information in what is required
- Bad cycle of not enough business generated to raise funding / can't hold onto stock to generate more business due to infrastructure

Quote: *“Increased sales, this unfortunately will only be possible with an increased marketing and sales budget”*

- Lack of support and understanding for the smaller business owners

Quote: *“To get a funding or grant to buy raw materials in bulk so that I can get a good price to the supply, and add more high quality machines to speed up the production of the windows frame's and other products in time and our customers need in order to get more orders from them.”*

Quote: *“We are unable to compete with our competitors. Our competitors' products are highly exposed because they have access to funding not because their products are the best!”*

3) Marketing & sales of their product/service

SMME's understand that marketing their business is required to grow but at minimum to survive and keep enough clients purchasing what they have to offer, without which they have no business. As they cannot afford the gap between their costs and their sales to be too wide, they look to marketing and sales initiatives as their surety. Marketing and sales to them means how they can get to their potential client and also how they can show them that they are relevant. They are very much aware of the competitive environment and see marketing as a discipline which is essential although not always fulfilled.

The **ROOT CAUSES** of the lack of marketing and sales initiatives seems to lie in the following factors:

- Opportunities given to bigger companies
Quote: *“The company is still on its second year, and opportunities are given to big companies.”*
- Lack of knowledge on how to market their business
Quote: *“Businesses mentorship, assistance with access to markets.”*
- Lower standard of customer satisfaction due to restrictions in day to day running and product/cash flow/operations
- Lack of ability to access clients - transport, time, resources
Quote: *“Having transport will make it easier for me to get to the places where my services are needed most.”*
- Lack of government contracts
- Lack of understanding of client potential and scope - lack access to markets
- Lacking ideas on how to stay relevant
- Strict BEE compliance restricting
Quote: *“Leniency on the BEE Requirements for small business owners.”*

4) Infrastructure (premises, equipment)

The SMME's reference to the term infrastructure relates to the physical assets required for their business to exist like the premises (rented most often, could be owned) and the assets like equipment, machinery, etc. In some instances this does not only refer to just having a premises or equipment but also the right or adequate premises or equipment in order to properly perform business duties and compete.

The **ROOT CAUSES** of the concern around infrastructure required to run their business seems to lie in the following factors:

- Current premises not adequate (size, location, safety & security)
Quote: *“not proper storage facilities and to little capital to build up stock”*
Quote: *“I need premises where clients could see my products hence working from the garage, clients have a tendency of undermining the business because of informal work space. I will need to be more exposed to the supplier chain and capital for marketing nor machineries once the business takes off”*
- Lack of enough or advanced machinery / equipment to produce competitively - causes slower, less productive and expensive business operation level
Quote: *“Get some funding to purchase some equipment to keep up with the standard of Fitment Centers in town?”*
Quote: *“The work becomes very slow and some of the things we cannot do because of the lack of equipment's, and machinery.”*

5) Tax requirements

Lastly, tax concerns is an underlying worry about the activity or inactivity of tax compliance of SMME's. Tax concerns range from the unwillingness to actively contribute to the general unknown big world of tax in relation to the smaller business owner. The word “tax” is daunting and raises concerns for the SMME business owner.

The **ROOT CAUSES** of the concern around tax in general, seems to lie in the following factors:

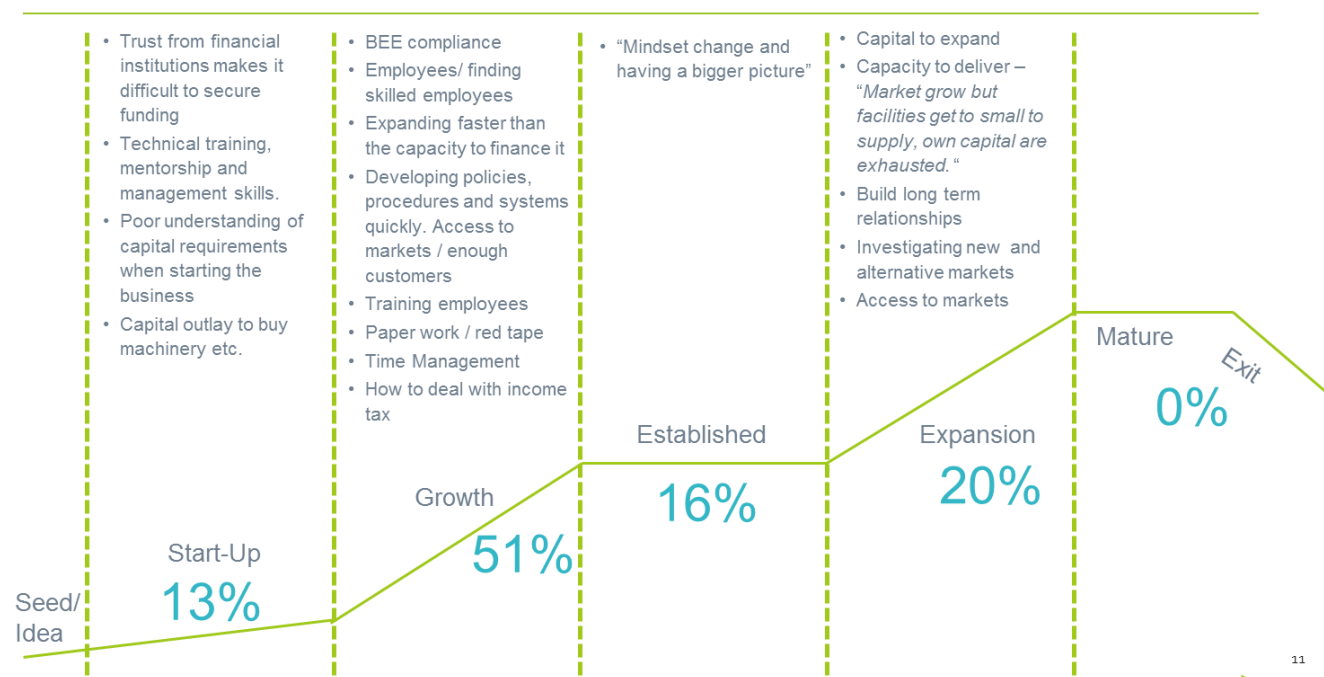
- Impact of the temperamental economy, political instability = high costs
Quote: *"More incentives for small businesses and tax breaks"*
- Lack of understanding in how to do tax
Quote: *"We do not understand how to do it"*
- Unpaid VAT claims, bad SARS service

In addition to this list of challenges, respondents also identified challenges that are particular to the phase of business development that they are in currently. Businesses in the start-up phase often experience difficulty in securing finance for their business, especially as they do not yet have the trust from financial institutions. When starting a business, it is also often challenging to estimate exactly how much capital is required, and even in these early stages, entrepreneurs realise that they need management training and mentorship. As the business moves from the start-up to the growth phase, they start to experience more challenges in managing employees, and the administration challenges of running a business. Procurement issues, red tape and BEE requirements become more pressing as they apply for bigger contracts. By the time they are established they need to mentally prepare for growth, to move out of the comfort zone they are in. When the business does finally expand, many of the same challenges as experienced in the start-up phase, again emerge such as a lack of capital to manage the expansion.

Business lifecycle stages – explained:

- **Seed / Idea:** The seed stage of the business life cycle is when a business is just a thought or an idea. This is the very conception or birth of a new business.
- **Start-up:** The business is born and now exists legally. Products or services are in production and the business have their first customers.
- **Growth:** The business have progressed through the first year or two of development, and now revenues and customers are increasing with many new opportunities and issues. Profits are strong, but competition is surfacing.
- **Established:** The business have now matured into a thriving company with a place in the market and loyal customers. Sales growth is not explosive but manageable. Business life has become more routine.
- **Expansion:** This life cycle is characterized by a new period of growth into new markets and distribution channels. This stage is often the choice of the business owner to gain a larger market share and find new revenue and profit channels.
- **Mature:** Year over year sales and profits tend to be stable, however competition remains fierce. Eventually sales start to fall off and a decision is needed whether to expand or exit the company.
- **Exit:** This is the big opportunity for the business to cash out on all the effort and years of hard work. Or it can mean shutting down the business.

Business lifecycle and challenges



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Figure 2: Business challenges specific to the development phase

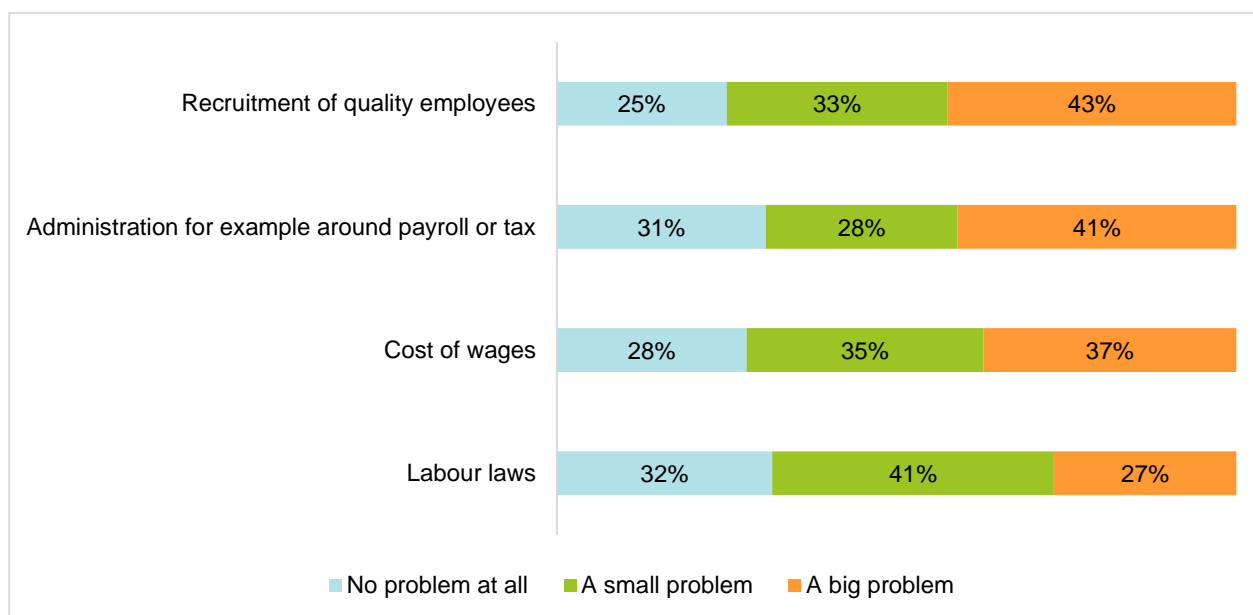
• Drivers of Growth

Despite facing many challenges, including functioning in a low growth economy, 58% of business reported some revenue growth over the last 12 months. Correspondingly 49% has also grown in terms of staff, employing an additional 77 people among themselves. While 16% of SMME's reported revenue decreases, and 11% staff decreases (9 employees), on balance this small sample of SMMEs had still contributed to a net of 68 jobs.

