

# Report on the Evaluation of the Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises (ISPESE)

FULL REPORT

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National Evaluation Plan Report



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## Glossary

AIDC	Automotive Industry Development Centre
AIU	Agribusiness Investment Unit
APP	Annual Performance Plan
BATC	Business Advisory Technical Committee
BDS	Business Development Services
BSM	Business Sophistication Measure
CASIDRA	Cape Agency for Sustainable Integrated Development in Rural Areas
CCDI	Cape Craft and Design Institute
CHTP	Cape Health Technology Park
CIC	Cape Investor Centre
CIDB	Construction Industry Development Board
CSD	Central Supplier Database
CTAA	Cape Town Air Access
DAFF	Department of Agriculture Forestry and Fisheries
DED	Department of Economic Development
DEDAT	Department of Economic Development and Tourism
DESTEA	Department of Economic, Small Business Development, Tourism & Environmental Affairs
DMO	Destination Marketing Organisation
DPME	Department of Performance Monitoring and Evaluation
DSBD	Department of Small Business Development
DSD	Department of Social Development
DST	National Department of Science & Technology
DTI	Department of Trade and Industry
EAP	Export Advancement Programme
ECIC	Export Credit Insurance Corporation
FDC	Free State Development Corporation
FET	Further Education & Training
FMP	Film and Media Promotion
GDARD	Gauteng Department of Agriculture and Rural Development
GDED	Gauteng Department of Economic Development
GDP	Gross Domestic Product
GDPR	Gross Domestic Product per Region
GEP	Gauteng Enterprise Propeller
GGDA	Gauteng Growth and Development Agency
GPG	Gauteng Province Government
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
ILO	International Labour Organisation
IPU	Investment Promotion Unit
ISPESE	The Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises
LADC	Limpopo Agricultural Development Corporation
LED	Local economic development
LEDET	Limpopo's Department of Economic Development, Environment & Tourism
LIMDEV	Limpopo Economic Development Enterprise
MEC	Member of the Executive Committee
MFI	Micro Finance Institution
MOU	Memorandum of Understanding
MTSF	Medium Term Strategic Framework

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NDP	National Development Plan
NEF	National Empowerment Fund
NHBRC	National Home Builders Registration Council
NYDA	National Youth Development Agency
OFDI	Outward Foreign Direct Investment
PFMA	Public Finance Management Act
PGDS	Provincial Growth and Development Strategy
PSG	Provincial Strategic Goals
PSP	Provincial Strategic Plan
R & D	Research & Development
RU	Research Unit
SARS	South African Revenue Services
SDBIP	Service Delivery and Budget Implementation Plan
SEDA	Small Enterprise and Development Agency
SEFA	Small Enterprise Finance Agency
SETA	<i>Sector Education and Training Authority</i>
SMME	Small, Medium and Micro Enterprises
SPV	Special Purpose Vehicle
SWOT	Strengths, Weaknesses, Opportunities & Threats
TEP	Tourism Enterprise Partnership
TIH	The Innovation Hub
TIL	Trade and Investment Limpopo
TMR	Transformation, Modernisation and Re-Industrialisation
TPU	Trade and Promotion Unit

## 1. Executive Summary

### 1.1. Introduction

The SMME sector in South Africa has been historically constrained by the legal and regulatory environment, access to markets, access to finance, the acquisition of skills and managerial expertise, access to appropriate technology, the tax burden, and access to quality business infrastructure in poor areas (DTI, 2005).

To address these challenges, and to coordinate the activities of all public and private sector institutions working to support SMMEs, the *Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises* (“the Strategy” or the “ISPESE”) was developed by the DTI and approved by Cabinet in 2005.

The Strategy is based on three strategic actions or pillars:

- **Strategic Pillar 1: Increase supply for financial and non-financial support services.** This involves promoting *collaborative approaches* and streamlining resources from the public sector and crowding-in private sector resources.
- **Strategic Pillar 2: Creating demand for small enterprise products and services.** This involves *new policy directives* and a public sector procurement strategy and BEE codes of good practice as a lever for increased demand.
- **Strategic Pillar 3: Reduce small enterprise regulatory constraints.** This involves *creating an enabling environment* and establishing a regulatory impact assessment framework and business environment monitoring mechanism.

These strategic actions are to be underpinned by the improved availability of quality business information and knowledge through expanded research and communications outreach.

The purpose of the evaluation was to assess (1) the design and coherence of the Strategy, and the extent to which it was likely to contribute to its stated outcomes, and (2) whether the Strategy was implemented as planned, reached its intended beneficiaries, and achieved its intended outcomes. The project was carried out in nine stages over a 13-month period. This included a review of the available literature and data, the development of a programme theory of change, three country benchmarking studies, and national and provincial consultations.

### 1.2. The programme

The DTI’s Review of Ten Years of Small Business Support in South Africa 1994 to 2004 served to identify the constraints and institutional shortcomings that hampered the development and growth of SMMEs. It was recognised that a new, comprehensive and cohesive approach was required to address these constraints. This culminated in the development and implementation of the Strategy.

Noting that the Strategy did not have a theory of change (ToC), one was developed around the activities and outputs that are outlined in the ISPESE (see Figure 3). The evaluation indicates that the theory of change constructed around the Strategy is sound. Specifically, the ToC articulates the critical point that all of the strategic outputs need to be delivered in order for any meaningful change to be effected in the SMME ecosystem in general, and at the enterprise level in particular. The evidence suggests that in many areas there are key gaps which have undermined the effectiveness of the ISPESE. Additionally, a number of critical

assumptions with respect to the policy context, effective inter-governmental coordination as well as broader economic environment have not held and impeded the Strategy's achievement of its outcomes.

### 1.3. Policy and data review

SMMEs form a vital part of South Africa's economy and the government has invested extensively in developing a wide-ranging institutional framework and has implemented numerous programmes and initiatives over the last two decades to provide support to small businesses.

Despite these efforts, there is still insufficient knowledge about the dynamics of SMMEs in South Africa and their characteristics, and how these change at different points in their growth cycles. However, the available evidence points to a situation that is troubling:

- The contribution of SMMEs to investment and economic growth has been stagnant at best for the period 2004-2015.
- Smaller firms employing less than 50 people are becoming less important as job creators.
- Skills shortages, coupled with strict labour laws, have limited the ability of these firms in South Africa to raise competitiveness and employment, leaving a vast majority of the population with little other alternative than to find income through alternative (informal) means.
- The cooperative sector seems to have experienced rapid growth over the period. However, this has not translated into financially viable and autonomous entities.
- The environment in which SMMEs operate has become increasingly challenging and there is an ongoing need for reforms of the business environment. SMMEs also appear to be more burdened than that of their larger counterparts.

