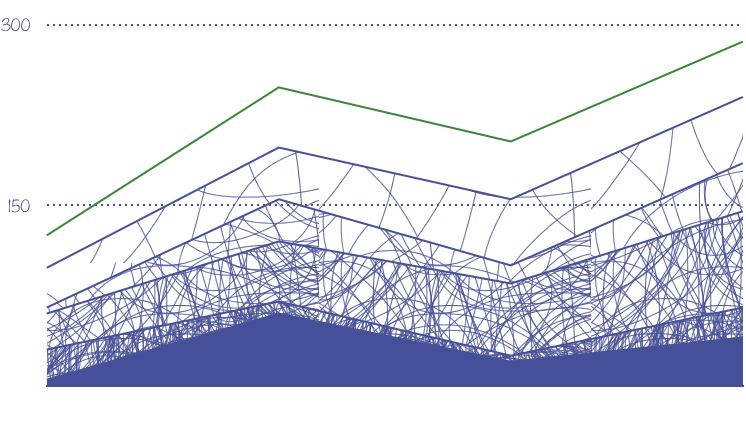
REVIEW OF SOUTH AFRICAN SMALL BUSINESS RESEARCH



PREPARATION AND AGENDA DEVELOPMENT FOR THE DSBD RESEARCH COLLOQUIUM: OPTIMISING EMPLOYMENT PROMOTION BY SMMES THROUGH EVIDENCE-BASED RESEARCH

A report prepared for the

Capacity Building Programme for Employment Promotion

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Small Business Research Review

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1. Introduction

The global objective of this project (Phase 1) is to plan the Small, Medium and Micro Enterprises (SMME) Research Colloquium (Phase 2), where evidence-based research unlocks the sustainability of SMMEs and their ability to promote jobs thereby building capacity in department through knowledge-sharing.

The SMME Research Colloquium will afford the Department of Small Business Development (DSBD), its agencies and all other government departments and agencies responsible for small business development and conducting research in the small business segment an opportunity to:

1. share knowledge and disseminate findings from research reports to the stakeholder base in the small business ecosystem;
2. provide a platform for participants to grapple with and interrogate the recommendations contained in the research findings as a means to operationalize them into tangible policies and programmes;
3. enable broader stakeholder consultation and ownership in colloquium resolutions with definitive timeframes that will ultimately manifest in the design of needs-based policies and programme interventions aimed at stimulating growth, promoting SMME viability and their ability to promote employment, while contributing to the attainment of National Development Plan (NDP) objectives;
4. guide the DSBD in carving out its own research agenda; and
5. disseminate the information in a user-friendly, accessible manner, creating a platform for stakeholder engagement

Within this context, the purpose of the project (Phase 1) is to:

1. review existing research informing policy development relating to SMMEs, particularly the research commissioned by the Department of Small Business Development which is available through its Research Repository, and
2. develop a programme for a Small Business Research Colloquium by engaging key strategic stakeholders in the small business ecosystem through a public-private dialogue (or Roundtable Discussion).

This report constitutes the first component of Phase 1: the review of existing research informing SMME policy development, particularly, but not limited to, the research contained in the Department of Small Business’s Research Repository.

This report consists of eight sections, including this introduction. Section 2 lays out the approach to the review of research. Section 3 lays out the policy background and how we identified relevant themes for the review of research based on the relevant policies and the Department’s mandate. Section 4 summarises the quality and validity of research by theme. Section 5 summarises the findings, recommendations and emerging policy gaps in the body of research under three broad constraint themes that will be used to guide the discussion at the roundtable. Section 6 concludes with a summary of noted research, evidence and corresponding policy gaps. Section 7 provides a brief summary of key issues raised and feedback on the findings of Sections 4, 5 and 6 at the roundtable. Section 8 concludes highlighting the key concerns and gaps in policy and evidence that have been identified in the review of research and from the feedback received at the roundtable event. Finally, an Annexure contains a list of all reports reviewed as well as a summary of their relevance, quality and validity as per the criteria noted in the Approach section of the report. It also contains a summary of papers not currently in the repository that are relevant and should be added to the repository

1. Approach to the Review of Research

This component of the work involves the review and assessment of existing research at the Department.

The review of literature will focus on three categories of research:

1. Research which has been commissioned by the DSBD
2. Research which has been commissioned by other government departments which relates specifically to SMMEs
3. Research not commissioned by government but which is relevant for SMME policy

In this regard, we have been granted access to the Department’s repository of research. Research that falls into all three of these categories can currently be found in the DSBD’s research repository. The repository currently also contains broader policy and research documents which are relevant in some way to the SMME ecosystem but which do not focus on SMME issues predominantly. These types of reports will not be the focus of the review, although we will note the extent of their relevance to SMME policy in the review. We also tentatively suggest that these reports related to overarching issues be captured within a specific area of the research repository and not be scattered among the SMME specific research and policy documents.

Our preliminary scan of the documents available on the research repository website reveals that the DSBD repository currently consists of 212 documents categorized across seven theme areas by the DSBD.

The number of documents currently available in the research repository per theme area are shown in Table 1.

Table 1. Number of documents in research repository by DSBD identified theme.

|  |  |
| --- | --- |
| Theme | Number of documents |
| Access to Finance | 30 |
| Business Process Improvement | 33 |
| Economic Data and Statistics | 17 |
| Market Access | 14 |
| Policy, Legislation and Regulation | 25 |
| Sector Intelligence | 14 |
| SMME and its Owner | 79 |
| Total | 212 |

Many of these documents are however not research reports but rather documents related to strategy and annual reports. We restrict our review of reports to documents identified as “research reports” and “reviews” in the repository. In total the repository contains 113 research documents.

The number of research documents per category are shown in Figure 1. The bulk of the documents (53 documents, or 47 percent of the total) fall under the “SMME and its owner” theme. “Access to finance” accounts for twenty (18 percent) documents. Sector intelligence accounts for 11 percent of the repository, while “Business Process Improvement” and “Economic Data and Statistics” each account for ten documents, or nine percent of the repository. There are five “Market Access” documents and three “Policy, legislation and regulation” documents.

Figure 1. Number of research documents in repository by DSBD identified theme.



Of these 113 items, there are multiple items that are duplicates or versions of other documents in the repository. In total we ended up considering 105 documents from these 113. Regarding the non-research documents in the Repository, we note that other documents such as relevant policy documents and annual reports should remain in the Repository, but perhaps should be kept in a section of the site that is different from that allocated to research specifically.

We also review eight commissioned DSBD research reports that are not currently in the repository but which can be accessed through the DSBD website.

For each research report identified in the repository, we:

1. Assess the relevance of the paper
2. And if relevant, assess the quality and validity of the paper

Research reports are assessed as being relevant if they have direct relevance to a number of key themes relevant to SMME policy in South Africa (which we note in Section 3 below). Research is categorized into one of six relevance categories (shown in Table 2), based on their content and applicability to SMMEs in South Africa specifically. (Note this is not a scale from 1 to 5, but a categorization; that is, we do not make a value judgement that an assigned value of 4 is better than an assigned value of 3 for example). The categorization is intended to give an indication of the relevance of the research document in informing policy. It indicates, for example, whether the research would be only be useful in informing contextual understanding or whether the research focuses on a particular SMME related issues in South Africa specifically and could be therefore used to inform policy in a very specific area.

Table 2. Categorisation of relevant research.

|  |  |
| --- | --- |
| Relevance category | Explanation |
| 0 | Not SA-specific, Not SMME-specific (not relevant) |
| 1 | Not SA-specific; SMME specific – relevant for understanding context |
| 2 | SA-specific; Not SMME specific – relevant for understanding context |
| 3 | SA-specific; Not SMME specific – direct implications for SMME policy in SA |
| 4 | Not SA Specific; SMME specific – direct implications for SMME policy in SA |
| 5 | SA-specific; SMME-specific (very relevant) |

For research reports that are assessed to be relevant, we also assess the *quality* and *validity* of the reports. To do this we will consider a number of different criteria, including but not limited to the following:

1. Whether the methodologies used are appropriate for the research question being considered
2. Whether the findings follow from the methodologies used
3. Whether the findings are in line with what has been found in other research reports and whether the findings seem to make sense
4. Whether the conclusions reached are in line with the methodologies used and findings of the paper
5. Whether the conclusions reached and recommendations made are in line with what has been found in other appropriate research reports and policy documents and are appropriate in the specific context of SMMEs in South Africa in 2019

We classify research papers according to two indexes in this regard: a quality index and validity index.

The criteria used for the quality index are presented in Table 3 below. This is an assessment of the strength of evidence presented by the research report for its findings and recommendations. The method used in the paper is taken into consideration here. We elaborate more on this in Section 4. Broadly, however, regardless of the method used the index indicates the following.

Table 3. Quality of research index.

|  |  |
| --- | --- |
| Quality index value | Explanation |
| 0 | Not evidence-based: Method is inappropriate or applied inappropriately; findings do not flow from method used: no evidence-based findings presented |
| 1 | Partly evidence-based or Evidence-based but poor evidence: Method is not well-designed and has major limitations; findings present no relevant evidence |
| 2 | Partly evidence-based or Evidence-based but evidence is not strong due to limitations: Method has major limitations; findings are in line with the method and analysis but are not strong due to the limitations |
| 3 | Evidence-based; considerable concerns about evidence: Method has considerable limitations; findings in line with the results but have limited applicability; findings presented without consideration of other sources and appropriateness of results |
| 4 | Evidence-based; minor concerns about evidence: Method has minor limitations and findings in line with results; findings considered with at least one other source for support |
| 5 | Evidence-based; strong evidence: method is appropriate and used well; findings in line with the results; findings triangulated with other sources |

Note that the quality of the research can be impacted by circumstances outside the control of the researchers. The assessment is not an assessment of how well the researcher has done in approaching the research question; but rather, taking into account all the limitations outside the control of the researcher as well, it is an assessment of the quality of the evidence provided by the research exercise.

The criteria for the validity index are presented in Table 4 below. The validity assessment considers whether the findings and recommendations of the research are applicable to SMME policy in South Africa in 2019. Factors such as not being conducted for South Africa specifically, or a limited concentrated sample of South African firms in a particular sector or province, as well as the date of the study are taken into account here. In essence, we consider the appropriateness of the findings for informing SMME policy in South Africa in 2019.

Table 4. Validity of research index.

|  |  |
| --- | --- |
| Validity index value | Explanation |
| 0 | Not appropriate at all (different countries, irrelevant sample, outdated etc) |
| 1 | Results not applicable to South African SMMEs in 2019 |
| 2 | Unclear whether results and findings are applicable to South African SMMEs in 2019; results not acceptable to inform policy as is (need review) |
| 3 | Some findings are relevant but need to be reviewed or updated |
| 4 | Results seem broadly valid, some concerns over validity for policy remain however |
| 5 | Appropriate in the SA SMME context, results are appropriate as presented |

We also identify research reports and papers that are important (that is, relevant, high quality and valid) but which are not currently in the repository.

In total we considered 129 research reports and reviews (105 from the repository, eight from the website (including the 2016 Annual Review) and 16 reports not currently in the repository).

For all the research reports considered (those in the repository which have been assessed, as well as those identified to be important but not currently in the repository) we summarise the key findings and relevant policy recommendations under the consolidated themes that have been identified to guide the roundtable discussion.

The consolidated themes are informed by the research relevance themes extracted from the relevant policy documents (see Section 3), the theme and approach to the roundtable, the review of research and time and logistical constraints in respect of the roundtable event.

The research findings and recommendations are explored under three consolidated constraints categories (in Section 5 of this report):

1. Environmental Constraints: This covers issues of infrastructure, geography, and the regulatory environment
2. Market Access Constraints: This covers issues of access to markets and value chains in the public and private sectors
3. Business Support Constraints: This covers issues of access to finance and other types of support required by SMMEs

The tiers of constraints can also be thought of in terms of the types of interventions and actions that will be required to overcome them. In the case of the first category (environment), the onus is firmly on government to create an enabling environment for SMMEs. In the second case (market), both government and the private sector need to ensure that SMMEs can be integrated in and access market opportunities. In the final category, government must take a lead but there is scope for collaboration with the private sector, and ultimately it is the SMMEs themselves that must be able to take advantage of the opportunities that result from interventions in this area of constraints.

We then proceed to consider whether the policy recommendations summarized under these consolidated have been implemented or not. In this regard, we undertake a high level comparison of the identified policy recommendations against the current policy of government with respect to SMMEs as a first consideration. Where the relevant policy is found to not cover the relevant recommendations in the research reports, these will be identified as the remaining policy gaps. However, these gaps (and any missing gaps) will need to be validated by the Department and other relevant stakeholders who will have a better sense of this where strategies or plans of implementation which are not publically available may take account of these.[[1]](#footnote-1)

It should be noted that ultimately the discussions at the roundtable under these themes will be used to chart the way forward for the Research Colloquium and the Department’s Research Agenda. In this regard the solutions hoped to be explored under these three themes will seek to answer the following questions through a solid evidence base:

1. How do we create an enabling environment for SMMEs?
2. How do we ensure demand for SMME goods and services and create a favourable market environment for SMMEs?
3. How do we best support SMMEs – through both financial and non-financial means – to overcome the constraints they face?

We note here also briefly some limitations of the review. We have done as thorough a search as possible to identify relevant research not in the repository using the identified relevant themes as a guide. However, it is possible that we have not identified all relevant research in the field due to the limited time we have had to conduct this review and the vast number of themes that are relevant for SMMEs and policy related to SMMEs. Further, we would not have been able to access any research that is not publicly available online. Important research related to SMMEs and SMME policy may thus not have been considered due to this limitation. We are confident however that we have included most of the relevant research and captured most, if not all, of the appropriate themes in the review.

1. Policy Background and Identification of Themes of Relevance

The DSBD’s 2017/18 Annual Report[[2]](#footnote-2) notes that the 1995 White Paper identified the need for a “national framework, within which the different policies and programmes at national, regional and local level could be coordinated, towards the creation of an enabling environment for small enterprises.” It was contended that such an enabling environment would allow hundreds of thousands of SMMEs to themselves accept responsibility for operation, growth and progress of their enterprises. It further noted that this would require policies to resonate with national, regional and sectoral development, taking into account differences at these levels as well as between different kinds of SMMEs.

The Department of Small Business Development was established in 2014, marking a demonstration of Government’s commitment to place SMMEs and co-operatives at the centre of economic growth and job creation. Its mandate is “to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, small businesses and co-operatives, and ensure an enabling legislative and policy environment to support their growth and sustainability” and its mission “the coordination, integration and mobilisation of efforts and resources towards the creation of an enabling environment for the growth and sustainability of small businesses and co-operatives.”[[3]](#footnote-3)

Table 5 lists the legislation relevant for the Department as well as the purposes of these Acts.

Table 5. Legislation relevant for the Department of Small Business Development.

|  |  |
| --- | --- |
| Legislation | Purpose |
| National Small Business Act, (No.102 of 1996) amended 2004 and thereinafter referred to as the National Small Business Amendment Act, 2004 (No. 29 of 2004) | To provide for the establishment of the National Small Business Advisory Council and the Small Enterprise Development Agency, to provide guidelines for organs of state to promote small business in the Republic and provide for matters incidental thereto. |
| Preferential Procurement Policy Framework Act, 2000 (No. 5 of 2000) | The purpose of the PPPFA is to ensure that 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. |
| Cooperatives Act, 2005 (No. 14 of 2005) | To provide for the formation and registration of cooperatives; the establishment of a Cooperatives Advisory Board; the winding up of cooperatives; the repeal of Act 91 of 1981; and matters connected therewith. |
| Broad-Based Black Economic Empowerment Act, 2003 (No. 53 of 2003) | To establish a legislative 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 provide for matters connected therewith. |
| Public Finance Management Act, 1999 (No.1 of 1999) | To regulate financial management in the national and provincial governments and ensure that government resources are managed efficiently and effectively. |
| Public Service Act, 1994, as amended (No. 103 of 1994) | To provide for the organisation and administration of the public service as well as the regulation of the conditions of employment, terms of office, discipline, retirement and discharge of members of the public service. |

*Source:* DSBD Annual Report 2017/18.

The policy and strategy mandates informing the strategic posture and intent of the Small Business Development Portfolio are broadly summarised in Table 6.

Table 6. Informing policies guiding the Department of Small Business Development.

|  |  |
| --- | --- |
| Informing Policy/Strategy | Key considerations |
| The New Growth Path (2008) | The New Growth Path is a broad framework that sets out a vision of creating five million jobs and reducing the country’s unemployment level, one of the highest in emerging market countries in the world, from 25% to 15% over ten years to 2019. The SMME ethos of the NGP is similar to that of the later NDP, namely policy coherence through partnerships among key societal players, business and government. |
| The National Development Plan, Vision 2030 (2012) | The NDP envisions an economy that provides full employment by 2030 and serves the needs of all South Africans from different racial, social and economic backgrounds. As such, the economy will be more inclusive, grow faster, eliminate poverty and reduce inequality. The Portfolio plays a major and direct role in implementing Chapters 3 and 6 of the NDP; which respectively, deal with the economy and employment, and inclusive rural development and growth. |
| The National Industrial Policy Framework (NIPF) 2007 and the iterative Industrial Policy Action Plan | The Industrial Policy Action Plan (IPAP) stresses that longer term increases in employment in all sectors of the economy need to be underpinned by higher growth in production sectors, led by the manufacturing sectors. It adds that there is a problem of low productivity in the manufacturing sector that has to be addressed. IPAP categorises a focus on development in three key focus areas, as follows:  Qualitatively new areas of focus.  Scale up and broaden interventions in existing IPAP sectors.  Sectors with potential for long-term advanced capabilities. |
| The Medium Term Strategic Framework (2014 – 2019, and future) | The MTSF is then conceptualised as a series of 5-year building blocks towards the realisation of the NDP 2030 Vision, with the current 2014-2019 MTSF as the first of three. With regard to the 14 Outcomes identified in the MTSF, the SBD Portfolio has a primary role in relation to two outcomes and their related sub-outcomes and  key actions, as follows:  MTSF Outcome 4: Decent Employment through Inclusive Economic Growth:  • Measure and reduce delays and unnecessary red tape around authorisations and related issues that hinder or might foster investment and employment (in the SMME and Co-ops space).  • Township and rural economies supported and report on the impact in terms of the number of business supported, value of the grant approved and geographic location of the supported businesses.  • Programmes to ensure increased access to employment and entrepreneurship for black women and youth in the context of stronger support for emerging and smaller enterprises overall.  • Provide coaching, incubation, intensive support and financing to sustain existing small businesses and co-operatives, as well as expand the sector.  MTSF Outcome 7: Vibrant, equitable, sustainable rural communities:  • Promote sustainable rural enterprises and industries in areas with economic development potential. It is noted that the Portfolio supports various other MTSF outcomes indirectly or in a secondary capacity, which work will continue. However, this does not impact directly on the mandate or strategic posture of the Portfolio. |
| The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005) | Covers the entire continuum of needed support from pre-start-up and start-up assistance measures to growing enterprises and enterprises in distress. It focuses on  3 strategic areas with aligned actions, as follows:   1. Increase supply for financial and non-financial support services – Collaborative approaches to streamline resources from the public sector and crowding in private sector resources; 2. Creating demand for small enterprise products and services - New policy directives, Public sector procurement strategy and BEE codes of good practice as a lever for increased demand; 3. Reduce small enterprise regulatory constraints - Enabling environment, establish a regulatory impact assessment framework and business environment monitoring mechanism. |
| The Integrated Strategy on the Development and Promotion of Cooperatives  (2012) | Seeks to support the ongoing profiling of the co-operatives, communication outreach, improving access to co-operatives support and information, research, strengthening advocacy on co-operatives, delivering effective service and monitoring impact. The Strategy further introduces key Co-operatives development and support programmes, under 4 strategic pillars, namely:   1. To increase the supply of non -financial support services to co-operatives; 2. Creating demand for co-operative enterprises products and services; 3. To improve sustainability of co-operatives; 4. To increase the supply of financial support services to co-operatives.   These strategic pillars will be underpinned by efforts aimed at improving the availability of quality business information and knowledge through expanded research, communication outreach, education and training, and monitoring. |
| The National Informal Business Upliftment Strategy (NIBUS) and Implementation Framework (2014 and 2015) | Adopted by Cabinet in 2014 and aimed at supporting the enterprising poor in the informal business sector and facilitating their participation in the mainstream economy through various policy and programmatic interventions.  Particular focus on the 4 Implementation Thrusts that may inform other areas of DSBD work and focus:   1. Enhance the quality of enterprise development, promotion and capacity building products and services; 2. Strengthen the policy and regulatory environment to support an integrated and coordinated approach to informal business upliftment; 3. Build the skills, capacity, systems and processes to drive an integrated and coordinated approach to informal business upliftment; 4. Strengthened national, regional and international partnerships to support and promote the NIBUS development agenda. |

*Source:* DSBD Annual Report 2017/18.

From these a number of relevant themes for SMME policy within the ambit of the Department emerge.

These can be summarised as follows:

1. Inclusive economic growth (Mandate: New Growth Path, National Development Plan, Medium Term Strategic Framework 2014-19)
2. Employment growth (Mandate: New Growth Path, National Development Plan)
3. Policy coordination and partnerships among key societal players, business and government (Mandate: New Growth Plan, The National Informal Business Upliftment Strategy)
4. Elimination of poverty and reduction of inequality (Mandate: National Development Plan)
5. Employment and productivity in manufacturing and other productive sectors (Mandate: Industrial policy plans)
6. Regulatory constraints (Mandate: MTSF 2014-19, Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, The National Informal Business Upliftment Strategy)
7. Rural and township development (Mandate: National Development Plan, MTSF 2014-19, The National Informal Business Upliftment Strategy)
8. Employment and entrepreneurship for women (Mandate: MTSF 2014-19)
9. Employment entrepreneurship for youth (Mandate: MTSF 2014-19)
10. Education and training to sustain and expand SMMEs (Mandate: MTSF 2014-19, Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises; Integrated Strategy on the Development and Promotion of Cooperatives, The National Informal Business Upliftment Strategy)
11. Access to finance/financial support (Mandate: Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, The Integrated Strategy on the Development and Promotion of Cooperatives)
12. Access to non-financial support (Mandate: Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises, The Integrated Strategy on the Development and Promotion of Cooperatives, The National Informal Business Upliftment Strategy)
13. Creating demand for SMME products and services (Mandate: Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises; The Integrated Strategy on the Development and Promotion of Cooperatives)
14. Sustainability (Mandate: Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises; The Integrated Strategy on the Development and Promotion of Cooperatives)
15. SMMEs in the Informal Sector (Mandate: The National Informal Business Upliftment Strategy)

In line with these we have identified the following categories that we think capture all of these policy areas of focus, as well as capture some areas that are important but which are not strongly reflected in the Department’s stated policy mandate at present:

Table 7. Relevant research themes for SMME policy.

|  |  |  |
| --- | --- | --- |
| Theme | Relevance to policy | Relevant mandated policy areas |
| SMME data and statistics | Provides broad context and should be as up to date as possible to ensure policy is responsive to how the SMME landscape looks at present | All  Accurate data is required to ensure the achievement of all mandated policy goals |
| SMME policy, regulation and bureaucracy | It is essential to understand the current policies and regulation in place, and how these are benefiting or hindering SMMEs | All  Specifically:   * Policy coordination and partnerships among key societal players, business and government * Regulatory constraints * SMMEs in the Informal Sector |
| The SMME operating environment | It is essential to understand the constraints on SMMEs which are due to the environment in which they operate in. Policy should respond to these. This includes, but is not limited to, issues of governance, safety, infrastructure, space and historical legacy. | * Policy coordination and partnerships among key societal players, business and government * Regulatory constraints * Rural and township development * SMMEs in the Informal Sector |
| Competition and market access | Somewhat related to the previous theme, this deserves consideration of its own. South Africa has a highly concentrated economy in which a small number of firms exert enormous influence over the economy, often to the detriment of smaller players. SME policy should be in line with competition policy to address such concerns, and may be used to encourage demand for goods and services from SMEs in an environment that is dominated by larger firms. | * Creating demand for SMME products and services * Policy coordination and partnerships among key societal players, business and government |
| Vulnerable groups | Small businesses have the potential to provide opportunities for the most vulnerable and marginalised in society who are currently excluded from the economy to meaningfully participate. Their needs must be taken into account in designing and implementing policy. These groups include women, youth and those in rural areas and townships. | * Employment and entrepreneurship for women * Employment entrepreneurship for youth * Rural and township development * SMMEs in the Informal Sector |
| The informal sector | A large number of firms in the SME sector are informal. These often require very specific policy and support that is not broadly applicable to larger SMEs. | * SMMEs in the Informal Sector |
| SMMEs in the Formal Sector | SMEs in the formal sector often face different challenges to those in the informal sector. Policy should recognise the difference between the two and tailor policy where appropriate. | All  Specifically:   * Inclusive economic growth * Employment growth * Employment and productivity in manufacturing and other productive sectors |
| Access to finance | Operation of a successful enterprise requires access to assets and funds which are not always readily available to individuals and small business owners in particular. A good sense of whether small businesses are able to access finance and where the gaps for policy to respond to is required. | * Access to finance/financial support |
| Skills development, education and training | An awareness of the skills needs of SMMEs is important so that policy can adequately respond to these. | * Education and training to sustain and expand SMMEs |
| Enterprise development (other means of support) | Beyond financial support, enterprises require support in other ways. These firm-specific needs should be identified so that policy can adequately address these gaps. | * Access to non-financial support * Education and training to sustain and expand SMMEs * Regulatory constraints |
| Encouraging entrepreneurship and sustainable livelihoods | South Africa has a high unemployment rate, but relatively low rates of self-employment. It also has high levels of failure among those who do start a business. SME policy should respond to these and encourage the starting of business and the successful operation of these businesses. | * Sustainability * Employment and entrepreneurship for women * Employment entrepreneurship for youth * Rural and township development * Education and training to sustain and expand SMMEs |
| Sector-specific SMME intelligence | SMMEs are not the same across the economy. SMMEs in different sectors face challenges that are specific to their sector’s environment. Where appropriate, policy should be able to distinguish between these differences and respond to different challenges across different sectors. | All  Specifically:   * Employment and productivity in manufacturing and other productive sectors * Creating demand for SMME products and services |
| Technological change and the Fourth Industrial Revolution; The environment | SMMEs in both the formal and informal sectors will need to adapt to new challenges in both the technological and physical environments. Policy needs to be forward looking and include measures to ensure that SMMEs can thrive in a changing world (and make the most of opportunities such changes present). Relevant changes in the immediate future include increased automation in the Fourth Industrial Revolution and environmental challenges due to factors such as drought and climate change. | * Inclusive economic growth * Employment growth * Education and training to sustain and expand SMMEs * Sustainability |

It is this broad mandate and policies that has guided our review of SMME research and consolidated themes of discussion for the roundtable event. We have used these identified themes to assess relevance of research in the repository, as well as to identify relevant papers that are not currently included in the repository. We note here that all of the papers in the repository were identified as being relevant to some extent. The relevance categorisation (according to the five categories we identified in Section 2) for each paper considered can be found in the Appendix.

In the next section, we consider the quality and validity of the papers reviewed, by the three consolidated theme areas used to guide the roundtable discussion.

These three consolidated themes, which cover the themes in Table 7[[4]](#footnote-4), are:

1. Environmental Constraints: Covering issues of infrastructure, geography, and the regulatory environment
2. Market Access Constraints: Covering issues of access to markets and value chains in the public and private sectors
3. Business Support Constraints: Covering issues of access to finance and other types of support required by SMMEs
4. Overview of Quality and Validity of Research in the Research Repository

This section gives a high level overview of the quality and validity of the relevant research in the repository for research papers that correspond with the three consolidated themes.

# Quality of research

The criteria used for the quality index is presented in the table below. This is an assessment of the strength of the findings, recommendations or evidence presented by the research report. We consider this based on the type of method or approach used in the research as shown Table 8.

Table 8. Quality of research index.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *Main method of research* | Survey | Econometric or statistical analysis | Review | Mixed methods |
| 0: Not evidence- based | Survey design or target is inappropriate; findings do not flow from survey; no evidence based findings provided | Econometric or statistical analysis is flawed; findings do not flow from analysis; no evidence based findings provided | Review of inappropriate literature; findings do not flow from review; no evidence based findings provided | Method not well-defined; findings do not flow from methods; no evidence based findings provided |
| 1: Partly evidence-based or Evidence-based but poor evidence | Survey is not well-designed and has major limitations; has major limitations; results and findings present no relevant evidence | Econometric or statistical analysis is used but is flawed or provides no appropriate evidence | Review is not well-defined; considerable amount of irrelevant literature considered in review | Method not well-defined; irrelevant analysis or literature considered |
| 2: Partly evidence-based or Evidence-based but evidence is not strong due to limitations | Use of survey with major limitations; findings in line with the survey results but provide no strong evidence given the limitations | Econometric or statistical analysis is used but has major limitations; findings in line with the analysis but provide no strong evidence given the limitations provides no appropriate evidence | Review is not well-defined and is limited; some inappropriate studies included in review; findings don’t always flow from the literature presented | Method not well-defined and has major limitations; findings in line with method but provide no strong evidence |
| 3: Evidence-based; considerable concerns about evidence | Use of survey with considerable limitations; findings in line with the survey results but have limited applicability; findings of survey presented without consideration of other sources and appropriateness of results | Use of econometric or statistical analysis; findings in line with analysis results but have limited applicability; findings of analysis presented without consideration of other sources | Use of a review of literature; review is not systematic or well-defined; findings in line with results but have limited applicability; findings of review presented without consideration of other sources | Use of a mix of methods of which no one is dominant; findings in line with results but have limited applicability; findings presented without consideration of other sources |
| 4: Evidence-based; minor concerns about evidence | Use of a survey with minor limitations and findings in line with survey results; findings considered with at least one other source such as a review of literature | Use of econometric or statistical analysis with minor limitations; findings in line with results of analysis; findings considered with at least one other source such as a review of literature | Use of a review of literature; most literature reviewed is evidence-based; review is well-defined and systematic; findings in line with results of analysis | Use of a mix of methods of which no one is dominant but one component seems dominant in findings than the other(s); mixed method is well-defined; findings in line with results of the methods used |
| 5: Evidence-based; strong evidence | Use of a well-planned survey and findings in line with the survey results; Survey findings triangulated with other sources such as a literature review or focus groups etc | Use of econometric or statistical analysis; findings in line with analysis; findings of analysis triangulated with other sources such as a literature review or focus groups etc | Use of a review of literature; all literature reviewed is evidence-based; review is well-defined and systematic; findings in line with results of analysis; results triangulated with other sources where appropriate; meta-analysis of results obtained from other surveys enhances quality of findings | Use of mix of methods with the methods well-balanced and supporting each other; findings in line with analysis; findings of analysis triangulated with other sources where appropriate |

Note that the quality of the research can be impacted by circumstances outside the control of the researchers. The assessment is not an assessment of how well the researcher has done in approaching the research question; but rather, taking into account all the limitations outside the control of the researcher as well, it is an assessment of the quality or strength of the evidence provided by the research output.

* + 1. Environmental constraints

The average and median quality scores for two sub-categories of environmental constraints are shown in Table 9 below. 31 reports and/or reviews were reviewed in total with relevance to this theme. Of these 12 were related to regulation and 19 were relating to physical environment. The average score for the 31 reports is **3.83**.

Table 9. Quality of papers: environmental constraints.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Number of papers | Quality index average | Quality index median |
| Regulatory | 12 | 4.00 | 4.00 |
| Physical | 19 | 3.72 | 4.00 |
| **All** | **31** | **3.83** | **4.00** |

Regulatory environment

The average quality score for the 12 reports is **4.00**.This indicates that, on average, the papers in this category are evidence-based and there are no major concerns about the evidence presented.