Hard work, dedication and passion are required for business growth, yet arguably all entrepreneurs will attest to these traits. Good business management skills, such as business planning and marketing skills are highlighted as the key drivers of success. Negative growth is linked to the economic environment, but also to challenges in managing cash flow and securing contracts from Big Business.

• Challenges in managing employees

For this sample of SMMEs, who typically have between 1 and 5 employees, labour laws and the cost of wages are not particularly large business concerns. These business owners rather struggle to find the employees with the right qualifications and skills to employ.



• Entrepreneur's skills challenges

In addition to general challenges faced, the survey probed in more detail to understand the entrepreneurs' skills relating to various management related aspects.



Figure 3: Self rating of entrepreneurs' skills

Qualitative interviews with the informal sector

Informal sector businesses were identified through convenience sampling. A discussion guide was designed to understand the challenges they face, as well as their attitudes towards formalising their businesses. Nine (9) interviews were conducted with the owners of the following types of businesses:

- Cobbler - Man who fixes shoes in a yard located close to a busy road
- Food Truck - Lady who sells food on the side of the road
- Hairdresser - Offers hair dressing services at a flat she is renting

- Tailor - Offers sewing and clothes alteration services on the side of the road
- Gardener/Builder - Although working as a gardener in a complex, he often takes on building projects and sees this as his real business
- Beauty therapist – She does nails from a home salon
- Upholsterer – upholstery service from a friend's garage
- Caterer – catering business from home
- Fitness gym – a fighter/ trainer offering fitness services

Key findings from informal sector interviews

The common factor mentioned by the respondents is that their business was established as a source of sustaining their families. A lot of these business owners work alone as they feel they cannot afford to have employees as they generate very little income from the business.

Quote: *"The little bit I contribute is used for bread and butter stuff, it's not used for holidays and eating meals out. It's really used to pay the bills, to survive". (Beauty therapist)*

Quote: *"I don't even pay myself a salary; I pay my bills, buy food for me and child and leave the rest for stocking hair food, spray and so on". (Hairdresser)*

Most of these informal businesses have evolved over time as business owners have added a number of other services to what they offered when they started the business.

Quote: *"Basically I actually started also by um; I used to do dry fruit and nuts parcels and things like that for Christmas, Valentines and things like that... so now I have started doing weddings. So we did a wedding in December where we made Breyani and we made Soji". (Caterer)*

Quote: *"I started selling sweets and cigarettes, over time I started fixing shoes". (Cobbler)*

It is interesting to note some of the challenges experienced by the informal sector are similar to those experienced by formally registered businesses. Informal businesses also struggle with finding customers / marketing, operating facilities and the management of cash flow. Other challenges that hinder their growth are the equipment and the management of stock required for the daily running of the business.

• **Customers**

Respondents feel that it is challenging to access customers as they as business people are situated in isolated areas for example operating from ones home with little funds to create and distribute marketing material. Their marketing is mainly through word of mouth.

Quote: *"My biggest challenge is getting customers; this is also because I render my services in my home" (Hairdresser)*

Quote: *"I don't know how to market my business because flyers are expensive and gets thrown in the dustbin. I rely on word of mouth". (Gardener/ builder)*

Quote: *"Well, I'd like it to grow, but like I say there are so many people doing the same thing I am doing at the moment" (Caterer)*

Quote: *"My customers are mostly taxi drivers who eat their lunch here, they sometimes tell their friends who are also taxi drivers, it is very rare to get other types of customers" (Food truck)*

Quote: *"It all depends, it all depends, uh, its cause my workspace is too small, I can't actually take 10 to 20 customers at a time then I won't have enough space."* (Upholster)

- **Operating facilities**

Respondents also expressed that they face challenges with operating facilities, in most cases this limitation also contributes to the slow growth of their businesses as their customers would turn to their competitors who have better operating facilities than they do.

Quote: *"I do not have enough space to store furniture, so can only do so much at a time".* (Upholster)

Quote: *"Because I do my tailoring work on the side of the road when it rains, these plastics I use as shelter do not protect my equipment and customers clothes from the rain and this means I have to stop working and get everything away from the rain"*

Quote: While operating facilities in the form of a building have a negative impact on informal businesses, respondents also felt that the lack of sufficient / improved equipment also contributes to slow business and loss of customers.

Quote: *"I sometimes lose out on customers who want to relax their hair because I wash their hair in a bucket."* (Hairdresser)

Quote: *"Machinery and equipment's that I need, tools and all cause there's still a lot of tools that I am short of, I'm building up to buy that tools.. I also I need a bigger compressor for cutting my wood."* (Upholster)

Quote: *"My sewing machine slows my business down; with the bigger machine it's easy to perform multiple tasks. If I had that one I would work quicker and not have to turn some of my customers away"* (Tailor)

- **Managing stock levels and cash flow**

Respondents expressed that they experience challenges with estimating the amount of stock they need to meet the needs of their customers on a daily basis as the number of customers varies tremendously on a daily basis. In some instances they make losses because of spending money on stock they end up not using or underestimating the number of customers who would visit the business; especially those in the catering business.

Quote: *"It's difficult to gage how much food I should prepare as the number of customers differs every day. I sometimes lose out because of cooking too much on a day where there are fewer customers because it's difficult to estimate the number of customers I might get. I would sometimes get fewer customers even at the end of the month."* (Food Truck)

Quote: *"I have small stock for basic requirements that people might need. I also use another product called Sansouci but it's imported, it's from Germany. It's quite expensive, and that they deliver to me every Thursday. I would rather get it in as needed".* (Beauty therapist).

Those who work with rendering fixing services, which involve the storage of customer's goods at their operating facilities have mostly experienced challenges with non-payment from customers. In addition to non-payment, they also lose customers because of limited storage space.

Quote: *"Just that, uh people promise you to pay and then they don't".* (Upholster)

Quote: *"Some of my customers do not fetch their shoes; I end up not having enough space to store them".* (Cobbler)

- **Registration**

In terms of the registration of their informal businesses, most of the respondents claimed they do not have a problem with registering their businesses and said they feel their business is still too small for registration. It was noted through

some interviews that the reason respondents are not keen on registering their businesses is because they have a misconception that if they register their business they will then have to pay tax. There is therefore a lack of information on turnover tax, as the respondents are not well informed about the turnover threshold they would have to reach per annum before they are deemed eligible for turnover tax. Some of the respondents who are foreign nationals who have been residing in South Africa for a number of years were unsure if they would qualify for registering their businesses. Those who did register their businesses are in the catering sector and they reported that they are not eligible to pay tax yet.

Quote: *"I did register, but it never grew to that point where I needed to obviously do taxes and all of that because most of the time if I did go uh, it would be like maybe R15 000.00". (Caterer)*

Quote: *"I registered my business as I needed to have proper documentation for my trailer but I am not paying any tax at the moment". (Food truck)*

- **Views on government assisting small businesses**

When asked about their views on the support government gives small businesses, the respondents felt government does not prioritise small businesses that are in the informal sector. Some also told us that they had challenges with accessing information about funding offered by government. Another challenge raised with regards to accessing the funding in order to grow their business was the issue of red tape, business owners felt they are given a lot of paper work to complete in order to qualify for the funding.

Quote: *"I also tried to go there to get funding but it's about who you know, they give it to their buddies and then the buddies don't even pay back the money, and then that fund is also under the table and it's messed up." (Caterer)*

Quote: *"They send you this stack of papers and you have to fill everything in and you just don't hear from them again and when you phone oh, we very sorry, you didn't qualify and what, and when you go there". (Caterer)*

Quote: *"Giving small businesses like myself support would be very low down on the radar I'm sure." (Beauty therapist)*

- **Limited profits / Capital can't be used to grow**

Another reason respondents feel that support from government would be a great help to their businesses is that they feel the income they generate is not sufficient for expanding their business in terms of building, renting, expanding or renovating their operating facilities and purchasing new or additional equipment.

Quote: *"I had tried to rent out working space from my former employer as I thought this would help me become more visible and get more customers but as time went on paying the rent was becoming too much".*

Quote: *"At the end of the month I use the money I have made from the business to pay the instalment for the trailer and also use some for my family's needs" (Food truck)*

5.5. Root cause analysis

Background:

Root Cause Analysis (RCA) is a popular and often-used technique that helps people answer the question of why the problem occurred in the first place. It seeks to identify the origin of a problem using a specific set of steps, with associated tools, to find the primary cause of the problem, so that you can:

- Determine what happened.
- Determine why it happened.
- Figure out what to do to reduce the likelihood that it will happen again.