### 1.4. Lessons from the benchmarking study

The three benchmarking countries present different experiences in the development and support of SMMEs. Nevertheless, across all three economies, SMMEs account for the vast majority of enterprises and employment. It is therefore unsurprising that SMME policies and programmes receive significant priority and funding; and that substantive and stand-alone small business support organisations have been established in all three countries:

- **Brazil** has invested heavily in technology and innovation, in strong partnership with both the private sector and the higher education system. SEBRA, the main SMME support organisation, is also a public-private partnership, which is partly funded by a dedicated payroll tax.
- **Malaysia** has been at the forefront of SMME development – and its numerous policies and programmes have been specifically targeted at the poorest 40% of households and the indigenous Bumiputra community. The role and importance of SMMEs in Malaysia are embedded throughout the five-yearly national development plans.
- In **Turkey**, small business policy has been strongly influenced by its proximity to the EU, and the government places an emphasis on governance, competitiveness and innovation. It also focuses strongly on universities and research institutions as important partners in these processes.

## 1.5. Provincial case studies

The four provinces visited (Gauteng, the Free State, Limpopo and the Western Cape) present different features, challenges and institutional structures. Nevertheless, there are a number of common issues that emerge across all of these provinces:

- Intergovernmental coordination is weak. This has led to duplication and uncoordinated interventions, a high risk of “double-dipping”, and in some provinces, conflict between institutions. Likewise, monitoring and evaluation systems are patchy and inconsistent across the provinces.
- There is little evidence of SMME-focused research.
- Zoning by-laws, complex compliance requirements and administrative inefficiencies at the municipal level give rise to burdensome red tape; while the high cost of municipal rates and service charges are a considerable disincentive for SMME growth and investment.
- While there are a large number of Business Development Service (BDS) providers and programmes for SMMEs across all four provinces, these are generic, and not designed to meet the real-time and specific needs of SMME owners. Moreover, there is a low level of coordination between these different providers.
- Despite the existence of numerous agencies and Development Finance Institutions (DFIs), cash-flow and financial constraints constitute a key challenge to SMMEs in all four provinces. The high costs, complicated compliance requirements and time delays associated with accessing finance from the Small Enterprise Finance Agency (SEFA), have impeded its effectiveness.
- A lack of quality infrastructure facilities for SMMEs remains a problem, especially outside of the main economic nodes.

## 1.6. Key evaluation questions

### **The ISPESE was an appropriate response to the underlying problems confronted by SMMEs in South Africa.**

The ISPESE responded to the commonly accepted challenges that relate to SMME development in South Africa, and internationally, such as access to finance, access to markets, regulatory and administrative constraints (the burden of red-tape) and structural inequalities. The stakeholder consultations, and the provincial case studies, clearly indicate that these concerns were valid at the time of implementation; but more importantly, remain relevant today.

### **Because of the decentralised approach of the ISPESE, the Strategy lacked clear implementation guidelines, formal coordination structures, and rigorous monitoring and evaluation mechanisms**

The Strategy was designed and presented as a framework; and explicitly excluded any form of implementation plan<sup>1</sup>. Given the ambitious goals of the Strategy, the number of different parties (public and private) involved in its delivery, and the complex inter-governmental structure in place in South Africa, it would seem that the Strategy lacked detail in two important ways: Firstly, as an integrated strategy which aims to coordinate various actors - public and

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<sup>1</sup> As noted by the Minister of Trade and Industry in his foreword to the Strategy.

private - the Strategy failed to present a clear *problem statement* and the recommendations contained in the Strategy are therefore generic and in cases unclear; Secondly, too much reliance was placed on the willingness of different parties to participate in the delivery of the Strategy, with insufficient attention given to how the Strategy would be implemented and coordinated across all of these entities in practice.

### **Interventions were biased towards some of the pillars in the Strategy and were not applied consistently across the three levels of government**

In design, the Strategy brings together all the core components of a comprehensive and integrated approach to SMME development. However, the results from the document and data review suggest that implementation was skewed towards certain pillars or activities in the Strategy. The enabling environment and cross-cutting components were largely neglected. Moreover, according to most respondents, government's SMME policies and interventions were not applied consistently across the three levels of government.

### **Recent policies, most notably the NDP, highlight the same challenges to SMME development that were reflected in the White Paper and the Strategy**

SMME issues received priority policy attention throughout the implementation period. Moreover, current policy initiatives, such as the NDP, continue to focus on the development challenges that were described in the White Paper and the Strategy. However, whereas the Strategy's focus was on a decentralised approach, the NDP and the White Paper propose a more coordinated and consolidated approach to SMME development.

### **Government has been most effective in its efforts to provide non-financial services to SMMEs; and less effective in other areas of the Strategy**

Overall, the perception is that government's SMME activities have been effective. Specifically, the supply of BDS services is regarded as most effective, and the consultations and provincial case studies confirm the extent of government support in this area. On the other hand, the availability of research and information, the legislative and regulatory environment for SMMEs and government coordination were identified as having worsened, and inter-governmental coordination was seen as the least effective programme area.

### **The strategy has not achieved its intended outcomes**

The overall aim of the ISPESE was to increase the contribution of small enterprises to growth and development in South Africa. The evidence reviewed in this evaluation indicates that at the outcome level, capital formation and investment by SMMEs has declined, there has been a contraction in SMME creation and employment over this period, and the available indicators on the business environment and national entrepreneurship have deteriorated.

### **There is mixed evidence available on whether the Strategy was effective in responding to the needs of vulnerable groups**

Based on the consultations, around half of the respondents indicated that they believed that government's SMME programmes and interventions were targeted at previously disadvantaged populations and women. On the other hand, most respondents believed that these programmes are not well targeted at people with disabilities and the youth. These responses were broadly consistent across government and business.

**Whereas government has invested heavily in BDS and financial services, insufficient resources have been put to other areas of the Strategy, and the efficiency of this expenditure is uncertain**

There is no consolidated information available on the total value of support and the outputs across all public and private entities involved in SMME support. It is therefore difficult for the evaluation to come to a definitive conclusion on the efficiency of government spending on all or any one of the main pillars of support, and to attribute outcomes directly to government expenditure.

**In the absence of strong institutional arrangements and a supportive economic environment, the outcomes of the Strategy are unlikely to be sustainable**

The Strategy was designed at a time when the South African economy was growing at close to 5% per annum. Economic conditions deteriorated rapidly and severely mid-way through the Strategy, threatening existing businesses and employment, and making it much more difficult for new enterprises to emerge and thrive. Moreover, the design of the Strategy, the institutional arrangements in place, and the overall business environment for SMMEs were not conducive to sustainable change.