Ten of the twelve reports were based on surveys, interviews or reviews. Six of the twelve used a survey of some sort. However with a review of the relevant legislation and regulations to support the views offered by respondents to the surveys, the quality of evidence is generally high with respect to the noted regulatory burden on SMMEs.

Physical environment

The average quality score for the 19 reports is **3.72**. This indicates that, on average, the papers in this category are evidence-based; however for some of these papers there are concerns about the results given that there are limited alternative sources or further analysis to validate the findings. This is particularly the case for studies that are survey-based and reviews, which account for 16 of the 19 reports. Overall, however the quality of evidence is quite high, with many of the surveys done in informal settlements and townships being quite detailed, having considerable sample sizes and being supported by appropriate other sources wherever possible.

The median score is 4.00 for both the regulatory environment reports and the physical environment reports, as well as for all environmental constraints papers; again suggesting that many of the papers for this category are of good quality.

* + 1. Market Access Constraints

The average and median quality scores for two sub-categories of market access constraints are shown in Table 10 below. Eight reports were reviewed in total with relevance to this theme. Of these 3 were related to the public sector and procurement and 5 were related to competition and market access concerns in the private sector. The average score for the 8 reports is **3.75**.

Table 10. Quality of papers: market constraints

|  |  |  |  |
| --- | --- | --- | --- |
|  | Number of papers | Quality index average | Quality index median |
| Public sector | 3 | 3.67 | 4.00 |
| Private sector | 5 | 3.80 | 4.00 |
| **All** | **8** | **3.75** | **4.00** |

Public sector

The average quality score for the 3 reports is **3.67**. This is suggestive that, on average, the research that is evidence-based but also that there are some concerns about the strength of that evidence. All three of the papers use survey responses as a key component of their methodology. There are thus concerns about subjectivity and other forms of bias on the part of respondents, particularly where the survey findings are not critically interrogated. However, the fact that there are only three reports in this category is more concerning, suggesting the lack of an accessible evidence base for issues related to public procurement.

Private sector

The average quality score for the 5 reports is **3.8**. Again this is suggestive that the research is evidence-based but that there are some concerns about the strength of the evidence. One piece of evidence is however particularly strong due to the process and comprehensive review that has resulted in its findings and recommendations – the Competition Commission’s 2019 Market Inquiry on Retail report. Overall, there is the concern of the lack of a strong evidence base again with there only being five documents reviewed for this category of research. The issue of competition and access to markets are noted as concerns in most of the papers that cover multiple areas and individual sectors (reviewed in other sections), but beyond perceptions of this there seems to be little evidence-based work done that interrogates these concerns.

Again, the median score is 4.00 for this theme, as well as for each component category of this theme. However, there are only eight papers in total that have been included for consideration in the repository for this theme at this point. Beyond quality or validity, a key concern is the lack of a wider accessible evidence base for issues related to market issues in the public and private domains.

* + 1. Business Support Constraints

The average and median quality scores for two sub-categories of business support constraints are shown in Table 11 below. Eighty reports were reviewed in total under this theme. Of these 23 were related to the finance exclusively and 57 were related to other support issues (some of these “other support” reports however include finance as a consideration in the case of papers that consider multiple forms of support). The average score for the 80 reports is **3.59**.

Table 11. Quality of papers: support constraints

|  |  |  |  |
| --- | --- | --- | --- |
|  | Number of papers | Quality index average | Quality index median |
| Finance | 23 | 3.57 | 4.00 |
| Other support | 57 | 3.60 | 4.00 |
| **All** | **80** | **3.59** | **4.00** |

Finance

The average quality score for the 23 reports is **3.57**. This is again indicative that, on average, the reports are evidence-based, but that there are some concerns about the strength of some of the evidence. Ten of the 23 reports made use of surveys in some form. The remaining 13 were purely review based, based on reviews of other literature primarily. Reports that were considered to be stronger typically used a mix of both survey and review methods. The median score for the 23 reports is 4.00, again suggesting that a majority of these papers are of good quality.

Other support

The average quality score for the 57 reports is **3.60**, suggesting again that, on average, the research is evidence-based but there are concerns about the strength of the research. The median score, overall is 4.00. To get a better idea of the quality related to the various types of support themes that are collated under this theme, we have also shown the average score per subtheme in Table 12 below.

Table 12. Average quality ratings by support subthemes.

|  |  |  |  |
| --- | --- | --- | --- |
| *Sub-theme:* | Number of papers | Average | Median |
| Sector-specific needs | 16 | 3.69 | 4.00 |
| Co-operatives | 6 | 3.50 | 3.50 |
| Business support services | 19 | 3.68 | 4.00 |
| Ecosystems of support | 4 | 3.00 | 3.00 |
| Skills | 5 | 3.60 | 4.00 |
| Innovation | 3 | 4.00 | 4.00 |
| Environmental concerns | 2 | 3.50 | 3.50 |
| Non-finance support for women | 2 | 3.00 | 3.00 |
| **Total** | **57** | **3.60** | **4.00** |

There is variation between the categories, with most of the research in the same category typically using the same or similar methods. This is usually related to the type of data that exists in relation to each of these topics. The strongest evidence is for the three reports related to innovation, as two of these were official government evaluation reports, while the third was based on comprehensive review and survey. Sector-specific studies were also quite strong in quality due to the typical mix of survey and review methods that are used to carry these out. The business support services category average is boosted by a number of comprehensive reviews of international studies that are well-defined and systematic in their approach. Where the evidence presented was based primarily on a review only or where not many sources of information were considered, the quality score is lower. This was the case for the more specialist topics that were considered such as ecosystems of support, co-operatives, environmental concerns and non-finance support for women.

# Validity of research

The criteria for the validity index is presented in Table 13 below. The validity assessment considers whether the findings and recommendations of the research are applicable to SMME policy in South Africa in 2019. Factors such as not being conducted for South Africa specifically, or a limited concentrated sample of South African firms in a particular sector or province, as well as the date of the study are taken into account here. In essence, we consider the appropriateness of the findings for informing SMME policy in South Africa in 2019.

Table 13. Validity of research index.

|  |  |
| --- | --- |
| Validity index value | Explanation |
| 0 | Not appropriate at all (for a number of reasons including different countries, irrelevant sample, outdated etc) |
| 1 | Results not applicable to South African SMMEs in 2019 (for at least one clear reason) |
| 2 | Unclear whether results and findings are applicable to South African SMMEs in 2019; results not acceptable to inform policy as is (need review) |
| 3 | Some findings are relevant but need to be reviewed or updated |
| 4 | Results seem broadly valid, some concerns over validity for policy remain however |
| 5 | Appropriate in the SA SMME context, results are appropriate as presented |

* + 1. Environmental constraints

The average and median validity scores for the two sub-categories of environmental constraints are shown in Table 14 below. The average validity score for all 31 reports is **3.54**. The median score is 4.00 overall, but 3.00 for the regulatory environment, suggesting greater validity concerns for this sub-categorisation. The average score was negatively affected by a number of studies that are considerably old. Where studies are older than ten years in particular, we have concerns that their findings may need review or updating due to the dynamic nature of the environment SMMEs operate in.

Table 14. Validity of papers: environmental constraints.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Number of papers | Validity index average | Validity index median |
| Regulatory | 12 | 3.42 | 3.00 |
| Physical | 19 | 3.61 | 4.00 |
| **All** | **31** | **3.54** | **4.00** |

Regulatory environment

The average validity score for these 12 reports is **3.42**. This indicates that, on average, while many of the findings seems valid, there are concerns with regard to a number of them that requires them to be reviewed or updated. Concerns about validity of the 12 reports here relate primarily to the age of a number of the reports. Five of the reports were published over ten years ago, with one dating as far back as 2002. While many of these are of high quality (as indicated by their quality scores) and can be used to provide useful context to understand the challenges faced by SMMEs even today, it is not clear that some of their findings are applicable to informing SMME policy today. The lower median score of 3.00 for the regulatory environment, reflects these concerns. The more recent findings, from the World Bank and TIPS, for example, do not however have major concerns about validity.

Physical environment

The average validity score for these 19 reports is **3.61.** Again, broadly, this indicates that some concerns over validity exist. In this case, the concerns are related more to the nature of much of the research in this category that makes use of surveys and case studies in localised areas. It is unclear that these results can be extrapolated to the broader SMME environment, especially given the heterogeneity that exists among SMMEs. Many of these papers are high quality but we need to review whether their findings are more broadly applicable. The median score is 4.00, indicating than more than half of the papers considered under this sub-categorisation had no major concerns with respect to their validity.

* + 1. Market Access constraints

The average and median validity scores for the two sub-categories of market access constraints are shown in Table 15 below. The average validity score for all 8 reports is **3.88**. The median validity score is 4.00. This suggests that the findings are, on average, valid, but some concerns remain about their validity. Again however emphasise that there are only eight papers in this category suggesting an overall lack of accessible evidence for this category.

Table 15. Validity of papers: market constraints.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Number of papers | Validity index average | Validity index median |
| Public sector | 3 | 4.00 | 4.00 |
| Private sector | 5 | 3.80 | 4.00 |
| **All** | **8** | **3.88** | **4.00** |

Public sector

The average validity score for these 3 reports is 4.00. The three reports have scores of 3, 4 and 5, respectively however. They are each therefore valid to different degrees; the TIPS regulatory reform report appears valid with no major concerns, while there are concerns about the other two due to date of publication and whether the findings can be said to be broadly applicable to all SMMEs.

Private sector

The average validity score for these 5 reports is 3.80. The Competition Commission report is valid with no major concerns. There are concerns about validity of the other four due primarily due to whether their case-study or survey-based findings are more broadly applicable to SMMEs and sectors other than the ones for which the studies were conducted. As noted above, overall, the major concern for this consolidated theme (market access) is the lack of accessible evidence rather than the quality and validity of the few papers that are have been included in the repository.

* + 1. Business Support constraints

The average and median validity scores for two sub-categories of business support constraints are shown in Table 16 below. The average validity score for these 80 reports is **3.39**, while the median validity score is 3.00. This suggests that the findings are, on average, valid, but there are concerns about their validity for informing SMME policy.

Table 16. Validity of papers: support constraints.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Number of papers | Validity index average | Validity index median |
| Finance | 23 | 3.48 | 4.00 |
| Other support | 57 | 3.35 | 3.00 |
| **All** | **80** | **3.39** | **3.00** |

Finance

The average validity score for the 23 reports is **3.48**. The median validity score is 4.00. Six of the papers were published more than ten years ago, raising some concerns about their applicability in 2019. Given changes in the supply of finance, as well as the demand for financing from SMMEs over time, it may even be argued that findings from more than a few years ago (especially with specific reference to estimations of a specific financing gap) may be not be valid anymore as well. However, the common themes that are raised throughout the research spanning these many years suggests that, at least at a general level, these findings are valid. A further concern about some of the papers is the validity of the findings for all SMMEs. Many of these papers consider the formal sector only; while even the ones that consider informal SMMEs note the lack of data raising concerns about findings applicable to this group. SMMEs are also heterogeneous in other dimensions (such as sector and size among SMMEs), which the current body of research does not delve too deep into in its consideration of access to finance among SMMEs.

Other support

The average validity score for the 57 reports is **3.35**. The median score is however only 3.00. Due to the range of subthemes in this category we break down the average score by theme below, as shown in Table 17 below.

Table 17. Average validity ratings by support subthemes.

|  |  |  |  |
| --- | --- | --- | --- |
| *Sub-theme:* | Number of papers | Average | Median |
| Sector-specific needs | 16 | 2.69 | 3.00 |
| Co-operatives | 6 | 4.00 | 4.00 |
| Business support services | 19 | 3.63 | 4.00 |
| Ecosystems of support | 4 | 3.75 | 4.00 |
| Skills | 5 | 3.60 | 4.00 |
| Innovation | 3 | 4.67 | 5.00 |
| Environmental concerns | 2 | 2.00 | 2.00 |
| Non-finance support for women | 2 | 2.00 | 2.00 |
| **Total** | **57** | **3.35** | **3.00** |

While the average is 3.35, suggesting broad validity with some concerns, there are three categories in which the average validity score is lower than 3, suggesting that is unclear whether any of the findings are applicable to informing SMME policy in 2019. These are environmental concerns, and non-finance support for women (both with an average score of 2 for the four papers considered) and sector-specific needs (with an average score of 2.69).

With regard to the latter, the concern is two-fold: first, whether these papers are valid for South African SMMEs given that they are based on SMMEs in other countries (developed countries specifically in the case of the environmental concerns) and second, whether the topics covered by the paper are applicable to South African SMMEs. For example, one may argue whether South Africa should place as much attention on environmental interventions for SMMEs as other countries, given other challenges faced in the country.

With regard to the sector-specific studies, the lower score is driven by a number of sector studies in the repository that were undertaken over ten years ago and which were not focused on SMMEs in particular. Further, the more recent sector studies are also from 2012 and 2013, which in dynamically changing sectors, may means that many of these findings may not be valid in 2019. In this regard, we emphasise here the importance of having as up to date as possible sector intelligence to inform policy. Well-coordinated and appropriate data collection strategies and mechanisms may need to be considered to enable this.

For the other categories validity concerns relate primarily to whether evidence related to other countries (particularly in the business support subtheme) is applicable to SMMEs in South Africa. There are also some concerns about broader validity to all SMMEs. The co-operative validity is relatively high. This is driven by three of the six studies being valid as is due to their recent assessment and focusing on South African co-operatives only. Three other reports related to co-operatives do however have concerns about validity; this is however related to being older publications and lack of availability of data.

This subcategory is the only one in which the median score is lower than 4.00 for validity, indicating that there are considerable concerns about validity in much of the research reviewed under this subcategory. These concerns also drive the overall median of 3.00 for the support consolidated theme.

# Overall assessment of the research

Table 18 shows the number of papers per each of the three core themes of constraints.

Table 18. Summary of the reviewed research by theme.

|  |  |  |
| --- | --- | --- |
|  | Number of papers | Percentage of all papers reviewed |
| Theme 1: Environmental | | |
| Regulatory | 12 | 9.3% |
| Physical | 19 | 14.7% |
| **Total** | **31** | **24.0%** |
| Theme 2: Market | | |
| Public sector | 3 | 2.3% |
| Private sector | 5 | 3.9% |
| **Total** | **8** | **6.2%** |
| Theme 3: Support | | |
| Finance | 23 | 17.8% |
| Other support | 57 | 44.2% |
| *Sector-specific needs* | *16* | *12.4%* |
| *Co-operatives* | *6* | *4.7%* |
| *Business support services* | *19* | *14.7%* |
| *Ecosystems of support* | *4* | *3.1%* |
| *Skills* | *5* | *3.9%* |
| *Innovation* | *3* | *2.3%* |
| *Environmental concerns* | *2* | *1.6%* |
| *Non-finance support for women* | *2* | *1.6%* |
| **Total** | **80** | **62.0%** |
| Other | | |
| Multiple areas | 12 | 9.3% |
| Not SMME specific but important for context | 7 | 5.4% |
| ***Grand total*** | 129 | 100.0% |

*Note:* the theme totals do not add up to the overall total as one paper can fall into more than one category. The “multiple areas” paper categorisation is only for papers do not have particular focus areas. Where a paper has three well-defined focus areas for example, it will be included in three relevant themes if appropriate. However, if a paper gives an overview of SMMEs relevant to a multitude of themes and doesn’t focus on any few of those in detail, the paper is assigned to “Multiple areas” rather than across themes.

An overwhelming majority of the 129 papers reviewed fall into the third category (62 percent). The majority of these (57 papers) fall in the “Other support” category. However, when we disaggregate the “Other support” category into subthemes, it is clear that finance gets the most attention in the broader “Support” theme (23 papers) and across the research reviewed (see Table 18 above). Second, is reports related to business support interventions (19 papers), and third is sector-specific studies (16 papers). There are six papers related to co-operatives and five papers on skills specifically. Innovation, environmental concern and support for women have only two or three papers each.

There is thus a clear bias in the research to a number of themes. These are access to finance (18 percent), physical environment (although this is dominated by township related studies in Gauteng and the Western Cape, indicating a lack of evidence related to other environments) (15 percent), business support (15 percent; this is however varied across a number of different types of support with no one being dominant) and regulation (9 percent). Most concerning is a lack of focused evidence-based papers on market access issues (just six percent of the 129 reports reviewed).

Table 19. Average quality and validity of the research reviewed by theme.

|  |  |  |
| --- | --- | --- |
|  | Quality index average | Validity index average |
| Theme 1: Environmental | | |
| Regulatory | 4.00 | 3.42 |
| Physical | 3.72 | 3.61 |
| **All** | **3.83** | **3.54** |
| Theme 2: Market | | |
| Public sector | 3.67 | 4.00 |
| Private sector | 3.80 | 3.80 |
| **All** | **3.75** | **3.88** |
| Theme 3: Support | | |
| Finance | 3.57 | 3.48 |
| Other support | 3.60 | 3.35 |
| **All** | **3.59** | **3.39** |
| Other | | |
| Multiple areas | 3.58 | 3.67 |
| Not SMME specific but important for context | 4.29 | 3.86 |
| ***All*** | **3.70** | **3.47** |

Table 19 shows the average quality and validity index values of the research by theme. Overall, the average quality index value of the research reviewed is **3.70**. This indicates that much of the research is evidence-based; but that generally some concerns remain about much of that evidence. The average validity index value of the research reviewed in **3.47**, suggesting that some of the research is not valid as is with respect to informing SMME policy in South Africa today. Across themes, the quality of evidence is highest for the regulatory environment papers. We have however noted that for some of the categories, more concerning than the quality or validity of research is the lack of research related to the category in the first place.

Table 20. Median quality and validity of the research reviewed by theme.

|  |  |  |
| --- | --- | --- |
|  | Quality index median | Validity index median |
| Theme 1: Environmental | | |
| Regulatory | 4.00 | 3.00 |
| Physical | 4.00 | 4.00 |
| **All** | **4.00** | **4.00** |
| Theme 2: Market | | |
| Public sector | 4.00 | 4.00 |
| Private sector | 4.00 | 4.00 |
| **All** | **4.00** | **4.00** |
| Theme 3: Support | | |
| Finance | 4.00 | 4.00 |
| Other support | 4.00 | 3.00 |
| **All** | **4.00** | **3.00** |
| Other | | |
| Multiple areas | 4.00 | 3.50 |
| Not SMME specific but important for context | 4.00 | 4.00 |
| ***All*** | **4.00** | **4.00** |

Table 20 shows the median quality and validity index values of the research by theme. The median is consistently 4.00 across the research reviewed, each consolidated theme and each sub-category of theme, indicating that quality is good for the majority of the research reviewed. The median validity is however lower than 4.00 in a number of sub-categories. These are regulatory constraints (3.00), other support (3.00) and the reports that cover multiple areas at a high level. This suggests that validity of the research to SMME policy in South Africa seems to be a greater concern in the repository of research reviewed than quality, and that these concerns are in two key areas in particular (regulatory environment and non-finance support).

Figures 2 and 3 below show the quality and validity scores across all 129 research outputs in ascending order from lowest scored to highest scored, respectively.

Figure 2 shows the quality scores for all 129 papers, along with the average and median scores. The average is 3.70 with 47 of the reports (36 percent) having a score of 3 or lower, indicating considerable concerns about quality.

Figure 2. Quality of all research reports reviewed, in ascending order.



Mean

Median

Figure 3 shows the validity scores for all 129 papers, along with the average and median scores. The average is 3.47, with 24 reports having a score of 2.00, and 37 reports having a score of 3.00. In total, therefore, there are 61 reports with a score of 3 or lower, indicating a considerable portion (47 percent) of the research reviewed for which there are considerable validity concerns.

Figure 3. Validity of all research reports reviewed, in ascending order.



Mean

Median

It is clear that many more outputs receive a score lower than 2 in terms of validity than in terms of quality. However, for both quality and validity, the median, as indicated is 4, suggesting that much of the repository is of good quality and broadly valid for SMME policy in South Africa. However, we should be mindful of the limitations that do exist which prevent much of the research reviewed from scoring scores of 5 (which would indicate no or negligible concerns about quality and/or validity).

Overall, concerns of quality of research are typically related to findings not being considered along with other sources, with a survey or limited review being presented with no other analysis or alternative sources to support the recommendations made, for example.

Concerns of validity are typically related to one of the following: that the research is outdated and not appropriate in the context of the environment SMMEs face today; or that the study’s findings are not broadly applicable to all SMMEs. These require that findings must be continuously reviewed and updated if deemed to be relevant to ensure that policy can adequately respond to the constraints faced by SMMEs today; and that findings must be considered and reviewed in the context of the heterogeneity of the SMMEs that exist in South Africa to ensure that policy can adequately respond to the constraint faced by all SMMEs across the spectrum.

1. Findings and Policy Recommendations

As a starting point, we start with an overview of key findings of the latest SMME Annual Review published by the Department. These represent the Department’s latest available assessment of SMMEs in the country.

We will then move on to key findings and recommendations from the review of research as per the consolidated themes for the roundtable.

The latest SMME Review Report published by the DSBD (for the year 2016)[[5]](#footnote-5) makes use of a mix of methods and makes the following key findings and recommendations:

1. SMMEs do not have sufficient access to finances and capital and they need these funds for different things
   * Recommendation: The DSBD should focus its assistance on financial assistance, which is diversified to assist with various financial needs, through increasing the budget and scope of SEFA. Furthermore, SEFA and the DSBD should work with national government to consider alternative means of reducing the financial burden on SMMEs.
2. SMMEs struggle to access acceptable operating premises
   * Recommendation: The DSBD can assist SMMEs by developing shared operating premises, which meet the needs of enterprises of different sizes.
3. Regulatory and legislative system is too burdensome on SMMEs
   * Recommendation: There is a need to relax or remove the restrictive business conditions for SMMEs with regards to regulation.
4. SMMEs are unable to employ skilled staff to assist with their operations and contribute towards business growth.
   1. Recommendation: Government should more fully explore employment incentives in the form of staff stipends and exemption legislation, which makes it easier for SMMEs to hire appropriate staff during busy seasons or for larger projects.
5. SMMEs need to be ready to take advantage of procurement opportunities made available by government
   * Recommendation: The current development of a central database under the ILO, and another under the Treasury, should be combined and used to identify appropriate SMMEs as potential government contractors and inform them of these opportunities.
6. SMME owners struggle to cope with the risks associated with entrepreneurship
   * Recommendation: Government can encourage community support through strengthening awareness campaigns and incentive schemes that encourage individuals and firms to support their local small businesses.
7. A comprehensive mandate with a clear focus is lacking; and poor levels of communication and limited collaboration among departments to date, resulting in duplication and inefficiencies.
   * Recommendation: There is a need for all government agencies and departments to operate towards achieving the broader goal of SMME development, with the view to increasing employment. The DSBD should strengthen its role as a centralised agency that is responsible for ensuring that all sub-divisions, provincial departments and national agencies are guided by a coherent set of tenets. Furthermore, the DSBD should improve inter-department communication to facilitate information sharing and collaboration.
8. Integration and standardisation of SMMEs development systems and processes is required
   * Recommendation: There is a need to standardise the bureaucratic process across departments, agencies and beneficiaries to reduce the current silo mentality.
9. There is a high rate of non-payment to SMMEs as well as repayment to government bodies
   * Recommendation: The National Treasury should issue a practice note that effects a Cession of Contract. This is to ensure that the payment of SMMEs is done on time and, also, that such payment first goes towards repaying loans that the SMME may have taken by a government agency.
10. Government agencies struggle to access SMMEs and to improve awareness of their programmes
    * Recommendation: In order to assist informal businesses, all government agencies need to consider dynamic and innovative approaches to increase access to their services. Co-location with municipalities and mobile units can increase access to support services.
    * Recommendation: By developing a centralised and comprehensive database, along with standardised protocols and systems, the DSBD can decrease turnaround time for feedback and applications.
11. Government initiatives are not adequately targeting highly vulnerable groups, who require both financial and non-financial assistance to succeed
    * Recommendation: The DSBD should improve its implementation guidelines and requirements, which prioritise previously disadvantaged groups. Furthermore, the Department should investigate why current allocations and guidelines are not being effective in reaching their target groups.
12. Government targeting and differentiation should focus on size categories and sectors
    * Recommendation: When developing their targeted approaches to SMME policies and projects, government agencies should design their policies and programmes based on the differences experienced by the different sectors and different size categories.

Most of these themes come out strongly in our review of the research. We now consider the broader body of research reviewed and see if these findings and recommendations made to the Department are in line with the findings on constraints and recommendations in the research. We consider the research under three themes: environmental constraints, market constraints and support constraints. Thereafter we summarise the key recommendations that require validation and preliminarily assess whether a policy gap seems to exist with respect to each of these.

# Consolidated Theme 1: Environmental Constraints

# Regulatory environment

***Regulations are noted as a key constraint on SMMEs in much of the research; there are however suggestions of how the regulatory burden on SMMEs can be eased in the research***

A number of studies note the regulatory burden on SMMEs as a key consrtraint (see for example, Bhorat et al. (2018), TIPS (2017), GEM (2017) and World Bank (2015)). A popular measure of measuring regulatory burden is the World Bank Doing Business survey. This measures aspects of regulation that enables or prevent private sector businesses from starting, operating and expanding in countries around the world.

These regulations are measured using 11 indicator sets: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation.

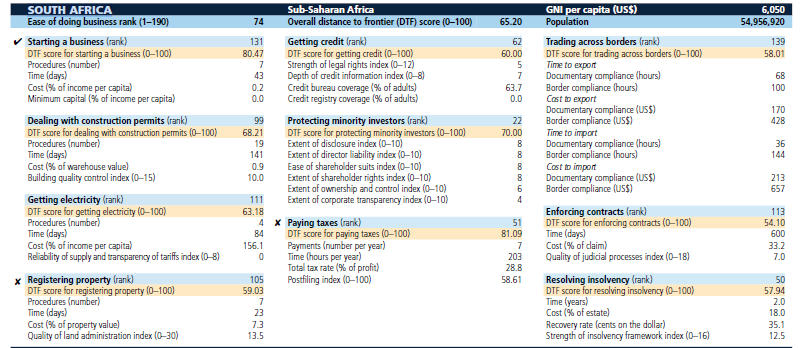
The 2017 Survey is the most recent Doing Business Survey in the repository. Johannesburg is used as the indicator city for South Africa. A 2015 South Africa specific report includes the indicators for a further eight South African cities.

The indicators and rankings are based on a “distance to frontier” concept which measures how far countries are away from achieving the best standard in that indicator in countries across the world. An economy’s distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

The difference between an economy’s distance to frontier score in any previous year and its score in 2016 illustrates the extent to which the economy has closed the gap to the regulatory frontier over time. In any given year the score measures how far an economy is from the best performance at that time.

The scores for South Africa (based on Johannesburg) are shown in Table 21 from the World Bank report below:

Table 21. World Bank Doing Business Indicators, South Africa, 2017.



*Source: World Bank (2017)*

For the 2017 report, for the period from June 2015 to June 2016, the following notable changes are noted in some of the indicator categories:

1. Starting a business: South Africa made starting a business easier by introducing an online portal to search for a company name.
2. Registering property: South Africa made it more expensive to transfer property by increasing the property transfer tax.
3. Paying taxes: South Africa made paying taxes more costly by increasing the rates of vehicle tax and property tax. The rate of social security contributions paid by employers was reduced. South Africa made paying taxes more complicated by increasing the time it takes to prepare VAT returns.

Doing Business in South Africa 2015 is a World Bank Doing Business report focused on South Africa only. It considers other cities in South Africa and relies on the following main sources of information: the relevant laws and regulations, private sector respondents, government officials, court officials and World Bank Group staff.

Key findings of the report were:

1. Regulatory obstacles differ depending on where entrepreneurs establish their businesses. This is due to varying local regulations and efficiency levels within municipalities and public agencies differences in the interpretation of national legislation.
2. There is no relationship between the size of the city (as measured by population size) and the rankings. No single city performs equally well on all indicators. Johannesburg and Cape Town are the top performers in respect of registering property and dealing with construction permits, respectively, while Mangaung leads the getting electricity and enforcing contracts indicators.
3. Local policy makers can achieve tangible improvements by replicating good practices already implemented in other cities in South Africa. Small administrative improvements not requiring legislative changes can make a difference for SMMEs.
4. A striking finding is that if a hypothetical city were to adopt the good practices found across the 9 cities in dealing with construction permits, getting electricity and enforcing contracts, it would surpass the average performance of the OECD high-income economies in all 3 areas.

Table 22 shows the recommendations made for improving the ease of doing business across South Africa.

Table 22. World Bank Doing Business Recommendations to Ease Doing Business in South Africa, 2015.

|  |
| --- |
| ***Starting a business*** |
| Make the CIPC online platform fully operational |
| Make registration with the compensation fund more efficient by simplifying the company risk classification system and delegating the process to provincial or local labour centres |
| Develop a one-stop shop integrating all relevant agencies |
| ***Dealing with construction permits*** |
| Adopt a risk-based approach to municipal preconstruction clearances and inspections |
| Establish a one-stop shop for municipal preconstruction clearances and building approvals |
| Reorganize the approval of building plans or use electronic platforms |
| Merge post-completion inspections and the issuance of the occupancy certificate |
| Introduce joint responsibility with private building professionals in the permitting process |
| Make the permitting process more transparent |
| ***Getting electricity*** |
| Streamline approval processes by improving municipal communication and workflows |
| Alleviate the burden of security deposits |
| Improve the transparency of the connection process and connection costs |
| ***Registering property*** |
| Adopt the electronic issuance of rates certificates across the country or even consider replacing them altogether with online payment confirmation |
| Set effective service delivery time limits for the deeds registries and/or introduce fast-track approvals |
| Develop an integrated registry system for electronic registration |
| ***Enforcing contracts*** |
| Use court statistics for performance monitoring and introduce case management for commercial cases |
| Introduce e-filing and automate court processes |
| Introduce specialised commercial courts or court sections in locations with large caseloads |
| ***Trading across borders*** |
| Reduce and streamline documentation requirements |
| Identify key bottlenecks constraining port efficiency and apply adequate measures to address them |
| Consider reducing port tariffs |
| Introduce an electronic single window for trade |
| Promote regional integration through border cooperation agreements |

*Source: World Bank (2015)*

The DSBD recently commissioned TIPS (2017) to identify practical and viable ways to reduce the costs of legislation and regulations for small businesses. The study does not extend to municipal regulations and requirements, which are subject to a separate process within government. The study identified the key constraints and recommended a number of broad actions to be taken by the relevant stakeholders. These are shown in Table 23.