RCA assumes that systems and events are interrelated. An action in one area triggers an action in another, and another, and so on. By tracing back these actions, you can discover where the problem started and how it grew into the symptom you're now facing.

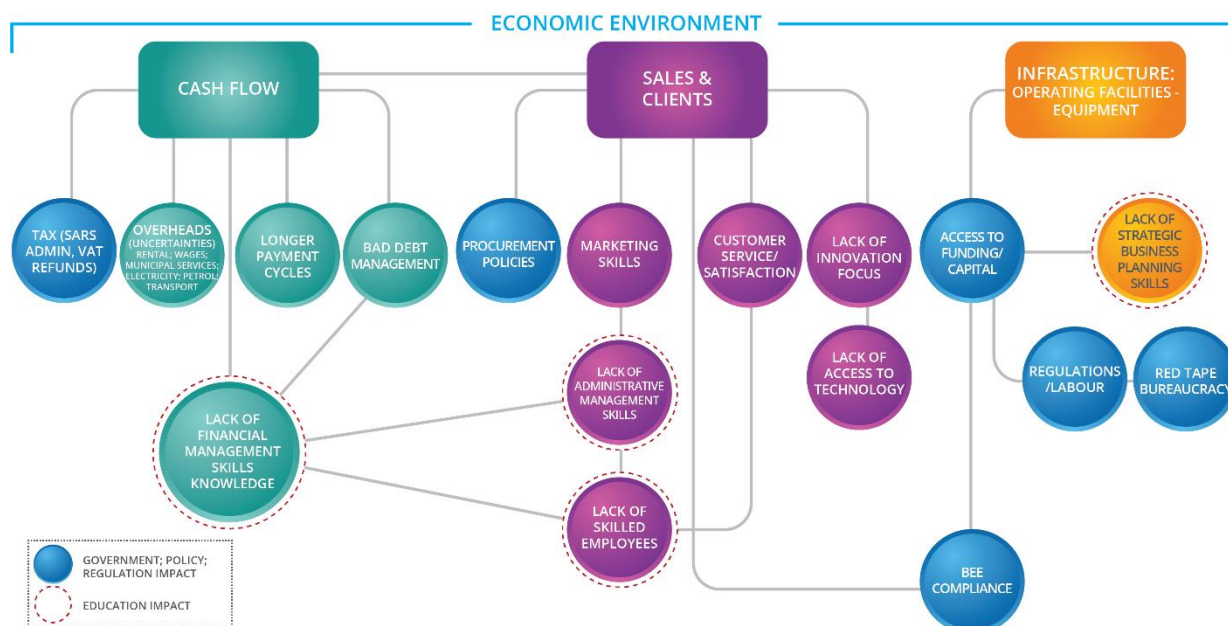
Three basic types of causes:

- Physical causes: Tangible, material items failed in some way (for example, a car's brakes stopped working).
- Human causes: People did something wrong, or did not do something that was needed. Human causes typically lead to physical causes (for example, no one filled the brake fluid, which led to the brakes failing).
- Organizational causes: A system, process, or policy that people use to make decisions or do their work is faulty (for example, no one person was responsible for vehicle maintenance, and everyone assumed someone else had filled the brake fluid).

RCA looks at all three types of causes. It involves investigating the patterns of negative effects, finding hidden flaws in the system, and discovering specific actions that contributed to the problem. This often means that RCA reveals more than one root cause.

Root cause analysis can be applied to almost any situation. Determining to what level of detail to investigate, requires good judgment and common sense. Theoretically, a root cause can be traced back to the origin of humankind, but the effort would serve no useful purpose. Be careful to understand when a significant cause to a problem has been identified – that can be changed or improved.

From the preceding secondary and primary research findings, some root causes affecting the SMME and co-operative market in general can be outlined, and a problem tree were developed to highlight the key problem areas to address – as seen in the figure below:

Problem Tree Output - DRAFT**General Notes – Problem Tree:**

- The problem tree is a generic high level approach – as each business and industry will be different and unique. And it is not an effort to map out all possible problems in SMME sector for South Africa – not fit for purpose in this exercise
- There is a relation between all the aspects on the problem tree – but only the most direct linkages are shown
- The Problem tree can work / be explained in both directions: From the Problem identified downwards to the root cause, by asking WHY?; And from the root cause upwards to see the causal effects
- Depending on the life-cycle stage (Start-up; Growth; Established; etc) of a SMME business – a different aspect / part of the problem tree will have more relevance / importance

Problem: Cash Flow:

- Impacted by lack of Sales / Clients – but not a root cause of it
- Tax & Overheads can have a negative impact on Cash flow management
- Weak cash flow management lead to an increase of Bad Debt, and unpredictable payment cycles. And the root cause can be traced to a lack of Financial management skills & knowledge
- Weak / no financial management skills / knowledge is linked to a lack of administration management skills & lack of skilled employees. And the lack of Skilled Employees would lead to a lack of Marketing Skills and a Lack of Customer Service / Satisfaction

Problem: Sales & Clients:

- Sales & Clients are negatively impacted by a lack of Infrastructure (Operating Facilities & Equipment), which will not be possible to acquire if there is no access to Funding / Capital – and is a problem caused by the root cause due to a lack in Knowledge of Strategic Business Planning
- Lack of Sales & Clients are impacted by a lack of Innovation, due to a lack of access to Technology
- BEE Compliance and Procurement policies have a direct impact on Sales & Clients

Problem: Infrastructure (Operating Facilities & Equipment):

- Access to Funding & Capital have a direct negative impact on acquiring Infrastructure – which would lead to negative impacts of the root causes of Regulations / Labour & Red Tape / Bureaucracy
- Economic factors are wide reaching – and have a direct impact on the total macro economy and business environment – mostly beyond the control of SMME's

6. Priority Areas for the DSBD Research Agenda

6.1. Process followed to decide on themes

Definition:

In the research community, a research agenda is viewed as themes of inquiry that should shape the direction of research in a particular field or sub-field. Research agendas typically identify those areas that require new knowledge in the medium and longer term. Research agendas are useful to help individual researchers and research institutions (1) understand how they can contribute to a greater body of knowledge and (2) find their place in the field or role in the larger research picture.

Once created, a DSBD research agenda is an invitation to individuals and institutions to engage in research that will strategically serve the field of SMMEs & co-operatives and contribute to the improvement of small businesses.

Process:

Creating a research agenda and plan is a multi-stakeholder process that should tap the opinions, knowledge, experience, needs and desires of a broad spectrum of people who carry out and use research.

A process to create a DSBD research agenda and plan requires deliberation and stakeholder input on a number of topics, including:

- Goal: identify three to five over-arching themes for DSBD research.
- Involve those who do research, use research and support research and those who could become involved in research in some capacity.
- Compile an inventory of existing research.
- Compile an inventory of needs for DSBD research.
- Identify the most important research needs to support SMME & Co-operative sector in South Africa

6.2. Research Themes

Focus Area	Justification	Priority	Key Research Questions
Understanding the small business and its owner	Key driver to understand the needs and challenges of the “clients” to benefit from programmes and assistance programmes offered to the market	Short term	<ul style="list-style-type: none"> • Differentiation between township and rural economy • Informal business contribution to GDP • Co-operatives contribution to the GDP • Characteristics of Business Owners • Analysis of women-owned small businesses • Analysis of the youth and small business ownership • Characteristics of SMMEs in the township economy • Characteristics of SMMEs in the upper end of the market • Analysis of high impact black small businesses across provinces • Sustainability of SMME's and co-operatives – verify perception that “most small businesses fail after 2-3 years of operation”
Business and Process Improvement	Betterment of programme rollout to SMME & co-operative market	Longer Term	<ul style="list-style-type: none"> • Leveraging mass media and ICT in business development • Causes of Business failure at various stages of the business lifecycle • Risk assessment models for SMME's • Conceptualizing small business growth • Red Tape Reduction • Cost of administrative burden • Business process re-engineering

Sector Intelligence	Relevant market intelligence to be better equipped to develop applicable programmes	Medium term	<ul style="list-style-type: none"> Define sector-specific support for SMMEs and Co-ops Sector prioritization Market intelligence for specific sectors, and identify growth potential. Characteristics of SMME's per sectors Skills Development & training – need to research in SMME and co-operative sector on the training & development needed per sector
Economic Data and Statistics	Need longitudinal studies to identify verified trends, and statistical analysis required to be evidence based and verified	Short term	<ul style="list-style-type: none"> Regional economic profiling National survey or national longitudinal study Ecosystem mapping nationality – local (profiling) Statistics around the number of SMME's Data on the economic contribution of small businesses at a national and regional level
Market Access	Relevant knowledge to develop successful strategies per sector and industry – identify strategic opportunities proactively	Short term	<ul style="list-style-type: none"> Market access – procurement (30% of Government procurement) Access to finance Cooperative banking as financial intermediators (financial intermediation) in township and rural economies Discovering new business opportunities for SMMEs Finding new markets/ the right markets for SMME products Sector value-chain analysis, and definition of existing opportunities for SMMEs & co-operatives in the value chain Exports of SMMEs and regions
Policy, Regulation and Legislation	To create a conducive legislative & policy environment for SMMEs and co-operatives	Longer term	<ul style="list-style-type: none"> Periodically coordinate, review, and modify legislation and regulations related to small businesses and Co-operatives in order to build a conducive small business environment Review National Small Business Act, 1996 (Act No. 102) Principle Act, read with 2003 (Act No. 26) and the 2004 (Act No. 29) as amended in order to align the amended Act with the revised Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise and the mandate of the department.