## **1.7. Conclusions**

The main findings are summarised against the project evaluation criteria, below.

### **Relevance**

*Relevance examines the extent to which the ISPESE was the right response to an identified set of problems.*

The Strategy responded to the underlying problems and commonly accepted challenges that relate to SMME development.

### **Coherence**

*Coherence evaluates whether the various aspects of the ISPESE work well together and with other interventions.*

The theory of change developed as part of this evaluation demonstrates how, in design, the Strategy brings together all of the core components of a comprehensive and integrated approach to SMME development. In practice, insufficient attention was given to how the Strategy would be implemented and coordinated. This limitation represents the greatest shortcoming in the conceptualisation of the Strategy.

### **Effectiveness**

*Effectiveness assesses the extent to which the ISPESE achieved its intended objectives and whether it was implemented fully and as planned.*

The overall aim of the Strategy was to increase the contribution of small enterprises to growth and development in South Africa. The evidence reviewed in this evaluation indicates that neither this overall aim nor the intended immediate outcomes have been achieved. At the output level the results on the provision of business development services and, to a lesser extent, improving access to finance are somewhat positive. Other outputs were not, or only to a very limited extent, achieved.



## Efficiency

*Efficiency measures whether ISPESE programmes and results were delivered in an optimal and cost-effective manner.*

It is difficult for the evaluation to come to a definitive conclusion on the efficiency of government spending on all or any one of the main pillars of support, and to attribute outcomes directly to government expenditure.

## Sustainability

*Sustainability establishes whether the capacity and programmes developed and the results achieved by the ISPESE are likely to be sustainable.*

Economic conditions deteriorated rapidly and severely mid-way through the Strategy, threatening existing businesses and employment, and making it much more difficult for new enterprises to emerge and thrive. Moreover, the design of the Strategy, and the institutional arrangements in place, were not conducive to sustainable change.

## 1.8. Recommendations

- R1** The DSBD should promote the establishment of a high-level SMME policy and programme coordination mechanism (potentially as a sub-structure of the President's Coordinating Council). This would serve to signal the importance of the SMME community in achieving government's wider economic objectives, and improve coordination and information-sharing across all relevant departments and spheres of government.
- R2** The DSBD should engage with the Treasury in the allocation and evaluation of funding to SMME programmes across government. More specifically, DSBD should develop a mechanism with the National Treasury that consolidates and tracks all government expenditure and performance information on SMME's through the public finance management system<sup>2</sup>.
- R3** The DSBD should work with the DTI and the National Treasury to ensure that there is alignment in definitions, indicators and outcomes across the government's SMME, B-BBEE and government procurement policy interventions.
- R4** The DSBD should assume a primary role in guiding, coordinating and where necessary consolidating SMME interventions across existing implementing agencies (i.e. it should not be involved in the direct implementation of SMME support programmes). In doing so, the DSBD should strengthen its capacity to undertake research, collect and disseminate data and monitor and evaluate the impact of national and provincial SMME programmes and interventions.

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<sup>2</sup> For instance, in the same way that Treasury tracks governments Infrastructure Programme in the Budget and Estimates of National Expenditure.

- R5** The DSBD should review the links and possible overlaps between the product offerings of SEDA and SEFA, and improve coordination across these agencies. This may involve some consolidation or rationalisation of specific business support and financing services, and should serve to reduce the turnaround time and transaction cost for end-beneficiaries.
- R6** The DSBD should develop and issue regulations and best-practice notes that provide guidelines and standards for the implementation, monitoring and reporting of all government-led SMME programmes.
- R7** The Minister should give effect to all provisions contained in Section 18 of the National Small Business Act. Specifically, the issuance of guidelines to government on the promotion of small business, including: the publication of an updated Small Business Support Strategy; procedures for the review of the effect of existing legislation and their effect on small business and the application of the Small Business Support Strategy; and procedures for the consultation with stakeholders (government, business and labour) on new or proposed legislation affecting small business.
- R8** The DPME should review the Socio-Economic Impact Assessment System (SEIAS) methodology to consider the inclusion of assessment criteria that reflect the impact of policies, laws and regulations on SMMEs (including cooperatives). The DSBD should be provided with a seat on the SEIAS oversight committee.
- R9** The DSBD should engage with BDS providers and associations in order to support the organisation, accreditation and professionalization of the industry.
- R10** The DSBD should consider further research on support programmes by the private sector, with the aim of strengthening public/private sector partnerships and ultimately, the achievement of national objectives in the SMME and corporative development sectors.

## 2. Introduction

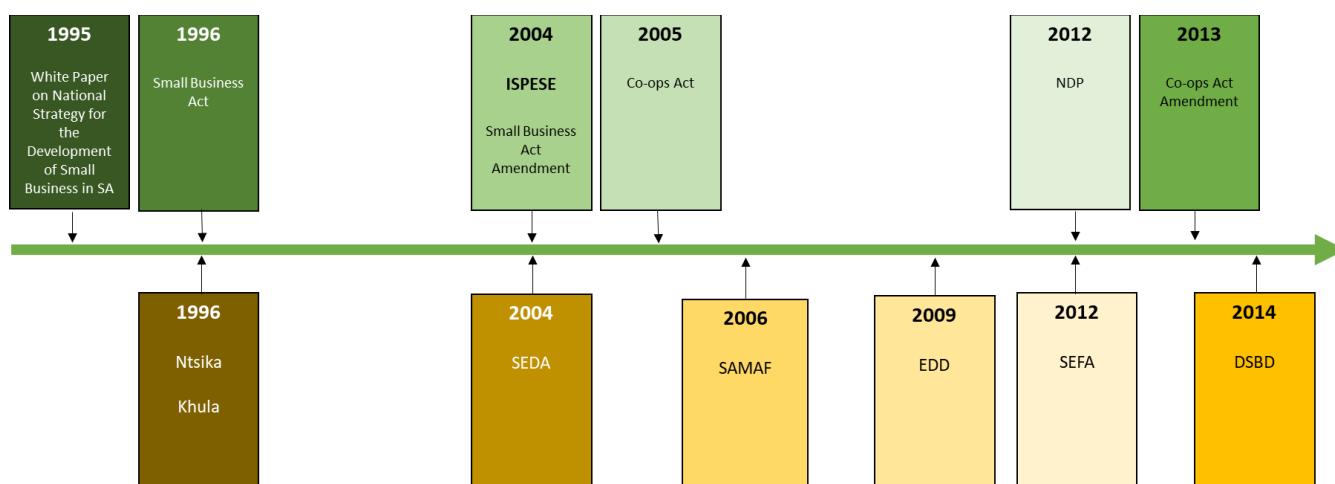
### 2.1. Background to the intervention

The SMME sector has a critical role to play, in all economies, in the creation of employment, innovation and growth. In South Africa, however, the SMME sector has been historically constrained by the legal and regulatory environment, access to markets, access to finance, the acquisition of skills and managerial expertise, access to appropriate technology, the tax burden, and access to quality business infrastructure in poor areas (DTI, 2005).