Table 23. Regulatory constraints and recommendations identified by TIPS (2018).

|  |  |
| --- | --- |
| Constraint | Recommendations |
| The Companies Act and the Cooperatives Development Act | |
| Annual Returns for companies | Assessment of the costs, benefits and risks of various possibilities for reducing the regulatory burden of Annual Returns indicates that the preferred option is to integrate CIPC Annual Returns with SARS. The main challenge is that both SARS and the CIPC have capacity constraints in maintaining their databases. It would be important to manage and fund the transfer to the new system and the interface between SARS and the CIPC in order to secure both CIPC revenues and the integrity of the registry. The cost of the transfer should be assessed before finalisation of the proposed reform. |
| Compulsory audits for cooperatives | The Cooperatives Act permits exemptions where the cost of audits would be prohibitive, but no detailed guidelines have been provided.  The analysis found that the preferred option to reduce the burden on co-ops would be:  • To clarify the exemption criteria,  • To amend the law such that audits are only required when a cooperative reaches a particular threshold, which could harmonised with the Public Interest Score in the Companies Act, and  • To explore ways to improve bookkeeping at co-ops, for instance through incubators or assistance from sefa.  A policy to interpret the exemption criteria could effectively make the audit a specific requirement for larger co-ops rather than a default for all of them. For instance, an audit would be required where:  • The costs would not affect the financial sustainability of the co-operative, based on bright-line criteria such as a specific share of the audit in revenues; and  • The co-operative is unable to provide any financial records. |
| Tax legislation administered by the South African Revenue Services (SARS) | |
| Delays and unpredictability around refunds of Value Added Tax (VAT) payments, often as a result of audits | The preferred option is for small businesses to receive a mandatory refund after a specified period (for instance 90 days), even if they are still under audit. This measure would both improve predictability and cash flow for small businesses affected by audits, and incentive SARS to avoid unnecessary delays in audits and refunds. If an audit took more than the specified time, SARS could withhold later refunds if it uncovered excess payments. |
| Shortcomings in the income tax regime established for small business. | SARS sees the turnover tax regime as a regime that reduces administrative costs for small business but diverts some of the savings into tax revenues. However, the regime has not had the expected support from small businesses. Informants perceive that the system does not reduce their tax costs and in some cases may even increase them relative to the normal requirements. The preferred option is to ensure that the rate charged under the Turnover Tax is always lower than the rate under other tax regimes. This would require monitoring the actual tax paid compared to turnover for micro enterprise under the recently introduced 3% rate. In effect, the turnover tax regime would shift from aiming solely to reduce administrative burdens to a commitment to avoiding higher taxation in return. |
| Labour legislation administered by the Department of Labour and its agencies | |
| The difficulties involved in accessing the benefits of the skills development levy, | Proposals to reform the skills system to meet the needs of small employers generally focus on ensuring more flexible, focused and short-term training that would effectively do less to raise sectoral skill levels but would reduce the cost to employers. If this trade-off is accepted, then National Treasury and the Department of Higher Education and Training (DHET) could increase the threshold for small business. DHET could also introduce more flexible requirements for training for small business employees, with shorter modules that are less tied to accreditation and human capital development. |
| The risk assessment process for COIDA | The preferred options for improving services from the Compensation Fund for smaller employers include:  • Reviewing the amounts paid by small business especially in light of the current large and unnecessary surplus, and  • Establishing an appeals system with short and efficient turnaround times for appealing against risk assessments. |
| The procedures for obtaining Private Employment Agency certificates | It is proposed that the letters on COIDA and the UIF be digitised and allocated a short turnaround time, and site inspections be randomised rather than a pre-condition for registration. Implementing these options will require that the Department of Labour develop the appropriate capacity to issue the letters more rapidly, and that its inspectorates are able to undertake random inspections sufficiently often to maintain standards. |

*Source: TIPS (2017)*

The TIPS study was also tasked with looking into The Broad-Based Black Economic Empowerment Act of 2003 and its burden on small businesses. The research was however unable to quantify the substantive cost of BBBEE for white-owned enterprises, or the benefits to black-owned or empowered businesses. In terms of certification, the preferred options to reduce the burden associated with this policy are:

1. The National Treasury should be requested to issue a directive requiring procurement officers to accept affidavits for qualifying small enterprises, and the DSBD should set up a hotline for complaints on the issue.
2. The Department of Trade and Industry should be requested to issue regulations on the amount of time and cost of certification. Further, all verification agencies should be publishing a list of fees according to specified criteria.

An older study by Pahwa et al. (2006) considers the impact that municipal regulations have had on SMME firm performance, as well as suggest potential areas for further policy development and reform. The findings of this paper may not be relevant in 2019 but the study outlines an important interrogation into the effectiveness of the institutions that govern SMME policy, which should be conducted at regular intervals.

This paper made use of firm interviews with approximately 70 SMMEs in the formal sector. Key findings included that municipalities can assist SMMEs by enhancing service delivery, increasing consultation with firms before passing policy, as well as clearing up clauses across policies that firms have found to be contradictory when attempting to enact these policy changes. This method of surveying firms and determining which aspects of policy directly impact them, whether for better or worse, is an important stage of policy assessment, as it is crucial that the practicalities of legislation are considered as well. It would be useful to update this study and see if its recommendations still stand in 2019. Also of note, though, is the lack of informal SMMEs considered in this study. An updated report should take account of how municipal regulations affect SMMEs across the spectrum of different SMMEs that operate in the country.

Rankin (2006) explores the impact of government regulation on SMME functionality, growth and employment. A number of different regulations are investigated in this paper, including, but not limited to labour regulations, trade policy regulations, the predictability of regulatory application, and the costs of regulation. This paper made use of four independent cross-sectional data sources in order to complete its analysis. While this analysis is still very powerful using the pre-collected data, the author does point out that this can be limiting in the scope of investigation which can be undertaken. As a result, it may be prudent to consider conducting surveys to collect this data oneself should one attempt to launch a large-scale investigation into the impact of government regulation. Further, as the paper was published in 2006, an update of the paper’s findings are required before accepting its findings as valid in 2019 for the regulations that are applicable now. Nevertheless, the findings are suggestive.

The findings of this paper suggest that labour market regulations are the largest inhibitors of growth for SMMEs, and they constrain growth particularly amongst smaller firms. Smaller firms are also faced with higher per-worker costs of regulation, and as such, they are most likely to find the cost of regulation to be prohibitive to growth over time. This is particularly the case given that labour market regulations are found to be a constraint to firm investment, which could be particularly problematic for small firms, where they may not be as much capital readily available to invest. Further findings indicated that almost half of all firms found that the application and implementation of regulation was unpredictable, with varying interpretations being actioned by various authorities. This is of concern, as unpredictable enforcement of regulation can undermine growth strategies for firms in the market.

Overall, this paper provides a useful framework which can be updated and reapplied in the current time to assess the effectiveness of government policy for SMMEs. This paper provides a very detailed overview of the investigation into each of the policies they chose, and as a result, it could possibly be used as a detailed guide for updating the investigation to more current issues facing SMMEs in today’s economy.

The DSBD (2018) has also recently commissioned a report on comparative SMME legislation in countries around the world and lessons that can be learned from this for South Africa. Key findings and recommendations of the study are shown in Table 24.

Table 24. Areas of consideration for review of SMME legislation.

|  |  |
| --- | --- |
| Area | Finding and Recommendation |
| Sharing of borrower credit information between financiers and credit reference agencies. | The so-called ‘thin credit files’,that is, limited credit information on the borrower, is one of the key inhibitors to access to credit for SMMEs. Therefore, sharing of client credit information plays an important role in helping SMMEs build a credit profile, which, in turn, is an important factor in accessing credit. Legislating the sharing of not just negative but also positive credit information is a critical step in assisting SMMEs build their credit history, which in turn improves their chances of accessing credit. In the UK, sharing of client information, subject to the client’s approval and other stipulations, is prescribed in small business legislation. |
| Prevention of prohibition of session of receivables | The ability to cede their receivables in order to access credit is an important access to finance enabler for SMMEs, yet cession of government contracts is prohibited in South Africa. To facilitate access to finance, UK small business legislation prevents prohibition of cession of receivables, granting power to invalidate, completely or under certain conditions, certain restrictive terms of business contracts, specifically those preventing assignment to a non-contracting party of the right to be paid under the contract. |
| Simplification of procedures for small businesses. | Regulatory and administrative simplification is an important measure to ease the administrative and cost burdens imposed on small businesses by government legislation, regulations and compliance procedures. Brazilian small business legislation places strong emphasis on general simplification of procedures for micro and small enterprises and strongly promotes differentiated and favoured treatment of these enterprises. |
| Dealing with late payment | Late payment is generally acknowledged as one of the key challenges facing SMMEs. India’s Micro and Small Enterprise Facilitation Council and its alternative dispute resolution mechanism are noteworthy innovations in this context. In India and the UK, small business legislation takes a firm stance on reporting relating to late payment to suppliers. India’s tax treatment of overdue amounts owing to a small business supplier, and penalties for contravening the late payment provisions are all important legislative instruments for dealing with the late payment problem. Malaysia’s legislation, too, stipulates that an employee of SME Corporation, the country’s small business support agency, can be charged for failing to make payment, or for being responsible for delays in the payment. |
| Special tax treatment | Taiwan legislation provides for the granting of special tax treatment, under certain specified conditions, thereby enabling the innovative use of taxation as a tool to achieve certain specific goals relating to SME development, technology diffusion and employment promotion |
| Research, development and technology transfer | More than any of the comparison countries, the USA’s legislation places extensive emphasis on promoting research and development and technology transfer as instruments to strengthen the competitiveness of SMEs. It holds key lessons for South Africa in this area. |
| Special treatment of designated groups in government procurement | US legislation makes extensive provision for special treatment of military veterans, women, ethnic minorities and other designated groups in government procurement. These include set-asides, sole supplier sourcing, restricted competition contract awards, and preferential treatment for SMMEs in disaster zones. The legislated reporting requirements placed on federal agencies in relation to their small business procurement practices are also noteworthy. |
| Accreditation and licensing of business development service providers. | Kenya’s legislation is unique in providing for the regulation and licensing of business development services providers serving micro and small enterprises. This is an important provision for ensuring that services offered to small businesses are of acceptable universal quality and standards. |
| Regulation of business associations. | Kenya is also unique in providing extensively for the regulation of business associations. While South Africa’s 1995 White Paper makes reference to membership of business associations being a pre-requisite for small businesses to be eligible for State support, this requirement is not legislated. The country has in the past experienced several challenges associated with some key business organisations. Moreover, weak membership bases and associated membership fee income has left many of these organisations, particularly those serving only small businesses, without adequate resources to build the requisite capacity to offer quality services to members. Kenya’s legislation would be worth looking at in efforts to deal with challenges facing these organisations. |
| Promotion of clusters and networks. | The promotion of enterprise clusters and networks is a widely used approach to industrial strategy across sectors in many parts of the world, but this is not the case in South Africa. Lessons may be drawn in this regard from the Nigerian and Taiwanese legislations. |
| Make-up of Boards of SME promotion agencies. | Another distinguishing feature between South Africa and countries such as India, Kenya, Malaysia and Nigeria, is the legislated make-up of their small business support agencies’ Boards. In these countries, agency Boards have a high level of participation by various government Ministries and entities. This should assist in strengthening government oversight on small business promotion and, most importantly, ensuring effective coordination between government departments and entities, an ongoing weakness in the South African context. |

*Source: DSBD (2018)*

It should be noted however that the study is limited in that it does not consider the extent to which the comparative legislative provisions have been enforced and how effective they have been.

An international review by the UK Department for International Development (2015) provides support for making such amendments to assist small businesses. The study considers the evidence regarding the impact of business environment reforms on poverty. It particularly considers how business market reforms impact on incomes and employment. The report is not focused on South Africa but may offer some relevant insights for SMMEs in South Africa.

The report notes that the links between business environment reform (BER) and poverty reduction are not direct. No studies were found that attempt to present evidence of a direct link between BER and poverty reduction. However, there is evidence on the links through which BER has been found to indirectly contribute to poverty reduction.

One of the causal links considered is reforms directly affecting the decisions made leading to increased firm investment. Fifty-four studies were found to address these links. These studies deal with the manner in which BER has affected firm behaviour, such as through registering their business, obtaining a license, registering for tax, dealing with labour laws, and land titling.

Reforms that simplified business registration and licensing procedures, reduced the time and cost associated with registration and licensing, but did not significantly impact on unregistered and unlicensed firms. While 12 studies confirmed a positive link between registration and firm performance, reforms were generally not instrumental in encouraging informal enterprise to formalise. One of the reasons for this may be a concern for the tax implications of business registration.

Reform of the tax system is a major field of BER that aims to make tax administration more transparent and efficient. Here again, the evidence presented by 11 studies is consistent in positively linking tax registration and payment with firm performance. Reforms in this field have led to an increase in the number of firms that register for tax. However, despite the recognised benefits of formalisation, many firms choose to operate informally in order to avoid the perceived burdens and costs associated with formality.

A DPRU study (2015) also notes that many firms prefer to operate informally and hence formalisation should not be “forced” to formalise through penalisation. The study finds policy measures aimed at reducing informality work best when they relax the external and internal constraints facing informal firms. Policy measures that aim to reduce informality by making it costly to be informal can unintentionally increase unemployment by pushing firms out of the market, which constrains inclusive growth. For this reason it is recommended that policy makers aim to support rather than to penalise informal enterprises.

There is strong and consistent evidence that labour-related BER affects the decisions of business owners and impacts on poor workers in different ways. However, while all studies identified the increase in costs associated with reforms that strengthen employment protection, not all agree that these costs are negative. The employment effects of increased employment protection vary according to firm size and can reduce the employment opportunities available to young and inexperienced workers. This finding suggests that relaxing labour regulations may have a positive impact on firm growth; but also that this is not guaranteed.

A strong association is also noted between property rights and economic growth. Reforms that improve the security of land tenure through land titling and administration reform do increase firm-level investment. However, there is little evidence to link land-titling reform with increased access to credit, as it is often claimed, as there are other factors that affect the performance of financial markets.

Overall the study notes however that for business economic reforms to be successful in reducing poverty, the following are important:

1. Integrate these reforms with macro-economic reforms
2. Complement reforms with support interventions
3. Pay attention to the barriers faced by women
4. Formulate country and culture-specific reforms

With respect to the burden of tax in South Africa specifically, Abrie and Doussy (2006) considered tax compliance obstacles faced by SMEs in South Africa focusing on SME manufacturing firms operating in Gauteng. The sample of SMEs indicated that the main problem area they had was coping with administration of government taxes. This was a perspective-based study based on the inputs of financial managers, managers, accountants and owners of the firms. The study found that (at the time), SMEs in South Africa could be liable for up to 11 different taxes (income tax, capital gains tax, provisional tax, secondary tax on companies, value-added tax, employees’ tax, employment-related levies, customs and excise duties, transfer duty, donations tax and stamp duty) and this placed an administrative burden on them in terms of compliance. Respondents were also asked about whether they were aware of the support mechanisms that exist and if they had made use of them.

With respect to preferences for reducing the compliance burden, SMEs show the greatest preference for reduced tax rates for SMEs, reduced penalties/interest charges by SARS, and a SARS helpdesk. Information and guidelines provided by SARS and the information regarding penalty applications were rated highest by SMEs in terms of SARS’s service. Aspects that need attention are adjusting mistakes made by SARS, especially for medium-sized establishments, and the service provided by the call centre.

The authors note that it was clear that SARS needs more efficient information campaigns to inform taxpayers of available incentives and services and to build confidence in their systems. They noted that small businesses would prefer simple cuts in tax rates and penalties rather than elaborate tax incentive schemes which require sophisticated systems and skilled staff and often result in increasing compliance costs.

Ultimately, the study suggested that the government should reduce the number of taxes SMEs have to administer, reduce the compliance requirements and make additional tools available to SMEs to assist them in administering taxes. Particular recommendations were that the law could be streamlined and simplified and that additional tools such as software could be made available to SMEs to assist them. In this regard, there has at least been the introduction of efiling in 2006[[6]](#footnote-6) since this paper was published. However, some of the issues raised such as the high administrative burden may still be relevant. More recent research and evidence is required in this regard however.

Chamberlain and Smith (2006) also considered the tax regulatory burden on SMMEs. They also suggest that streamlining tax procedures for small businesses may lead to greater growth amongst these firms. This paper is set up as a meta-review of three reports which have been compiled based on evidence surrounding the tax regulation challenges that have been faced by small businesses. These reports were compiled by SARS, the dti and SBP, and are reviewed in great detail.

General conclusions of this report find that in 2006, the average cost for tax compliance could have substantial impacts on small businesses and their growth and development. As a potential solution to this difficulty, recommendations have been made to streamline SARS and iron out inefficiencies within the procedures outlined by the Receiver. However, a conclusion of this paper is that while interventions to streamline taxation procedures may assist small businesses, there are also inefficiencies that arise on the part of the firm itself, thus requiring interventions (such as increased education on the part of business owners) may be more beneficial to assisting SMMEs.

A final study relevant to this category, by Mowers (2016), considers perceptions of small business policy of small business owners in seven local municipalities in Gauteng. The sample of owners however seems to be in the formal sector only as their details were obtained from an online database and they were contacted through email only. The study suggests that small business policy does not address the needs and expectations of both start-up and established business owners in the sector.

The study’s results suggest that there is no statistically significant difference between start-up and established owners regarding their views on policy. The local municipality however also seems to have no impact on views related to all dimensions of policy (objectives, outcomes and outputs) considered. Despite separate planning and implementation, all seem to have the same experience that government officials and interventions are not providing the services required.

# Physical environment[[7]](#footnote-7)

***SMME constraints differ across locations: specific interventions may be required for township and rural areas but evidence in this regard is mostly case-study based at this stage (and seems based only on Gauteng and Western Cape townships)***

Cant and Rabie (2018) consider township SMME sustainability perceptions, noting that little research has been done specifically on SMMEs in South African township areas. The paper identifies that South African townships are home to a large number of SMMEs and aims to investigate the perceived growth trajectories and constraints faced by these firms. A survey was conducted on a sample of 498 SMME owners across 86 different townships in an attempt to determine what potential avenues for growth and expansion presented themselves to township-based SMMEs.

In general, the respondents indicated that they were optimistic about the survival of township-based SMMEs, with almost 80% of owners indicating that they felt they would be able to remain in business for the coming 3-5 year period. In addition to this, respondents were asked to indicate what types of businesses they would like to see open, in an attempt to determine what sort of business plans should receive support. This is an important consideration, as many respondents indicated that a lack of financial means and infrastructure was a key constraint in their expansion or growth plans. As a result, it is crucial for policymakers to be aware of what needs could be serviced by township-based SMMEs, and to direct target these businesses in order to grow the economy and decrease unemployment.

This paper indicates that institutions should be taking advantage of the current optimism regarding the survivability of township-based SMMEs and leverage this to encourage growth and development of small businesses. Furthermore, this paper provides insights into exactly what types of business and market would benefit most from external support measures, thus providing government with a community-based assessment of which types of SMMEs should be supported.

Rakabe (2016) considers the prospects for revitalising township economies through a case study of Tembisa in Gauteng, focusing particularly on non-retail sectors. The author notes that these spaces are a manifestation of spatial and economic inequality typically understood to have a concentration of informal business activities with low productivity and weak links to formal markets. However, the study notes that informal activities are not homogeneous and makes a distinction between ‘stagnant, less productive’ Traditional Informal Enterprises (TIEs) and the ‘more dynamic and productive’ Modernising Informal Enterprises (MIEs). The study develops a framework for classifying enterprises in this regard and assesses whether the conditions for the emergence of the MIE sector that have potential to support township growth exists.

The study finds that non-retail informal enterprises in Tembisa are mostly traditional with no significant emergence of higher level enterprises. Informal enterprises in Tembisa are hampered by a number of factors to transition into MIS from traditional type enterprises. There is a perceived lack of government support (although the results also note that owners seldom actively look for support). Business constraints that are internal to the informal enterprise such as, investment in skills and availability of equipment are perceived to be less constraining than those external to the business. The results suggest that, without the presence of conditions to support emergence of MIS, townships cannot achieve internally-driven growth.

The results also clearly show that while most enterprises are more traditional, the informal sector is not homogeneous. It is diverse with enterprises in different sectors, of different sizes, with different capabilities and with owners from different backgrounds. What they do have in common however is that these activities are a source of livelihood for the owners and their households. It recommends that strategies to support informal enterprises to stimulate the township economy must differentiate between the types of informal enterprises and respond to the needs of each type of enterprise. Enterprises that are more modern may require intermediation, funding support and facilitation of access to markets, while others may require measures related to their own internal deficits such as lack of certain skills.

Importantly, however, the author emphasises that interventions to encourage township economies must improve the broader local economic environment while also ensuring the modernisation of enterprises.

Petersen et al. (2016) consider informal micro-manufacturing with a case study of Cape Town informal metalwork enterprises. The purpose of this study was to gain a stronger understanding of the Cape Town informal economy of metalwork through a qualitative investigation and supply chain assessment in both township residential and more formalised industrialised settings. It notes that the sector, while small relative to food or liquor trading, is an important revenue generator in township economies in South Africa.

The results indicate that these enterprises could bring about opportunities for skills development, value adding and employment in the informal economy. These enterprises have demonstrated considerable sustainability but further opportunities exist. Municipalities should accept the informality of such enterprises, provide appropriate infrastructure and town planning; in particular to encourage clustering of these enterprises to “broaden their collective standing in the township economy”.

The City of Cape Town, it is suggested could also work with prominent formal sector metal wholesalers to promote the interests of informal economy metalworkers including connecting these with the informal workers to open up economic opportunities.

It is noted that township planning requires attention as the sector currently operates in small spaces of township housing and land that are not optimal for their current activities. There is an opportunity for an industrial area in which such enterprises can cluster and which can foster their growth through allowing potential economies of scale and enhanced security, for example.

Charman and Petersen (2014) also consider informal micro-enterprises in a township context presenting findings of a small area census of micro-enterprises undertaken in five Cape Town townships. Microenterprises in key sectors such as liquor, retail, educare, traditional healing, hair salons and micro-manufacturing were represented in the study. In total, interviews were conducted with 1 508 owners.

A key finding was the rate of informal micro enterprise ownership across the areas. For all five sites combined, 4 273 business activities were identified, a rate of 32 business per 1000 people. Most township businesses respond to the consumption needs of the local population for food, liquor, household necessities, airtime, hair care services and entertainment. A much smaller proportion of businesses respond to home-improvement expenditure or manufacture furniture and goods. The most common enterprises are liquor traders, grocery retailers and house shops. These three types of business account for 46% of the micro-enterprises identified. The rate of occurrence of these three businesses types varies slightly according to site and settlement context, with liquor traders being more prevalent in informal settlements and spaza shops slightly more prevalent in relatively formalised settlements.

There was considerable diversity across the five sites in the absolute and relative prevalent of certain business types. This variation is noted to be due to various factors, including demographics, settlement dynamics, and proximity to formal businesses and infrastructure.

Overall the findings again suggest that the informal sector is not homogeneous; and that the spaces in which it operates have a direct bearing on the activities and success of businesses in the sector. Particular businesses are more prominent in certain settlements and transport nodes and street dynamics affect business opportunities by providing access to possible customers (pedestrians and commuters). A proper understanding of how exactly these factors result in the observed outcomes will require more analysis and nuanced considerations however.

Hartnack and Liedeman (2016) consider factors that contribute towards informal micro-enterprises going out of business in Delft in the Western Cape.

The paper presents qualitative evidence that among enterprises that have been operating for a number of years, a combination of socio-economic constraints (such as new forms of competition, increased regulation, crime and conflict) and unexpected household shocks (such as sickness, death, imprisonment and retrenchment) contributed to business closures. This was in addition to inadequacies in business models and management skills. Importantly the paper raises the point that firms should perhaps not simplistically be said to have failed in the event of their demise given that there are often important benefits from the operation of the business over its life such as skills and asset improvement as well as upward mobility. Owners of these businesses are also often looking for new opportunities to apply their skills and resources gained from the operation of their previous businesses.

The paper recommends that government must exploit the experience and potential of these businesses by purposefully offering targeted support to such entrepreneurs. These are not merely “failed’ entrepreneurs but represent a group with potential to re-nter the informal economy and make a living and even grow.

It suggests that for the township retail sector, government should look at regulating the sector to limit practices that force survivalist businesses to close. It should also revisit its regulatory framework for township liquor traders, which the study notes, “make it all but impossible for even well run and successful shebeeners to obtain a licence, operate legally, and bring their enterprises into the formal sector.”

Charman (2016) also considers the potential for youth employment and entrepreneurship in the township and informal micro-enterprise economies of South Africa in a policy brief. This paper indicates some of the areas in which youth may exhibit business success, which include that youth may translate their hobbies into enterprise or that youth with jobs may opt to establish or invest in formal micro-enterprises to safeguard their incomes. As a result, the paper suggests that policies enacted by the government should take the form of providing youth with exposure to tools and technologies that will aid productive efficiency, such as ICT equipment, and also providing youth with specialised business education which deals specifically with how one could develop a micro-enterprise that originates from a hobby-like activity. Furthermore, where youth are seen to have been brought into family businesses, the paper suggests that these youth may also benefit greatly from these policy interventions, perhaps as a means of encouraging growth in the business they are currently working in.

Grant (2013) reports on a survey of 100 firms in Soweto and in-depth interviews with 30 firm owners focussing on assessing the building of social capital and on obtaining information about the localities they operated in.

Key findings challenge perpetuated ideas that informal entrepreneurs in townships are isolated, dependent on inherited social capital and that women are engaged only in retail. The study finds that entrepreneurs create their own social capital in work spaces, but there are important difference between men and women. Retail, the study suggests, is overemphasized and production firm entrepreneurs, both male and female, remain neglected in policy. More nuanced understandings of entrepreneurship need to be developed, the study argues, so that policy does not perpetuate myths and not align with the realities of the individuals and sectors it is meant to support. Particularly, the survey findings suggest a need to support women in townships towards participating in multiple sectors. Gender matters in explaining “spatiality of firms in terms of location, sectoral niches, composition of entrepreneurial links, and their firms’ integration into the wider spatial economies” and policy needs to take this into account.

The author notes that township life represents a “spatial integration of work and life in … that is not possible in other informal-economy hubs” (such as the inner city). The heterogeneity of the informal sector, in terms of not only activity, but also spatiality, needs to be taken into account in formulating support for the sector; and within this gender differences too need to be considered.

***There is a lack of research on SMMEs in rural areas beyond co-operatives; and that research focuses on the specific characteristics of co-operatives as a type of enterprise rather than the environment in which they operate in***

There is a lack of evidence related to SMMEs in rural areas. In line with this, perhaps one group of small businesses that doesn’t receive much attention in the research (and more generally) are co-operatives. The dti undertook a baseline study of co-operatives in 2009 and a number of important findings were made, despite data difficulties.

Heterogeneity of businesses features here too as a finding. The baseline study suggested that even within co-operatives, there are two main categories of cooperatives in South Africa, worker and user co-operatives which have certain unique features that must be taken into account when support measures are being put in place.

In terms of the provincial spread of co-operatives, the study found that most co-operatives are located in KwaZulu Natal, Limpopo, Gauteng and Eastern Cape respectively. Over 50% of co-operatives were located in rural areas. Most co-operatives were relatively young, typically less than three years old. This age coincides with the inception of the new co-operatives legislation which was promulgated in 2005, suggesting that a lot of co-operatives were either started or got officially registered with the coming into effect of the new legislation.

It found that identification surveying co-operatives was challenging. The Companies & Intellectual Property Registration Office (CIPRO)[[8]](#footnote-8) has approximately 17 000 co-operatives on its database but many of these are no longer functional. Ultimately a database of 2 664 functional co-operatives was compiled and 1 501 of these were interviewed, a quarter of which are not registered with CIPRO and can legally therefore not be considered co-operatives.

Key recommendations of the study were:

1. Financial and non-financial support measures for emerging co-operatives is required; these should be combined to complement each other.
2. Training initiatives to be complemented by mentorship programmes ensuring that there is application of training and full legal compliance.
3. Strategies are required to improve the participation of youth in the co-operative sector
4. Business intelligence must be made available to the sector identifying the economic sectors in which co-operatives may successfully take root.
5. Strategies are required to establish the growth of co-operatives in informal settlements.
6. Easier registration processes are required. Collaborating with other government agencies could assist here.
7. Conduct a review of the tax regime for co-operatives so that that they pay less taxes than companies.

Twalo (2012) considers the state of co-operatives in South Africa and notes the need for further research. The paper notes that there is no clear knowledge of the sector with data for planning in the sector limited, disjointed and held by various institutions that have not co-ordinated their data. The few studies on co-operatives in the country note that co-operatives face constraints related to lack of capacity and limited access to market and information on business activities like SMMEs. Other challenges that seem more specific to co-operatives include difficulty in accessing capital, lack of financial records and internal problems including administrative and managerial issues, lack of accountability, lack of commitment, absenteeism and theft. Further co-operatives also face challenges related to lack of demand for products, poor quality products, uncompetitive prices and poor marketing.

A major challenge also stems from the regulatory environment. Co-operatives are meant to be autonomous, allowing for the voluntary meeting of people to meet their needs. However all the regulatory requirements placed on them are unable to be met in many co-operatives due to illiteracy and lack of awareness and education in respect of the regulatory requirements. This compromises the good intentions of co-operative encouraging strategies and leaves co-operatives struggling, especially where the necessary support is not available or easily accessible.

The lack of data and suggestions of numerous challenges encountered by these entities, Twalo argues, “underscore the need for a concerted effort to research co-operatives in South Africa, in order to have a clear picture of the status quo”. Regular data collection to bridge these gaps in understanding is also required to support this/

Wessels (2016) looks at co-operatives in the Free State in particular noting that over the past fifteen years Government promoted cooperatives at national and provincial levels with the aim of enabling small producers to tap into mainstream economic activities. While thousands of co-operatives were formed, a 2014 Free State study showed that there was a very low survival rate and little evidence of job creation; a finding in line with a EU-funded study at the national level.

Specific findings of the Free State study showed that only 81 of 220 co-operatives considered were still in operation and of the 139 defunct co-operatives, when asked for the reason for failure, the reason most mentioned was state contracts that had been promised (or expected) but that did not materialise (35%). A lack of business skills was second (30%), followed by conflict between members of the cooperative (21%).

Wessels argues that there should be a comprehensive review of the impact of the strategy to promote cooperatives as the evidence indicates that the programme has been costly and not delivered the required outcomes.

Charman, Petersen and Piper (2012) consider the transformation of retail in an urban township space by considering a case study of Delft in Cape Town. The study notes that spaza shops have seen competition from foreign entrepreneurs, most notably Somalis, and shows that these entrepreneurs have come to own around half of the spaza market in Delft over the five years up to 2012. The increase is attributed to larger scale and price competition as the foreign entrepreneurs operate collectively in buying and distributing stock.

The immigrants employ business practices such as price competition to outcompete South African shops that are run on survivalist lines. “Unlike classical opportunity-driven entrepreneurship, the strategy of the survivalist micro-entrepreneur is to derive an income as a means of employment, often until such time as a better paying job becomes available, though not necessarily to expand the business if growth requires the elimination of competition.”

In this regard it is noted that anecdotal evidence suggests that low barriers to entry in the spaza sector before the influx of foreign entrepreneurs was due to a form of collusion in price setting by street traders who instead competed on factors such as location, presentation and bonds of kinship. Price competition was considered unfair and unethical. This informs the key finding of this study, namely that the conflict between local and foreigner spaza retailers is fundamentally about differing approaches towards business and not identities.

Interviews were held with spaza micro shop owners and leaders of relevant organisations, as well as focus group discussions. It is noted however that the sample of fifty is too small to generalise from.

Key findings include the larger than previously thought size of the informal economy in the area (Delft), especially the spaza market, as well as the substantial portion of foreign owners despite recent arrival into market. It was also found that price competitiveness was important to their success and that South African spaza shops were unable to match this competition with customers choosing these foreign owned shops.

The majority of foreigner owned spazas rent the premises from which they conduct their business from local residents. An increasing number also operate out of shipping containers or Wendy houses, located either in residential properties or on public land.

It was also found that there are some successful South African spaza micro-entrepreneurs. However it is their scale of operation and business sophistication that enables them effectively to compete. These owners typically run several different kinds of enterprise and/or have a formal sector income, spreading their business investments between the spaza, a taxi business, and a shebeen (illegal liquor retailing) or tavern. The majority of South African shopkeepers, however, have either gone out of business or seen their profitability substantially decline.