6.3. Prioritisation of themes - Justification

The themes are developed with a long term view, but need to be reviewed on an annual basis. With an annual review there could be specific prioritisation done on a needs basis for purposes of the financial year at hand. Only with wider consultation with relevant stakeholders should the DSBD be in a position to justify their priority areas for the financial year at hand. There are various approaches to prioritise, below are two variable approaches – but the DSBD would need to apply their own process in accordance with the department's strategy and objectives to justify the prioritisation of specific themes. It is also important to note that all the research themes identified are of equal relative importance, but it is not feasible to initiate research on each theme simultaneously.

Prioritisation of themes based on the current needs assessment – as a guideline to assist the SMME and co-operative sector:

- **Market:** A need for market intelligence to identify opportunities
- **Procurement:** the recurring issue of payment cycles which extend beyond 30-days, leading to potential cash flow problems

- **Regulation / legislation:** If there is a hostile legal or regulatory environment, it is difficult to comply or effectively grow a business
- **Business support services:** To intensify database development around “Who is the Business Owner”, and developing profiles of SMMEs and co-operatives.
- **Surveys and longitudinal studies:** Covering all possible variable data points on the SMME and co-operative sector, on a national and regional basis. A need to be recurring and continuous.
- **Sector specific research:** Covering areas such as business lifecycle research, challenges per stage of business development, ecosystem research per sector.
- **Radical economic transformation:** Raising questions such as “What is the DSBD doing radically different from the dti or other departments regarding the SMME and co-operative sector?” “The development of infrastructure for the SMME sector, especially in townships, or for the youth, women, and disabled parts of society?”
- **Policy review and update:** Need to be a continuous process, with the aim to reduce the administrative burden (red tape). Conduct impact assessments to make it evidence based.
- **Export markets:** Create country profiles per relevant sector for potential export opportunities – opportunity analysis

Prioritisation of themes based on a structural programme development basis:

- **Conceptual focus of the SMME and co-operative sector:** Foundation of understanding; categorise; create common definitions; describe the sectors.
- **The size and shape of the Sector:** How many SMMEs; ownership; migrants vs. SA; contribution to GDP; on a national and regional basis
- **Challenges and Opportunities:** Barriers to SMME and co-operative development PLUS Good practice in SMME development
- **Sector Intelligence:** All possible information per sector growth prospects; statistics; products; markets; etc.
- **Economic data:** this is integrated and in all the other sections, but need a dedicated focus to validate the data, make data available, and to keep it updated. Identify data gaps.

6.4. The economic environment and the impact on the Research Agenda for SMMEs and co-operatives in South Africa

South Africa is one of the most unequal societies in the world. In 2011, the country’s Gini coefficient¹ was 64.5 (World Bank, 2017). This is a concerning figure and one that indicates that growth that has taken place in the country has not been inclusive. However, the South African government is aware of the high level of inequality and poverty in the country and is constantly implementing programmes in order to tackle these challenges.

Recently, the South African government has started discussing **radical economic transformation**, a strategy on making inclusive growth a reality. Perhaps the best place to begin is with the definition of radical economic transformation. According to President Zuma, during his State of the Nation Address (SONA) this year, the President defined radical economic transformation as “fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female” (Soko, 2017). This is a definition that is shared by the Minister of Finance, Malusi Gigaba, who said that radical economic transformation is “...programmes that are going to include as many people who are excluded from economic participation as possible” (Menon, 2017; World Economic Forum, 2017).

Investigating the possible programmes, Soko (2017) mentions that the ANC’s economic transformation document emphasises the following policy interventions: “reducing unemployment and inequality, accelerating land reform, increasing black ownership and control in the economy, supporting small businesses and cooperatives, improving the employment impact of infrastructure projects, raising the level of investment, ending monopoly practices, deepening South Africa’s integration into the African economy, and asserting South Africa’s interests in the world economy”.

Already from the policy interventions, supporting small business and cooperatives is still a focus of the government and the ANC. And rightly so. As mentioned previously, small businesses can have a significant impact on providing

¹ A Gini coefficient measure the extent of inequality in a country. A coefficient of zero implies perfect equality whereas a coefficient of 100 implies perfect inequality.

employment opportunities and contributing to economic growth. However, the current economic climate may create further challenges for these businesses.

In April 2017, S&P and Fitch **downgraded South Africa's sovereign debt credit rating to** or non-investment status. Moody's has put the country's sovereign debt on review for a downgrade as well (News24, 2017).

The **result of the downgrade** is expected to have a negative impact on the economy. Some of the impacts are lack of access to credit and a further weakening of the exchange rate. The weakened exchange rate will lead to prices increasing and, ultimately, inflation will rise. In order to reduce inflation the South African Reserve Bank (SARB) will increase the interest rates (News24, 2017). The economic growth rate is also estimated to decline from 1.1 percent to 0.2 percent, as indicated by Nomura (a research analyst company). Lastly, these negative movements in the economy are likely to trigger a recession. Such as the one Brazil is currently experiencing (BusinessTech, 2017).

The implications of the downgrade are going to affect consumers and businesses. From a consumer perspective, the increase in inflation and interest rates will lead to consumers reducing spending in order to pay off debt (News24, 2017).

From a business perspective, during great economic upheavals businesses are the most sensitive to changes. During the Greek financial crisis (2011-2012) approximately 20 000 small businesses closed – directly affected by the financial crisis. The most vulnerable businesses during financial crises are small businesses, as they do not have meaningful reserves to call on to keep their cash flow going and may not qualify for finance or credit of sufficient proportions to help them through tough times. Small businesses also become more exposed to credit risks from non-paying customers or late-paying customers, which further weakens their cash flow. This in turn leads to small businesses paying their suppliers late (Knight, 2017).

Furthermore, consumer behaviour affects small businesses. According to a study undertaken by the DSBD, 52 percent of sales is from the consumer market. Therefore, SMMEs will be severely affected if the public reduces their spending and small business clients (Bukula, 2016).

In addition, if retrenchments take place, the biggest challenge businesses will face is operational effectiveness as capacity and resource issues will affect productivity and deliverables (Daniels, 2017).

Already the weak economic growth has taken its toll on small businesses. According to the Companies and Intellectual Property Commission, since the 2009 recession the number of new businesses registered is well below pre-recession levels (Knight, 2017).

While the current economic climate is creating more challenges for small businesses in South Africa, Minister Lindiwe Zulu has said there is an opportunity for the downgrade: local producers can benefit. It is assumed that due to the weak exchange rate, importing will be too expensive and businesses and consumers will turn to local suppliers for products or services. In addition, the minister mentioned radical economic transformation as a way to survive the downgrade (BusinessTech, 2017).

Furthermore, analysts have mentioned that SMMEs should not stop investing in their business as borrowing money can make a lot of sense for well-managed companies. SMMEs can also consider several factors to consider in managing existing debt or seeking new funding (Paper, 2017).

Therefore, given the current economic climate, the focus of government on small businesses will perhaps lessen the impact of the downgrade and a possible recession. However, this may require hands-on support from government departments and awareness about the support these government departments can provide.

6.5. Monitoring & Evaluation

A monitoring and evaluation framework will set out the results chain for the research agenda, and indicate monitoring and evaluation indicators. Impact evaluation questions will be built in as part of the implementation plan for the research agenda. Internal review as well as external independent evaluation will form part of the evaluation process and accountability to stakeholders.

The DSBD have a close working relationship with the Department of Planning, Monitoring and Evaluation (DPME), and the agreed process to effectively monitor and evaluate the impact of completed research projects will be done in accordance with the processes already in place from the DPME. This need careful consideration and planning to be meaningful and have real impact – more than what is described above. It is suggested that the DSBD implement an agreed process at the appropriate time.

7. National and International trends on Research in the Small Business Market

There was an investigation of international and national research trends regarding small businesses when identifying to focus areas for the DSBD's research agenda. The investigation into international and national organisations ensured the research agenda was international benchmarked and aligned to international best practice. This will ensure that the DSBD's research agenda focusses on research that is relevant.

7.1. National organisations

Department of Trade and Industry (dti)

- a. In terms of legislation and business regulation, the dti develops and reviews the regulatory systems in the following areas: competition, consumer protection, company and intellectual property, and public interest regulation.
- b. The dti also oversees the work of national and provincial regulatory agencies that are mandated to assist the dti in providing competitive and socially responsible business and consumer regulations, for easy access to redress and efficient markets.
- c. In addition, the dti has programmes that provide financial assistance and sector development to SMMEs. One such programme is the Export Marketing & Investment Assistance programme.

For more information, click [here](#).

A document by the dti on the Research Agenda for the Economic Research and Policy Coordination unit provides the following information ([dti, n.d.](#)):

- The purpose of research in the dti is to:
 - Generate knowledge
 - Identify issues that impact on the economy and possible solutions
 - Inform policy and programmatic interventions
 - Determine performance or impact of dti programmes
- The research agenda does the following:
 - Outlines research priorities and focus areas which ERPC intends focusing on in a 3-year period
 - Informs the annual research plan
 - Ensures that research is conducted and commissioned in key priority areas
 - Leads to effective and efficient spending of the limited research budget and allocation of internal capacity
- The following informs the research agenda:
 - The dti mandate, strategic objectives and focus areas
 - The dti flagship policies and programmes
 - Government's 9 Point Plan
 - National Development Plan
 - Medium Term Strategic Framework
- Key priorities of ERPC and other dti divisions as presented to the dti executive board
- Targeted research collaboration with other dti division: where the focus areas are of interest to ERPC
- The document lists the 5 research themes:
 - Acceleration of Broad-based Economic Transformation
 - Implementation of local content requirements in state procurement
 - Trade and Investment Development

- Economic modelling and scenario analysis: Increased participation of black people in the real economy
- Evaluation research

For more Research Agendas, click [here](#).