Since the advent of democracy, the prioritisation of SMME firms has therefore been a prominent feature in South Africa’s economic policy. The White Paper - National Strategy for the Development and Promotion of Small Business in South Africa - adopted in February 1995, was the first national strategy implemented in the country. It emphasised the need for institutional reform, particularly at the DTI, to incorporate small, medium and micro businesses into its core functions and set out an action programme until 2005.

Following the White Paper of 1995 and the National Small Business Act of 1996, several policy-making and implementation structures were created. These are illustrated in the time-line below.

**Figure 30: SMME policy and institutional timeline**



However, according to the DTI’s Review of Ten Years of Small Business Support in South Africa 1994 to 2004, existing constraints and institutional shortcomings continued to hamper the development and growth of SMMEs. It was recognised that a new, comprehensive and cohesive approach was required to address these constraints and shortcoming, and the *Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises* (“the Strategy”) was subsequently developed in 2004 and approved by Cabinet in 2005.

The Strategy sets out government’s strategic framework for the promotion of entrepreneurship and small business development, focusing on critical areas such as job creation, equity and access to markets. Whereas the Strategy acknowledges that progress has been made in delivering a wide range of support services, critical gaps remain. These gaps require government to improve the scope and quality of small business support and ensure better integration of support provided by various government departments and institutions.

The Strategy is based on **three strategic actions or pillars**:

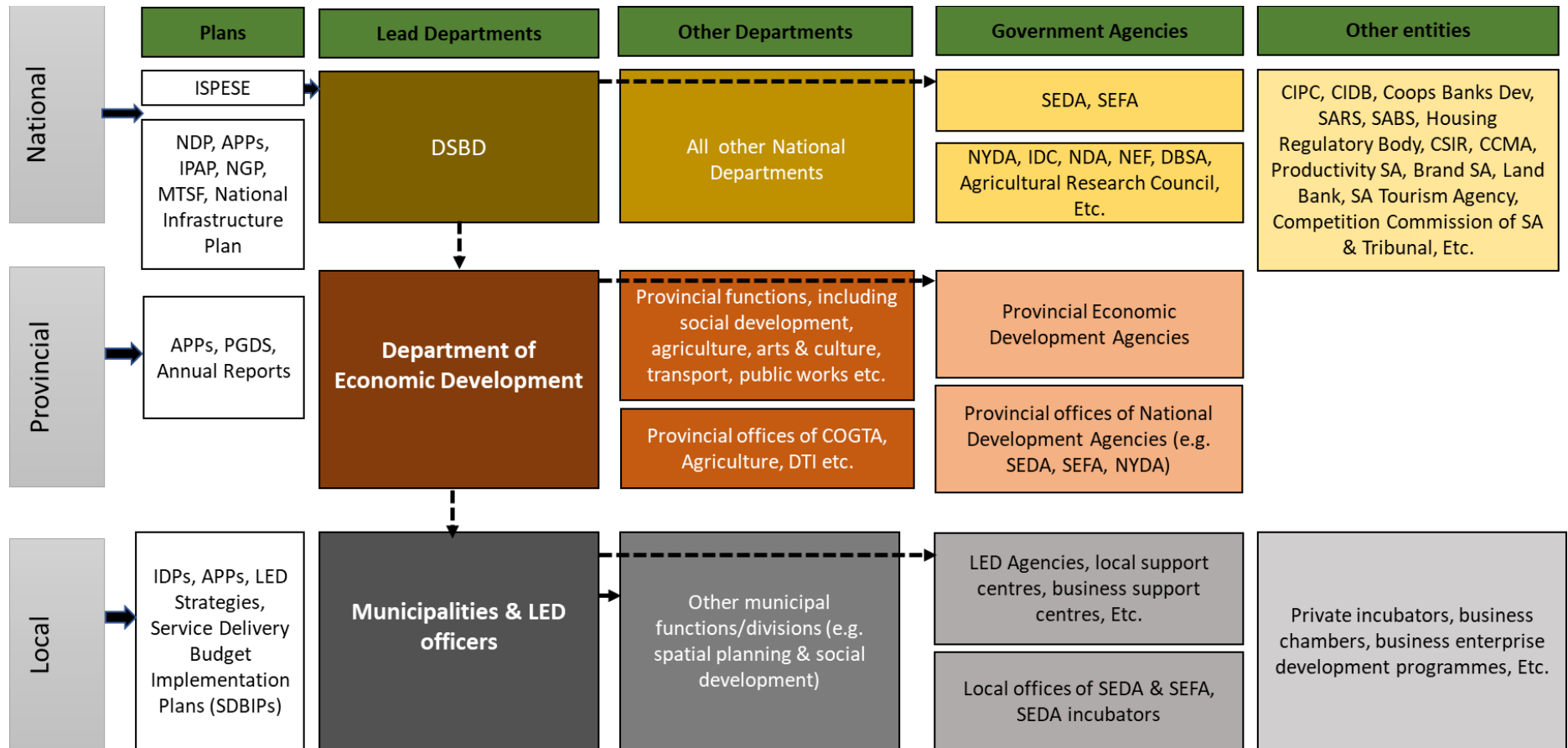
- **Strategic Pillar 1: Increase supply for financial and non-financial support services.** This involves promoting *collaborative approaches* and streamlining resources from the public sector and crowding-in private sector resources.
- **Strategic Pillar 2: Creating demand for small enterprise products and services.** This involves *new policy directives* and a public sector procurement strategy and BEE codes of good practice as a lever for increased demand.
- **Strategic Pillar 3: Reduce small enterprise regulatory constraints.** This involves *creating an enabling environment* and establishing a regulatory impact assessment framework and business environment monitoring mechanism.

These strategic actions are to be underpinned by improved availability of quality business information and knowledge through expanded research and communications outreach.