Notably, competition from foreigner shopkeepers was not the only reason for business closure, with other factors cited in seven cases reviewed. A number of South African operated spazas have sought to deal with the increased competition from the foreigner operators through shifting the focus of their business away from groceries. The most notable strategy in this respect is the sale of liquor. Among the least competitive spaza shops, there has been a “quiet surrender” of their business to with some simply closing shop and others selling or renting to foreign investors. The authors estimate that this process has seen transfer of about 70 spaza shops from South Africans to foreigners in the last five years, around 40% of the total market.

Overall, the study notes that there has been a significant transformation of the informal retail economy in the Delft township, with the number of spaza shops having grown and the ownership having shifted to foreign business people. The spaza business model has also changes as immigrants introduce entrepreneurial practices such as price competitiveness and benefit from coordinated operations, in contrast to the survivalist practices of the South African owners they have replaced. Location remains important in determining advantage; however the cheapest shop will dominate even with this taken into consideration. As the authors put it, “in short, the low-profit but low entry-cost ‘‘survivalist’’ model of South African shopkeepers has lost out to a high-profit, high entry-cost entrepreneurial model of foreign investors.” The study’s findings suggest that the conflict between South African and foreign shopkeepers is less about identity than it is about contradictory business practices. The findings also suggest that consumers have welcomed these new entrepreneurs, some local spaza owners have benefited form becoming more competitive and diversifying, and ultimately the transformation suggests a rise in wholesalers and supermarkets closer in profits and practice to the formal sector than the older local owned retail businesses in townships.

***Crime is perhaps an environmental constraint that does not receive enough attention in the broader research***

Crime is identified as a constraint on small businesses in a number of studies (see Bhorat et al. (2018) and Bhorat and Naidoo (2015) for example). However, it often receives not much more attention than being noted as one of many factors that constrain firms in the country.

A 2008 report commissioned by the Presidency considers the impact of crime on small businesses specifically. It considers how likely small businesses are to be victims of crime, the types of crimes they experience most frequently and how crime constrains small business growth. Based on a survey of 446 small and emerging businesses, based in Durban, Cape Town or the Greater Johannesburg area, this paper finds that crime can have devastating effects on small and emerging businesses. Findings include that approximately 70% of individuals feel vulnerable to crime while at work in these areas, while 54% of businesses indicated that they had experienced at least some form of crime in the past year. The majority (60%) of these crimes were burglary or robbery, but the cost of crime was nevertheless high, with small businesses experiencing a cost of approximately 20% of turnover – a cost that could force them to close down due to a lack of profitability.

Bhorat and Naidoo (2015) explore the relationship between crime-related business insurance and informal firms' performance in South Africa. It seeks to understand the obstacles and risks that SMMEs face in South Africa (particularly risks related to criminal activity), and what kind of insurance has been taken to mitigate these risks. As a result, this paper provides an analysis of the factors that drive the incidence and cost of crime against these enterprises.

By using the 2012 World Bank Diepsloot Enterprise Survey, this paper finds that crime is a very important business environment obstacle for firms in the informal economy in Diepsloot, Gauteng. Criminal activity emerges as a more important obstacle than many other oft-reported challenges, such as access to credit, or lack of infrastructure. This is telling in and of itself, however, when coupled with the fact that criminal activity is most likely to affect those firms who are on the verge of breaking out of the informal sector and into the formal sector, it can be seen that crime truly does inhibit the growth of SMMEs. Furthermore, in an investigation into whether or not firms take out insurance against this risk, it was found that there was a strongly positive relationship between firm turnover and insurance uptake (potentially because of the fact that those firms with higher turnover are more targeted by criminal activity). However, other covariates of interest that affected the uptake of insurance included the education and financial literacy of the owner, as well as access to credit. It is also interesting to note that those firms who were approached by insurance providers were also significantly more likely to take up insurance.

These results may be useful in designing policy for the development of SMMEs in South Africa. In particular, access to credit being a constraint to firms being able to take out insurance suggests that there is a strong inter-relatedness between the market for credit and the market for insurance. This relationship may prove useful if government aims to create policy that targets insurance uptake amongst SMMEs.

***An enabling ecosystem is crucial to enable local economic development and, specifically, to support the role of entrepreneurs in this local development***

Two papers in the repository (SPII, 2012 and Mwatsika, 2018) emphasise the importance of Local Economic Development (the mandate for which falls in the ambit of local government) and the role that SMMEs and entrepreneurs have to play in this. This development however, both papers note requires, an enabling ecosystem at the local territory level. The first, a policy brief by the Studies in Poverty and Inequality Institute (2012) emphasises that SMMEs (including small, micro and survivalist) enterprises should be supported in pursuit of local economic development. However, they face a number of constraints in this regard, which can broadly be categorised as input constraints, output constraints, regulatory constraints, management constraints and institutional constraints. They require different types of support to overcome these constraints (we expand upon this in the business services section); however an enabling environment should be created as well; the political and legislative framework should support this. We explore this in further detail in the Business Support section of this report.

Expanding on this point in the specific context of economic development in local territories, Mwatsika (2018) notes that “LED is a territory based economic development strategy whereby the private, public and non-governmental sectors and the local community partner to work collectively in programmes, projects and activities through appropriate participative approaches that involve analysing, planning and implementing interventions to initiate and sustain socioeconomic development of a local area or territory.” The author considers, through a review of literature, how an enabling environment for entrepreneurship can influence economic growth local economic development. It is argued that entrepreneurship can influence economic growth at the local level, but only when the “requisite key resources and key stakeholders’ functionality are developed in balanced way”. In essence, this requires that local areas seeking growth and development require:

1. effective political, legal, regulatory and economic frameworks that enable higher pay offs from entrepreneurship;
2. policies for the development of financial, physical, human, knowledge and natural capital as well as;
3. policies for attracting or supporting key stakeholders

For entrepreneurship development that supports local economic development, it is imperative to understand the feasible opportunities for entrepreneurship in the local context and the ecosystem that will be necessary to achieve this potential. Efforts must then be focused on creating the entrepreneurial ecosystem that supports and sustains productive entrepreneurship and ultimately development.

It is argued that policy should focus on “strengthening the political, legal, regulatory and economic frameworks so that rules of the game provide high payoffs from productive entrepreneurships thereby supporting allocation of behaviour towards productive activities.” This could include development of key resources in the territory, including physical infrastructure, human capital, financial capital, and knowledge. The relevant factors and stakeholders in the ecosystem must be developed in a progressive and complementary manner for the local economy to benefit; developing only certain parts of the required ecosystem will fail to yield the positive outcomes aimed for.

Rakabe (2016) also noted that interventions to encourage township economies must importantly seek to improve the broader local economic environment and not just focus on the SMMEs themselves.

The repository contains a World Bank (2017) book entitled “Africa’s Cities: Opening Doors to the World”. While it doesn’t focus on SMMEs particularly, by focusing on what constrains African cities, it presents findings and recommendations that may be relevant toward creating an enabling environment for SMMEs relevant to enabling SMMEs in constrained locations to achieve growth. However, we should be careful to apply its findings to South African cities particularly, given the very different dynamics that define these cities, and its locations that require the most support such as townships, in comparison to other African countries.

Broadly, the book makes the case that African cities need to specialize in manufacturing and other tradable goods and services. They must develop scale economies to attract global investment. African cities are seen to be crowded, disconnected and costly presently.

To address this, structural problems must be addressed. These are institutional and regulatory constraints that “misallocate land and labour, fragment physical development and limit productivity”. Broadly, recommendations to “spring Africa from its low urban development trap” are classified under two main categories: first, clarifying property rights and strengthening urban planning (there is an urgent need to clarify land and property rights; strengthen land valuation; strengthen urban planning institutions; and streamline urban regulations; and scaling up and coordinating investments in physical structures and infrastructure (invest in early infrastructure to shape urban structures; leverage road investment; provide public goods and services to enhance livability: finance for lumpy urban infrastructure investments)

It should also be noted that South African cities and townships in particular may exhibit certain characteristics not shared by many African countries – thus, despite South African cities forming part of the book’s analysis, it is probably best that South Africa focused solutions be developed specifically for South Africa. The book is relevant and provides important context – but due to its non-specific focus on SMMEs and South Africa in particular we do not think that its recommendations should be implemented without evidence specific to townships and rural areas in South Africa.

# Consolidated Theme 2: Market Access Constraints

# Public sector

Antonites and Truter (2010) consider SMME procurement issues in local government in Gauteng. The perceptions-based study follows a review with primary research involving an assessment of the three metropolitan municipalities of the Gauteng Province by SMMEs registered at service providers.

The study suggests a view that there are a number of deficiencies in the procurement process from the perspective of SMMEs. Concerns raised are that the process, the skills and ability of officials, communication and training of SMMEs should be improved.

With respect to the process, in particular, SMMEs felt that the process should be simplified, shorter payment cycles should be enforced, and suppliers should be rotated.

Magagane (2012) also considered perceptions of SMMEs with respect to procurement. This study however focused on the perceptions of SMMEs on resources required to influence involvement and participation in preferential procurement. The descriptive quantitative research looked at a sample of 100 SMMEs from Gauteng and affirms that “there are specific resources that are seen as critical for SMMEs to successfully participate in preferential procurement”.

Among the sample, administrative resource was perceived to the most significant resource required to influence involvement and participation in procurement. This was followed by supply capacity, and finally information resource. It was also found that firms of different sizes perceived the supply capacity resource requirement differently, with micro enterprises (less than 5 employees) actually perceiving supply capacity as less significant in influencing them to bid for a tender in comparison to very small businesses (6 to 20 employees).

The study makes a few broad recommendations based on the survey. It suggests government support SMMEs to address the resource constraints, an e-procurement portal as means of simplifying the procurement process and notes that SMMEs raised concerns regarding labour regulation in particular, suggesting that reforms were required to make it more lenient towards SMMEs.

The aforementioned TIPS study into easing the burden for SMMEs in terms of regulation also looks at difficulties experienced by small businesses with respect to procurement. It confirms that procurement legislations places burdens on suppliers, especially smaller producers. The issues experienced include:

1. Delays in payments, with around 2,5% of the value of spending on goods and services at national level and almost 25% at provincial level, paid more than 30 days after invoicing;
2. The ban on up-front payment on tenders, which may shut out small businesses with limited liquidity; and
3. The lack of regulation to protect subcontractors on government tenders, which can lead to abuses such as delayed or non-existent payments; demands for delivery beyond the original agreement; and exploitative terms.

The preferred options recommended in the TIPS report to deal with these are:

1. To supplement the timeline for payments with set timeframes for disputes and appeals;
2. Permit up-front payments of up to 25% in contracts with small business; and
3. To develop and enforce a Code of Good Practice for subcontracting.

A draft Public Procurement Bill is currently before Cabinet.[[9]](#footnote-9) The bill aims to eliminate fragmentation of the system and intoroduce a nationally applicable piece of legislation to regulate the process in the country. Once passed by Cabinet, it will be gazetted for public comment.

# Private sector

The repository contains “Competition and the Informal Sector in Gauteng” (Perbedy, 2016) a presentation to the Grocery Retail Inquiry of the Competition Commission. We however review the final findings of that Commission’s Inquiry here instead which has recently been released (and recommend that it be added to the repository).

The Competition Commission (2019) has recently released its preliminary report of the inquiry on the retail market. It notes that there are features in the South African retail sector that may prevent, distort or restrict competition. This is particularly important for SMEs that operate in the retail sector or supply goods to the retail sector in South Africa.

The four key areas of concern noted by the Commission are:

1. The supplier level of the value chain is characterised by the presence of a large number of players active in the various sub-sectors with a few large multiproduct firms. Data from StatsSA indicates high levels of concentration in the formal retail sector. The national supermarket chains, Shoprite, Pick n Pay, Spar and Woolworths, it calculates, collectively have a market share of 72%.
2. The levels of concentration in retail are reinforced by the high levels of barriers to entry that seem to exist. Entry requires “significant capital expenditure in order to make entry, the realisation of significant economies of scale and scope, the establishment of an extensive distribution network in order to be competitive, and compliance with stringent regulatory requirements in order to remain operational.” The Inquiry also found that the formal segment is characterised by high barriers to entry and expansion at the supplier level of the value chain.
3. The large national supermarket chains are vertically integrated in that they act as both distributor and retailer of groceries. This vertical integration appears to give them some competitive advantage yielding efficiencies in the distribution system and savings for suppliers.
4. The market structure of the South African grocery retail sector creates a conducive environment for a significantly altered bargaining framework between the national supermarket chains and their suppliers (which include SMEs).

With respect to small and independent retailers, the Inquiry found that South African spaza shops and independent retailers have struggled to adapt to the changes in the competition dynamics arising from both the larger retailers and foreign owned small retailers. In addition, the Inquiry found that the regulatory environment is not conducive to supporting the sustainable competitiveness of these micro-enterprises in competition to supermarket chains, and in many cases actively undermines their ability to respond to the changing competitive environment. Specifically, the following regulatory challenges are noted which may require reform:

Box 1: Extract from the Competition Commission’s retail inquiry preliminary report (2019)

**Local authorities impose restrictive apartheid-era trading times that are at odds with the convenience role that spaza shops and independent traders are best positioned to target.** This is especially important in the context of the entry of supermarket chains as the spaza shops need to position themselves firmly as convenience options in order to survive and thrive. This also creates an asymmetry between those shops willing to not comply with the trading hours and/or pay enforcement officials to ignore the lack of compliance. Such shops are able to gain an advantage in servicing consumer demand to the detriment of those that comply, which also undermines the transition of these businesses from informal to formal enterprises.

**Similarly, in relation to liquor regulation, there is differential treatment of small and independent traders relative to the national supermarket chains for which longer trading hours are provided for.** This enables the national supermarket chains to be able to service demand in those periods in which the small and independent traders are not able to trade. This confers upon the national supermarkets a level of competitive advantage that is not available to the small and independent traders.

**Regulatory processes for trading are burdensome for small traders, particularly in relation to zoning and land use.** The Inquiry found that the cost and time constraints associated with rezoning of property, depending on the location of the land, are onerous for micro-enterprises and could have a negative impact on potential entrepreneurs. This is especially in the context where shop owners may need to relocate in response to the entry of supermarket chains and would require new sites zoned for business use.

**More generally on zoning and trading hours, many municipalities seek to use these laws to push out informal traders in favour of the supermarket chains and formal independent stores which they favour because they see them as contributing to municipal taxes.** However, the Inquiry notes that the informal businesses also contribute to municipal development and the welfare of their residents in terms of providing economic participation for their owners and convenient shopping for their customers. In addition, these businesses can only be developed into formal tax-paying operations if they are provided with the necessary support from municipalities to develop and grow.

Broadly, the report makes the following recommendation with respect to remedial actions to assist small and micro businesses in this space:

1. changes in firm behaviour in order to ameliorate the distortions in competition in relation to long-term exclusive lease agreements and buyer power;
2. support mechanisms to bolster the sustainable competitiveness of small and independent retailers; and
3. modernisation of the regulatory landscape in order to create a conducive environment for the optimal functioning of competition

The Inquiry also found that the structure of the South African formal grocery retail segment is characterised by factors that are “conducive to the existence of an unequal bargaining framework between the national super market chains and suppliers”. This affects both smaller retailers, wholesalers and buyer groups, as well as small suppliers. National supermarket chains are a critical route to market for suppliers. Suppliers are often unable to walk away from negotiations with national supermarket chains and the rigidity of trading terms. National supermarket chains are thus able to extract more favourable trading terms than those customers in the informal segment (i.e. buyer groups, wholesalers, independent retailers etc.).

Ultimately, the Inquiry is of the view that the South African grocery retail sector “possesses features and characteristics that are conducive to the exercise of buyer power and indicative evidence obtained through rebate analysis attests to the exercise of such power to the detriment of independent retailers and smaller retail chains, and potentially to consumers too”.

Von Broembsen (2016) further illustrates issues faced by SME suppliers in this regard clearly through a case study analysis of SME suppliers to the large retailers. The findings suggests that supermarkets’ procurement practices undermine the job creation potential of SMEs in the sector.

The study found that for suppliers that produce their own brands (the majority of suppliers with the exception of Spar), the terms of their contracts are unilaterally decided by the supermarket, and are different for different suppliers. Further, black-owned suppliers’ contractual terms do not benefit from more favourable terms than white-owned suppliers. Von Broembsen notes that “B-BBEE regulations measure retailers’ compliance with B-BBEE incentivised procurement from black-owned enterprises in terms of their total procurement spend, without regard to the terms of black-owned suppliers’ participation in value chains” and enables supermarkets to claw back their procurement spend through rebate commissions in contracts with the suppliers.

She also notes that the rise of private production and hygiene standards, enforced by some of the supermarkets (another example of how the large retailers can enforce through their power) determine who is included and excluded from participating in food value chains. The cost implications of meeting these standards, and of the compliance checks, mean that informal, emerging businesses are effectively excluded from participating in these chains. As international studies show, demanding compliance with these standards has less to do with protection of the consumer, and more to do with power relations, which serves to exclude new market entrants. She states that these how these private standards may be enforced should be regulated.

The research shows, however, that the imbalance of power between retailers and suppliers mean that suppliers are essentially coerced into signing these ‘terms of trade’ which are unilaterally decided on by supermarkets, if they want to participate in the competition for shelf space. Von Broembsen suggests that the contracts between these parties with clearly differing bargaining powers be regulated so that SMEs and their growth are not undermined. Further policy responses, it is argued, could include duties of disclosure on the part of supermarkets, access to information rights for suppliers, and recourse to an ombud.

Bhorat et al. (2018) note that incumbents and large firms can operate in many such ways that are to the detriment of smaller firms. These include raising costs for entrants making it more difficult for them to enter markets, exploiting brand loyalty and pricing in a predatory manner that doesn’t allow smaller firms unable to compete.

In this regard, an important development for SMMEs is the amendment of the Competition Act which comes into effect in 2019. A significant change to the Act is a prohibition on dominant firms in designated sectors from imposing unfair prices or trading terms on SMMEs. It also applies a new standard to price discrimination. Previously, such behaviour was only deemed to be an infringement if it substantially prevented or lessened competition. Now, it is also deemed to be an infringement if it impedes effective participation by SMMEs. With respect to merger assessment, the Competition Commission and Tribunals must now also consider the impact of mergers on SMMEs in its assessment.

The DSBD, in a presentation to the Portfolio Committee in August 2018, has identified 13 areas in the Competition Amendment that have the potential to have a positive effect on SMMEs[[10]](#footnote-10):

1. A new restriction on price discrimination by dominant firms that will support SMEs and black-owned businesses against unfair pricing policies.
2. A new provision to prohibit dominant firms from imposing excessively low prices on SME or black-owned suppliers, to the point where the SMEs or black-owned businesses are obstructed or prevented from staying in business.
3. A new provision to prohibit dominant firms refusing to supply customers with goods and services when it is economically feasible to do so.
4. Clarifies that predatory pricing by dominant firms is prohibited, and gives the competition authorities more defined tools to determine when predatory pricing is happening.
5. A new provision which gives firms and associations grounds to apply for exemption of collaboration between them if it allows for greater entry, participation and expansion of SMEs and black-owned businesses in a market.
6. A new provision which gives firms and associations grounds to apply for exemption of collaboration between them if it allows for certain policy objectives, which are consistent with the purposes of the Act.
7. Makes it clear that, when considering a merger, the competition authorities must consider public interest issues like the impact the merger will have on SMEs and black-owned businesses in the market.
8. Clarifies that when the competition authorities consider if a merger can be justified on public interest grounds, they must consider the effect the merger will have on the ability of SMEs and black-owned businesses to enter, participate and expand in the market.
9. Clarifies that the Minister has the right, in certain circumstances, to appeal mergers decisions by the Competition Tribunal to address public interest issues like the impact the merger will have on SMEs and black-owned businesses.
10. The Bill provides the Competition Commission with the powers to conduct a formal inquiry into markets where it has reasonable to believe that the structure of that market leads to higher levels of concentration, and barriers to entry which particularly impact SMEs and black-owned businesses, and gives the Commission the powers to propose binding remedies to address these structures.
11. Removes the provision in the Act which says that a dominant firm has to be found guilty of certain prohibited practices twice before they are penalized.
12. New provisions which say that Competition Tribunal may impose a higher fine if the offence impacted SMES, and this gives the Tribunal the right to impose a fine of up to 25% of turnover for repeat offences and can allow for penalties to be extended to holding companies as well.
13. Requires that the Competition Commission publishes guidelines to give more clarity around how it will determine if the actions of a dominant firm impedes the ability of its suppliers to participate in the market.

The amendments broadly aim to encourage participation in the economy and promote inclusivity. Bhorat et al. (2018) note that the implications of continued high concentration levels, especially in the context of low growth, are that patterns of economic ownership are likely to be replicated, with the economically disenfranchised likely to remain excluded from the economy. The amendments aim to trying to ensure that businesses will not conduct themselves in ways that maintain exclusivity and impede transformation and competition. It remains to be seen however how these new provisions will impact on SMMEs in practice.

# Consolidated Theme 3: Business Support Constraints

# Access to finance

***A finance gap exists for both formal and informal SMMEs; the extent of this may differ between different types of SMMEs however; further, the gap may be more in terms of quality (responding to specific SMME needs) than quantity***

A 2016 ILO scoping study notes that studies suggest a misalignment between supply and demand of financial products and that SMEs have had a relatively low uptake of loan finance in South Africa. It notes that this is not the result of a lack of demand or unavailability of finance, but rather it is the result of a high number of applications being from businesses that financial service providers regard as being “unbankable”, high barriers to access, and a lack of information about the types of finance available.

The findings are in line with a literature review on SME Access to Credit commissioned by the National Credit Regulator in 2011. That study also noted that only formal SMEs (by virtue of being formally registered and having a bank account) have access to banks, capital markets or other suppliers of finance. Informal SMEs are excluded completely from the formal financial market.

For SMEs that apply for finance, the study found rejection rates were high. Broadly, it found that there seems to be:

* + - * 1. lack of awareness of funding programmes;
        2. a mismatch between the products offered on the supply side and that which is required by the SME market; and
        3. a gap between the minimum requirements for a business loan and status (especially on the issue of formality) of the majority of SMEs

It is true even for SMEs in the formal sector that banks are not set up to cope with small loans. Microfinance institutions may potentially address this gap but the loans offered are typically at high interest rates that most small business cannot afford.

The Global Entrepreneurship Network published a special report on Entrepreneurial Finance in 2016. Based on its survey findings, entrepreneurs contribute close to two-thirds of the money required to start a business from their own funds on average (64 percent). Ninety percent of entrepreneurs indicated using their own money as a source of funding; only 22.6 percent indicated using banks; while 12 percent indicated using private capital sources, and 22.7 percent indicated using government sources.

A Stellenbosch Business School research project aimed at understanding small businesses in Khayelitsha in the Western Cape (2016) found that the following were common reasons for rejection:

1. The informal nature of the enterprise
2. Being located in an informal or crime-ridden location and being perceived to be high risk
3. Business in a high-risk sector or a sector with a poor credit-image
4. No systematic business plan available for the business
5. Weak financial management in the business (e.g. poor cash-flow control)
6. No client record with the financial institution
7. Lack of collateral/security for loans
8. Poor performance of the enterprise (seasonal, cyclical or general trend)
9. Weak impression of enterprise leadership
10. Limited funds of the resource body

While these findings may not be generalizable to all SMMEs, they provide some insight into reasons why small businesses may fail to access finance. They also show in what areas action on the side of the enterprise could help to mobilise funds. They note that these efforts can be facilitated through the help of small business mentors, business advisors, training programmes, interaction with local or sectoral business associations or corporate partners.

The NCR study also noted similar findings and found that other factors contributing to the lack of access to credit by SMEs include: lack of business managerial experience and skills, insufficient information on available products, relatively low levels of financial literacy, poor business plans and other external factors.

The study highlighted specifically that there is lack of data on the demand for credit by SMEs and the reasons for SMEs not accessing credit and it is thus not possible to accurately identify whether the available funding is sufficient to meet their needs. It suggests more research is needed in this area.

It notes the possibility that there is sufficient funding in terms of quantity but not in terms of quality; that is, the products being offered do not match the needs of the sector. There may also be lack of awareness or lack of access due to other specific characteristics of SMEs.

The main recommendations from the study are interventions that focus on:

1. Increasing the levels of formality of SMEs: This can be achieved through the compulsory registration of SMEs that have not yet registered, at minimal or no cost to the SME. We note however concerns raised about forcing formalization noted earlier in this report.
2. Training and capacity building: Building on current programs and establishing new ones to improve the levels of managerial competence of the small business owner.
3. Establishing of a Government department to deal specifically with SMEs, entrepreneurship and support to this sector.
4. The monitoring and evaluation by Government of its SME funding programmes on a regular basis.

Encouragingly, the third of these has been implemented in the form of the establishment of the DSBD. However, it is less clear that there has been success with the other three recommendations.

With respect to supply of credit, Olawale and Van Aardt Smit (2010) considered business environmental influences on availability of debt to new SMEs in South Africa. The study identified 78 relevant environmental factors from the literature. These were then reduced to nine factors that include both internal and external factors using exploratory factor analysis. The internal factors are managerial competencies, collateral, networking and business information. The external factors were macro-economy, legal, ethics, crime and corruption. The paper then investigates the impact of the nine factors on the availability of debt finance to new SMEs through statistical analysis of data obtained from a self-administered questionnaire to a sample of banks in the Eastern Cape. The results show that both internal and external factors significantly impact on the availability of debt finance to new SMEs, but internal factors are more important. Ultimately the paper notes that “understanding the impact of overall business environment rather than focusing only on the internal environment can help new SMEs owners, commercial banks and government identify measures to improve the availability of debt finance.” However, given that the results are based on subjective responses and limited to banks in the Eastern Cape, it is not clear that these results are applicable more broadly than in the specific context of the study.

An ILO scoping study from 2016 considers access to finance for social entrepreneurs in South Africa. These are “enterprises that have a social purpose, but are run on business principles, and reinvest any profit or surplus into the social purpose of the entity.” The report suggests that social enterprises face the same obstacles as all enterprises in the SME sector, but importantly notes a recurring distinction between survivalist and micro enterprises and more established SMEs integrated into mainstream economic activity. An important finding is that the two distinguished types of SMEs face somewhat different challenges in accessing finance. While more integrated SMEs can struggle to access finance due to perceived high risk, survivalist and micro SMEs also face challenges related to lack of skills, awareness, financial records and collateral.

Finfind, a online tool designed to assist SMMEs in identifying the appropriate type of financial product to meet their needs and to identify potential finance providers supported by USAID and the dti, released a report on access to finance for SMMEs in the formal sector in South Africa in 2018. Using data extracted from the use of the platform and qualitative research, this recent research found the following:

1. The credit gap for SMMEs is significant; estimated at between R86 billion and R346 billion.
2. SMMEs are a high risk market to fund.
3. Startups and micro businesses in the formal sector are underserved
4. SMMEs lack the knowledge needed to raise funding
5. Low human capital and lack of skills are a barrier to accessing finance:
6. Finance readiness (ability to produce the financial documentation required) is a challenge for SMMEs
7. New credit scoring and risk assessment models are needed to assess the risks associated with SMMEs

The final finding of the report is an issue which comes across in much of the research done on access to finance for South African SMMEs: gaps in data.

This observation has been made with respect to SMMEs in the formal sector; it can be reasonably suggested that the situation is worse still for SMMEs in the informal sector:

*“In order to provide a more complete picture of the SMME funding challenges, research studies on the success rate of financing is required, analysing the approval and rejection rates/reasons, as well as the funding supply and demand fit across all stages of SMME business growth, amongst others.*

*Data on SMME access to finance in South Africa is limited. Key measures on SMME funding should be disclosed in order to assess the progress in the sector. For example, many OECD countries report on SMME interest rates, share of SMME loans outstanding (% of total outstanding business loans), new SMME lending, non-performing long and short-term loans, interest rate spread, SMME collateral (% of SMME needing collateral to obtain bank lending) and rejection rate (SMME loans authorised/requested).*

*Transparent data on a number of SMMEs applying for loans, the reasons they are applying, financing terms, rejection reasons and rates, interest rates, non-performing loans and factoring volumes does not exist in the public domain in South Africa, despite this information being crucial for policy making. The relevant data sets need to be built, or made public, in order for a clear picture of the access to finance challenges to be formulated.”*

Karlan and Zimmer (2008) consider demand for microfinance specifically noting that microcredit is often assumed to not be very responsive to changes in interest rates. They report the results of a field experiment conducted in South Africa and find that interest rates and maturities do seem to have an impact on demand for credit – and thus such elasticities should be taken account of in designing credit products so that access to credit can be expanded to a greater part of the population. Certain groups such as women and the poor also found to be more price sensitive than the average and this should be taken account of if certain groups are being targeted. They note however that further research will be required to determine the exact way in which such considerations feed into the designing of such products. These results suggest preliminarily that increases in interest rates may not have increased demand and in fact may influence repayment behaviour; instead adapting maturities may have a role to play in expanding access to credit.

***Government provides support to SMMEs with respect to finance but should look into more innovative forms of finance to bridge the financing gap***

The Development Bank of South Africa (DBSA) (2011) lays out the mandate and role of development finance institutions in enabling access to finance, particularly to those who may not be able to access finance in the private sector such as SME. The review makes a number of recommendations which are applicable to development finance institutions specifically; however a key theme that emerges that is relevant across all sphered of relevant government is greater coordination between DFIs, SOEs, and broader national economic policy.

Given the challenges associated with accessing finance to SMMEs, later work in the area has focused on the possibility of using innovative forms of finance to support SMMEs in this regard.

A DPME 2015 policy brief considers the use of Social Impact Bonds (SIBs) to bridge the financing gap. These are instruments which can be used to provide the business development services that can address the obstacles SMMEs face. SIBs are an “outcomes-based contract where private funding is used to scale-up services and test innovations, and the government pays only for success”.

SIBs represent a powerful opportunity for governments to address key issues across sectors. The brief notes that experience has shown that SIBs add the most value in situations where:

1. A pressing social problem has been identified which is a priority for both outcome funders and investors;
2. A target group has been identified with sufficient clarity, to whom the intervention can be delivered and for whom the impact of that intervention can be measured;
3. Evidence-based interventions are available which have been shown to be effective in mitigating the problem among a population which is comparable to the target group;
4. Robust outcomes metrics to which success can be attributed can be identified and are able to be measured, using reliable data sources;
5. A viable investment proposition can be developed, which excites investors to invest;
6. There are willing outcome funders who will pay for the identified outcomes if they are delivered.

However, it also noted the following with respect to the BDS space, evidence regarding a link between BDS and the social outcome of job creation is tenuous. There is a weak evidence base at present for the type of interventions that would serve to generate the outcome. There is however a market of SIB investors; however the step of designing a bond should not proceed with a firmer commitment from the side of government. The research recommends that several directives could be issued by National Treasury to catalyse the development of SIBs in South Africa.

The Bertha Centre for Social Innovation and Entrepreneurship has released a review of Innovative Finance in Africa (2015) notes how traditional forms of finance such as debt, equity and grants have been tweaked to allow for financing outcomes which would have not been possible otherwise, and notes the following themes that can shift the system and create new forms of capital based on social and environmental impact optimization to serve gaps that exist in financing:

1. Blended finance: This combines concessionary loans or grants, usually provided by the public sector, with private investment. It aims to alleviate the development funding constraint by de-risking investment into the sector and directing more private capital towards projects or locations that would otherwise be perceived as too risky for investors.
2. Social fundraising and crowdfunding: Crowdfunding is the practice of funding by raising capital from a large number of people, usually through online platforms
3. Peer-to-peer lending: This is an alternative financial service that involves lending money directly to peers, or unrelated individuals, without the intermediary assistance of a bank or financial institution.
4. Outcomes based funding: An outcomes based contract is an agreement between a funder and service provider whereby payments are contingent on the achievement of pre-agreed, measurable outcomes. Impact Bonds, in particular, are an alternate way of paying for outcomes based contracts, where investors provide capital to underwrite social projects usually funded by tax money and philanthropists. If a project is successful as measured against pre-agreed benchmarks, the investor gets a return on the economic value created for government. If the project is not successful, investors lose their money.