Department of Economic Development (EDD)

The EDD's core objectives are to support economic growth that creates decent employment opportunities for the South African people on a mass scale and that overcomes the profound inequalities that characterise the South African economy ([EDD, 2017](#)).

The aim of the EDD is the following:

- Co-ordinate the economic development contributions of government departments, state entities and civil society;
- Contribute to efforts that ensure coherence between the economic policies and plans of the state and state entities on the one hand, and the government's political and economic objectives and mandate on the other; and
- Promote government's ability to achieve its goals of advancing economic development with decent work opportunities.
- Key job drivers for the creation of decent jobs and inclusive growth ([EDD, 2014](#))

Department of Arts and Culture (DAC)

The strategic goals of the DAC are:

- Job creation: Decent employment through inclusive economic growth
- Human capital development: Improved quality of basic education; a skilled and capable workforce to support an inclusive growth path
- Access to information: Social cohesion and nation building
- Linguistic diversity: Social cohesion and nation building
- Development, protection and preservation of arts, culture and heritage: Social cohesion and national building
- Governance and accountability: An efficient, effective and development oriented public service

The department focuses on the following that can be applicable to small businesses:

- Job creation and economic development
 - The Department of Arts and Culture re-engineered its strategic focus during 2009-2014 term of government. Such re-engineering was informed by the government-wide strategic re-orientation that put job creation and economic development at the centre of government priorities together with eleven other priorities. It was then imperative for the Department of Arts and Culture to clearly articulate its contribution to job creation and economic development agenda of government.
 - This resulted to the development and adoption of the Mzansi Golden Economy strategy whose primary objective is to chart the role of the arts and culture sector in job creation and economic development.
 - A lot of work has been done to quantify statistically the contribution of the arts and culture sector, under the leadership of the Department of Arts and Culture, to economic development. More

work will continue into the mid-term through the development of the arts and culture Observatory.

- Quality education and rural development
 - The National Development Plan emphasizes the need to improve schooling and education as well as the need to improve quality of life in rural areas of South Africa. Going into the medium term, the department will continue to make a visible contribution to quality education through ensuring that artists are placed in schools to improve the teaching of arts in basic education. This will not only ensure that a substantial number of artists will be employed but will also increase interests in arts and improve audience development.
 - Building of arts, culture and heritage infrastructure in rural areas will continue to be the priority of the department as we move into the next medium term. Such infrastructure includes libraries, heritage monuments and arts centres. Maintenance of the already built infrastructure will also be central to the department's priorities.
 - Apart from developing and investing in our rural areas, such ventures will also create much-needed jobs, as employment of local people will be at the centre of such development.

Click [here](#) for more information on the DAC.

A research agenda was created for the cultural and creative industries of South Africa. The following are notes from the research agenda ([DAC, 2014](#)):

- The research agenda aimed at achieving the following:
 - Define research requirements
 - Define individual research agenda items required to address the research requirements of the industry
 - Determine the alignment of proposed research agenda items with strategic and policy imperatives.
- The document starts off with background into the creative economy and the areas where there is a lack of data. This forms the basis of the areas to research.
- DAC uses a culture cycle framework to establish the research agenda. Which involves the following:
 - Creation: the origination and authoring of ideas and content (e.g. sculptors, writers, design companies) and the making of one-off production (e.g. crafts, fine arts).
 - Production: replicable cultural forms (e.g. TV programmes), as well as the specialist tools, infrastructure and processes used in their realisation (e.g. the production of musical instruments, the printing of newspapers).
 - Dissemination: the bringing of generally mass-produced cultural products to consumers and exhibitors (e.g. the wholesale, retail and rental of recorded music and computer games, film distribution). With digital distribution, some goods and services go directly from the creator to the consumer
 - Exhibition/Reception/Transmission: refers to the place of consumption and to the provision of live and/or unmediated cultural experiences to audiences by granting or selling access to consume/participate in time-based cultural activities (e.g. festival organisation and production, opera houses, theatres, museums). Transmission relates to the transfer of knowledge and skills that may not involve any commercial transaction and which often occurs in informal settings. It includes the transmitting of intangible cultural heritage from generation to generation.
 - Consumption/Participation: the activities of audiences and participants in consuming cultural products and taking part in cultural activities and experiences (e.g. book reading, dancing, participating in carnivals, listening to radio, visiting galleries).
- In addition, it was mentioned that once the white paper is published the research agenda will be reviewed and aligned to it.
- The research agenda is also aligned in the DAC strategic plan.

- The research agenda is shown as, and focuses on solving the missing research (research requirement)

Ref	Research Requirement	Proposed Research Agenda Item(s)	Additional Information	Alignment with MTSF and DAC Strategic Plan priorities
1.	<p>Create an academic and philosophical base to inform the interventions of the Cultural Observatory to ensure high-order academic engagements with other Cultural Observatories and the subject matter.</p> <p>Develop the capability to reflect and contribute to changing philosophical and social science discourses on the particularities of culture, including its measurement, past, present and future.</p> <p>Ensure world-class academic and intellectual debates, and exchange of ideas in these terrains.</p> <p>Provide the South African Cultural Observatory with national, African and international perspectives in keeping with the metaphorical and applied notions of a cultural observatory.</p> <p>Identify and conceptualize changing nature of cultural and creative activities and enterprises in globalizing environments.</p> <p>Interact with differing concepts and notions of cultural observatories.</p>	<p>1.1 Comparative international analysis of Cultural Observatories</p> <p>1.2 Hosting international meta-theoretical debates about culture and creative industries</p> <p>1.3 Synthesize new approaches and trends within the cultural and creative space</p> <p>1.4 Analyse the changing narratives pertaining to culture and creative industries</p>	<p>These interventions should create the basis for high-order scholarship and reflective capability which should enhance academic and research development within the sector</p>	<p>DAC Strategic plan priority 5: Effective governance and implementation institutions</p>

- The research agenda is a living

document that is continuously updated.

Department of Science and Technology (DST)

In terms of development, programme 5 (Socio-economic innovation partnerships) seems applicable:

- Innovation for Inclusive Development supports the experimentation of S&T-based innovations for tackling unemployment, poverty and inequality through the creation of sustainable job and wealth opportunities, building sustainable human settlements, and enhancing the delivery of basic services. The component focuses on supporting the widespread adoption and use of promising S&T-based innovation by supporting the demonstration of promising innovative technologies that do not yet have widespread application, but are seen as having the potential to achieve government's broad development objectives. In its interventions, the component prioritises the generation of practical knowledge and insights to support evidence-based policy and decision making, introducing decision-support tools to enhance service delivery, and building capacity in relevant state institutions and communities.

Click [here](#) for more information.

Department of Labour (DoL)

The mission of the DoL is to regulate the South African labour market for a sustainable economy through the following means:

- Appropriate legislation and regulations
- Inspection, compliance monitoring and enforcement
- Protection of human rights
- Provision of Employment Services
- Promoting equity
- Social and income protection
- Social dialogue ([Department of Labour](#))

From the DoL research documents, the following themes were identified that were applicable to small businesses:

- Health and safety in the construction sector
- High skills funding demand
- Skills drive

Click [here](#) for the list of research documents.

Department of Higher Education and Training (DHET)

The following is noted from a DHET Research Agenda ([DHET, 2015](#)):

- Background on career development.
- The research agenda sets out the priority areas to guide research activities on career development.
- Three methods are used to conduct the research:
 - Literature review of South African and international literature
 - Explore research themes and methodologies
 - Interviews with stakeholders
- The research was conceptualised into eight focal areas. These eight areas were:
 - **Policy and legislative framework** provides the overarching framework upon which the research agenda is built;
 - **International and South African practice, based on research conducted in this area** provides an overview of what the research interests are, and the gaps that exist, that can be filled by the research agenda;
 - **Career development environment** - this section presents a broad overview of activities and services, to provide the context within which the research agenda will be implemented, and the stakeholders involved in this space;
 - **Future priority research areas**, particularly those that articulate with macro policy and national development priorities;
 - **Implementation of the agenda** in relation to leadership and participation;
 - **Funding the research**, to make sure that adequate resources are allocated for rigorous research, and that research is conducted timeously for evidence informed decision-making;
 - **Knowledge management of research outputs** so the research can be shared and utilised for informing policy and practice; and
 - **Monitoring and evaluation** to establish quality standards, adapt implementation of the agenda, and account to stakeholders.
- The purpose of the research agenda: The primary purpose of the career development research agenda is to specify research areas that can enable an evidence-base of knowledge that can be used by policy makers and practitioners to inform strategy and practice to assist the country in meeting its developmental goals through responsive career development activities that are effective and efficient.
- The rationale for the research agenda
- Identifying key macro-policy and development priorities for the subject. This identifies in which policy papers the subject is discussed and what the discussion is about.
- The landscape of career development
- International and national trends in research on career development
- Priority areas for the research agenda
- Research methodologies

- Implementation of the research agenda: Provides an in-depth discussion around the institution or stakeholder and their role in career development.
- Funding of the research
- Knowledge management
- Monitoring and evaluation

Seda

Seda provides business development and support services for small enterprises through its national network in partnership with other role players in the small enterprise support. Seda also implements programmes targeted to business development in areas prioritised by the Government ([Seda](#)).