It is important to recognise that the overriding purpose of the Strategy was to integrate and guide the large and diverse number of institutions involved in the development of small enterprises in South Africa. Cooperation amongst organisations – both inside and outside government - was therefore integral to the Strategy's approach. As such, the Strategy relies on the integration of programmes within the public sector (across national, provincial and local government), between the public and private sectors, as well as the integration of the activities of various entrepreneurship and small enterprise promotion institutions in the private sector and civil society.

Figure 1 below provides a diagrammatic representation of the relationship between some of the different departments and agencies involved in the implementation of SMME programmes and activities across South Africa; and highlights the importance and complexity of the approach outlined in the Strategy.

**Figure 1: Institutional structure for SMME support**



## 2.2. Purpose of the evaluation

The Strategy has now been in place for more than ten years. To assess the Government's efforts to promote and support SMMEs, and to make necessary additions and amendments, it is essential that the implementation of this Strategy is independently and comprehensively evaluated.

There are many types of evaluations, each with a different purpose and scope. This particular evaluation is complex and unique in that it seeks to evaluate the implementation of a wide-ranging strategy, which includes multiple programmes and institutions, over a nine-year implementation period. It also incorporates aspects of a formative evaluation – requiring that a theory of change be developed for the strategy, with recommendations on how the system can be revised and strengthened.

To address both the formative and summative components of this evaluation, the evaluation includes two related sets of analyses:

- Firstly, to assess the design and coherence of the strategy, and the extent to which it is likely to contribute to its stated outcomes, extensive consultations with programme implementers and a limited number of beneficiaries were undertaken. Moreover, the strategy was compared to the design and implementation of successful SMME strategies elsewhere.
- Secondly, to assess whether the strategy has been implemented as planned, reached its intended beneficiaries, and achieved its intended outcomes, an analysis of the most recent and appropriate literature and data has been undertaken, and four provincial case studies were completed.

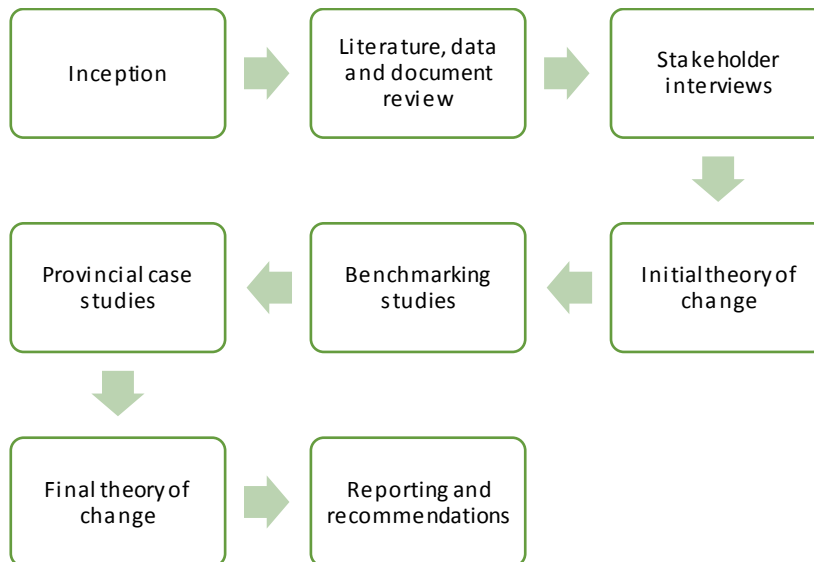
Together, this analysis provides for a comprehensive evaluation of both the design and implementation of the South African Government's SMME strategy.

### 3. Methodology

#### 3.1. Evaluation Methods

This project was carried out in nine stages over 13 months as illustrated and explained below.

**Figure 2: Project stages**



Following the inception phase, the available literature on the development of SMME policy in South Africa was reviewed, with a specific focus on the challenges that underlie the design and implementation of the Strategy. Likewise, data on the performance of South African SMMEs, during the Strategy implementation period, was synthesised and reviewed against the main objectives of the Strategy.

Based on the literature and policy review, an initial theory of change was developed for the Strategy, and validated in a workshop with the Steering Committee. The evaluation framework and all associated research instruments were derived from this theory of change. The theory of change has subsequently been revised to take account of the findings emanating from this study.

Two sets of consultations were undertaken over the study period. Firstly, at the national level, interviews were conducted with 62 officials, business people and academics. Of these responses, 33 (52%) were from one-on-one interviews and the remaining 29 (44%) were based on a short questionnaire that was circulated on two occasions. The majority 45 (73%) of the responses are from government officials, of which 28 (45% of the total) are from the DSBD and 17 (27%) from other national and provincial government departments. The remaining 17 (27%) are from business<sup>3</sup> representatives. These interviews provided insights on the implementation and administration of the existing policy, and the experience of specific SMME agencies and programmes.

<sup>3</sup> Including a representative from academia

Secondly, four provincial case studies were completed in the Free State, Gauteng, Limpopo and the Western Cape. These studies included interviews with a further 52 officials and 21 representatives from SMMEs in these Provinces.

The study also included country case studies of SMME policy in three comparator countries: Brazil, Malaysia and Turkey.

The results from all of this analysis and the consultations are presented in this consolidated, draft report.

### 3.2. Evaluation criteria

The National Evaluation Policy Framework (2011) sets out the overall analytical framework and associated criteria for all evaluations conducted in South Africa. These analytical frameworks however need to be customised to each evaluation. In the context of the evaluation of the Strategy, the following evaluation criteria have been used:

- **Relevance** examines the extent to which the Strategy was the right response to an identified set of problems.
- **Coherence** evaluates whether the various aspects of the Strategy work together and with other interventions
- **Efficiency** measures whether Strategy programmes and results were delivered in an optimal and cost-effective manner.
- **Effectiveness** assesses the extent to which the Strategy achieved its intended objectives and whether it was implemented fully and as planned.
- **Sustainability** establishes whether the capacity and programmes developed and the results achieved by the Strategy are likely to be sustainable.

Moreover, throughout the evaluation, the team will consider whether the outcomes that are observed, including any changes to the environment in which SMMEs operate, would have taken place without the intervention of Government as outlined in the Strategy. In other words, has the Strategy contributed directly or indirect to any additional benefits over and above what would likely have occurred without it? The principle of '**additionality**' is therefore indicated as a secondary evaluation criteria across many of the questions presented in evaluation matrix.

### 3.3. Key evaluation questions

The evaluation matrix in Annexure 2 provides a full list of evaluation questions, to be considered over the course of this evaluation. These can be grouped into 5 key evaluation questions, which refer specifically to the criteria introduced above:

- EQ1 To what extent is the ISPESE an appropriate response to the underlying problems?
- EQ2 How well do the various aspects of the ISPESE work together and with other interventions?
- EQ3 To what extent has the ISPESE been an effective strategy?
- EQ4 Have the resources of the ISPESE been converted into results in an optimal manner?