For governments in particular, it makes the following recommendations with specific reference to innovative financing:

1. Identify priority outcome areas linked to government priorities that might be good pilots for Innovative Financing (such as SME development, for example)
2. Commission a policy paper on Innovative Financing to identify the ways in which your funding could be used to leverage private capital in these areas
3. Hold workshops with stakeholders to understand how Innovative Financing mechanisms (including outcomes based funding) could meet needs

***Women face specific challenges with respect access to finance despite a considerable supply of financing options***

A 2016 UNDP report focuses on finance pipelines for women-owned SMMEs in South Africa. The study considers funding institutions that target women in particular and finds that South Africa has an impressive number of funding vehicles, setup through both government-led development finance institutions and private sector initiatives.

It however notes that there is a poor understanding of the SMME environment in South Africa by SMME owners (and women in particular). It notes policymakers and experts do not appreciate the “dynamism” of the sector. With respect to the literature, it notes that most literature on gender and SMME development group survivalists undertakings with micro businesses with business that are being driven by entrepreneurs with real growth potential; and in so doing fails to identify the issues facing these different types of SMMEs specifically. The study also notes that there is limited data that can be used to disaggregate women’s access to finance by useful measures. Studies draw on data that is still inconclusive with each study having its own focus and objectives, or having a regional focus rather than a national one thereby limiting generalisation of results. Much of the published literature also focuses on demand side issues without looking at what financial institutions can do to better serve the SMME market. With respect to business support services, the study notes that many entrepreneurs are not aware of the existence of BDS service providers, or where to look for funding. There is substantial scope for better educating and marketing the financial and non-financial offerings by the various existing government policies (as well as private sector initiatives) that are available.

The study finds that barriers to access to finance include the lack of a strategy for successful penetration of the women SMME market segment that shows a lack of precision in targeting segments of this market. There is a lack of information from both the demand and supply sides on where the successes and failures lie (a lack of data and evidence). The lack of information and strict sector focus effectively rules out the participation of many women SMME owners, who tend to be smaller and operate in the services industry.

Despite the country’s impressive number of funders who specifically target women, when one excludes microfinance institutions, it is found that the volume of loans or equity issued by all providers is not adequate for the demand. Gender-focused funds that cater to the needs of women in particular are required.

The study makes the following broad recommendations:

1. Focus on creating informed demand for existing capital
2. Promote business angels and venture capital
3. Address market segment fragmentation by unpacking the definition of SMME and develop funding strategies appropriate for each segment in this definition.
4. Make finding bankable SMMEs easier for funders
5. Pass legislation that requires better reporting of finance charges to address the current lack of transparency of finance charges and borrowing costs.
6. Create more funding vehicles that invest in women
7. To support this, more effort needs to be made to reach other provinces, coupled with more and better quality data about where women feature in the economy. This would vastly improve understanding of challenges facing women-owned SMMEs and enable policymakers to design the right interventions.

These recommendations are broadly in line with recommendations made for developing countries by the IFC in a 2011 report on Strengthening Access to Finance for Women-Owned SMEs in Developing Countries.

Garwe and Fatoki (2012) investigate whether access to financing presents different challenges to men and women. They investigate particularly whether there are differences in the demand for credit by male-owned and female-owned SMMEs, and whether this credit is provided to one group more readily than another. The research methodology takes the form of a self-administered survey conducted on SMMEs in the Eastern Cape.

Although the results of the paper indicate that there is no gender discrimination present in the awarding of loans to SMME owners, it is found that although men and women are equally likely to be awarded a loan, women are significantly less likely to apply for loans in the first place. Results show that if the owner of an SMME is female, she is less likely to have collateral available, will generally own a smaller firm, and will have a lower educational attainment than her male counterpart. This is indicative that although female-owned SMMEs have great potential to grow, this potential is not being realised due to a lack of applications for credit on the part of female owners and support the recommendations made in the other papers reviewed on women’s access to finance in South Africa.

***Enabling access to finance requires a strong broader enabling environment including a sound financial sector framework, strong institutional infrastructure and a sound information infrastructure***

The repository contains a World Bank book titled “Expanding Access to Finance: Good Practices for Micro, Small and Medium Enterprises” which was published in 2007. This book does not focus on South Africa specifically. However we highlight its high level recommendations here as these provide a basis for thinking about possible reforms in this area.

This book provides policy recommendations to governments on “how to deepen and broaden financial systems so that enterprises ranging from the most micro to small and medium enterprises can access financing and contribute to overall economic development and growth.” Its recommendations are based on World Bank research and analysis, as well as experiences of innovative financial institutions around the world.

Overall the book advocates that a sound SME policy is in line with sound financial sector policy and that governments should provide public goods that level the playing field for financial instiutions to innovate services for all segments of the markets. It uses case studies to show how these public goods entail a sound financial sector policy framework; investing in building sound institutions; and investing in a supportive information infrastructure, such as credit bureaus and accounting standards.

Broadly its recommendations for governments to increase access to finance are to enable innovation by establishing a sound financial sector policy framework, as well as strengthening institutional infrastructure (by supporting relevant training, technical assistance and facilitating financial support) and building information infrastructure (by promoting accounting standards, promoting credit registries, investing in technology and improved monitoring, evaluation and learning)

Establishing a sound financial sector policy framework, it argues, requires four things:

1. Liberalizing interest rates and promoting competition
2. Supportive regulations regarding SME banking, leasing, factoring and equity
3. Reducing and rationalizing direct public sector intervention, and
4. Improving the legal and judicial frameworks

# Other needs and support required by SMMEs

DPME (2015) notes that Business Development Services (BDS) is defined as services that improve the performance of the enterprise, its access to markets, and its ability to compete, and includes an array of business services (such as training, consultancy, marketing, information, technology development and transfer, business linkage promotion, etc.), both strategic and operational. (UNDP, 2004).

SPII (2012) notes that enterprises must be supported to ensure they reach the expansion and maturity phases of their lifespans. Relevant support in this regard includes goes beyond finance and includes the following:

1. Consulting services: focusing on information dissemination and management support
2. Provision of training in areas such as costing, organisation and productivity.
3. Marketing assistance.
4. Provision of access to facilities such as technology and office space.

The DSBD’s 2017 Small Business Annual Review report notes at least 142 providers of SMME support (excluding financial support) in South Africa.

It is important to understand what types of BDS are effective in supporting SMMEs so that SMEs can be provided the type of support that will have the desired impact. Unfortunately not much evidence-based research has been done on this for South Africa specifically, despite considerable provision of such services.

***Evidence of what type of support works: research exists but much is not specific to South Africa***

DPME (2015) has noted that evidence regarding a link between BDS and social outcomes such as job creation for South Africa is currently tenuous.

The Initial Initiative for Impact Evaluation (3ie) has however conducted an extensive review of evidence of the effects of business support for SMMEs in low and middle income countries. The review looks at measures of SME performance including revenues, profits, and productivity, as well as the firms’ ability to generate employment and their labour productivity.

The findings suggest that overall SME support has a positive impact on various measures of firm performance. It should however be noted that most of the reviewed programmes were in Latin American countries. Other limitations were that there was a likelihood of bias in reviewed studies, and non-availability of programme implementation costs making it impossible to measure cost-effectiveness. A key recommendation is that research on such programmes be prioritised in sub-Saharan Africa so that a better understanding of the role support to small businesses may play there can be obtained.

The study examined interventions involving tax simplification, exports and access to external markets; support for innovation policies; support to local production systems; training and technical assistance, and SME financing and credit guarantee programmes.

The study finds that business support to SMEs improves their performance, their ability to create jobs, their labour productivity and their ability to invest, on average. The effects on innovation were however unclear. The study further finds that matching grants, technical assistance and tax simplification programmes improve firm performance and job creation; with technical assistance also improving labour productivity. Export promotion and innovation programmes positively affect exports and innovation, but there is no evidence that they improve performance or job creation. Overall, however, the effects of the programmes studied were not very big in magnitude.

Another systematic review (from the KfW Development Bank in Germany) considers the evidence regarding job creation in small businesses. This study again is not focused on South Africa in particular but may provide relevant insights given the lack of South African-specific evidence in this regard. The results do however have to be interpreted with caution given that they may not be applicable in the South African context specifically.

The following intervention categories were considered in the review: access to finance; entrepreneurship training; business development services; wage subsidies and improvements to the business environment (e.g. registration procedures)

For access to finance, the impact on employment creation of micro-credit schemes seems to be unsuccessful: only 14 out of the 44 impact estimates covered in the studies show a statistically significant increase in employment or firm creation. Out of the 44 treatment effects, 28 were inconclusive (not statistically significant). In two cases, employment was actually reduced. Positive effects on employment, if found at all, were only small, especially for already existing small and micro enterprises. Major effects were achieved with regard to the creation of new (mostly micro-) enterprises and the expansion of already larger, well established and profitable firms.

It is noted however that employment generation is not a primary objective of micro-credit programmes. Further, the study notes that generation of an employment effect may require a considerable amount of finance for a considerable amount of time, and most loans seem to be too small or have a short maturity to lead to business changes that would have a significant employment effect. Finally, it is noted programmes targeting women seem to be less successful; this may be suggestive of additional constraints faced by women that need to be overcome before a return is seen in employment creation.

With respect to entrepreneurship training, 10 of 25 analysed interventions show significant positive employment effects, while 15 show no statistically significant effects. However, most programmes did produce significant improvements in business skills and behavioural skills, and sometimes also higher optimism and motivation.

Again the objective of such training is not directly to increase employment. This is an indirect outcome that might only be observed in the longer term; further short-term positive effects can vanish in the long term too.

A recommendation is that the more tailor-made and substantial the training the better; however it is not necessarily the more complex programmes that are most successful. Training must address specific knowledge gaps and be substantial to be effective. Substantial training involves a longer period with consistent training sessions over the period (for a year for example).

The study further notes that a combination of finance and training seems to be particularly successful.

Five studies were reviewed focusing on formalisation of firms. The studies show that it is difficult to get the average firm formalised as the average firm is too small and not profitable enough to benefit from formalisation. Among those firms that do formalise, performance typically improves, including employment, but for most only modestly.

The study suggests that forcing firms to formalise is unlikely to produce any positive employment effects as for many firms formality translates into additional cost rather than profit. This was noted also by DPRU (2015). The study also notes that programmes that offer easier and cheaper formalisation are more likely to have success, but this will only be for a relatively small group of businesses that already show relatively high performance. In general, it seems easier to formalise firms while they are set up than formalising firms that already exist. Informal firms make a decision not only on the costs of formalisation, but it is actually the benefits of formalisation that is important for their decision. Firms will only find formalisation attractive if the governments can offer useful public services in return

With respect to business development services and targeted subsidies, ten studies show mostly positive and statistically significant effects. The study suggests that business support services and targeted subsidies can contribute to employment generation if they are demand-driven, tailor-made and focused. Further, it notes that larger firms may need more sophisticated support, while small firm may require only rudimentary improvements to their business. Tax-breaks and incentives conditional on process and innovation seem to be effective; however, these findings do not seem very robust on the limited evidence.

Overall, the review paper notes that it seems easier to affect management practices, sales and profits rather than employment directly through business support. However, data and robust evidence remains a challenge, specifically in Africa and Asia, where the findings related to job creation would be most useful. Analysis of cost-effectiveness is also extremely lacking.

It is also noted that most of the evidence-based studies are based on randomized controlled trials applied to small programmes, poor areas and specific target groups, raising concerns about whether these results can be generalised to other contexts.

A literature review has also been undertaken for the Overseas Development Institute (2013) on the impact of business incubation, mentoring, investment and training on start-up companies in developing countries in particular. It considers the evidence of impact with respect to these, including including several programme evaluations and impact assessments looking at these issues from both, a quantitative and a qualitative perspective.

Overall, it notes that there are serious challenges in measurement of impact related to data and quality; there is little evidence of long-term sustainable impact across sectors with results of the few credible few credible studies suggesting that support to start-ups in a developing country context as a whole, have limited effectiveness.

The strongest evidence is found in the impact access to finance can play for enterprises growth and development. Access to finance has been found to be positively correlated with the market entry and growth of enterprises, firm performance, and the promotion of innovation and entrepreneurial activity. Better access to the financial system also enables enterprises to reach a larger equilibrium size by enabling them to exploit growth and investment opportunities. Access to finance is not a silver bullet solution for businesses; but it seems clear that increasing the access to capital can potentially improve aggregate economic performance.

Regarding business incubation (“a process aimed at supporting the development and scaling of growth-oriented, early-staged enterprises”), the evidence found seems to indicate quite strong evidence of the benefits of business incubation in the short term – but these benefits do not seem to be sustained. Business incubation has positive outcomes in terms of enterprise survival and higher employment growth. Incubatees overall have increased likelihood of short-term survival, lower failure rate and stronger learning. Despite the promising results presented, the literature also warns about the importance of treating conclusions as indicative at best, considering the relatively small number of existing studies and the lack of comparability between them. It should also be noted that the data seems to indicate that incubators that focus on IT, high-growth enterprises tend to have more positive outcomes than the rest.

In terms of business training, the main challenge lays in the variety of what is offered and how it is offered across different locations and organisations. Evidence demonstrates that training has no significant impact on enterprise start-up and survivorship, but formal education does have an impact. Almost all studies have found a positive effect of business training on business practices, as well as a positive impact in terms of business profits or sales. No significant impact on employment generation was found.

Concerning business mentoring impact on the business positive outcomes were found related to strategic management, improved project management, partnerships and innovation, as well as positive outcomes for the mentor. Sustained benefits for the mentee do not appear to be significant.

With respect to business incubation, a Jobs Fund Evaluation Insights brief considers the role and potential of business incubators in creating jobs in South Africa through a meta-evaluation of three business incubators in South Africa. While there were numerous short term impacts and benefits reported by the over 300 incubatees (including increases in turnover and self-reported personal qualities and attitudes), there were also challenges faced such as poor support with networking, inconsistencies in the mentoring approach and challenges in assisting with access to finance.

Good screening of business ideas and entrepreneurs, as well as joint setting and monitoring of targets with mentors were good practices that contributed toward effectiveness however. Four areas in particular seemed to be important enablers of success: incubate selection, mentorship, access to finance and post-incubation support. It is clear that longer periods of incubation spanning more than one year (and probably not exceeding three years) are likely to produce better outcomes in many instances. There are however cost implications of this.

The World Bank (2013) provides a synthetic and systematic review on the effectiveness of various entrepreneurship programs in developing countries. While not specific to South Africa, it presents some findings that may be relevant. It adopts a meta-regression analysis using 37 impact evaluation studies that were in the public domain by March 2012, and draws out several lessons on the design of the programs. The paper observes wide variation in program effectiveness across different interventions depending on outcomes, types of beneficiaries, and country context.

The meta-analysis ultimately suggests that combinations of different intervention types matter for different beneficiaries under different contexts; therefore we should be careful to generalise the results to a South African context. However the following findings are suggestive:

1. With respect to training programs, it seems that vocational and business training work better than financial training, and can be further improved by combining financing support or counseling.
2. Business training for entrepreneurs appears to be a relatively cost-effective way of promoting business performance and growth with a short intervention period, although improved knowledge and practice through training does not always materialize as increased income.
3. In terms of financing, there are little variations in effectiveness of cash, in-kind grants, and microcredit.
4. Programs need to be customized for each outcome of interest addressing the specific constraints relevant for the outcome.
5. A package promoting skills with financing support seems to have larger impacts on labour market activity. However, training alone can be quite useful to improve business knowledge and practice, and financing alone does well in enhancing business performance by releasing credit constraints.
6. For women, the largest effects come from providing access to credit, suggesting that access to credit may have been the largest constraint to women in their earning opportunities.
7. Overall, involving the private sector for the delivery of programs and evaluating the program in the longer term appear to be more closely associated with improved effects of programs.

The paper notes the following policy implications of its results:

1. Programs promoting self-employment opportunities and small-scale entrepreneurship can lead to increases in labour market outcomes.
2. Providing relevant combinations of skills, capital, and counselling support based on the target group’s main constraints is important to achieve better results.
3. Among widely heterogeneous effects, it is noteworthy that the impacts are significantly higher for youth.

With respect to impacts of SMME support in South Africa specifically, Naicker and Peters (2013) consider government support for SMMEs in Kwa-Zulu Natal. A survey of SMME firms in Kwa-Zulu Natal was undertaken to determine the level of success of these various initiatives. Respondents were asked to provide information on the nature of the firm, their awareness and uptake of government support measures, as well as reflections on the successes and failures of the policies. This paper used employment creation and turnover growth as proxies for growth in the SMME sector in order to determine whether the initiatives have had a real impact on small businesses.

The results indicated that there was very little evidence to suggest that the initiatives enacted by the government have had a significant effect on growing the SMME sector in Kwa-Zulu Natal. Based on the responses from firm owners, the paper concludes that this result could be due to lack of awareness of the programmes on the firm’s side. Such investigations into the performance of government initiatives is crucial in assessing the impact of policy and provides a point of departure for institutions to re-evaluate their policies and consider amendments and revisions to their current programmes. Unfortunately, not much evidence-based research of this type currently exists; and it is crucial that these types of insights be generated and taken into account in policy and intervention formation regularly.

***Heterogeneity of SMMEs requires specialised support***

1. *Heterogeneity is noted across the research across various dimensions*

The point of heterogeneity of SMMEs is made across much of the research in different ways.

FinMark Trust (2007) (in two presentations in the repository) classifies small businesses in Gauteng according to a Business Sophistication Measure that considers variables such as: where the business is conducted, whether a business keeps financial and other records, pays tax and issues of access to finance. The BSM identifies 7 segments, plotting the continuum of sophistication from informal street vendors to more sustainable business practices operating from a shop, for example. The BSM tool is intended to allow relevant actors to target their small business strategies to meet the needs of different segments, as well as identify opportunities for innovation in service and product provision to small businesses.

Much of the access of finance research notes difference between smaller survivalist and micro enterprises and larger SMMEs. The UNDP (2016) report on pipelines for finance for women notes that there is a “dearth of knowledge on how to move businesses from micro to small – in part due to the practice of lumping them all together, without taking the time to understand their particular needs”.

Bhorat et al. (2018) note that although similar issues (infrastructure, access to finance and competition) are reported as key growth constraints across SMMEs, there remains a great deal of heterogeneity among SMMEs and how they perceive and encounter these constraints in the South African context. The paper recommends that policies which aim to support SMMEs should take account of these differences when crafting economic policies.

Amra et al. (2013) note that many studies include only formal firms, but to reflect the true nature of SMMEs in the country, informal sector firms need to be included as well. Results of the investigation they run using QLFS data from 2008 and 2013 show that SMME employment trends are different whether the firm is located in the formal or informal sector, and as a result of this heterogeneity, different policies need to be recommended depending on the objectives of the policy. For example, SMMEs in the informal sector hire predominantly lower-skilled individuals with low educational attainment, while SMMEs in the formal sector tend to hire more highly educated and highly-skilled workers. The implication of this is that policy related to SMMEs must be carefully targeted: For example, if one were aiming to increase low-skill hires, then SMMEs hiring fewer than 10 employees should be targeted, whereas increasing high-skilled employment in SMMEs would require targeting SMMEs hiring between 10 and 49 employees.

The ecosystem report commissioned by the DSBD (2018) also notes that the informal sector in particular should be supported by specific interventions that take account of the specific issues faced by those operating in this sector. Through innovative policy, it notes, there is scope for mapping the informal economy and collaboration with key actors and specific regulations and policy for enabling informal businesses. We have also noted how location within provinces and specific areas such as townships and rural areas need to be taken account in considering the needs of specific SMMEs.

1. *Importantly, SMME constraints differ across sectors; SMMEs in different sectors therefore require specialised support*

SEDA commissioned a number of studies to understand the needs, state and performance of SMMEs in different sectors in 2012. These sectors were: agriculture, manufacturing, ICT, tourism, traditional medicine.

All of these studies used mixed methods consisting of both a review and surveys of SMMEs operating in the sectors. They highlight different challenges faced and needs in each of the sectors.

The first of these reports focused on agriculture, manufacturing, ICT and services together and found that SMEs in all of these sectors continue to face difficulties in two areas primarily: accessing finance and accessing markets for their products. Further, SMMEs in these sectors face skills shortages challenges with respect to technical and business skills; a lack of experience and a lack of capacity to undertake market research.

The study noted concerns that SEDA’s support interventions could be improved in terms of relevance and effectiveness. It suggests that SEDA’s focus be on encouraging and supporting SMEs to “capitalise more fully on specific market and product-level opportunities; undertake value adding processes, particularly in the agriculture and manufacturing sectors; and link more effectively into existing industry value chains and the vertical supply chains of larger enterprises.”

Key recommendations to SEDA that are applicable to SMME policy more broadly were:

1. Address geographical constraints to the provision of support to SMEs by introducing more satellite offices to improve reach
2. Improve alignment of support strategies to the context and needs of SMEs operating in rural areas
3. Develop stronger linkages between all institutions and entities tasked with providing support and assistance to SMEs in South Africa.
4. Allow for support offerings to be applicable to the unique circumstances and needs of SMEs operating in their province.
5. Initiate sector-specific technical skills development and mentorship programmes for each sector; as well as a sector specific service to make market-related information available to SMEs
6. Introduce a service to facilitate the development of supply chain linkages between SMEs and larger enterprises.

There were then also a number of studies commissioned by SEDA that focused on specific sectors to give better individualised insights into those sectors.

In agriculture, key findings were that SMMEs in the agricultural sector need assistance in the following broad areas: assistance due to lack of transport infrastructure, provision of affordable loan agreements, assistance due to land and water resources and electricity costs, assistance to enter export markets, knowledge sharing and decreasing reliance on imported products.

Further, a 2012 Department of Agriculture, Forestry and Fisheries report considers the status of smallholder producers in the sector and notes most smallholder producers own land but hire farming equipment and are dependent on the availability of such equipment to initiate farming. Such smallholder producers have very specific needs for support related to expanding production and finding markets that would not be captured by a one-size-fits-all SME policy. They require specific support to expand production and find markets. Recommendations are made for further funding, more coordination between stakeholder and supporting marketing.

In manufacturing, the SEDA commissioned report found that the manufacturing sector was in decline due to higher labour and production costs. Key findings were that:

1. Banks are reluctant to borrow money to SMMEs due to the perceived risk. SMMEs should be supported to access finance due to this.
2. There is a need for a central support agency that will have the capability to assist firstly provincial government with translating their policy documents into actions. Secondly, there needs to be more awareness created amongst SMMEs on the availability of business support services.
3. Government needs to invest more in research and development to ensure that opportunities are well researched before a strategy is informed to implement it.

The report also makes a number of recommendations in very specific areas such as market penetration, SEDA’s services and possible working relationships for SEDA to explore.

The SEDA commissioned report on Tourism and ICT services note that tourism businesses face challenges related to finance (with respect to both access and managing), building client bases, and marketing. It makes a number of recommendations to SEDA with respect to the main challenges identified for tourism firms:

1. Partnering with organizations provide clients with information regarding funding opportunities while also assisting clients in applying for funding.
2. Developing marketing platforms that clients can use at no cost or at a small fee.
3. Developing specific industry based training modules aimed at assisting entrepreneurs.

There are some other tourism specific studies identified that make clear the specific needs of the sector. Rogerson (2008) conducted a survey of suppliers of transport and tour services in South Africa’s backpacking sector in the tourism sector and also argued that policy interventions for supporting SMMEs in tourism should be differentiated and acknowledge the differences that exists among tourism SMMEs. Rogerson makes the point in a 2005 paper as well noting particularly that constraints can differ by whether one is considering an established or an emerging firm.

In the tourism subsector, specific issues identified by Rogerson were problems they faced in the regulatory environment (particularly concerning vehicle permits) and issues of increased competition and the lack of regulation of informal sector providers of transportation and tour services. Respondents also also drew attention to local government’s lack of awareness of their industry and its significance and not considering the needs of SMMEs of the sector.

These specific issues of one specific subsector of one sector (tourism) highlight the heterogeneity that exists between SMMEs even within the same sector and that appropriate support must be tailored specifically to specific types of firms Rogerson notes that “policy interventions for supporting tourism SMMEs in South Africa must develop an enhanced understanding of the heterogeneity among tourism SMMEs and, in particular, recognise difference and the specific challenges of SMMEs functioning in different segments of South African tourism.”

Mbatha (2013) considers the use of electronic commerce tools among SME tourism service providers in South Africa using a self-administered questionnaire and highlight the specific needs of the sector with sample firms indicating that they needed to adopt e-commerce tools to connect with new customers, broadening their market reach and to reduce costs. However, firms also reported they struggled to find employees with the technical know-how to operationalise these e-commerce tools; identifying a specific knowledge and skills requirement for this sector in particular.

Specific challenges noted by businesses in the ICT sector in SEDA’s report on Tourism and ICT were access to finance, working capital, skills shortages, a lack of resources and infrastructure.

Recommendations made for the key challenges are:

1. Skills development is identified as a key gap. It is recommended that SEDA develop a suite of training initiatives aimed at assisting businesses in the sector.
2. Market intelligence is a key problem area. It is recommended that SEDA look at conducing and regularly publishing information on the sector with relevant partners.
3. It is recommended that SEDA should look at partnering with organizations such as the IDC as well as the DBSA to address short term financing concerns SEDA could also provide regular lists of potential funders to their clients.

The traditional medicines sector study notes major concerns in the sector as lack of a strategy for the sector, funding challenges, the size of the market, different perspectives along the value chain, fragmentation and poor communication within the sector. Further, SMEs face challenges in accessing scientific research, market intelligence and market distribution channels.

Recommendations are made to SEDA with respect to its portfolio of services, as well as partnerships that it could establish to mobilise support more effectively. The recommendations broadly are to facilitate a sector strategy and dialogue; package funding support for SMEs; create key partnerships with relevant stakeholders; and develop service offerings tailored to the sector’s specific needs

Finally, the Chemicals and Plastics sector report commissioned by SEDA noted the following main challenges for SMEs in the sector: high costs and inconsistent supply of electricity and water; marketing and access to finance

Cross-cutting recommendations confirmed many of the themes that emerged from the other SEDA studies, but also identifying areas of assistance unique to this particular sector. These were:

1. Increase awareness of BDS and financial services for SMMEs
2. Simplify and rationalise regulations, ensure only those essential are in place and enforce these
3. Assist in the development of niche market subsectors
4. Subsidy to cover cost of electricity
5. Business support services focused on export promotion and marketing
6. Increase the level of assistance and information for SMEs to acquire finance; Improving on SME-specific characteristics (targeted offerings) etc
7. Improving the levels of SMEs managerial competence and skills
8. Implementing business mentorship and incubation programmes
9. Encouraging industrial linkages or clustering
10. Encourage formation of or joining business associations
11. *Different types of enterprises, such as co-operatives, require specialised support as well*

Twalo (2012) considers the state of co-operatives in South Africa and notes specific challenges faced by co-operatives in particular. The few studies on co-operatives in the country note that co-operatives face constraints related to lack of capacity and limited access to market and information on business activities like SMMEs. Other challenges that seem more specific to co-operatives include difficulty in accessing capital, lack of financial records and internal problems including administrative and managerial issues, lack of accountability, lack of commitment, absenteeism and theft. Further co-operatives also face challenges related to lack of demand for products, poor quality products, uncompetitive prices and poor marketing. A major challenge also stems from the regulatory environment. However regulatory requirements placed on them are unable to be met in many cooperatives due to illiteracy and lack of awareness and education in respect of the regulatory requirements. Co-operatives therefore need specialised support to cope with these specific challenges they face. This is constrained by lack of clear knowledge on co-operatives in the country however.

The Department of Environmental Affairs published a report evaluating “co-operatives as a developmental vehicle to support job creation and SME development in the waste sector” (2015). This research interviewed 64 co-operatives and key stakeholders and demonstrated that co-operatives in the waste and recycling sector have the potential to create significant numbers of direct and indirect “income opportunities”. The study notes that co-operatives face many challenges relating to the lack of infrastructure (premises, equipment, transport); operational challenges (administration, financial, governance); and weak capability (knowledge and skills). Training is being provided by numerous organisations, but this training has not generated the necessary capability to develop sustainable businesses. It suggests that a longer-term approach of mentorship and partnership with co-operatives is considered necessary to see the development of a co-operative movement in the waste and recycling sector.

Following on from this, the Department of Environmental Affairs (2015) has also published a good practice guide for co-operatives in the waste recycling sector in particular. It considers some of the challenges facing waste and recycling co-operatives and highlights how existing co-operatives overcome these challenges. The examples showcased show how small businesses in the waste and recycling sector overcome the obstacles they face. It notes three areas in which intervention could assist in creating sustainable co-operatives. These are:

1. Access to material: Co-operatives need to collect and move large quantities of recyclables in order to create a viable income for the co-operative members and employees. Therefore, if the co-operative model is going to be pursued, they need to be integrated into the municipal solid waste management system.
2. Access to markets: Creating the necessary demand for all recyclables will reduce the vulnerability of waste co-operatives who have to survive against volatile market prices. Apart from creating markets, the geographical location of these markets is also crucial.
3. Business development: While training was found to be crucial for co-operatives, it is noted that training alone will generally not develop the level of capability needed for creating sustainable waste and recycling co-operatives. Extensive and ongoing business development support, through mentoring and incubation, is needed to allow co-operative members to gain the necessary skills and understanding to run a business.

These are very specific interventions and again highlight that evidence in specific sectors (waste recycling, for example) and for specific types of SMMEs (in this case co-operatives in the waste sector) is required to enable different types of SMMEs.

***Education and skills support remains important; however beyond the broadly applicable financial and management skills, sector-specific and softer skills, as well as an enabling environment, are required as well***

Steenkamp and Bhorat (2016) consider the role of skills and education in predicting micro-enterprise performance. The paper provides an econometric analysis of firm performance along two metrics for firm performance: financial performance and access to market opportunities (proxied for by whether a firm submits applications for tenders or not). The results of this investigation support the findings in the literature: that education and skills are incredibly important determinants of firm performance for SMMEs in South Africa. One particular finding from the paper concerns the importance of an SMME owner having a post-matric education, and how this has very large positive impacts on firm performance. For example, having a post-matric education can increase the monthly turnover of a firm by between 189 percent and 309 percent. Given that more than two-thirds of SMME owners have less than a completed secondary education, this finding is key to assisting policymakers target education as an intervention necessary to develop the SMME sector in South Africa.

However, the authors emphasise educational policy is but one part of a broader policy strategy that should be adopted when targeting SMMEs. There are myriad other factors that affect SMME growth, and while education is shown to be an important factor, it is by no means the only one.

Naidoo and Urban (2010) consider the importance of operational skills specifically on business sustainability for SMME manufacturers in the Vaal triangle region of Gauteng. Business failure is often attributed to the lack of entrepreneurial knowledge and business management skills, it notes, but less attention is paid to operational skills. Operations, in this context, are “the management of systems and processes that are involved in the manufacturing of products”. Operations skills include skills in line with the operational decisions scrutinised in the literature review such as inventory management, production planning and control, operational specifications, production measurement techniques, production quality management, manufacturing budgets and costs and health safety and maintenance planning. The study surveys SMMEs and tests for a relationship between operations skills and SMME sustainability. Based on descriptive and co-relational analysis results reveal that operations skills are positively associated with sustainability. The results cannot be extrapolated to the entire South African SMME landscape but provide some evidence that sector-specific skills requirements are important and SMMEs in specific sectors need to be supported with respect to these to ensure sustainability.