Based on the research available, Seda's focus areas are SMMEs and businesses owned by women and the youth. For the list, click [here](#).

Sefa

[Sefa](#)'s mandate is to foster the establishment, survival and growth of SMMEs and contribute towards poverty alleviation and job creation.

Municipality department: Ekurhuleni

The municipality of Ekurhuleni has a research and development policy framework. The following are notes on the creation of the research agenda ([Ekurhuleni, 2003](#)):

- A research framework should be aligned to the aims and objectives of the Ekurhuleni Metropolitan Municipality.
- The framework will ensure that research carried out is development, with the research being seen as a support system for both the administration and the political wing.
- The purpose of the framework is to guide the municipality in defining what the purpose of Research and Development should be and it also demarcates the parameter of what the municipality has to do to become a smart, creative and developmental city.
- The research framework will flesh out the policy expectations set out in the White Paper on Local Government.
- The document provides rationale for research and development.
- The document discusses the role of research and development directorate. These roles include:
 - Strengthening the governance and service delivery of the municipality
 - Macro focus on issues of governance across specified departments
 - The directorate is to achieve balance between both demand driven and supply driven aspects of research
 - Management of information database
- The research has to meet certain principles:
 - The research should support the role of government: This means that research is not of a purely academic nature, but aims to inform policy and evaluate the impact of policies on society. The research in which the directorate is involved in is not aimed at furthering knowledge in and of itself, but to develop knowledge with a specific aim in mind, for example, to improve policy or to inform a strategy or plan.
 - The role of research is to engage directly in research activity of all departments itself: This would not be a realistic goal given the resource constraints within the directorate. Rather, the directorate should carry out its research function by facilitating, coordinating and, managing research activity where necessary carry out proactive research. The research staff should engage in on an ongoing analysis of data and dissemination of data and research findings.
 - There is a specific scope to the research function of the directorate and that is focus on the research relevant to effective governance: The scope of research is critical as it demarcates the work of the directorate from research carried out in other departments.
- A policy guideline for the research function of the directorate is outlined.
- In addition, challenges facing the research initiatives in the metro are also outlined.

- The research agenda needs to be guided by the delivery plan (strategic plan).

FP&M SETA

The FP&M SETA has a research agenda with the notes below:

- The document outlines the key research objectives of the Skills Planning and Research Division ([FP&M SETA, 2014](#)). These are:
 - Formulate FP&M SETA's research strategy
 - Enhancement of the research culture in the FP&M SETA
 - Introduction of incentives for the promotion of research endeavours
 - Establish accurate baseline data for trend analysis purposes
 - Monitoring of progress and impact of research programmes
 - Formation of working relations in research project switches research institutions, research council, Higher Education and Training (HET), Technical Education and Vocational Training (TVET) and skills planning practitioners
 - Harmonisation, capturing and analysis of skills planning data from internal divisions in a centralized repository
 - Coordination of all processes that lead up to the development, creation and update of the Sector Skills Plan (SSP)
 - React to external research request from the Department of Higher Education and Training
 - Contribution of skills planning direction and information to contribute to the formation of a 'credible mechanism for skills planning'
 - Participation in the skills planning community through research seminars, colloquiums, workshops, and roundtables.
 - Contribution to the skills planning research resources through publication and dissemination of skills planning informative research.
- Research is a planning tool that allows for a better understanding of unknown and unforeseen features, necessary in government strategies, projects, and policies. It is in these times of scarce resources and uncertain global economic conditions that policies and strategies need to be backed by accurate evidence.
- The research agenda is largely based on making intensive efforts to address the country's skills development priorities from a research perspective through participation and contribution into the academic and research community. This requires FP&M to establish strong partnerships with academic, research and development institutions that work within the skills planning and development fraternity. The SETA would provide quality research employing accurate and evidence based data for the development of their key documents, which are the Sector Skills Plan, the Scarce and Critical Skills list and overall skills planning related information.
- The purpose of the research agenda is to provide strategic direction and work towards the achievement of the FP&M SETA's research objectives and priorities.
- The objectives of the research agenda are:
 - Objective 1: Development of a research focus
 - Objective 2: Articulation, clustering and shared services through building of systematic dialogue and collaboration
 - Objective 3: Contribution to labour market intelligence and post school education research
 - Objective 4: Monitoring and evaluation
 - Objective 5: Research methodologies, data curation systems and establishment of baseline data deposits
 - Objective 6: Recognition of prior learning (RPL)
 - Objective 7: Capacity building and skills transfer
- The research areas reflect the research that is considered essential to the SETA. These are aligned to the White Paper for Post-School Education and Training.

7.2. International organisations

The World Bank

In terms of small businesses, the following themes were identified from World Bank research documents:

- a. Country profiles on small businesses
- b. Access to finance
- c. SMME financing
- d. Capacity building and economic governance for SMMEs

For a list of the documents click [here](#).

World Economic Forum

The World Economic Forum has the following focus areas ([World Economic Forum](#)):

- Mastering the Fourth Industrial Revolution
- Solving the problems of the global commons
- Addressing global security issues

In addition, these themes were identified from research documents on small businesses:

- Fintech
- Access to finance
- Key to growth
- Challenges of SMMEs to fund
- Role to play in the economy
- Employment creation

For a list of research documents, click [here](#).

Lastly, the Forum engages the foremost political, business and other leaders of society to shape global, regional and industry agendas.

BBVA

BBVA is a Brazilian research unit. The areas of focus for SMMEs are:

- Access of finance
- Fintech
- Current affairs
- Improving the SMME environment

For a full list of research documents, click [here](#).

Brazilian SEBRAE

The mission of [SEBRAE](#) is to promote the sustainable and competitive development of small business.

The following focus areas could be identified from publications (which are in Portuguese):

- Legislation
- Promotion of small businesses
- Access to small businesses
- Boosting small businesses

For a complete list, click [here](#) and translate the list to English.

Indian Ministry of Finance

According to the research done by the Ministry of Finance, the focus area of the research was SMME financing.

Click [here](#) for a list of research papers.

African Development Bank (AfDB)

The overarching objective of the African Development Bank (AfDB) Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. Focus on the SDGs ([African Development Bank](#)).

Based on the research documents of the AfDB, the following small business focus areas were identified:

- Access to finance
- Employment creation
- Role to play in the economy
- Education
- Transformation
- Fintech/Technology

Click [here](#) for a full list of research papers.

African Union

From publications, the following focus area was identified that relates to small businesses:

- Development of SMMEs

For a full list, click [here](#).

Nigerian Central Bank of Nigeria

The following were focus areas identified from research papers:

- Access of finance/funding
- Challenges
- Providing infrastructure support
- Creating an enabling and conducive environment

Click [here](#) for the list of research papers.

Mauritius

Across all the government departments, the same research documents appeared. This list was taken from the Data Protection Office. The focus areas on small businesses are:

- Registration
- Managing a business
- SMME directory
- Benefits of having small businesses

Click [here](#) for the full list.

Malaysian Ministry of Works

The focus area of small businesses was SMME financing. For a full list of research papers, click [here](#).

Namibian Ministry of Industrialisation, Trade and SMME Development

The main objectives of the Ministry are to develop and diversify the Namibian economy towards an efficient and competitive level. The mandate of the Ministry is divided into four main programmes. These are:

- International Trade Development: Administered by the Directorate of International Trade in the Department of Trade and Commerce
- Industrial and Enterprise Development: The Directorate of Industrial Development is responsible for this
- Investment Promotion and Facilitation: This is the function of the Namibia Investment Centre.
- The development of a vibrant and competitive domestic economy and market conditions function of the Ministry. The Directorate of Commerce in the Department of Trade and Commerce administer this.

European Union (EU) open source

The focus areas of the EU on small businesses are:

- Funding/Access to finance
- Development and promotion of small businesses
- Business support
- Policy, legislation and regulation
- Guidelines
- Monitoring and evaluation
- SMME and the economic environment (for example, trade)
- Impact evaluation
- Women and youth enterprises
- SME policy index
- SMEs as drivers of growth

Click [here](#) for a full list.

The table illustrates a summary of the areas of focus for the international organisations:

	The World Bank	World Economic Forum	BBVA	SEBRAE	India Ministry of Finance	African Development Bank	African Union	Central Bank of Nigeria	Mauritius	Malaysia Ministry of Works	European Union (EU)
Access to finance	X	X	X			X		X			X
SMME financing	X				X					X	X
Capacity building and economic governance for SMMEs	X										
Economic growth		X				X					X
Using Fintech or Technology		X	X			X					
Challenges to SMMEs								X			X
Employment creation						X					X
Improving the SMME environment			X								X
Promotion of small businesses				X			X				X
Access to small businesses				X							
Benefits of having SMMEs									X		X
SMME directory									X		
Providing infrastructure support								X			
Creating and enabling and conducive environment								X			X
Managing a business									X		



8. Implementation of the Research Agenda

The implementation of the research agenda will be a joint effort, with the DSBD playing a leadership and coordinating role, and other stakeholders from national and provincial government, municipalities, consultancies, NGOs, youth organisations, donor agencies and the private sector collaborating with the DSBD as they are also beneficiaries of this research. The Table below maps out stakeholders who will be involved in implementing the research agenda. These stakeholders include government departments and other organs of state, provincial departments, municipalities, sector education and training authorities, higher education institutions. This is not an exhaustive list, and needs to be expanded over time.