- EQ5 What is the likelihood that the ISPESE will obtain sustainable, long-term benefits?

This report provides all of the evidence that has been collected against these evaluation questions. The main findings are summarised in Section 8.6.

### **3.4. Limitations of the evaluation**

The main challenges experienced in the design and implementation of this study, was that it involved the evaluation of a broad, 10-year Strategy, not a specific programme or intervention, and that this Strategy ended in 2014. It follows that the evaluation could not interrogate all of the specific programmes and actions described in the Strategy, in depth, and could not validate every activity that was intended or took place over the life of the Strategy. Moreover, the evaluation does not consider the interventions that took place or the institutions that were established after 2014. Rather, the focus of this evaluation is on how the Strategy, in its entirety, was implemented over the period from 2004 to 2014; and the high-level outcomes that were achieved as a result.

It is also important to note that there was no single entity responsible for the delivery of this overarching Strategy, and as a result, there is no cohesive or complete set of input, output or outcome data available to measure implementation. Rather, information had to be collected from a diverse number of institutions, some of which came into existence towards the end of the Strategy's lifetime, and most of which were only partly involved in the delivery of specific components. Moreover, it became clear over the course of this evaluation, that many of the activities prescribed in the Strategy, were never implemented in practice. This makes it difficult to assess the extent to which the Strategy itself has contributed to specific results.

### **3.5. Capacity development element**

Two capacity development initiatives were agreed for inclusion in this evaluation. Firstly, an official from DPME was tasked to undertake a fourth country benchmarking study, to be supervised by the evaluation team. Secondly, the evaluation team committed to provide assistance to an official from the DSBD, in undertaking an evaluation of a specific departmental intervention. The first initiative did not take place, due to the unavailability of the official. The DSBD official participated in a focus group conducted by the evaluation team, and was provided with advice in the development of her own evaluation instruments.

## 4. ISPESE Theory of Change

### 4.1. Purpose of the Theory of Change

Noting that originally the Strategy did not have a theory of change (ToC), one was developed around the activities and outputs that are outlined in the ISPESE (see Figure 3 below). These outputs are then mapped to the higher level objectives or outcomes of the Strategy, as well as the NDP growth and development targets (i.e. the impact). A number of high-level assumptions are also described.

It is important to note that the resulting theory of change for the Strategy is presented, necessarily, at a relatively high-level and reflects a ToC for a strategy rather than a programme. Specifically, most of the outputs of this strategy are presented at a reasonably aggregated level (i.e. they comprise a number of sub-activities and programme level outputs), and some refer to the wider policy environment. This is partly because the strategy itself is broad and ambitious; but also because the implementation period is very long (10 years). As such, one would expect that the implementation of this Strategy should be measured against a set of more aspirational and 'strategic outputs', when compared to the implementation and measurement of a single and shorter-term programme.

The theory of change is a conceptual technique that demonstrates how an intervention contributes to the intended outcomes. In evaluations, the theory of change is used widely to determine the pathways through which an intervention contributes to outcomes. These theories are built on evidence, research or an intuitive understanding of how a programme works.<sup>4</sup>

### 4.2. Overview of the ISPESE Theory of Change

In this instance the theory of change has been developed retrospectively in respect of a strategy rather than a programme. The strategy as such – as already outlined above – comprises a number of programmes (12 programmes as indicated above).

In this case, the theory of change has been developed around the activities and outputs that are outlined in the *Integrated Strategy on the Promotion of Entrepreneurship and Small Business* (dti, 2006 ?), or ISPESE. These outputs are then mapped to the higher level objectives or outcomes of the strategy, as well as the NDP growth and development targets (i.e. the impact). A number of high-level assumptions are also described.

The ISPESE's starting assumption is that SMME's offer the possibility to address the economic and social wellbeing of poor communities in South Africa through bringing in people from survivalist, lower level and informal economies into the economic mainstream (addressing the challenges of job creation, economic growth and equity).

In order to achieve this potential there is a need to encourage and support the continued creation of new start-up firms. This requires unblocking constraints to new entrants through the provision of adequate support to improve business survival rates – this requires:

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<sup>4</sup> Funnel, S. and P. Rogers (2011) *Purposeful Program Theory: Effective use of theories of change and logic model*. John Wiley & Son. San Francisco.

- Effective networking, adequate skilling, mentoring, developing good business acumen and practices etc. (effective support institutions and mechanism)
- A favourable legislative environment
- Access to markets including export markets
- Access to technology

Critical is also integration – of different socio-economic policy areas; programmes within the public sector and between public and private sectors and of different entrepreneurship and small enterprise promotion institutions.

Furthermore achieving the potential of SMMEs also requires focused support to designated target groups and priority geographic areas and sectors, as well as support for fostering enterprise firms (co-operatives) and special institutional arrangements.

There is also the need for the ongoing profiling of the small business sector, improving access to small business support and information, strengthening small business advocacy, delivering effective service and monitoring impact.

The ISPESE takes as its starting point the problem statement that despite a decade of providing comprehensive support to small business through government institutions and programmes key gaps remain with respect to:

- a) the scope and quality of small business support;
- b) the integration of support provided by various government departments and institutions; and
- c) the lack of effective partnerships, especially with non-government stakeholders and role players.

The ISPESE aims to address this in the following manner.

### **Inputs**

At the level of inputs the Strategy aims to mobilise and deploy funding, human resources, infrastructure and equipment as well as partnerships in a range of activities across government as identified in the IPSE (see detailed Strategic Activities above). Additionally, key inputs that need to be in place include national planning and policy frameworks as well as public and private sector support institutions. All of these inputs are necessary, but not sufficient to undertake the activities required in respect of the ISPESE.

### **Activities**

The generic activities that are indicated in the theory of change include research, information and communication; legislative and regulatory interventions; business development services and training; the provision of financing; infrastructure development and inter-governmental coordination. These activities occur across a number of government programmes and institutions. A key assumption here is that an effective inter-governmental system is in place and functions which can be utilised to achieve improved integration and coordination.

### **Outputs**

In respect of Outputs (which we have termed “Strategic Outputs”, these comprise the core Strategic Programmes as envisaged in ISPESE. Importantly these are not programmes in the

strict sense undertaken in a single department etc., but rather a set of strategic intentions that are aligned to specific objectives. In terms of the Strategy the actual location of such outputs is also cross-cutting in respect of government departments and the three spheres.