Zhou (2015) considers critical success factors towards SME sustainability in Johannesburg through the use of a perceptions-based quantitative cross sectional survey. The sample is 62 small business owners with an age of ten years or beyond. The study is focused on formal sector SMMEs. Factors deemed to impact on SME performance are identified from literature and then ranked based on the survey. HR strategies, the value offering of the business, business strategy and owner financial savvy were deemed to be the most important factors for these businesses. Overall, a combination of strong managerial skills, an orientation to entrepreneurship and an enabling business environment seem to be critical in ensuring sustainability. Interestingly, the study did not find any statistically significant difference between industries, gender or size (turnover). The study suggests that success in the formal sector requires strong managerial skills, but that an enabling environment and owner’s motivation are important as well. Rozyn (2007) also suggest that management skills are important to explaining SME growth in South Africa and suggests that mentorship and networking to allow the sharing of experiences is the appropriate support mechanism and therefore proposes that incubators focus on these. Mowers (2016) also suggests, that in the formal sector, start-up owners require additional assistance from business incubators or mentors to overcome inexperience.

Finally, embedded in a connected ecosystem is the idea that maintaining appropriate relationships and networks are fundamental for the success of small businesses. This is also a skill that SMMEs need to build, but which not much evidence-based work has been done.

Xesha et al. (2014) review literature related to the importance of relationships for small businesses and note that critical steps in building good relationships involve having an appropriate attitude, asking the right questions and “demonstrating professionalism, integrity, caring, knowledge and thoughtfulness”. The authors recommend that relationships should be part of a business’s strategic planning which includes analysis, selection of a strategy, and implementing of the strategy. Strong interpersonal skills are required and businesses should be supported in this regard. Five key abilities are noted as being important to managing business relationships:

1. The ability to understand other people’s behaviours and interpret them correctly
2. The ability to manage impressions and present oneself competently to others
3. The ability to communicate and get your message across
4. The ability to persuade others and influence their behaviours, attitudes, opinions and beliefs
5. The ability to use power

Relationships include customer relations and businesses should not underestimate the importance of remembering past interactions with customers and building on those interactions. This can enhance customer satisfaction and increase loyalty among customers, in particular.

The authors ultimately emphasises that for business owners to succeed, they must “continuously connect with new people, cultivate emerging relationships and leverage their networks”. As a review paper, the paper presents a perspective that is perhaps overlooked in the research; however evidence-work on how best these relationships and networks can be cultivated would be important to operationalise such perspectives within SMME policy. It would also be important to understand how the importance of such networks and relationships differ across the continuum of different SMMEs that exist in South Africa.

***Support for SMME Innovation is provided by government; but more can be done to develop an ecosystem for innovative businesses to thrive***

There are two evaluations of programmes encouraging innovation in the repository of programmes which are not exclusive to SMMEs but which encourage SMME participation.

One of these is the R&D Tax Incentive which aims to encourage private sector R&D investment in South Africa. It is applicable to all firms including SMMEs. Of 876 companies that participated in the scheme between November 2006 and February 2015, 47.5 percent were SMEs. One of the specific objectives of the Task Team evaluation was to examine the need to make the Incentive more accessible to SMEs and start-up enterprises.

The report (2016) identified two challenges concerning the utility of the Incentive for SMEs and start-ups. Firstly, they struggle to raise initial finance for R&D from both internal and external sources. Secondly, a system of claiming the R&D tax deduction after spending on R&D makes it difficult for SMEs to access the Incentive; they have a high chance of being in a financial loss position, preventing them from claiming a tax deduction.

The report notes that the DTI has indicated that targeted support for technology innovation in SMEs is required. Consultations are necessary with Department of Small Business Development (DSBD) to align and upscale instruments available within departments and agencies in this regard.

Ultimately, the report makes the following important recommendations with respect to SMEs and the incentive and innovation:

1. The feasibility for enabling pre-profit SMEs and start-ups to have a refundable cash credit under section 11D should be investigated. An alternative is to have a separate R&D regime targeting SMEs. Both the alternatives require that analysis be done to understand the gaps. The implications of this recommendation need to be assessed carefully for its unintended consequences.
2. For SMEs, the level of generosity appears to be low if one considers some SMEs are taxed at 10% or below. A different incentive structure should be considered for SMEs. Other suggestions were that SMEs and start-up enterprises may require a totally different, targeted programme. Such an incentive can target innovation as the desired outcome, rather than R&D (which is an activity leading to innovation).
3. Further analysis should be carried out to assess the attractiveness of the level of the R&D tax deduction (150%). In addition, a feasibility analysis of enhancing the incentive for SMEs and start-up enterprises needs to be undertaken.

The other incentive is the Technology and Human Resources for Industry Programme (2015), a research and development programme that aims to improve the competitiveness of South African industry by supporting research and technology development and enhancing the quality and quantity of appropriately skilled people – and thereby increasing South Africa‟s competitiveness – through closer cooperation between higher education and industry.

On a cost-sharing basis with industry, THRIP supports science, engineering and technology research collaborations focused on addressing the technology needs of participating firms and encouraging the development and mobility of research personnel and students among participating organisations.

THRIP pays particular attention to SMMEs and, during the recent years, there were twice as many SMMEs participating in the Programme than large corporations. In addition, SMME‟s declared that high benefits arise from their participation in THRIP. Comparisons of the SMME responses with those across all industries show that SMMEs receive commercial returns and economic impacts well above those in the average participating industry. SMMEs gave full marks on the statements that their participation in THRIP: “increased competitiveness”, “improved turnover”, “improved financial viability” and “increased productivity”. Furthermore, the SMMEs declared that the projects are strategically important to their organisations.

The evaluation recommended that the programme be retained and funding be increased as it offers considerable value and has not reached a point of diminishing returns.

Innovative technology-based startups have received much attention around the world in recent years. The repository contains a StartUp Genome report produced in collaboration with the Global Entrepreneurship Network that considers startup ecosystems around the world and the “network of capital and connections” that drives them. It notes that early technological startups are highly dependent on their surrounding startup ecosystem and healthier ecosystems generate more successful startups.

Based on survey feedback from experts and participants, the report classifies city ecosystems into phases of a lifecycle in terms of development (these phases are activation, globalization, expansion and integration). It provides insights into the challenges an ecosystem faces and what policies and practices to focus on. It also quantifies the overall performance of an ecosystem (city) using a number of factors.

South African cities do not feature on the list of top 20 ecosystem hubs. However Cape Town and Johannesburg are profiled as the largest hubs in Africa. In Cape Town, the local ecosystem is home to the most mature funding landscape on the continent, resulting in comparably high amounts of funding being invested into startups. Going forward, Cape Town’s surveyed ecosystem leaders cite a need for more growth capital and collaborations amongst the necessary stakeholders in South Africa to build a stronger startup ecosystem. There is also a call for more industry specific accelerators and incubators in South Africa. Johannesburg, in contrast, is noted to be facing challenges around its relative lack of startup experience, funding, and global connectedness. Greater support to create ecosystems that enable these high value SMMEs may be one area policy related to SMMEs may need to look into in the future.

***A connected ecosystem is essential to ensure benefits of support are realised***

A number of research reports emphasise that an enabling environment is required for all SMMEs, not only those in the innovation space, to truly thrive. The ODI (2013) notes that while the evidence is not conclusive regarding many types of support interventions it is important to remember that enterprises, in order to grow and survive, need a comprehensive support system, where each of these components is implemented not in isolation but as part of a greater scheme.

With reference to business incubation, a Jobs Fund brief (2016) also notes that concerted and co-ordinated strategy is needed to enhance the basic and higher education systems’ role in providing a foundation for opportunity-driven entrepreneurship. Achieving this increase will require a range of interventions and support at different stages of the entrepreneurship pipeline. It notes that “a key lesson from a World Bank study on incubators (2010) found that the achievement of incubator objectives is only likely to occur if business incubation is part of a wider transformation program [ecosystem]”.

Forsman (2008) uses case studies to demonstrate success dimensions that contribute to business development success in SMMEs from the perspective of SMMEs. The study is not South Africa-specific and seems to be focused on formal sector SMMEs. It notes that business development success seems to be dependent on several interrelated dimensions and success in one area leads to success in others; and vice versa. This suggestion strengthens the case for the ensuring of an ecosystem that enables SMMEs, as failure in one area could have negative effects for SMMEs in multiple areas.

The importance of an enabling and coordinated ecosystem is emphasised by Mwatsika (2018) with specific reference to local economic development. While part of this relates to the regulatory constraints we previously discussed, more broadly it applies to any form of support SMMEs receive – as the overall SMME ecosystem can act as a constraint on SMMEs and the support they receive.

In this regard the Small Business Ecosystem report commissioned by the Department notes that the research shows that South Africa’s small enterprise ecosystem has its strengths and bottlenecks, but importantly that there are opportunities for the DSBD to play various catalytic roles within the broader ecosystem.

These roles broadly are broadly identified in the areas of infrastructure, capital and access. In terms of infrastructure, the Department should enable data collection and coordination and propel technology absorption by SMMEs. In the area of capital, the Department should facilitate improving access to finance, and education and training. Finally, in the area of access, the Department should facilitate enabling policies and regulations in a holistic manner that allows practical implementation; and improve access to markets through appropriate partnerships, improve information dissemination and perhaps most importantly, coordinate efforts and connect actors in the ecosystem.

All of these areas are captured in the research to some extent; however more evidence based work is needed to ensure that the Department can fulfil its roles in these areas effectively. The DSBD will need to have access to high quality data and research to inform its enabling role within the ecosystem. This review of research, the research roundtable and ultimately research colloquium represent an opportunity for stakeholders to be co-ordinated in order to move towards achieving this high quality and evidence-based research base that should be accessible in the Department’s research repository.

The DSBD has commissioned a report on Small Business Recovery and Distress in line with this, demonstrating it is taking its role as a custodian of the SMME ecosystem seriously. It proposes ways for the Department to play a role in regulating this type of support. The DSBD has also recently commissioned a review of the thresholds for SMME classification in sectors that makes use of SARS data to ensure relevance of strategy and policy in line with an up to date standard.

***Towards the future: environmental issues related to SMMEs to become a more pertinent concern?***

A theme which currently do not receive much attention in the research at present, but which is likely to become increasingly important in years to come are the environmental sustainability of SMMEs.

Two papers consider the relationship between SMMEs and the environment; however both of these are not South Africa-specific and it is unclear whether these findings would apply to South African SMMEs at present.

Parker et al. (2009) consider how SMEs can limit their environmental impacts using a systematic review of journal articles. It notes that SMEs have both differing characteristics and commitment to addressing environmental issues. They also have limited resources, knowledge and capabilities to deal with their own negative environmental impact. Interventions to limit this can either be regulatory or legislative (prescribed) or voluntary. The paper categorises SMEs into a number of categories and notes that different intervention strategies should be used for each category of SMMEs. SMMEs care classified into their categories based on their degree of commitment to business performance and commitment to the environment. The four categories of SMMEs are profit driven, compliance drive, advantage driven and environment driven.

Possible interventions include voluntary standards, compulsory regulation, financial penalties, financial support, business advice, education, and audits. The review suggests that a single isolated intervention is unlikely to engage all types of SMEs in environmental improvement. It also notes that it is naïve to rely on the extremes of voluntary environmental agreements or regulation and legislation to encourage SMEs in environmental improvement More specifically, it suggests that commitment from various stakeholders and a coordinated mixture of interventions will be required to encourage all four types of SMEs to make environmental improvements. The review also suggests that more research is needed that compares the effectiveness of different interventions and takes into account the different types of SMEs rather than treating all SMEs as a homogenous group.

It is not clear that these results would apply to South African SMEs, or maybe only to certain types of SMEs in South Africa given the study focuses on developed countries. Further, it may be argued that South Africa’s employment needs mean that such concerns should not be given too much weight at this point. It does however introduce interesting questions for future consideration; as well as another dimension of differentiation among SMEs further illustrating the vast range of SMEs that exists and that policy can not take a one-size-fits-all approach.

Frederik (2018) also raises concerns about the environment, combining entrepreneurship, economics and sustainability to build a new theory of “biospehere entrepreneurship” that does beyond profit and social good, adding value to the biosphere as well. The paper extends existing entrepreneurship frameworks and notes that entrepreneurial activity can also add value to the planet, beyond businesses and communities. It also notes that such considerations should start being a part of entrepreneurship education. The paper is exploratory and theoretical but hints towards environmental considerations becoming more important in the future, especially given the challenge of climate change and finite resources

1. Summary of Policy, Research and Evidence Gaps

Here we summarise the key policy gaps that seem to exist from the discussion in the previous section but also identify some research and evidence gaps in the overall body of literature and note what these may tell us about overall SMME policy gaps as well.

The following recommendations have been identified in the body of research:

Table 25. Key recommendations from the review of research.

|  |  |
| --- | --- |
| Recommendation | Policy gap exists? |
| Regulatory/legislative reform | |
| Relax or remove the restrictive business conditions for SMMEs with regard to regulation. (Annual Review, 2016) | Policy Gap: This is a consideration of much of the current policy and strategy. However implementation recommendations are needed in this regard. Further, policy could be more specific on how this should be achieved.    Evidence Gap: Further evidence required on best way to do this holistically may be required |
| Government should more fully explore employment incentives in the form of staff stipends and exemption legislation, which makes it easier for SMMEs to hire appropriate staff during busy seasons or for larger projects. (Annual Review, 2016) | Policy Gap: As far as we are aware this recommendation has not been implemented. Minimum wage allows for SMME exemption. Not clear if any other exemptions exist for SMMEs.  Evidence Gap: Evidence is required to understand whether these exemptions would have the desired effect. |
| Standardise the bureaucratic process across departments, agencies and beneficiaries to reduce the current silo mentality. (Annual Review, 2016) | Policy Gap: As far as we are aware these recommendations have not been implemented. |
| Implement recommendations made by the World Bank in its Doing Business report of South Africa to improve the ease of doing business for small businesses (World Bank, 2015 and 2017) (see above for details) | Policy Gap: As far as we are aware these recommendations have not been implemented. |
| Implement recommendations made by TIPs in its report on the regulatory burden on SMMEs (TIPS, 2017) (see above for details) | Policy Gap: As far as we are aware these recommendations (related to the Companies Act, Taxation and Labour legislation) have not been implemented. |
| Implementation or further exploration of relevant legislation recommendations made in comparative legislation review commissioned by DSBD (DSBD, 2017) (see above for details) | Policy Gap: As far as we are aware these recommendations have not been implemented.  Evidence gap: Study did not consider how the comparative legislative provisions have fared in the countries considered. Some further evidence may be required with regard to these recommendations. |
| Implementation of findings of DSBD commissioned review of NSEA Schedule (DSBD, 2017) | Research conducted; recommended changes to undergo legislative amendment process |
| Starting a process/ introducing appropriate policy to introduce reforms at municipal/local regulation level to create an enabling environment for SMMEs and the informal sector | Policy Gap: As far as we are aware this recommendation has not been implemented. |
| Ensure SMME and informal sector policy takes account of the heterogeneity that exists between types of SMMEs across and within sectors. In particular, the Annual Review 2016 suggests that “when developing their targeted approaches to SMME policies and projects, government agencies should design their policies and programmes based on the differences experienced by the different sectors and different size categories” (Annual Review, 2016) | Policy Gap: As far as we are aware, this recommendation is not implemented (to a limited extent current policies identify priority sectors and groups but it is unclear that these groups are catered for by different policies or interventions)  Evidence gap: Data is required on the differences experienced by sectors and across sizes. Some limited evidence exists. However this should be more comprehensive and updated regularly. |
| The DSBD should improve its implementation guidelines and requirements, which prioritise previously disadvantaged groups. Furthermore, the Department should investigate why current allocations and guidelines are not effective in reaching their target groups. (Annual Review, 2016) | Policy Gap: The policy highlights these groups. However, there is a gap in that policy does not currently ensure that these groups will be provided for. Policy thus lacks mechanisms to ensure the targets it contains are reached.  Evidence Gap: Better data regarding these groups may be required to ensure they can be reached; and/or a mechanism that ensures that they are reached can be provided for. |
| Enabling infrastructure and encouraging local economic development | |
| Facilitating enabling a conducive environment for SMMEs and entrepreneurship in local areas with provincial and local authorities (beyond regulatory reform) | Policy Gap: This is a consideration of some of the current policy and strategy. However, policy could be more specific on how this should be achieved. |
| In order to assist informal businesses, all government agencies need to consider dynamic and innovative approaches to increase access to their services. Co-location with municipalities and mobile units can increase access to support services. (Annual Review, 2016) | Policy Gap: As far as we are aware these recommendations have not been implemented. |
| The DSBD can assist SMMEs by developing shared operating premises, which meet the needs of enterprises of different sizes. (Annual Review, 2016) | NIBUS contains provision for a Shared Economic Infrastructure Facility (SEIF) that will cover the funding of a common Infrastructure that is new or  upgraded, maintained and shared by an agreed number of informal businesses, SMMEs and co-operatives.  Unclear if this provision is adequate in this regard. |
| Government can encourage community support through strengthening awareness campaigns and incentive schemes that encourage individuals and firms to support their local small businesses to assist SMME owners in coping with the risks associated with entrepreneurship (Annual Review, 2016) | Policy Gap: As far as we are aware these recommendations have not been implemented.  Evidence Gap: Evidence is required on what would be the most effective way to do this |
| Analyse reasons for low levels of entrepreneurship among youth and implement programmes to stimulate entrepreneurship with this age group. (Annual Review, 2007 – 2014)  Strategies to realise potential for youth (and other vulnerable groups such as women) employment and entrepreneurship in the township and informal micro-enterprise economies | Policy Gap: More well defined and targeted measures required to address this target group.  NIBUS includes as a target area. However, unclear if current provisions are adequate and enabling in this regard. |
| Measures to reduce crime experienced by SMMEs; and/or measures to reduce the negative impact of crime on SMME and informal sector activity | Policy Gap: This is not explicitly noted in policy and strategies.  Gap: Evidence required on best way to do this |
| Analyse the causes of low levels of co-operative establishment and design appropriate responses thereto (Annual Review, 2007 – 2014) / Review co-operative policy | Policy Gap: Co-operative policy has not been reviewed.  Gap: Evidence required on best way to do this. Data on co-operatives is lacking. |
| Strategies to enable economic activity in rural areas | Policy Gap: Targeted strategies required for rural areas.  NIBUS includes as a target area. However, unclear if current provisions are adequate. Further, a review of the co-operative policy is required as suggested by the research. |
| Procurement | |
| The current development of a central database under the ILO, and another under the Treasury, should be combined and used to identify appropriate SMMEs as potential government contractors and inform them of these opportunities. (Annual Review, 2016) | Policy Gap: As far as we are aware this recommendation has not been implemented. |
| The National Treasury should issue a practice note that effects a Cession of Contract. This is to ensure that the payment of SMMEs is done on time and, also, that such payment first goes towards repaying loans that the SMME may have taken by a government agency. (Annual Review, 2016) | Policy Gap: As far as we are aware this recommendation has not been implemented.  Note: Draft Procurement Bill may address this to some extent (not yet gazetted) |
| Address issues related to delay of payments to SMMEs (TIPS, 2017) | Regulations for Alternate Dispute Resolutions, currently being considered by the Department may assist in this regard. In particular, there is a proposal for a Small Enterprise Tribunal.  Draft Procurement Bill may address this some extent (not yet gazetted) |
| Address issues that lock SMMEs out of procurement such as upfront payment on tenders (TIPS, 2017) | Policy Gap: As far as we are aware this recommendation has not been implemented.  Note: Draft Procurement Bill may address this to some extent (not yet gazetted) |
| Develop and enforce a Code of Good Practice for subcontracting. (TIPS, 2017) | Regulations for Alternate Dispute Resolutions, currently being considered by the Department may assist in this regard. In particular, there is a proposal for a Small Enterprise Tribunal. |
| Ensure procurement process is transparent | Draft Procurement Bill seeks to address this (not yet gazetted) |
| Private sector access to market and competition issues | |
| Measures to address market concerns faced by survivalist type firms specifically such as competition of more entrepreneurial business practice based foreign owners (in informal retail) | Policy gap: Survivalist firms should be recognised as a distinct type of SMME and their needs be responded to specifically. These firms are often inhibited not by larger firms but different types of firms such as foreign-owned firms that operate differently, for example. These firms are less concerned with access to greater markets but sustaining their livelihoods in the shorter term and the support required to ensure this in the short term would be very different to that provided to firms targeting long term growth. NIBUS to some extent recognises this by focusing on the informal sector and vulnerable groups but it is not clear that the measures contained therein are adequate for support |
| Measures to assist in implementing the Competition Commission’s recommendations of the retail market inquiry and other relevant Competition authority recommendations for SMMEs | Policy gap: Despite implications for SMMEs, there is no coordination and communication between the Department and authorities such as the Competition authorities. There is scope for the Department to play a role in assisting in creating a conducive competitive environment for SMMEs along with other relevant authorities. |
| Measures to ensure SMME suppliers are not hampered by bargaining and competitive power of larger players (in retail and other spheres) | Regulations for Alternate Dispute Resolutions, currently being considered by the Department may assist in this regard. In particular, there is a proposal for a Small Enterprise Tribunal. |
| Measures to support competition policy to benefit SMMEs | Regulations for Alternate Dispute Resolutions, currently being considered by the Department may assist in this regard. In particular, there is a proposal for a Small Enterprise Tribunal. |
| Measures to respond to competition issues faced by all SMMEs and not only in the retail sectors as the current limited evidence seems to be focused | Policy gap: Competition is not considered in detail in the SMME policies despite evidence showing it is actually a key concern and inhibitor. |
| Expand access to markets for SMMEs based on understanding of sectors and where opportunities exist for each sector; mechanisms to link SMMEs to opportunities | Policy gap: Current policy does not consider this in detail, despite identification of key sectors to target.  Evidence gap: Evidence required on dynamics of varying SMMEs in different sectors and the opportunities that exist |
| Access to finance | |
| The DSBD should focus its assistance on financial assistance, which is diversified to assist with various financial needs, through increasing the budget and scope of SEFA. Furthermore, SEFA and the DSBD should work with national government to consider alternative means of reducing the financial burden on SMMEs. (Annual Review, 2016) | Policy Gap: Existing policies and strategies include this consideration but findings of review and continued existence of funding gap suggests there is scope for improvement to policies in this regard. Particularly, better understanding of heterogeneity and better targeted support may be more effective. |
| Measures to increase formality without coercion/penalisation | Policy Gap: As far as we are aware, this recommendation has not been implemented.  Evidence gap: Evidence required on best way to do this |
| Programmes to improve managerial competence of small business owners | Policy Gap: While strategies provide for this at a high level, specific targeted and monitored measures are required, specifically with regard to how this relates to accessing and managing finances. |
| Monitoring and evaluation by Government of its SME funding programmes on a regular basis. | Not clear if this is implemented. |
| Mechanisms or standards to obtain better access to data from funding institutions to inform access to finance support measures | Policy Gap: As far as we are aware, this recommendation has not been implemented. |
| Collaboration with private sector and other relevant stakeholder to support and/or offer innovative forms of finance such as social impact bonds | Policy Gap: As far as we are aware, this recommendation has not been implemented. |
| Strategies to support women’s access to finance and address specific challenges faced by women | Policy Gap: Targeted strategies required for women.  NIBUS includes as a target area. However, unclear if current provisions are adequate. |
| Business support | |
| Supporting sector-specific data collection and interventions for SMMEs | Policy Gap: Key sectors are identified in current policies but policies and strategies lack mechanisms to collect appropriate intelligence and ensure responsive interventions. |
| Interventions to address the high failure rate of co-operatives and other specific issues faced by co-operatives | Policy Gap: There is no clear understanding of co-operatives aside from indications of high rates of failure. The co-operatives policy should be reviewed and this review should include measures to support co-operatives to ensure they are sustainable.  Evidence gap: data related to co-operatives is limited |
| Supporting managerial skills of entrepreneurs | Policy Gap: While strategies provide for this at a high level, specific targeted and monitored measures are required. |
| Sector specific skills support for SMME owners | Policy Gap: Measures to support skills in current policies are typically generic and do not differentiate between different sectors |
| Coordination with education system and other relevant stakeholders to support SMME owner skill development | Policy Gap: Current policy does not seem to take such possible collaboration and coordination into account. |
| Measures to coordinate finance and other support as these are often most effective together | Policy Gap: Current policy does not seem to provide for support in such a coordinated fashion. |
| Implementing recommendations related to R&D Incentive Scheme | Not clear if these have been implemented. |
| Implementing recommendations related to THRIP | Not clear if these have been implemented. |
| Measures to support innovative start-ups through an enabling ecosystem | Policy Gap: Current policy does not seem to identify high growth start-ups as a distinct type of SMME that requires specialised support. |
| Facilitating and encouraging an ecosystem that enables all SMMEs across the spectrum | Policy Gap: Current policy and mandates are suggestive of this but do not lay out in a clear manner how this will be achieved. Further, current policy does not distinguish fully the heterogeneity of SMMEs that will require different types of support in the ecosystem. The commissioned ecosystem report and some other findings of the research can be used as a starting point to consider how policy should enable this. |
| By developing a centralised and comprehensive database, along with standardised protocols and systems, the DSBD can decrease turnaround time for feedback and applications (Annual Review, 2016) | Policy Gap: As far as we are aware, this recommendation has not been implemented. |
| Analyse the causes of concentration of small businesses within only three of the country’s provinces and two economic sectors and implement targeted measures to drive higher levels of entrepreneurship in other provinces and sectors (Annual Review, 2007 – 2014) | Policy Gap: As far as we are aware, this recommendation has not been implemented.  Evidence Gap: Evidence required on causes of concentration as well as what can be done to address this |
| Analyse the causes of sharp drops in business survival after three years of operation and reasons for apparent lack of progression beyond the micro and very small business size category and implement measures to enable this transition (Annual Review, 2007 – 2014) | Policy Gap: As far as we are aware, this recommendation has not been implemented.  Evidence Gap: Evidence required on reasons for lack of progression and how this can be addressed. |
| *Across all areas* | |
| Implement measures to improve quality of small business data (Annual Review, 2007 – 2014) | Policy gap: As far as we are aware this recommendation has not been implemented. |
| There is a need for all government agencies and departments to operate towards achieving the broader goal of SMME development, with the view to increasing employment. The DSBD should strengthen its role as a centralised agency that is responsible for ensuring that all sub-divisions, provincial departments and national agencies are guided by a coherent set of tenets. Furthermore, the DSBD should improve inter-department communication to facilitate information sharing and collaboration. (Annual Review, 2016) | Policy gap: As far as we are aware this recommendation has not been implemented.  Evaluation of Integrated Strategy notes that a decentralised approach of that Strategy meant that the Strategy lacked clear implementation guidelines, formal coordination structures, and rigorous monitoring and evaluation mechanisms. The theme comes up in various government reports, suggesting that this remains a concern that has not adequately been addressed. |

Policy gaps exist not only due to the non-implementation of credible recommendations based on credible evidence; but also where the evidence to form proper recommendations is lacking in the first place. The table below notes some gaps in research and evidence that seem to exist and their associated policy gaps.

Table 26. Key evidence gaps from the review of research.

|  |  |
| --- | --- |
| Research/Evidence gap | Associated policy gap(s) |
| Evidence related to SMMEs in rural areas | Policy that addresses the constraints faced by and needs of SMMEs in rural areas |
| Evidence related to SMMEs in other parts of the country apart of Gauteng, Western Cape and KwaZulu Natal | Policy that addresses the constraints faced by and needs of SMMEs in different geographical locations |
| Evidence related to co-operatives | Policy that addresses the constraints faced by and needs of co-operatives; A re-assessment of the current policy on co-operatives |
| Evidence related to competition and anti-competitive behaviour experienced by SMMEs across sectors and different types of SMMEs | Policy that encourages the gathering of sector specific competition data that can be used to inform small business complaints to competition authorities where there is contravention of competition laws and design appropriate support where there is no contravention of competition law |
| Evidence related to women-owned SMMEs in particular | Policy that addresses the constraints faced by and needs of women-owned SMMEs |
| Evidence related to youth-owned SMMEs in particular | Policy that addresses the constraints faced by and needs of youth-owned SMMEs |
| Regularly updated evidence of SMMEs in different sectors, by different types of SMMEs | Policy that addresses the constraints faced by and needs of SMMEs in different sectors |
| Regularly updated evidence of impact of regulations on SMMEs, by different types of SMMEs | Policy that addresses the constraints faced by and needs of SMMEs in respect of regulations |
| Evidence to enable a better classification of the spectrum of SMMEs that exist to enable better support measures tailored to individual SMME needs | Differentiated policy that is responsive to varying constraints and needs of SMMEs |
| Monitoring of interventions to support evidence of interventions that work and don’t | Policy that provides for a systematic method of review of support measures and the building of an evidence base in this regard so that interventions can be adapted and responsive to constraints faced by and needs of SMMEs |
| Evidence of impacts and cost-effectiveness of different interventions | Policy that supports the building of an evidence base in this regard so that interventions can be designed to be responsive to constraints faced by and needs of SMMEs |
| Evidence related to the SMME landscape to enable role as facilitator of ecosystem | Policy that supports collaboration between Departments and agencies; with clearly defined responsibilities and areas of engagement and support for each stakeholder |

1. Feedback from the Roundtable Session

A roundtable, informed and guided by the findings of Sections 4, 5 and 6 of this report was held in Pretoria on 22 July 2019. This roundtable brought together key stakeholders from a number of government departments, business and academia and allowed for them to give inputs regarding validation of these findings. The key feedback from this event, as it relates to the review of research conducted, is summarised in this section.

The event consisted of three cluster (or consolidated) theme sessions in line with the consolidated themes we have identified in this report. Each theme session consisted of a presentation of key findings and apparent gaps in policy and research, followed by inputs and discussion from participants. The discussion was steered towards general gaps and themes from the diagnostic analysis.

The participants validated the relevance and approach of the assessment, considered policy and programme recommendations and considered various strategic approaches for the way forward. Overall, the participants were in agreement with the major themes discussed. However, some issues and apparent gaps in the research were raised. We present briefly some of the key concerns raised and comments made in response to the findings presented here.

With regard to the first theme of environmental constraints, the following comments were made by participants:

* 1. There is no recognition of heterogeneity of SMMEs from a policy perspective.
  2. Policy co-ordination and implementation is a key issue. There was agreement that there is a coordination failure and a need for a mechanism to track and trace progress. Specifically, it was raised what the DSBD’s role in this coordination should be, especially since almost all policies that affect SMMEs do not reside in the DSBD.
  3. A policy review on small business institutions providing services SMMEs should be investigated.
  4. Concerns were raised about those doing the research typically being individuals who have never run a small business and so “shoehorn the data into a result”.
  5. A suggestion was made to work with the OECD on the policy for SMMEs. The OECD has ten dimensions for SMMEs, and South Africa should implement these to align our policy with international SMME policy and learn from other countries.

With regard to the second theme of market constraints, the following issues were raised:

1. Competitiveness has not been raised in the research. There is a gap in understanding how competitiveness is facilitated in SMMEs; and what does it actually mean within the context of SMMEs.
2. Exports have also not been mentioned in the research. When it comes to exports, it was contended that there isn’t enough market intelligence for SMMEs to access markets.
3. Business support should be targeted and used effectively to build competitiveness and market share.
4. Local value chains should also be considered in growing market shares; if a core part of the value chain is incentivised, the market share of SMMEs will grow.