8.1. Importance of Intergovernmental Relations (IGR)

Active and mutually beneficial intergovernmental relations is of paramount importance to the successful implementation of the Research Agenda. The following need to be actively pursued:

- Engagement of National, Provincial, District and Local Government and organized local government through support and provision of co-ordination; resources; information and research.
- Collate and develop understanding of the legal framework with regard to National, Provincial, District and Local government.
- Develop lines with communication between different spheres of government with regard to areas of interest of the DSBD.
- Support the implementation of the strategic priorities for DSBD, to the betterment of the SMME and co-operatives market.
- Ensure very close co-operation and integration of research efforts from the economic cluster of government departments, creating a common platform for the SMME and co-operative sector.

8.2. Stakeholder Analysis

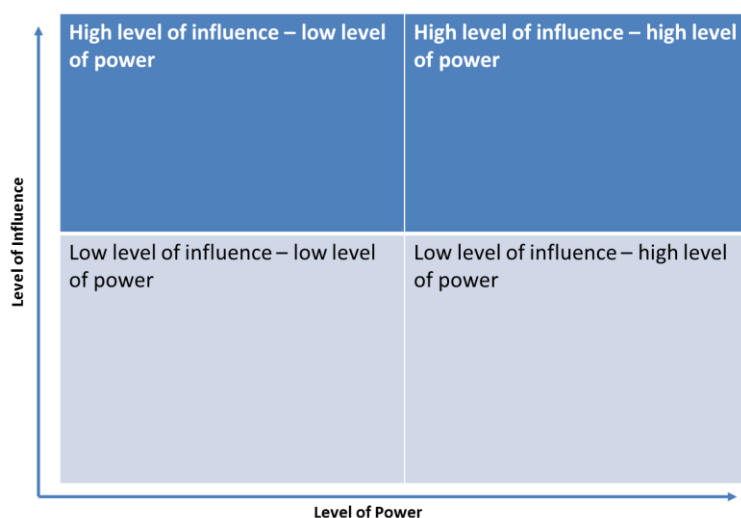
Following is an initial discussion and listing of relevant stakeholders to the DSBD, this listing is not exhaustive and it needs further consultation and discussion to be expanded and verified. The listing is not organised in order of importance, merely relevance per grouping.

[NOTE: The stakeholder groupings (Table below) need to be expanded, verified and debated further – this is a draft]

Stakeholder Grouping
Government – Financial.
Role: Direct impact on the funding and roll out of programmes for the SMME & co-operative sector
National Treasury
South African revenue Services (SARS)
Economic Development Department (EDD)
Department of Trade & Industry (dti)
Industrial Development Corporation (IDC)
Government – Non Financial
Role: Direct impact on the implementation and roll out of programmes for the SMME & co-operative sector
Cooperative Governance and Traditional Affairs (COGTA)
SA Local Government Association (SALGA)
SA Police Service (SAPS)
Land Affairs & Rural Development
Science & Technology
Women, Children & Disabilities
Labour
StatsSA
Home Affairs (DHA)
Health (DOH)

Education & Training (DHE+T)
Basic Education (DBE)
Government – Policy and Legislation
Role: Direct impact on decision making and developing inclusive and practical legislation and policy to be benefit of the sector
Parliament / Legislations
Government – Regulation
Role: Direct impact to monitor and evaluate the successes and failures – to initiate corrective measures
Justice
Department of International Relations and Cooperation (DIRCO)
Department of Planning, Monitoring & Evaluation (DPME)
Competition Commission
Private Sector – Big Business
Role: Direct impact on creating market opportunities, fund SMME development, create job opportunities
Financial
Non-Financial
Media (Print, Broadcasting, Digital)
Business Associations & Business Chambers
Private Sector – SMMEs & Co-operatives
Role: Direct impact on the growth and vibrancy of the SMME and co-operative sectors
Formal
Informal
Business Associations
Organised Business
Institutions
Role: Various impact levels and enablement of foreign direct funding
NGOs
Academia
Donor Funders (Local and International)
Partners: ILO; Development Bank; UNDP; World Bank; IMF; etc)
Independent Service Providers
Export Councils
Labour
Role: Important role in growth and productivity of the overall economy
Need to identify relevant labour organisations
Political
Role: High influence factor of various levels
Include representatives of the major political parties active South Africa

For future development of stakeholder relations, it is suggested that the DSBD conduct an analysis of the level of power and influence select stakeholders might have on the successful delivery of the DSBD Research Agenda. Specific stakeholder in-depth analysis fell outside of the current project outline, but is highlighted here as an important area to focus on for successful development of the SMME and co-operative sector. To this end, it is suggested to potentially plot stakeholders on the power grid outlined below.



8.3. Stakeholder consultation

Extensive stakeholder consultation was undertaken to ensure there is a multi-disciplinary approach to develop the DSBD Research Agenda. In-depth interviews were conducted with select stakeholders to gather their views and input around the selected research themes for the DSBD. Further below is a table with the stakeholders approached for interviews, as well as collecting reports for the inventory of existing research.

The stakeholders interviewed all agreed in principle with the different DSBD research themes identified to date, and was seen a valuable step forward in the betterment of services delivered by government to the SMME and co-operative sector in South Africa. There was also a willingness to share ideas of additional areas to include in the overall research agenda – the specific research area were integrated with the overall research themes outlined earlier in the report.

Listing of stakeholders to contact for interviews and inventory of reports

Organisation	Website	Contact person	Telephone Number	Email address
Department of Agriculture, Forestry and Fisheries Department of Economic Development	www.daff.gov.za http://www.economic.gov.za	Ms E Alexander Bonolo Mahlaela	(012) 319-6699 (012) 394-3161	ElaineA@daff.gov.za BMahlaela@economic.gov.za
Department of Higher Education and Training	www.dhet.gov.za	Dr. Harsheela Narsee	012 312 5297/5093	Narsee.H@dhet.gov.za
Department of Mineral Resources	http://www.dmr.gov.za	Mr. Msizi Nyalungu: Electronic Resource Content Manager	(012) 444-3139	Msizi.nyalungu@dmr.gov.za
Department of Environmental Affairs	https://www.environment.gov.za	Ms. Mmajwalane Iyvon Tladi	(012) 339-9962	mtladi@environment.gov.za
Department of Energy National Treasury Department of Labour	http://www.energy.gov.za/ http://www.treasury.gov.za http://www.labour.gov.za	Keitumetse Pitse Lerato Seko Tendani Ramulongo	(012) 406-7470 (012) 315-5111 (Switchboard) (012) 392-9620 (Switchboard)	Keitumetse.Pitse@energy.gov.za Lerato.Seko@treasury.gov.za Tendani.Ramulongo@labour.gov.za

Department of Public Enterprises	http://www.dpe.gov.za	Colin Cruywagen	(012) 431-1120	colin.cruywagen@dpe.gov.za
Department of Trade and Industry	http://www.thedti.gov.za	Timothy Dladla		TTDladla@thedti.gov.za
Seda	http://www.seda.org.za	Caswell Maloka	(012) 441 1199	cmaloka@seda.org.za
Sefa	http://www.sefa.org.za	Boitumelo Nkaelang	(012) 748 9783	boitumelon@sefa.org.za
Competition Commission	http://www.compcom.co.za	Louise Du Plessis	(012) 394 3417	LouiseD@compcom.co.za
Department of Science and Technology	http://www.dst.gov.za	Sandisa Siyengo	(012) 843 6414	Sandisa.Siyengo@dst.gov.za
Industrial Development Co-operation	https://www.idc.co.za	Chris Khumalo		chrisk@idc.co.za
National Empowerment Fund	www.nefcorp.co.za	Nokuthula Fakude	084 606 1685	Fakuden@nefcorp.co.za
Cooperatives Banks Development Agency Department of Transport	www.treasury.gov.za/coopbank http://www.transport.gov.za	David de Jong Caroline Khoza	(012) 315 5688 (012)309 3774	david.dejong@treasury.gov.za info@dot.gov.za
Department of water and sanitation CIPC	http://www.dwa.gov.za http://www.cipc.co.za/	Thabo Thata Christa Klokow	(012) 336 7041	CKlokow@cipc.co.za
Department of Planning, Monitoring and Evaluation Department of Agriculture, Forestry and Fisheries	http://www.dpme.gov.za www.daff.gov.za	Harsha Dayal/ Jabu Mathe Ms E Alexander	(012) 312 0166 (012) 319-6699	Harsha@dpme.gov.za ElaineA@daff.gov.za
Department of Economic Development Department of Higher Education and Training	http://www.economic.gov.za www.dhet.gov.za	Bonolo Mahlaela Dr. Harsheela Narsee	(012) 394-3161 012 312 5297/5093	BMahlaela@economic.gov.za Narsee.H@dhet.gov.za
Department of Mineral Resources Department of Environmental Affairs	http://www.dmr.gov.za https://www.environment.gov.za	Mr. Msizi Nyalungu: Electronic Resource Content Manager Ms. Mmajwalane Iyvon Tladi	(012) 444-3139 (012) 339-9962	Msizi.nyalungu@dmr.gov.za mtladi@environment.gov.za
Department of Energy	http://www.energy.gov.za/	Keitumetse Pitse	(012) 406-7470	Keitumetse.Pitse@energy.gov.za

8.4. Compiling an inventory of existing research

An inventory is a comprehensive listing of items which, in this case implies a list of research assets. The inventory should be searchable, centrally accessible to users, continually updated and managed to provide a codified and useful catalogue of resources. Benefits:

- An inventory provides an easily accessible, searchable mechanism to identify, manage and use resources
- It is a quick win for teams to access information
- It is cost effective and requires very low infrastructure and resources
- It is a relatively easy resource to maintain going forward



Inventory Toolkit

[illegible]

- **Name of document:** Document name as on the document
- **Author:** A writer of a book, article, or document
- **Date of publication:** The date on which the document is published
- **Publisher:** A company or person that prepares and issues books, journals, or music for sale
- **Theme:** The subject of the document – a selection of multiple themes are allowed. The theme options are per the list of agreed research agenda themes (outlined in earlier in this document)
- **Content Type:** Reusable collection of metadata (columns), workflow, behaviour, and other settings for a category of items or documents
- **Research method:** The process used to collect information and data that is used in the document
- **Recurring document or once-off:** How often the document is published.
- **Available online:** If the document can be located online or if it needs to be requested from the relevant department
- **Website:** The website from where the document is available
- **File format:** A standard way that information is encoded for storage in a computer file
- **Future Research:** Identify if the report listed future areas of research required, to assist the DSBD in the development of their research priorities

At the time of this document, we received contact from only 14 of the 21 government organisations (as indicated by the table above). While 55 percent of government organisations have responded, the lack of response from the remaining 45 percent is influencing the collection of documents. In addition, approximately 481 documents have been reviewed (online and sent by government organisations) and of those 481 documents, 330 documents have been recorded in the inventory toolkit. However, this number could be higher if more government departments sent IQ Business the documents they have on SMMEs.