The Strategic Outputs can be broadly grouped into four clusters of Outputs that support four key Outcomes under the ISPESE:

- **Societal level outputs**, comprising Entrepreneurship culture and Enterprise Creation programmes. The intent is to increase the awareness of opportunities and related information as well as incentives with respect to entrepreneurship and small business. Through such awareness and information the IPESE hopes to drive an improvement in entrepreneurial culture and specifically encourages new start-ups. **At an Outcome level these outputs should result, and be evidenced in, a greater entrepreneurial culture / awareness and a faster enterprise creation rate.**
- **SMME Environment level outputs**, that comprise a number of Strategic Outputs including a network of SMME finance, public sector procurement programmes; strengthened business support services and enterprise networks, an improved regulatory environment and capacity building throughout the public-sector enterprise support system. The achievement of these strategic outputs – comprising legal, regulatory, financial, infrastructure and capacity building interventions - make it easier for SMME's to start-up and increase their survival rates. Additionally the greater capacity throughout the public sector and the enhanced collaboration with the private sector improve the overall environment for SMMEs and the effectiveness of support that is provided to SMMEs. **At an Outcome level these strategic outputs contribute directly to an improved enabling environment for SMME's, and indirectly to the improved competitiveness, productivity and capability of SMME's** (through better coordinated and effective support).
- **Firm-Level (SMME) outputs**, which comprise SMME business development services and SMME support incentives. Direct SMME support interventions enable SMME's to be more sustainable, competitive and to grow and contribute the **outcome of improved competitiveness, productivity and capability of SMMEs.**
- **Strategy level outputs** that include entrepreneurship and small business research and an overarching monitoring framework. These strategic outputs enable the overall strategy and its programmes / interventions to be monitored, supported / influenced by data and evidence through an effect feedback loop into the design of specific Strategic Outputs and activities. These outputs contribute to the **creation of a more responsive SMME Policy environment outcome.**

## Outcomes

The theory of change therefore envisages that the achievement of the strategic outputs will result in **four key Outcomes** that are inter-related and mutually reinforcing.

The first **improved entrepreneurial culture and faster enterprise creation rate** should result in increased entrepreneurial activity and in a greater number of start-ups and more new enterprise creation, i.e. more people willing to take up enterprise creation opportunities.

The second outcome, **improved enabling environment for SMMEs**, ensures that there is an enabling environment (for instance regulatory framework) as well as direct support which improves the survival rates of start-ups and SMMEs, and encourages new businesses to formalise and expand, especially within poor communities.

The third outcome, **improved competitiveness, productivity and capability of SMMEs**, if achieved should see a growing number of SMME's with the appropriate capability and access to markets that are able to employ more people and contribute more to GDP.

Finally the last outcome, a **more responsive SMME policy environment**, provides ongoing support to appropriate policy and programme design and interventions in support the SMME ecosystem.

If achieved, the outcomes will result in faster SMME creation, higher survival rates and growth and expansion of such SMME's in respect of markets, employment and contribution to GDP as their competitiveness, productivity and capability is enhanced through business development, technical and financial support within a regulatory and broader enterprise system that is enabling and supportive of SMME's.

**The long-term outcome of the aggregate growth and development of SMME's is the increased contribution by SMME's to economic growth, job creation and inclusion.**

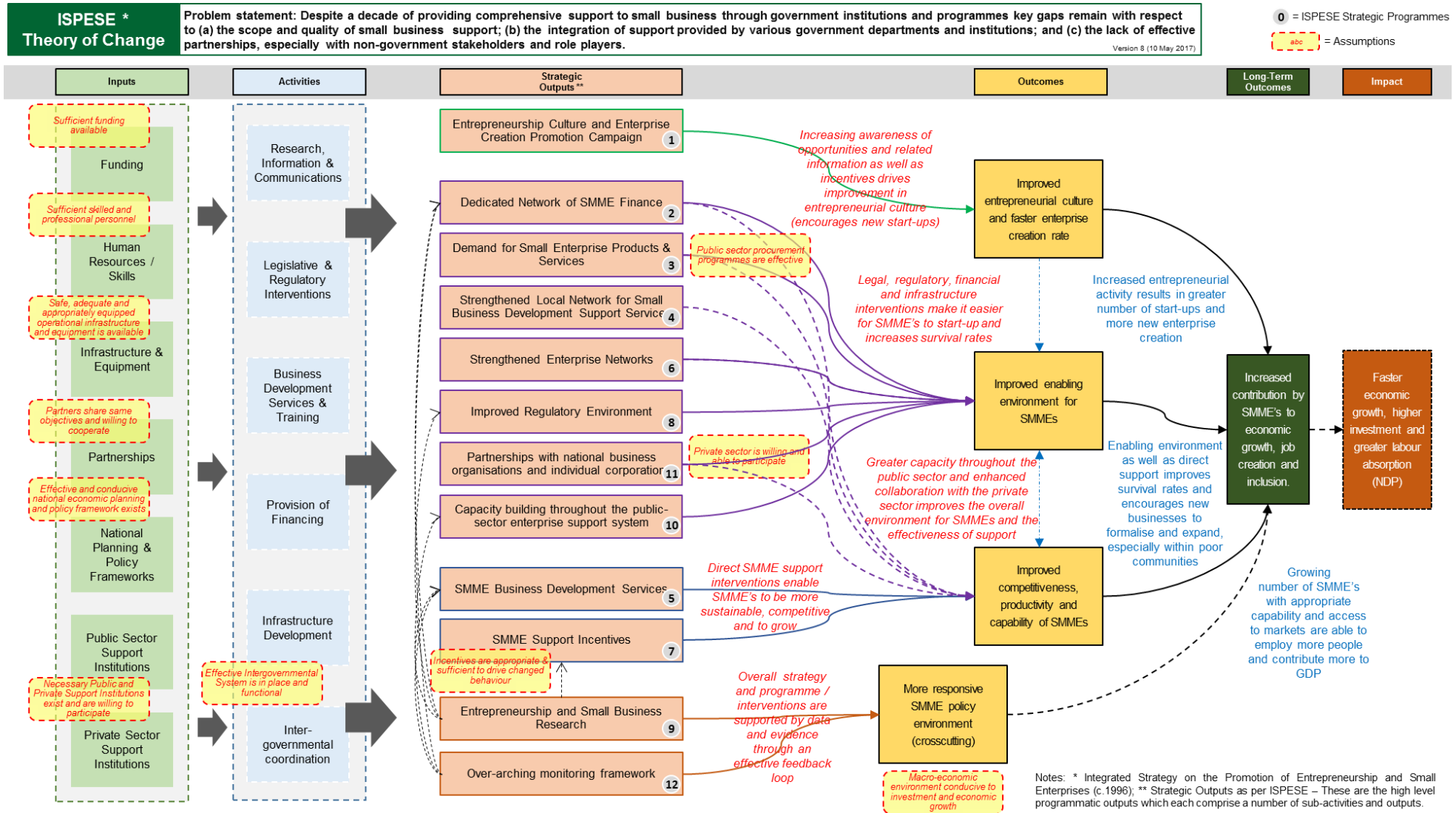
Finally, as noted in the NDP, the increased contribution by SMME's to economic growth, job creation and inclusion, will **contribute to faster economic growth, higher investment and greater labour absorption.**