With respect to the third theme of support constraints, the following issues were raised:

1. The importance of education and skills support was emphasised by participants.
2. A lack of focus on entrepreneurship and mentoring in the research presented was noted.
3. There was agreement that more can be done with regard to support for innovation; and specifically more can be done to develop an ecosystem for innovative businesses to thrive.
4. There was agreement that more evidence based work is required with respect to support measures and what would be the best ways to support SMMEs.
5. Disaggregated finance data provided by banks was raised as a concern. It was argued that pressure should be put on banks to provide disaggregated lending data. It was suggested that money is going to medium sized enterprises while virtually nothing is going to small businesses.
6. Participants questioned whether Government should be a lender to SMMEs. It was noted that bank lending to SMMEs has not grown substantially over the years; there needs to be another source of finance other than bank lending.
7. The suggestion of a pre-loan monitoring and a post-loan monitoring process supervised by SEDA and SEFA, was put forward as a way to equip firms with the tools to get access to commercial loans.
8. With respect to access to finance, a specific issue raised was whether the problem was cost of finance or access to finance – the research seems to have focused on the latter.
9. The question was raised of whether there is a funding gap or whether there is allocative failure and funds are going to the wrong businesses.
10. It was indicated that there is a lack of venture capital. The Section 12J provision of the Income Tax Act has not worked effectively.
11. It was agreed that business support should be targeted to SMME needs. It should not be generic but should cater to SMMEs’ specific needs
12. Financial management and financial literacy skills are important and support in this regard should be tailored in this regard. Challenges differ across municipalities, for example.
13. An enabling regulatory environment is important with all actors effectively playing their roles for any support to be effective.
14. The financial sector should cater to needs of SMMEs in respect of the specific risks faced by SMMEs. SMMEs face shocks and the insurance market does not support them; losing their phone and car, for example, could mean they can no longer operate their businesses because of this.
15. A greater focus on innovation is required. It was noted that funding for knowledge and R&D is declining. Innovative models of financing and other risk-mitigating strategies also need to be created. There is perhaps scope for new banks that cater to SMME needs with SMME stakeholders being innovative in this space as the larger banks are not nimble enough to support SMMEs. Innovation is required in credit models, with options for lending without collateral required.
16. A SMME data resource centre should be set up. Relevant data (from Stats SA and SARS, for example) could be housed here and be made public for students and other stakeholders to make use of. It was also noted that there is a broader need for a one-stop shop for data and information related to SMMEs, both for the needs of SMMEs and other relevant stakeholders.

In the following concluding section, we consider this feedback along with the findings of the review and summarise key issues, policy and research gaps that have emerged from this roundtable discussion and the overall review of research.

1. Conclusion

The review of research exercise, along with the feedback received at the roundtable event have provided valuable insights on the state of small business research and the areas that a small business research agenda for South Africa should focus on. The review of research found that there was a great wealth of SMME research available, and these were typically of decent quality. However, there were concerns about whether all of this research was valid for the purposes of informing SMME policy in South Africa. This serves as a strong motivation for the Department to set a research agenda, both for itself and for the broader SMME stakeholder community, to ensure that both high quality, and valid, research is conducted that will ultimately result in the evidence required to formulate policy which can have a great impact on SMMEs and the country through effective implementation.

Here, to conclude, we highlight key findings, as well as policy and evidence gaps that have emerged from the research review exercise and the roundtable event. These should prove useful in setting up the DSBD’s Research Repository and the Small Business Research Colloquium that is due to take place in the near future, as well as in informing the Small Business Research Agenda.

Twelve key issues and areas for Colloquium to consider and the research agenda to incorporate are the following:

1. ***Clarifying the Role of the DSBD:*** It seems the DSBD should fulfil a pivotal role in policy coordination regarding SMME policy given that much SMME policy exists outside of the Department’s immediate reach. The exact role of the DSBD in this regard should be clarified in order for the DSBD to contribute effectively to SMME development in the country. The research agenda should contribute to allowing DSBD to fulfil its important role as coordinator of policy (as well as the broader SMME ecosystem) effectively.
2. ***Defining SMMEs and Designing Appropriate Policies***: Currently the definition of SMMEs that is used for policy purposes, and more broadly, is not well defined and nuanced with respect to the spectrum of different types of SMMEs that exist. It is clear from the research that SMMEs are heterogeneous; and that different SMMEs require different support; however policy does not adequately take this into account.
3. ***Enforcement and Implementation is Key:*** There is a lack of research and information on whether policies have been implemented effectively and the impact these policies have had on SMMEs. Monitoring and evaluation is key; and evidence-based research and assessments should form the basis of this.
4. ***Politics and Policy:*** Evidence based research is required to make the case for SMME policy to be given priority across government. Further, there needs to be an understanding of SMME challenges and how best to address these within the context of limited government capacity. Policies can only have the desired impact if they are appropriately enforced and implemented; government capacity must be given due consideration in this regard.
5. ***The Problem of Micro vs Macro:*** Aggregated data and feedback from key stakeholders at macro level can fail to speak to the experiences of small business owners as individuals at the micro level. It should be ensured that research is validated against the experiences of small business owners and assumptions are not made based on data which ultimately misrepresents small businesses in the country.
6. ***Defining and Understanding Markets:*** There is a lack of intelligence in available markets for SMMEs, both domestically and internationally, which limits their access to opportunities and ultimately stifles their growth. Market intelligence and research that is regularly updated is required in this regard.
7. ***The Role of Value Chains in Growing SMME Market Share:*** SMME competitiveness must be enhanced through business support. The private sector should be incentivised to grant access to value chains and the public sector should enable participation in value chains from SMMEs. There is a lack of research however on how value chains can best be used to support and grow SMMEs.
8. ***Access to Finance is Still a Crucial Challenge for SMMEs:*** A number of different issues are considered to be important in this regard. Concerns include clarifying whether the problem is a lack of finance, cost of finance, mismatch of available finance, or a combination of these. Other concerns relate to financial readiness and literacy of small business owners. Specific support may also be required for vulnerable groups such as women and youth; but evidence is required on how best groups can be reached.
9. ***Business Support Must Be Targeted:*** SMME needs should be understood and support provided in line with these specific needs. Different SMMEs require different support. Evidence is required to understand these differing needs and how best to address them.
10. ***An Enabling Environment Is Essential for Benefits of Support to be Realised and SMMEs to Thrive:*** Business support can only expected to have the desired impacts if SMMEs operate in an environment (regulatory, physical or otherwise) that enables rather than inhibits them. The Department has a coordinating role to play in this regard. However the role of all stakeholders, different types of SMME support, how these relate to each other within the ecosystem, and how the Department can most effectively facilitate coordination given its own as well as external limitations, must be clearly understood in order for the Department to fulfil this role and ensure an enabling environment for SMMEs.
11. ***Innovative Financing Models and Other Risk Mitigation Strategies are Required:*** There are risks associated with SMMEs that limit their bankability for lenders, as well as their own operations. Innovative means should be used to overcome such limitations; however these should be designed on the basis of evidence that is currently lacking with respect to the these risks and how best to address them. Innovative forms of financing are becoming more common; however there is there is a lack of evidence regarding what drives different SMMEs inability to access finance as well as what types of solutions will be most effective in overcoming the limitations that currently exist which ultimately limit the provision of finance that serves the needs of SMMEs while taking into account the risks associated with financing SMMEs. There is also a need to design financial and insurance products that serve the needs of SMMEs in particular and mitigate risks SMMEs face such as crime that can have particularly detrimental effects for SMMEs.
12. ***A SMME Data Resource Centre:*** Research, data and other publications on SMMEs should be accessible through a one-stop resource centre. The research repository could form part of this and establishing this is an important first step towards building such a resource centre. However, more needs to be done to ensure all the relevant, valid and high quality resources are gathered and organized in a way that serves various SMME stakeholders and users of the information that span from SMME owners themselves to policy makers.

In terms of policy gaps, based on our review and the roundtable discussion the following recommendations seem most pertinent and should be given consideration going forward:

* + 1. A mechanism to assess and implement recommended reforms to regulation and legislation that affect SMMEs
    2. Specific policy aimed at enabling a conducive environment for SMMEs and entrepreneurship in local areas with provincial and local authorities
    3. Measures to reduce crime experienced by SMMEs; and/or measures to reduce the negative impact of crime on SMME and informal sector activity
    4. Better targeted strategies to enable economic activity in rural areas
    5. Measures to put in place and supporting a functional database of SMMEs as potential government contractors and ensure that the database is utilised for the benefit of a wide range of SMMEs
    6. Measures to effectively address issues related to delay of payments to SMMEs
    7. Targeted measures to address concerns faced by the most vulnerable survivalist type firms and firms in the informal sector
    8. Ensuring high quality monitoring and evaluation by Government of its SME funding programmes on a regular basis, along with a mechanism to ensure this intelligence is used to improve SMME support
    9. Measures to obtain market data and respond to competition issues faced by all SMMEs
    10. Detailed measures to expand access to markets for SMMEs based on understanding of sectors and where opportunities exist for each sector; and mechanisms to link SMMEs to these opportunities
    11. Measures to increase formality of small businesses without coercion or penalisation
    12. Detailed evidence-based strategies to support women’s and youth’s access to finance and address specific challenges faced by women and youth
    13. Mechanisms or standards to obtain better access to data from funding institutions to inform access to finance support measures
    14. Evidence-based interventions to address the high failure rate of co-operatives and other specific issues faced by co-operatives
    15. Coordination with education system and other relevant stakeholders to support SMME owner skill development
    16. Facilitating and encouraging an ecosystem that enables all SMMEs across the spectrum

Implementation of many of these will require research to support policy that can adequately address the gaps. More broadly, in terms of evidence gaps, based on our review the following seem to be the most important gaps in terms of evidence which future SMME research should be guided towards:

1. Evidence related to SMMEs in rural areas and SMMEs in parts of the country other than Gauteng, Western Cape and Kwa-Zulu Natal
2. Evidence related to competition and anti-competitive behaviour experienced by SMMEs across sectors and different types of SMMEs
3. Evidence related to women-owned SMMEs, youth-owned SMMEs and how SMMEs impact on women and the youth, and other vulnerable groups, in particular
4. Evidence on co-operatives and how to make these sustainable
5. Regularly updated evidence of SMMEs in different sectors, by different types of SMMEs
6. Evidence of impacts and cost-effectiveness of different interventions (generally, better monitoring and evaluation of programmes and interventions)

We also emphasise here the following gaps in the research suggested at the roundtable but which didn’t come out strongly in our review, which deserve further interrogation as areas of concern:

1. Current research fails to take into account experiences of small business owners themselves adequately, relying on researchers’ perceptions of available data and sometimes misrepresenting the actual experiences of SMMEs
2. There doesn’t seem to be an adequate focus on entrepreneurship currently in the repository.
3. There should be a greater focus on mentoring and how this can assist SMMEs in the research.
4. There seems to be a lack of focus on competitiveness of SMMEs and export potential of SMMEs in the research.
5. It was also noted that “financial readiness” is a major stumbling block in SMMEs accessing finance and there appears to be a lack of focus on “financial readiness” of small business owners in the research.

The insights obtained from this review of research and the roundtable event form a basis for the planning of the SMME Research Colloquium, where evidence-based research should be considered to unlock the sustainability of SMMEs and their ability to promote jobs to build capacity in department through knowledge-sharing. It is hoped that the SMME Research Colloquium, guided by this review, will assist the DSBD in carving out its research agenda, as well as a broader SMME research agenda for all stakeholders in the space, and ultimately result in the design of needs-based policies and programme interventions aimed at stimulating growth, promoting SMME viability and their ability to promote employment

Reference List

*See list of papers considered in Annexure A.*

Annexure A: Summary of research papers reviewed

***Reports by theme (including reports not in the repository or on the DSBD’s website):***

1. Environmental constraints

1a. Regulatory

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| Business Environment Reform and Poverty: Rapid Evidence Assessment | UK Department for International Development (2015) | Regulation; Operating environment | 4 | Review | 4 | 3 |
| Doing Business in South Africa 2015 | World Bank (2015) | Regulation; Operating environment | 5 | Survey | 5 | 5 |
| Creating a Conducive Policy Environment for Employment Creation in SMMEs in South Africa | International Labour Organisation (ILO) (2002) | Regulation: Policy: Operating environment | 5 | Review and Survey | 4 | 2 |
| World Bank Doing Business Survey 2017 | World Bank (2017) | Regulation: Operating environment | 5 | Survey | 5 | 5 |
| Impact of Municipal Regulations on SMMEs | Pahwa et al. (2006) | Regulation | 5 | Survey | 4 | 2 |
| Tax compliance obstacles encountered by small and medium enterprises in South Africa | W. Abrie and E. Doussy (2006) | Regulation; Taxation | 5 | Survey | 3 | 2 |
| Evaluating the South African Small Business Policy at the Local and District Municipality Level (GIBS Research project) | Jeri-Lee Mowers (2016) | Policy | 5 | Survey | 3 | 3 |
| Regulatory Burdens on Small Business: Options for Improvement | TIPS for DSBD (2017) | Regulation; Market Access | 5 | Mixed; Interviews | 4 | 5 |
| Update of Schedule 1 of the National Small Enterprise Act (NSEA) to Promote Employment in South Africa | Brendon Darroll for DSBD (2018) | Legislation; Policy | 5 | Statistical analysis | 4 | 5 |
| Comparative Analysis of SMME Legislation from Eight Countries to the National Small Business Act No 102 of 1996 as amended in 2003 and 2004 | Osiba for DSBD (2017) | Legislation; Policy | 5 | Review | 4 | 5 |
| The Regulatory Environment and Smmes-Evidence from South African Firm Level Data. | Neil Rankin (2006) | Regulation | 5 | Review and economet-ric analysis | 4 | 2 |
| Recent findings on tax-related regulatory burden on SMMEs in South Africa: Literature review and policy options. | Chamberlain, D. and Smith, A., (2006) | Regulation; Tax | 5 | Review | 4 | 2 |

1b. Physical

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| Informal economy / Township enterprises | | | | | | |
| Factors that contribute towards informal micro-enterprises going out of business in Delft South, 2010-2015: a qualitative investigation | Andrew Hartnack and Rory Liedeman (2016) | Informal sector; Township enterprise | 5 | Survey | 4 | 4 |
| Gendered Spaces of Informal Entrepreneurship in Soweto, South Africa | Richard Grant (2013) | Women; Informal sector; Township enterprise | 5 | Survey | 4 | 4 |
| Household Enterprises in Sub-Saharan Africa: Why They Matter for Growth, Jobs, and Livelihoods (WB WP) | Louise Fox and Thomas Pave Sohnesen (2012) | Household enterprise | 1 | Survey | 4 | 2 |
| Informal micro-enterprises in a township context: A spatial analysis of business dynamics in five Cape Town localities | Andrew Charman and Leif Petersen (2014) | Informal sector; Township enterprise | 5 | Survey; Case study | 4 | 4 |
| Informality and Inclusive Growth: What South Africa can tell us about the benefits and costs of informal employment (Policy brief) | Aalia Cassim, Kezia Lilenstein, Morné Oosthuizen and Francois Steenkamp (2015) | Informal sector | 5 | Review and analysis of available data | 4 | 4 |
| A Situational Analysis of Small Businesses and Enterprises in the Townships of the Gauteng Province of South Africa (conference paper) | Centre for Small Business Development (2010) | Township Enterprise | 5 | Survey | 3 | 3 |
| Motivations for Engaging in Entrepreneurial Activity in the Informal Sector in Sub Saharan Africa (Master's thesis: Uppsala University) | Alexander Beyer and Blake Morgan (2018) | Entrepreneurship | 1 | Econometric analysis | 4 | 2 |
| Prospects for revitalising township economies: from the fringes to the mainstream. A case study of Tembisa | Eddie Rakabe (2016) | Township enterprise | 5 | Review and Survey | 4 | 4 |
| The Ecosystem Perspective of Entrepreneurship in Local Economic Development | Charles Mwatsika (2018) | Local Economic Development | 5 | Review | 3 | 4 |
| A supply side intervention in support of local economic development (LED) (Policy brief) | Studies in Poverty and Inequality Institute (SPII) (2012) | Local Economic Development; Access to finance | 5 | Review | 3 | 3 |
| A supply chain and ethnographic assessment of informal micro-manufacturing: A case study of Cape Town informal metalwork enterprises | Petersen et al. (2016) | Informal sector; Manufacturing | 5 | Case study | 4 | 4 |
| From local survivalism to foreign entrepreneurship: the transformation of the spaza sector in Delft, Cape Town | Andrew Charman, Leif Petersen and Laurence Piper (2012) | Township enterprise; Retail | 5 | Survey | 4 | 4 |
| Africa's Cities: Opening Doors to the World | World Bank (2017) | Policy; Operating environment | 4 | Review | 5 | 4 |
| Measuring Cross Border Trade Research Report (Establishment of the SMME and Informal Economy and Cooperatives Observatory) | Gauteng Provincial Government (2012) | SMME Trade | 5 | Survey | Incomplete study | Incom-plete study |
| The South African Township Economy and Informal Micro-Enterprises: What are the Prospects for Youth Employment and Entrepreneurship? | Andrew Charman (2016) | Township enterprise; Youth | 5 | Review | 4 | 4 |
| Developing SMMEs in peripheral spaces: the experience of Free State province, South Africa. | C. Rogerson (2006) | Region-specific | 5 | Review | 3 | 3 |
| Township SMME sustainability: a South African Perspective. | Cant, M.C. and Rabie, C. (2018) | Township enterprise; Sustainability | 5 | Review | 3 | 4 |
| *Crime* | | | | | | |
| The Impact of Crime on Small Business: Presidency Report. | SBP (2008) | Crime; operating environment | 5 | Survey | 3 | 4 |
| Exploring the relationship between crime-related business insurance and informal firms' performance: A South African case study. | Bhorat, H. and Naidoo, K., (2015) | Crime; Informal sector; Insurance; operating environment | 5 | Econometric analysis | 4 | 4 |

1. Market access constraints

2a. Public sector

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| Perceptions of Small Medium and Micro Enterprises (SMMEs) on resources required to influence involvement and participation in preferential procurement (GIBS Research project) | Lebogang Magagane (2012) | Procurement | 5 | Review and Survey | 4 | 4 |
| SMME Procurement Issues In Local Government: A Gauteng Metropolitan Study | A.J. Antonites and M. Truter (2010) | Procurement | 5 | Survey | 3 | 3 |
| Regulatory Burdens on Small Business: Options for Improvement | TIPS for DSBD (2017) | Regulation; Market Access | 5 | Mixed; Interviews | 4 | 5 |

2b. Private sector

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| You can’t bite the hand that feeds you: The commercial and contractual relations between the four large South African food retailers and their SME suppliers | Marlese von Broembsen (2016) | Value chain; Competition | 5 | Case study; Survey | 4 | 4 |
| Competition and the Informal Sector in Gauteng (presentation to the Grocery Retail Inquiry of the Competition Commission) | Sally Peberdy (2016) | Competition | 5 | Survey | 3 | 3 |
| What Can Somalis Teach South Africans about Business? (Article in USB Agenda) | Bongani Mgayi (2015) | Foreign-owned businesses; Competition | 5 | Review | 3 | 3 |
| From local survivalism to foreign entrepreneurship: the transformation of the spaza sector in Delft, Cape Town | Andrew Charman, Leif Petersen and Laurence Piper (2012) | Township enterprise; Retail | 5 | Survey | 4 | 4 |
| Competition Commission Retail Market Inquiry Preliminary Report | Competition Commission (2019) | Competition | 5 | Official inquiry | 5 | 5 |

1. Business support constraints

3a. Finance

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| Is Cinderella Finally Coming to the Ball? SA Micro Finance in Broad Perspective | David Porteous (2003) | Access to finance; Microfinance | 5 | Review | 3 | 2 |
| Understanding the small business market in Gauteng: Findings from the Finscope Small Business Gauteng Pilot Survey 2006 (presentation) | FinMark Trust (2006) | Access to finance; Gauteng | 5 | Survey | 3 | 2 |
| Understanding the small business market in Gauteng: Findings from the Finscope Small Business Gauteng Pilot Survey 2007 (presentation) | FinMark Trust (2007) | Access to finance; Gauteng | 5 | Survey | 3 | 2 |
| Impact of SME Finance Policy – The South African Experience to Date (presentation) | Alliance for Financial Inclusion (2014) | Access to finance; SME Policy | 5 | Review | 2 | 3 |
| Selected South African Micro Finance Case Studies in Rural Financing | Kachesa Ed Bbenkele (unknown) | Access to finance; Rural | 5 | Case Study | 3 | 2 |
| Financing Businesses in Khayelitsha: Needs and Sources (Fact Sheet) | Stellenbosch Business School (USB) (2014) | Access to finance; Khayelitsha | 5 | Survey | 4 | 4 |
| Innovative Finance in Africa (Review) | Bertha Centre for Social Innovation & Entrepreneurship (2015) | Access to finance; Innovation | 4 | Review | 4 | 4 |
| A supply side intervention in support of local economic development (LED) (Policy brief) | Studies in Poverty and Inequality Institute (SPII) (2012) | Local Economic Development; Access to finance | 5 | Review | 3 | 3 |
| The role of South Africa’s state-owned development finance institutions in building a democratic developmental state | Development Bank of Southern Africa (2011) | Access to finance; Role of the State | 5 | Review | 3 | 4 |
| Literature Review on Small and Medium Enterprises' Access to Credit and Support in South Africa | National Credit Regulator (2011) | Access to finance | 5 | Review | 4 | 4 |
| Exploration of impact bonds for results-focused SME development (policy brief) | Department of Planning, Monitoring and Evaluation (2016) | Access to finance; Impact bonds | 5 | Review | 3 | 5 |
| Exploring the Finance Pipelines for Women Owned SMMEs in South Africa | United Nations Development Programme (2016) | Access to finance; Women | 5 | Review and Survey | 4 | 5 |
| Access to Finance for Social Entrepreneurs in South Africa: A Scoping Study | International Labour Organisation (2016) | Access to finance; Social Entrepreneurship | 5 | Review and Survey | 4 | 5 |
| The Developmental Microfinance Sector in SA: Update 2004 | Finmark Trust (2004) | Access to finance; Microfinance | 5 | Review | 3 | 2 |
| Inaugural South African SMME Access to Finance Report | Finfind (2018) | Access to finance; the formal sector | 5 | Survey | 5 | 5 |
| Expanding Access to Finance: Good Practices for Micro, Small and Medium Enterprises (Book) | World Bank (2007) | Access to finance; Good Practice | 4 | Review | 5 | 4 |
| Strengthening Access to Finance for Women-Owned SMMEs in Developing Countries | International Finance Corporation (2011) | Access to finance; Women | 4 | Review | 4 | 3 |
| GEM Special Topic Report 2015-16: Entrepreneurial Finance | Global Entrepreneurship Monitor (2016) | Access to finance; Entrepreneurship | 4 | Survey | 4 | 4 |
| Business environmental influences on the availability of debt to new SMEs in South Africa | Fatoki Olawale, A. Van Aardt Smit (2010) | Access to finance; Operating environment | 5 | Survey  Statistical analysis | 3 | 3 |
| Credit Elasticities in Less-Developed Economies: Implications for Microfinance | Dean S. Karlan and Jonathan Zinman (2008) | Access to finance; Microfinance | 4 | Economic analysis | 4 | 4 |
| Two trillion and counting: Assessing the credit gap for micro, small, and medium-size enterprises in the developing world | IFC and McKinsey (2010) | Access to finance | 4 | Review | 4 | 3 |
| The African Investing for Impact (AIFI) Barometer 2016 | Bertha Centre for Social Innovation & Entrepreneurship (2016) | Access to finance | 1 | Review and Survey | 4 | 4 |
| The impact of gender on SME characteristics and access to debt finance in South Africa. | Garwe, D.K. and Fatoki, O., (2012) | Access to finance; Women | 5 | Survey | 3 | 3 |

3b. Other support

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| Sector –specific support | | | | | | |
| Analysis of the Needs, State and Performance of Small and Medium Businesses in the Agriculture, Manufacturing, ICT and Tourism Sectors in South Africa | SEDA (2012) | Sector-specific; Agriculture; ICT; Tourism; Manufacturing;  Business support | 5 | Review and Survey | 4 | 3 |
| Projected Skills Demand and Supply for the Electrical Energy Sector | Department of Labour (2008) | Sector-specific; Electricity | 2 | Review and Survey | 4 | 2 |
| Sectoral Analysis of the Aerospace Industry in South Africa | Department of Labour (2008) | Sector-specific; Aerospace | 2 | Review and Survey | 4 | 2 |
| The Creative Industries in South Africa | Department of Labour (2008) | Sector-specific; Creative | 2 | Review and Survey | 4 | 2 |
| Tourism Sector Study | Department of Labour (2008) | Sector-specific; Tourism | 2 | Review and Survey | 4 | 2 |
| Research on the Performance of the Agricultural Sector | SEDA (2012) | Sector-specific; Agriculture | 5 | Review and Survey | 4 | 3 |
| Research on the Performance of the Manufacturing Sector | SEDA (2012) | Sector-specific; Manufacturing | 5 | Review and Survey | 4 | 3 |
| Research on the Performance of the Services Sector (Tourism/ICT) | SEDA (2012) | Sector-specific; ICT; Tourism | 5 | Review and Survey | 4 | 3 |
| Research Study to Identify Needs, Opportunities and Challenges of SME’s in the Chemicals and Plastics and Sector | SEDA (2013) | Sector-specific; Chemicals; Plastics; Business support | 5 | Review and Survey | 4 | 3 |
| Research Study to Identify Needs, Opportunities and Challenges of Small and Medium Enterprises in the Traditional Medicine Sector | SEDA (2012) | Sector-specific; Traditional medicine; Business support | 5 | Review and Survey | 4 | 3 |
| Developing tourism SMMEs in South Africa: the need to recognise difference | Christian M Rogerson (2008) | Sector-specific; Tourism | 5 | Survey | 3 | 3 |
| ICTs and small-scale agriculture in Africa: a scoping study | International Development Research Centre (IDRC) | Sector-specific; Agriculture; ICTs | 1 | Review and Survey | 4 | 2 |
| Status of smallholder producers in South Africa 2011/12 | Department of Agriculture, Forestry and Fisheries (2012) | Sector-specific; Agriculture | 5 | Review | 3 | 3 |
| Performance of Small and Medium-sized Enterprises in the Chemical Industry in the Czech Republic – An Exploratory Analysis | Vojtěch Hrubý, Vojtěch Koráb (2018) | Firm Performance; Chemicals | 1 | Correlation analysis | 3 | 2 |
| Unpacking tourism SMMEs in South Africa: structure, support needs and policy response. | Rogerson (2005) | Sector-specific; Tourism | 5 | Review | 3 | 3 |
| Exploring the potential of electronic commerce tools in South African SME tourism service providers | Mbatha (2013) | Sector-specific; Tourism; ICT | 5 | Survey | 3 | 4 |
| Co-operatives needs | | | | | | |
| Evaluation of co-operatives as a developmental vehicle to support job creation and SME development in the waste sector | Department of Environmental Affairs (2015) | Sector-specific; Co-operatives; Waste sector | 5 | Review; case study | 4 | 5 |
| The dti Baseline Study of Co-operatives in South Africa | DTI (2009) | Co-operatives | 5 | Review | 3 | 3 |
| The State of Co-Operatives in South Africa: The Need for Further Research (LMIP WP) | Thembinkosi Twalo (2012) | Co-operatives | 5 | Review | 3 | 3 |
| Co-operative good practice guide in the waste recycling sector: A guideline for co-operatives by co-operatives | Department of Environmental Affairs (2015) | Co-operatives; SMMEs and the Environment: Sector-specific; Waste | 5 | Review and case study | 4 | 5 |
| Cooperatives: has the dream become a nightmare? | Johannes Wessels (2016) | Co-operatives | 5 | Review | 4 | 5 |
| A report on the National Agricultural Cooperatives Indaba | Department of Agriculture, Forestry and Fisheries (2012) | Co-operatives; Agriculture | 5 | Review | 3 | 3 |
| Business support services | | | | | | |
| Evaluation Insights: Evidence and lessons from South Africa’s Jobs Fund on the role and potential of business incubators in creating jobs in South Africa | The Jobs Fund (2016) | Business support | 5 | Review | 3 | 4 |
| Business support for small and medium enterprises in low- and middle-income countries: A systematic review | International Initiative for Impact Evaluation (2014) | Business support | 4 | Review | 4 | 4 |
| Creating jobs in small businesses: Evidence from a systematic review // Interventions for employment creation in micro, small and medium sized enterprises in low and middle income countries – a systematic review | OECD Development Assistance Committee (DAC) (2014) // KfW Studies and Proceedings (2014) | Business support | 4 | Review | 5 | 4 |
| Business development success in SMEs: a case study approach | Helena Forsman (2008) | Business support | 1 | Case study | 3 | 2 |
| Business Relationships as a Driver of Success for Small, Medium, and Micro Enterprises (SMMEs) in South Africa | Dumisani Xesha, Chux Gervase Iwu and Andre Slabbert (2014) | Business support | 5 | Review | 3 | 4 |
| Entrepreneurship Programs in Developing Countries: A Meta Regression Analysis (WB Discussion Paper) | Yoonyoung Cho and Maddalena Honorati (2013) | Entrepreneurship; Business support | 4 | Review  Econometric analysis | 5 | 4 |
| Literature Review on the Impact of Business Incubation, Mentoring, Investment and Training on Start-up Companies | Overseas Development Institute (ODI) (2013) | Business support | 4 | Review | 4 | 4 |
| An evaluation of the economic impact of the local business service centres on small, medium and microenterprises during the period 2001 – 2005. | Dr R Ncwadi & Dr P Le Roux (unknown) | Business support | 5 | Survey | 3 | 2 |
| Supporting Small Business Development in Khayelitsha (Fact Sheet) | Stellenbosch Business School (2014) | Business support | 5 | Survey | 4 | 4 |
| Diversity of Businesses in Khayelitsha (Fact Sheet) | Stellenbosch Business School (2014) | Overview of SMMEs; Business support | 5 | Survey | 4 | 4 |
| Needs and Challenges of Small Business in Khayelitsha (Fact Sheet) | Stellenbosch Business School (2014) | Business support | 5 | Survey | 4 | 4 |
| Players in the Process of Small-Business Support: Khayelitsha (Fact Sheet) | Stellenbosch Business School (2014) | Overview of SMMEs; Business support | 5 | Survey | 4 | 4 |
| Need and Scope for Education and Training in Khayelitsha’s Small-Business Sphere (Fact Sheet) | Stellenbosch Business School (2014) | Business support; Skills | 5 | Survey | 4 | 4 |
| SMME Support via the Provincial Government of the Western Cape (Fact Sheet) | Stellenbosch Business School (2014) | Business support; The role of government | 5 | Survey | 4 | 4 |
| Critical Success Factors Towards SMEs Sustainability in Johannesburg Municipality (research project Gordon Institute) | Diana Zhou (2015) | Firm performance;  Sustainability | 5 | Survey | 3 | 3 |
| The key success factors in growing a small and medium enterprise (SME) in South Africa (GIBS research project) | Shaun Rozyn (2007) | Firm performance | 5 | Survey | 3 | 3 |
| Evaluating the South African Small Business Policy at the Local and District Municipality Level (GIBS Research project) | Jeri-Lee Mowers (2016) | Policy: Business support | 5 | Survey | 3 | 3 |
| Business Rescue, Turnaround and Retention for SMME&C’s: Small Business Distress and Recovery Strategies (Report 2 of 2) | Enterprises UP for DSBD (2017) | Policy; Business support | 5 | Review | 3 | 5 |
| Small medium micro enterprise business goals and government support: A South African case study. | Naicker, V. and Peters, R. (2013) | Business support | 5 | Survey | 4 | 3 |
| Ecosystems of business support | | | | | | |
| The study on the South African Small Enterprise ecosystem | GreaterImpact for DSBD (2017) | Business support; Policy | 5 | Review | 3 | 5 |
| External Environmental Analysis For Small And Medium Enterprises (SMEs) | Heather C. Banham (2010) | Operating environment | 1 | Review | 2 | 2 |
| Global Startup Ecosystem Report 2017 | Startup Genome (2017) | Entrepreneur-ship: start-ups; business support; operating environment | 4 | Review and Survey | 4 | 4 |
| The Ecosystem Perspective of Entrepreneurship in Local Economic Development | Charles Mwatsika (2018) | Local Economic Development | 5 | Review | 3 | 4 |
| Skills / human capital | | | | | | |
| The Impact of Opportunity and Entrepreneurship on Economic Growth: Does Human Capital Matter (Dissertation: Porto University) | Daniela Ribeiro Rodrigues (2018) | Entrepreneurship; Skills | 1 | Econometric analysis | 4 | 3 |
| The Relevance of Operational Skills Towards Business Sustainability: A Focus on SMME Manufacturers in the Vaal Triangle Region | R Naidoo and B Urban (2010) | Skills; Sustainability | 5 | Review,  survey and statistical analysis | 4 | 3 |
| Business Relationships as a Driver of Success for Small, Medium, and Micro Enterprises (SMMEs) in South Africa | Dumisani Xesha, Chux Gervase Iwu and Andre Slabbert (2014) | Business support | 5 | Review | 3 | 4 |
| The role of skills and education in predicting micro-enterprise Performance. | Steenkamp, F. and Bhorat, H., (2016) | Skills; Micro-enterprises | 5 | Econometric analysis | 4 | 4 |
| Exploring the potential of electronic commerce tools in South African SME tourism service providers | Mbatha (2013) | ICT; Tourism | 5 | Survey | 3 | 4 |
| Supporting innovation | | | | | | |
| Report of the Joint Task Team on the Research and Development Tax Incentive | Department of Science and Technology (2016) | Access to finance; Innovation  Intervention Assessment | 5 | Govern-ment Task Team | 4 | 5 |
| Implementation and Impact Evaluation of the Technology and Human Resources for Industry Programme (THRIP) | Department of Planning, Monitoring and Evaluation (2015) | Innovation  Intervention Assessment | 5 | Evaluation; Survey | 4 | 5 |
| Global Startup Ecosystem Report 2017 | Startup Genome (2017) | Entrepreneur-ship: start-ups; business support; operating environment | 4 | Review and Survey | 4 | 4 |
| Supporting SMMEs to be sustainable environmentally | | | | | | |
| A review of interventions to encourage SMEs to make environmental improvements | Craig M. Parker, Janice Redmond and Mike Simpson (2009) | SMMEs and the Environment | 1 | Review | 4 | 2 |
| The emergence of biosphere entrepreneurship: are social and business entrepreneurship obsolete? | Howard H. Frederick (2018) | SMMEs and the Environment | 1 | Review | 3 | 2 |
| Supporting women-owned SMMEs (excluding finance studies) | | | | | | |
| Empowerment of Women through Entrepreneurial Activities of Self-Help Groups in Bangladesh | Aysha Akter et al. (2018) | Women; Entrepreneurship | 1 | Survey | 3 | 2 |
| Women Entrepreneurship: How to Reconcile Professional Life and Private Life | Nadira Bessouh and Amina Merabet (2018) | Women | 1 | Survey and statistical analysis | 3 | 2 |