Way forward

To ensure the further development of the inventory and the effective use of the tool, relevant skills transfer and training occurred with an appropriate team from the DSBD, who will be maintaining the inventory. This will ensure the sustainability of the inventory.

It is important to note that the inventory is not complete, and cannot be static – it need the continuous further development with new reports being added, and the DSBD using the toolkit to identify relevant reports. The inventory need to reflect the newly developed taxonomy and repository work currently conducted.

9. Funding of Research

In the same way that the implementation of the research will be a collaborative effort, funding of the research should come from many sources, inside and outside of government. The DSBD and dti will fund research in relation to policy and strategy. Government funding options need to be expanded.

Efforts will be made to seek private sector funding for research into small business development. Various stakeholders will be approached to support the establishment of research chairs in business chambers.

In its engagement with stakeholders implementing new projects, the DSBD will advocate budgeting for research and evaluation as part of a dedicated way to mainstream research and evaluation into project implementation.

10. Knowledge Management

Research is best utilised when it is relevant, current and accessible. As such, the research outputs from the research agenda, including instruments, design protocols, research and evaluation guidelines and reports will be shared timeously through multiple repositories accessible from the DSBD website. Sharing of research will occur in several ways including publications, conferences, seminars, email circulation etc. It is important that this research is packaged in fit-for-purpose ways to reach various beneficiaries, e.g. other government departments, funders, small business service providers etc. Different channels should be used to share research to reach multiple users of the research.

The Research Agenda needs to integrate and coordinate with an adjacent project to conduct taxonomy, domain mapping and evidence mapping on the DSBD Research Repository. The project have the following aspects to consider:

- The purpose of this project is to customise and implement a project based on distinctive taxonomy, domain mapping and evidence mapping to improve effectiveness and efficiencies that contribute to the effectiveness of the DSBD research repository and knowledge management framework.
- Knowledge is considered a key asset, it must be created, managed, disseminated and used to deliver on the value proposition.
- The project is a collaboration between DSBD and the Department of Planning, Monitoring and Evaluation (DPME) programme to support pro-poor Policy Development (PSPPD). The DSBD will be utilising a web-based repository as provided by the DPME.
- A lack of an integrated knowledge system that retains knowledge creates a strategic risk in terms of loss of institutional memory, poor quality information and the absence of collaborative opportunities across government and the private sector.
- The lack of a research repository makes it difficult for the DSBD to access reliable, sustainable and evidence based information on SMME's and Co-operatives. This impacts their ability to develop policies and strategies, evaluations, programme design and implementation.
- The DSBD seeks to improve the coherence and convergence of knowledge creation, sustainably manage knowledge and create mechanisms to access and share knowledge.

11. Way Forward & Conclusion

This research agenda outlines the vision for developing an integrated process to approach small business and co-operative development research that can enable a better understanding of how various aspects of small business development at various stages of their business life cycle can contribute to better efficiency and lead to effectiveness in the growth of the South African economy. A broad outline of research areas and themes has been developed to provide direction in pertinent research that would be relevant and credible for use to inform strategic interventions, and would ultimately contribute to the DSBD fulfilling their strategic mandate and objectives.

Research areas and themes presented in this research agenda are not exhaustive, but provide some guidance on the country's current and immediate priorities, in line with national developmental goals. While some research or evaluation topics and questions may be commissioned by the DSBD, others may be pursued by other stakeholders in the small business development environments, including the private sector, NGOs and other government departments. It is only through cooperation and successful stakeholder integration that the relevant research themes will be covered in relevant research report output.

It is important to note that the DSBD Research Agenda is a living document, and needs to be reviewed and adjusted on an ongoing and annual basis through robust monitoring and evaluation of the impact derived from completed research projects have had on the implementation of relevant programmes for the SMME and co-operative market. To this end, there needs to be an agreed upon process to monitor and evaluate the relevance of the research themes.

The overall successful development of the sector ecosystem is reliant on an active and well-functioning Research Agenda covering all aspects of the SMME and co-operative market in South Africa.

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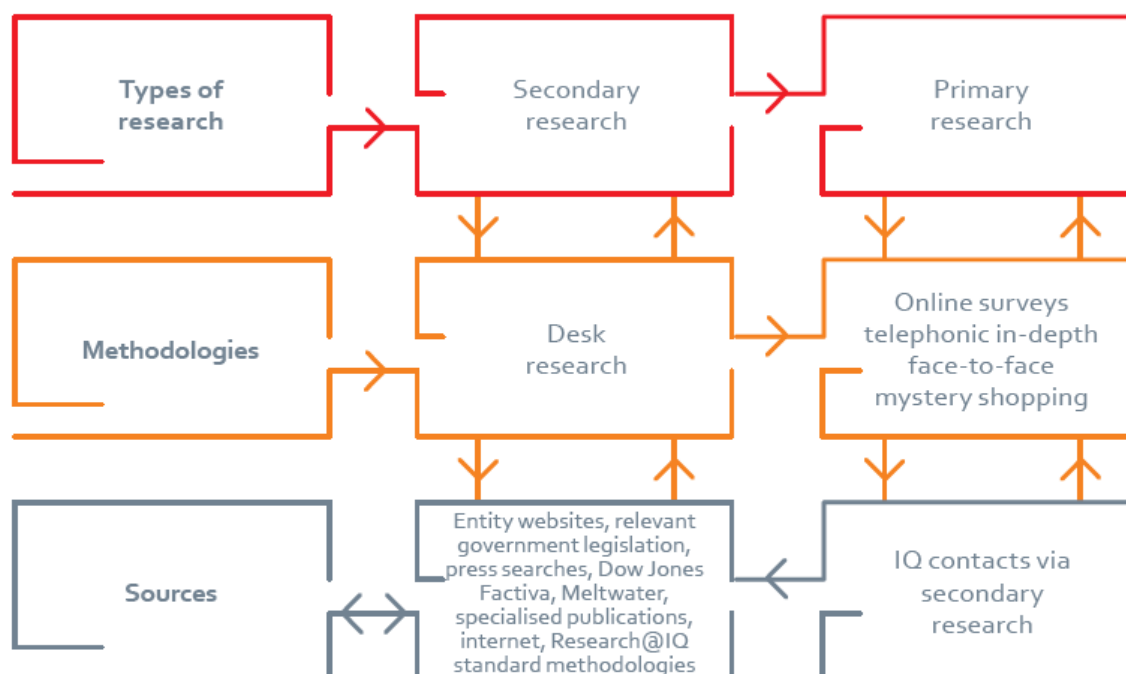
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13. Appendix 1: About Research at IQ Business

The research team at IQ Business is a cross-expertise service offering that, through integration with our consulting practice, provides our clients with deep insight and actionable recommendations. Our team consists of both secondary and primary research experts. We provide a stronger offering with both secondary and primary research specialists that inform each other's perspectives.

We are able to deliver comprehensive strategic research services, targeting both the internal and external environments through a combination of methodologies.



13.1. Why Partner with IQ Business?

Why Research@IQ?

We have successfully concluded numerous research engagements on various topics for institutional investors, government agencies, multinational and international clients. Arrangements are structured to perfectly suit your unique deliverables.



Fast



Involved



Focused outcomes



Adaptive



Enables innovation

How does Research solve your problems?

We utilise standard research methodologies and can apply customised solutions to help answer your research questions.



Improved services



Organisation change



Growing market share



Big data



Understanding your clients



Uncover skills gaps



Understand information needs

IQ Business has the capabilities required to develop a comprehensive research agenda in line with the scope of work outlined in the TOR. Our research team has both Primary and Secondary research capabilities. Our primary research capabilities include both qualitative and quantitative research. The team is led by our senior research manager Monica Trichardt. Monica has over 15 years' experience in Primary research. Our researchers also have no less than 3 years' experience in conducting qualitative and quantitative research. Our secondary research capabilities include wide ranging methodologies covering business issues at hand, the team is led by our research manager Anina Warricker, who has more than 20 years of research experience in both the public and private sectors.

We have a proven track record of executing studies using both primary and secondary research. We have helped clients in various industries with developing a theory of change and conducting a problem tree analysis. These include clients in government departments, SA big banks, mining and telecommunications, these clients are also listed on table to in this proposal.

IQ Business has an extensive understanding of SMMEs. We conducted research on enterprise development focusing specifically on small to medium-sized enterprises and also proposed a strategy for enterprise development this research formed part of our annual growth report. The research was both secondary and primary in nature, the primary aspect of the research involved conducting in-depth face-to-face interviews with industry experts.



**small business
development**

Department:
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REPUBLIC OF SOUTH AFRICA