Overview papers / papers that cover multiple areas:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| Global Entrepreneurship Monitor 2016/17 Global Report | Global Entrepreneurship Monitor (2017) | Overview of SMMEs; Entrepreneur-ship | 5 | Survey | 4 | 3 |
| Global Entrepreneurship Monitor 2015/16 Global Report | Global Entrepreneurship Monitor (2016) | Overview of SMMEs; Entrepreneur-ship | 5 | Survey | 4 | 3 |
| Global Entrepreneurship Monitor 2015/16 South African Report | Global Entrepreneurship Monitor (2016) | Overview of SMMEs; Entrepreneur-ship | 5 | Survey | 4 | 3 |
| Africa's Young Entrepreneurs: Unlocking the Potential for a Brighter Future | Global Entrepreneurship Monitor (2015) | Entrepreneur-ship; Youth | 5 | Survey | 4 | 3 |
| Issues in SME Development in Ghana and South Africa | Joshua Abor and Peter Quartey (2010) | Overview of SMMEs | 5 | Review | 3 | 3 |
| Entrepreneurship and SME Policy (World Entrepreneurship Forum 2008) | D.J. Storey (2008) | Entrepreneurship; Policy | 1 | Review | 3 | 4 |
| 2016 NSBC Small Business Survey findings | National Small Business Chamber (2016) | Overview of SMMEs | 5 | Survey | Survey details not given | Survey details not given |
| DSBD Research Agenda | IQ Business for Department of Small Business Development (DSBD) (2017) | Research Agenda | 5 | Review | 3 | 5 |
| Annual Review of Small Businesses in South Africa 2007-2014 | Urban Econ for DSBD (2015) | Overview of Small Businesses | 5 | Review and Survey | 3 | 4 |
| Annual Review of Small Businesses in South Africa 2016 | DSBD (2016) | Overview of Small Businesses | 5 | Review | 4 | 4 |
| SMME employment in South Africa. | Amra, R., Hlatshwayo, A. and McMillan, L., (2013) | Overview of SMMEs; Employment | 5 | Econo-metric analyis | 4 | 4 |
| SMMEs in South Africa: Understanding the Constraints on Growth and Performance. | Bhorat, H., Asmal, Z., Lilenstein, K. and Van der Zee, K., (2018) | Overview of SMMEs; Constraints | 5 | Review and descriptive analysis | 4 | 5 |
| Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. | Olawale, F. and Garwe, D., 2010 | Overview of SMMEs; Constraints | 5 | Statistical analysis | 3 | 3 |

Not SMME specific (context relevant)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Report Title | Author | Themes | Relevance | Approach / Method | Quality | Validity |
| The Status of Women in the South African Economy | Department of Women (2015) | Women | 3 | Review | 4 | 4 |
| Brand South Africa Youth Update 2016 | Brand South Africa (2016) | Youth | 3 | Review | 3 | 3 |
| Supporting economic transformation: An approach paper | Overseas Development Institute (ODI) (2017) | Structural transformation | 1 | Review | 5 | 4 |
| Trade in services and economic transformation: A new development policy priority | Overseas Development Institute (ODI) (2017) | Structural transformation | 1 | Review | 5 | 4 |
| Africa's Cities: Opening Doors to the World | World Bank (2017) | Policy; Operating environment | 4 | Review | 5 | 4 |
| Twenty Year Review South Africa 1994 - 2014 | Department of Planning, Monitoring and Evaluation (2014) | Overview of South Africa; Government | 3 | Review | 4 | 4 |
| Midterm Review of the Priorities of Government | Department of Planning, Monitoring and Evaluation (2012) | Overview of South Africa; Government | 3 | Review | 4 | 4 |

Note: TIPS has also published a SMME bibliography online that has been compiled by Graham Sherbut (http://www.tips.org.za/tips-resources/smme-bibliography). It focuses on Small Business Development in South Africa, particularly government support measures, institutional frameworks, and entrepreneurial growth initiatives. The annotated bibliography contains a list and description of 47 SMME research outputs up to 2011. We have not reviewed these research outputs as part of this review due to time constraints, the fact that many of these are considerably old and the fact that some of these are not publicly available at present. However, it may be worth looking into adding these research outputs to the repository for providing context for more recent and valid content at the very least.

Annexure B: Summary of research reports not currently in the repository

**Amra, R., Hlatshwayo, A. and McMillan, L., 2013, September. SMME employment in South Africa. *Biennial Conference of the Economic Society of South Africa, Bloemfontein*.**

SMMEs have often been the target of employment-related policy as it is believed that there is a negative relationship between firm size and employment potential: In essence, the smaller the firm, the more labour-intensive it is, and as a result, the greater the opportunity for employment growth. In South Africa, however, research has shown that it is in fact large firms that contribute more substantially to employment growth (Kerr et al., 2013), and as a result this paper aims to investigate the determinants of SMME employment in South Africa and how policies aimed at increasing SMME employment should be structured.

A critical distinction made in this paper is the fact that the majority of datasets used for firm-level studies in the past had focussed purely on the formal sector. However, to reflect the true nature of SMMEs in South Africa, the informal sector should be included in the investigation. Results of the investigation run using QLFS data from 2008 and 2013 show that SMME employment trends are different whether the firm is located in the formal or informal sector, and as a result of this heterogeneity, different policies need to be recommended depending on the objectives of the policy. For example, SMMEs in the informal sector hire predominantly lower-skilled individuals with low educational attainment, while SMMEs in the formal sector tend to hire more highly educated and highly-skilled workers. The implication of this is that policy related to SMMEs must be carefully targeted: For example, if one were aiming to increase low-skill hires, then SMMEs hiring fewer than 10 employees should be targeted, whereas increasing high-skilled employment in SMMEs would require targeting SMMEs hiring between 10 and 49 employees.

This paper presents a number of results that include – but are not limited to – discussions on skills, education, the sector of the SMME and the nature of the employment contract. The results can be used to inform policy on job creation in SMMEs in South Africa, with a particular focus on how policy can be crafted to target particularly vulnerable groups in the economy.

**Bhorat, H., Asmal, Z., Lilenstein, K. and Van der Zee, K., 2018. SMMEs in South Africa: Understanding the Constraints on Growth and Performance. Development Policy Research Unit Working Paper 201802. DPRU, University of Cape Town.**

The growth of SMMEs in South Africa is of key concern to policymakers, and this paper aims to investigate the key inhibitors of SMME growth in the South African context. As a starting point, this paper provides a profile of South African SMMEs before investigating what factors constrain these firms’ growth.

The characteristics of SMMEs are presented along three broad categories – namely: firm, owner and employee characteristics – while simultaneously distinguishing between formal sector and informal sector SMMEs, in order to provide the most accurate picture of the South African marketplace. This discussion provides a relatively comprehensive view of the state of SMMEs in the South African context, before moving on to a detailed report of the potential factors that are identified as inhibiting SMME growth.

In order to identify factors that firms self-identified as inhibiting their growth, this paper makes use of firms’ self-reported constraints as reported in the FinScope 2010 data. A simple ranking procedure was carried out, which investigated growth constraints across various firm size bands. A striking conclusion from this ranking exercise is that although infrastructure, access to finance, and competition are reported as key growth constraints, there remains a great deal of heterogeneity among SMMEs in the South African context. This paper recommends that policies which aim to support SMMEs should take account of these differences when crafting economic policies.

The paper concludes with a brief note on the fact that uptake of support policies targeting SMMEs has been low and identifies lack of information as a key cause of this. Results presented in this paper would be useful in assisting policymakers in understanding what factors they need to target if they aim to grow SMMEs in a South African context going forward.

**Cant, M.C. and Rabie, C., 2018. Township SMME sustainability: a South African Perspective. *Acta Universitatis Danubius. Œconomica*, *14*(7).**

SMMEs have been identified as crucial engines to encourage economic growth, however, little research has been done specifically on SMMEs in South African township areas. This paper identifies that South African townships are home to a large number of SMMEs and aims to investigate the perceived growth trajectories and constraints faced by these firms. A survey was conducted on a sample of 498 SMME owners across 86 different townships in an attempt to determine what potential avenues for growth and expansion presented themselves to township-based SMMEs.

In general, the respondents indicated that they were optimistic about the survival of township-based SMMEs, with almost 80% of owners indicating that they felt they would be able to remain in business for the coming 3-5 year period. In addition to this, respondents were asked to indicate what types of businesses they would like to see open, in an attempt to determine what sort of business plans should receive support. This is an important consideration, as many respondents indicated that a lack of financial means and infrastructure was a key constraint in their expansion or growth plans. As a result, it is crucial for policymakers to be aware of what needs could be serviced by township-based SMMEs, and to direct target these businesses in order to grow the economy and decrease unemployment.

This paper indicates that institutions should be taking advantage of the current optimism regarding the survivability of township-based SMMEs and leverage this to encourage growth and development of small businesses. Furthermore, this paper provides insights into exactly what types of business and market would benefit most from external support measures, thus providing government with a community-based assessment of which types of SMMEs should receive the most support. This information is extremely valuable, especially given that SMMEs are, by their nature, heterogenous, and require targeted policy in order to provide desirable results.

**Garwe, D.K. and Fatoki, O., 2012. The impact of gender on SME characteristics and access to debt finance in South Africa. *Development Southern Africa*, *29*(3), pp.448-461.**

Access to financing is a key challenge facing SMMEs, and this paper aims to investigate whether access to financing presents different challenges to men and women. In particular, this paper investigates whether there are differences in the demand for credit by male-owned and female-owned SMMEs, and whether this credit is provided to one group more readily than another. The research methodology takes the form of a self-administered survey conducted on SMMEs in the Eastern Cape.

Although the results of the paper indicate that there is no gender discrimination present in the awarding of loans to SMME owners, other interesting results do come to light: although men and women are equally likely to be awarded a loan, women are significantly less likely to apply for loans in the first place. Results show that if the owner of an SMME is female, she is less likely to have collateral available, will generally own a smaller firm, and will have a lower educational attainment than her male counterpart. This is indicative that although female-owned SMMEs have great potential to grow, this potential is not being realised due to a lack of applications for credit on the part of female owners.

This paper provides a good starting point for the discussion surrounding gender-specific interventions in the development of SMMEs, and provides a stepping stone to future research on this topic. Although policies are recommended in this paper, further research following in this method will help to construct a fuller picture of SMMEs’ access to credit, and how best to craft policy to encourage greater female development and growth in the sector.

**Mbatha, B., 2013. Exploring the potential of electronic commerce tools in South African SME tourism service providers. *Information Development*, *29*(1), pp.10-23.**

Technology is an important factor in the current economy, and the adoption of e-commerce tools, such as websites, email communication and online databases, is of critical importance. This paper aims to investigate the rate of diffusion and adoption of e-commerce tools among SMMEs in the tourism sector in Pretoria. The study utilised a self-administered questionnaire to determine what types of e-commerce tools SMMEs in Pretoria had already adopted, and why they had done so. Furthermore, the challenges faced in adopting e-commerce tools were interrogated.

The adoption of e-commerce tools by businesses is considered an important factor that contributes strongly towards positive growth and international competitiveness for SMMEs. This is because a firm that makes use of technology to advertise on the internet, for example, is able to attract new customers and sell their product with much lower advertising expenditure, thus increasing their competitiveness. The results of the survey show that the majority of the sampled firms were making use of e-commerce tools for precisely these reasons: Sampled firms indicated that their primary reasons for adopting e-commerce tools included connecting with new customers, broadening their market reach and to reduce costs. However, firms also reported that for the most part, they struggled to find employees with the technical know-how to operationalise these e-commerce tools.

This study thus provides a starting point for policymakers and shows that there is demand among SMMEs for employees who are in possession of ICT-related skills. This result could assist government in targeting their training policies towards ICT-related skills in order to assist SMME development in the future. Other results regarding the challenges faced by SMMEs in their adoption of technology are also presented in the paper, which can also assist in guiding government policy.

Finally, although this paper provides interesting conclusions, it is limited in its choice of sample being unrepresentative of the SMME landscape in South Africa. As a result, this paper could serve as a starting point for future research to be done which is more nationally representative and as a result, provide a better recommendation for national policy as regards e-commerce tools.

**Olawale, F. and Garwe, D., 2010. Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. *African journal of Business management*, *4*(5), pp.729-738.**

In this paper, the factors that inhibit growth of SMMEs are investigated, and the most important of these are teased out by means of principal component analysis. The research methodology employed in this case includes firm surveys and the sample of firms comes from the Eastern Cape.

This paper provides an initial investigation into exactly what factors inhibit the growth of SMMEs. While the paper utilises a sample that is not nationally representative, the research methodology suggests an approach to investigating the SMME sector which could be extremely powerful if conducted on a national scale. Factors that were found to inhibit the growth of SMMEs were primarily financial and included factors such as lack of access to finance, lack of collateral and insufficient government support. Further factors were found as also inhibiting SMME growth (such as high inflation rates, high interest rates, lack of skills and experience, etc.) and these results could inform what South African small business policy should focus on. By making use of a similar methodology, but focussing on the entirety of South Africa, one can determine the factors that are identified as most inhibiting to SMME growth nationally. Once these have been identified, institutions are in a position to make targeted policies which deal with the problems that SMME owners have identified as needing attention.

**Naicker, V. and Peters, R., 2013. Small medium micro enterprise business goals and government support: A South African case study. *South African Journal of Business Management*, *44*(4), pp.13-24.**

Over the course of the past 20 years, there have been a number of government initiatives which have aimed to grow the SMME sector in South Africa. In this paper, a survey of SMME firms in Kwa-Zulu Natal was undertaken to determine the level of success of these various initiatives. Respondents were asked to provide information on the nature of the firm, their awareness and uptake of government support measures, as well as reflections on the successes and failures of the policies. This paper used employment creation and turnover growth as proxies for growth in the SMME sector in order to determine whether the initiatives have had a real impact on small businesses.

The results indicated that there was very little evidence to suggest that the initiatives enacted by the government have had a significant effect on growing the SMME sector in Kwa-Zulu Natal. Based on the responses from firm owners, the paper concludes that this result could be due to lack of awareness of the programmes on the firm’s side. This investigation into the performance of government initiatives is crucial in assessing the impact of policy and provides a point of departure for institutions to re-evaluate their policies and consider amendments and revisions to their current programmes. This paper is useful in that it identifies the successes and failings of the policy programmes in action in 2013 from the point of view of the business owners that are being targeted by policy. This provides a very useful insight into SMME development programmes which should probably be updated regularly to ensure that the desired outcomes are being achieved.

**Rogerson, C.M., 2005. Unpacking tourism SMMEs in South Africa: structure, support needs and policy response. *Development Southern Africa*, *22*(5), pp.623-642.**

The tourism industry is extremely important to the growth of the South African economy, having shown strong growth in employment potential as well as contributions to GDP (Monitor, 2004). Given that the tourism sector comprises potentially upwards of 50 000 SMME firms, it is thus crucial that development policies that target the tourism industry are appropriate. Thus, this paper presents a qualitative analysis of the tourism sector to contextualise the constraints that are faced by SMMEs in the tourism sector, differentiating by whether one is considering an established or an emerging firm.

The discussion of the constraints faced by each of these types of firms brings to light the need to have different policies available that target the different challenges faced by different types of SMME in the tourism industry. Although this paper does not provide any quantitative analysis of SMMEs in the tourism sector, it is still a useful descriptive overview of the sector and the challenges faced by SMMEs in the tourism sector. This paper could be useful in contextualising policy discussions, although it does not provide anything in the way of rigorous econometric method to build off.

**Rogerson, C.M., 2006. Developing SMMEs in peripheral spaces: the experience of Free State province, South Africa. *South African Geographical Journal*, *88*(1), pp.66-78.**

The aim of this article is to investigate the performance of SMMEs located in the Free State province of South Africa. In particular, there is a view that the Free State has battled economically, and as a result, the development of SMMEs may assist in bolstering the economy. In particular, this paper aimed to make use of a survey methodology to investigate the profile of current entrepreneurs, the constraints and support needs that these firms were facing, as well as their overall business performance. This investigation was carried out over SMMES representing a number of different industries.

In general, findings seemed to indicate that SMMEs were established in order to combat joblessness and retrenchment of workers – a finding that is in line with the statement that the Free State has been experiencing economic hardships. Furthermore, SMME owners faced challenges particularly in a lack of access to financing and credit, which has not been alleviated through the provision of support policies; in fact, the provision of support policies, while well-intentioned, has not had the desired impact on SMMEs in the Free State as there is a decided lack of awareness of the policies in place to support SMME firm owners. This finding, however, dates to a survey conducted in 2003, and it is possible that awareness of funding programmes and support mechanisms has increased over time, however, it remains an important question to investigate regularly. As a result, this paper may be useful to policymakers as providing a framework for a review of support programme uptake across the SMME sector, which should be repeated at regular intervals (perhaps every 5 years).

**Chamberlain, D. and Smith, A., 2006. Recent findings on tax-related regulatory burden on SMMEs in South Africa: Literature review and policy options.**

Encouraging the growth of SMMEs is an important policy objective for South Africa, and this paper considers the suggestion that the process for streamlining tax procedures for small businesses may lead to greater growth amongst these firms. This paper is set up as a meta-review of, in essence, three reports which have been compiled based on evidence surrounding the tax regulation challenges that have been faced by small businesses. These reports were compiled by SARS, the dti and SBP, and are reviewed in great detail here.

General conclusions of this report find that in 2006, the average cost for tax compliance for small businesses was between R6000 and R8000 annually (estimated through the Mistral approach), which could have substantial impacts on small businesses and their growth and development. As a potential solution to this difficulty, recommendations have been made to streamline SARS and iron out inefficiencies within the procedures outlined by the Receiver. However, a conclusion of this paper is that while interventions to streamline taxation procedures may assist small businesses, there are also inefficiencies that arise on the part of the firm itself, thus requiring interventions (such as increased education on the part of business owners) may be more beneficial to assisting SMMEs.

This kind of study would be very useful to replicate in the current South African economic climate. As a result, it makes sense to potentially use this paper as a baseline which can be built on to assess the cost of regulation on small businesses today. This updated study would help policymakers target the factors causing inefficiencies in the current market, and would thus assist in ensuring that the correct challenges are considered when forming SMME-focussed policy in the future.

**Bhorat, H. and Naidoo, K., 2015. Exploring the relationship between crime-related business insurance and informal firms' performance: A South African case study. *Unpublished manuscript, Development Policy Research Unit, University of Cape Town*.**

In a country such as South Africa, where the incidence of crime is relatively high, it is important to understand how this may impact on business development; especially SMMEs. This paper aims to investigate and understand the obstacles and risks that SMMEs face in South Africa (particularly risks related to criminal activity), and what kind of insurance has been taken to mitigate these risks. As a result, this paper provides an analysis of the factors that drive the incidence and cost of crime against these enterprises.

By using the 2012 World Bank Diepsloot Enterprise Survey, this paper finds that crime is a very important business environment obstacle for firms in the informal economy in Diepsloot, Gauteng. Criminal activity emerges as a more important obstacle than many other oft-reported challenges, such as access to credit, or lack of infrastructure. This is telling in and of itself, however, when coupled with the fact that criminal activity is most likely to affect those firms who are on the verge of breaking out of the informal sector and into the formal sector, it can be seen that crime truly does inhibit the growth of SMMEs. Furthermore, in an investigation into whether or not firms take out insurance against this risk, it was found that there was a strongly positive relationship between firm turnover and insurance uptake (potentially because of the fact that those firms with higher turnover are more targeted by criminal activity). However, other covariates of interest that affected the uptake of insurance included the education and financial literacy of the owner, as well as access to credit. It is also interesting to note that those firms who were approached by insurance providers were also significantly more likely to take up insurance.

These results may be useful in designing policy for the development of SMMEs in South Africa. In particular, access to credit being a constraint to firms being able to take out insurance suggests that there is a strong inter-relatedness between the market for credit and the market for insurance. This relationship may prove useful if government aims to create policy that targets insurance uptake amongst SMMEs. As a result, this paper is useful from a policy-crafting perspective as it provides an interesting insight into some of the risks that crime pose to emerging businesses in South Africa, as well as providing an explanation of what factors should be addressed in order to assist business owners to grow and expand their firms in the future.

**Charman, A., 2016. The South African Township Economy and Informal Micro-Enterprises: What are the Prospects for Youth Employment and Entrepreneurship?**

This policy brief is aimed at summarising the potential for youth employment and entrepreneurship in the township and informal micro-enterprise economies of South Africa. As a policy brief, this paper is condensed and aimed at providing a succinct overview of some key results that can be used as a guide for policymakers.

This paper indicates some of the areas in which youth may exhibit business success, which include that youth may translate their hobbies into enterprise (such as DJing, music-making and designing), or that youth with jobs may opt to establish or invest in formal micro-enterprises to safeguard their incomes. As a result, the paper suggests that policies enacted by the government should take the form of providing youth with exposure to tools and technologies that will aid productive efficiency, such as ICT equipment, and also providing youth with specialised business education which deals specifically with how one could develop a micro-enterprise that originates from a hobby-like activity. Furthermore, where youth are seen to have been brought into family businesses, the paper suggests that these youth may also benefit greatly from these policy interventions, perhaps as a means of encouraging growth in the business they are currently working in.

**Steenkamp, F. and Bhorat, H., 2016. The role of skills and education in predicting micro-enterprise Performance. *LMIP Report*, *26*.**

In focussing on the development of SMMEs, it is important to consider various factors that can contribute to firm growth. One of these avenues which has proved to be very important is education and skills, and as a result, this paper examines the determinants of SMME performance in South Africa, particularly the role played by education and skills.

To begin, the paper provides a human capital profile of SMME owners in terms of both formal education and more specific skills. Thereafter, an econometric analysis of firm performance is conducted along two metrics for firm performance: financial performance and access to market opportunities (proxied for by whether a firm submits applications for tenders or not). The results of this investigation support the findings in the literature: that education and skills are incredibly important determinants of firm performance for SMMEs in South Africa. One particular finding from the paper concerns the importance of an SMME owner having a post-matric education, and how this has very large positive impacts on firm performance. For example, having a post-matric education can increase the monthly turnover of a firm by between 189 percent and 309 percent. Given that more than two-thirds of SMME owners have less than a completed secondary education, this finding is key to assisting policymakers target education as an intervention necessary to develop the SMME sector in South Africa.

This paper is thus an important paper in that it contributes considerably to research on how education and skills can be leveraged to increase performance and encourage growth of SMMEs in South Africa. However, as the authors point out, educational policy is but one part of a broader policy strategy that should be adopted when targeting SMMEs. There are myriad other factors that affect SMME growth, and while education is shown to be an important factor, it is by no means the only one. This paper, however, does provide a strong insight into how one could begin crafting policy that focusses on this particular arm of policy, and as such, adds to the discussion surrounding SMME policy interventions.

**Rankin, N., 2006. The Regulatory Environment and Smmes-Evidence from South African Firm Level Data. Development Policy Research Unit Working Waper 06/113. September 2006.**

In this paper, an investigation into the impact of government regulation of SMME functionality, growth and employment prospects is undertaken. A number of different regulations are investigated in this paper, including, but not limited to labour regulations, trade policy regulations, the predictability of regulatory application, and the costs of regulation. This paper made use of four independent cross-sectional data sources in order to complete its analysis. While this analysis is still very powerful using the pre-collected data, the author does point out that this can be limiting in the scope of investigation which can be undertaken. As a result, it may be prudent to consider conducting surveys to collect this data oneself should one attempt to launch a large-scale investigation into the impact of government regulation.

The findings of this paper suggest that labour market regulations are the largest inhibitors of growth for SMMEs, and they constrain growth particularly amongst smaller firms. Smaller firms are also faced with higher per-worker costs of regulation, and as such, they are most likely to find the cost of regulation to be prohibitive to growth over time. This is particularly the case given that labour market regulations are found to be a constraint to firm investment, which could be particularly problematic for small firms, where they may not be as much capital readily available to invest. Further findings indicated that almost half of all firms found that the application and implementation of regulation was unpredictable, with varying interpretations being actioned by various authorities. This is of concern, as unpredictable enforcement of regulation can undermine growth strategies for firms in the market.

This paper has conducted a very comprehensive investigation into the government regulations that were deemed to be particular inhibitors to growth, however, it is worth noting that the paper was written in 2006. As a result, the policies that have been investigated may well be outdated now. Thus, this paper is useful as a framework which can be updated and reapplied in the current time to assess the effectiveness of government policy for SMMEs. This paper provides a very detailed overview of the investigation into each of the policies they chose, and as a result, it could possibly be used as a detailed guide for updating the investigation to more current issues facing SMMEs in today’s economy.

**SBP, 2008. The Impact of Crime on Small Business: Executive Summary. Presidency Report.[[11]](#footnote-11)**

This paper aims to summarise the findings from a report written by SBP. In particular, this executive summary focusses on the findings of the SBP paper that deal with the following three questions:

1. How likely are small and emerging businesses to be victims of crime?
2. What types of crime are most frequently experienced?
3. How does crime constrain small business development and growth?

Based on a survey of approximately 446 small and emerging businesses, based in Durban, Cape Town or the Greater Johannesburg area, this paper finds that crime can have devastating effects on small and emerging businesses. Findings include that approximately 70% of individuals feel vulnerable to crime while at work in these areas, while 54% of businesses indicated that they had experienced at least some form of crime in the past year. The majority (60%) of these crimes were burglary or robbery, but the cost of crime was nevertheless high, with small businesses experiencing a cost of approximately 20% of turnover – a cost that could force them to close down due to a lack of profitability.

This summary also provides certain recommendations that could be used by government or policymakers to assess the progress that has been made in securing AMME development in South Africa since the publication of this report in 2008. In a way, this paper provides a checklist of policy points that should be focussed on in order to protect small businesses from being victims of crime in the future. If, on the other hand, it is found that policy has been implemented across all fields recommended here, it is possible to use this paper as a framework to conduct further investigation into the effect that crime has had on SMMEs in South Africa. This would allow for a comparison over time to assess the effectiveness of the policy that has already been implemented and perhaps allow for the development and update of existing policy to better suit the needs of SMMEs in townships and informal settlements, where individuals are most vulnerable to crime.

1. We draw from feedback from the roundtable in this event also in this regard (the major feedback of this event is summarized in Section 7 of this report). We note however that the gaps identified require validation from the Department itself before being incorporated into a research agenda. [↑](#footnote-ref-1)
2. Department of Small Business Development. (2018). Annual Report 2017/18. Accessible at: <http://www.dsbd.gov.za/?wpdmpro=dsbd-201718-annual-report-final> [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)
4. Note that some of the relevant themes noted in Table 7, such as women, youth and specific sectors, are cross-cutting across all three of the consolidated areas. [↑](#footnote-ref-4)
5. The 2016 Annual Review is not part of the repository currently; previous reviews are however presently included. We have reviewed this 2016 review and the 2007-2014 Review (the latest review in the repository) as part of the review of research only. We focus here on the latest findings and recommendations made in the 2016 report only. [↑](#footnote-ref-5)
6. See <https://www.sanews.gov.za/features/sars-cutting-edge>. [↑](#footnote-ref-6)
7. This sub-theme relates to location of businesses and the sectoral and infrastructural implications of this [↑](#footnote-ref-7)
8. This is now the Companies and Intellectual Property Commission (CIPC). [↑](#footnote-ref-8)
9. See https://www.businesslive.co.za/bd/national/2019-07-04-draft-public-procurement-bill-before-cabinet/ [↑](#footnote-ref-9)
10. It is noted by the DSBD that the Act also introduces a more flexible definition for small business, and also introduces a definition for medium business as well. However, this is in contrast to the recently reviewed Schedule 1 of the National Small Enterprises Act and may need to be challenged. The Competition Amendment Bill refers to Small and Medium Enterprises (SMEs); and the National Small Enterprise Act refers to Small, Medium and Micro Enterprises (SMMEs). [↑](#footnote-ref-10)
11. If possible, the full report should be added to the repository as well. We have only been able to access the executive summary. [↑](#footnote-ref-11)