### **Key Assumptions**

Underlying the theory of change is a number of key assumptions:

- At the inputs level the key assumptions are that the necessary financial and human resources, infrastructure, planning and policy frameworks as well public and private sector support institutions are available and /or effective. The ISPESE importantly assumes that much of this is in place (for instance the operations and effectiveness of institutions such as SEDA), and forms a key starting point.
- At the activity level a critical assumption is that inter-governmental systems are in place and function. The ISPESE is clear that better and more effective coordination of activities and outputs across government (line departments and the three spheres) is critical. However such improved integration, alignment and coordination can only occur if the necessary system to do so is operational and effective.
- In respect of strategic outputs the ISPESE assumes that public sector programmes are effective (especially with respect to procurement related activities), that the private sector is willing and able to participate in the strategy and that appropriately designed incentives are sufficient to drive changed behaviour at SMME level.
- The overall outcomes are heavily dependent on the broader macroeconomic environment that is conducive to investment and economic growth.

Figure 3: ISPESE Theory of change



## 5. Policy Review

### 5.1. Context – SMME support in South Africa

This section provides a brief overview to the background of SMME policy, legislation, institutional development and the early strategies adopted by national government. However, to ensure that there is a common understanding of what is meant by an SMME within the South African context and in this report, it is first important to highlight a number of issues relating to the definition and categorisation of SMMEs.

### 5.2. Defining SMMEs in South Africa

SMMEs are diverse, they range in size from micro, small to medium businesses and they operate in all sectors in the economy such as manufacturing, ICT, retail, tourism, business services and agro-processing, amongst others. The National Small Enterprise Act and amendments thereof refer to SMMEs in general as ‘small enterprise’ within the acts, and defines the former as follows: *"Small Enterprise" means a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more, predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the adapted Schedule:*(The Republic of South Africa, 1996, p. 2).

In practice, however, even government departments deviate, most often referring to small businesses in much broader terms than the official definition prescribed. The Department of Trade and Industry (DTI) annual review of small businesses last conducted in 2008, for example, uses only the criterion that a firm must have below 200 employees to be an SMME (DTI, 2008a). In addition, studies of the SMME sector also employ a wide variety of definitions, and findings vary depending on whether only formal firms or also informal firms were included. For example, the majority of the sample (83%) used for Finscope (2010) study (undertaken with the aim to provide a comprehensive understanding of the SMME sector) were informal firms likely to be micro enterprises with fewer than five employees, of which most employed no one besides the business owner. Furthermore, the DTI and SARS and Stats SA, have varying definitions on how they track and monitor small business, as a consequence these definition discrepancies have persisted since the development of the White Paper and further complicate the data gathering processes, which for example muddles the possibility of developing comprehensive analysis of government incentive schemes and procurement support for the small firms (Bukula, Naidoo, Rogerson, & Sithole, 2011). Likewise, the BBB-EE, which is the preeminent coordinator policy for the enhancement of enterprise procurement among the private sector, has divergent definitions of SMMEs from the act.

Having divergent definitions among policy documents and institutions is problematic for several reasons. Widely divergent definitions used in studies have produced data that often cannot be compared, adding to the fractured understanding of SMMEs in South Africa, rather than contributing to a more complete picture, this is true from academic research as well as official government reviews. For example, Timm (2012) notes that the figures of the total number of small businesses operating in South Africa remain elusive compounded further by the lack of an official repository for data on small firms. Likewise, Bukula et al., (2011) note that as a consequence of definitional problems with SMMEs and weak data gathering processes it is not possible to develop a full picture of public procurement from SMMEs in South Africa. A key strategic aim of all strategies since the White Paper.

Furthermore, SMMEs do not constitute a homogenous 'sector'; rather SMME's should be viewed as a *segment* of the economy. The ongoing use of the definition "SMMEs" used to describe the community in South Africa has been described as unsuitable, misleading policy makers to tend to focus on these firms with a "one size fits all" policy approach (DTI, 2005a). Formal micro-enterprises and small and medium sized enterprises are distinctly different; they do not naturally merge together in an unbroken continuum. Understanding the dynamics at work at different stages in the firms' growth and the barriers they face to their growth - at different points of their age cycle - enables targeted policies to be tailored for greatest impact among specifically groups of firms.

**Table 1: Extract from, Schedule of the National Small Business Amendment Act 29 of 2004**

Enterprise Size	Number of Employees	Annual Turnover (in Rands)	Gross Assets, Excluding Fixed Property
Medium	Fewer than 100 to 200. Industry dependent.	Less than R4 million to R50 million. Industry dependent.	Less than R2 million to R18 million. Industry dependent.
Small	Fewer than 50.	Less than R2 million to R25 million. Industry dependent.	Less than R2 million to R4.5 million. Industry dependent.
Very Small	Fewer than 10 to 20. Industry dependent.	Less than R200 000 to R500 000. Industry dependent.	Less than R150 000 to R500 000. Industry dependent.
Micro	Fewer than 5.	Less than R150 000.	Less than R100 000.

Source: Adapted from The National Small Enterprise Act of 1996 as amended by Act 26 of 2003 and Act 29 of 2004. (The Republic of South Africa, 2003) See Act for the full schedule.

### 5.3. SMME strategy and structures (1995 to 2005)

Prior to the establishment of the Department of Small Business, the Department of Trade and Industry (DTI) had primary responsibility for the private and small business sectors. In this respect, there was continuity between the old (pre-1994) and new (post-1994) dispensations. The key landmark for SMME development was the adoption of the 1995 White Paper on "*National Strategy for the Development and Promotion of Small Business in South Africa.*" The White Paper states that "*within the national government the DTI is the co-ordinating body for all policies related to the small business sector and for all SMME (Small, Medium and Micro Enterprise)-support programmes directly or indirectly assisted by the government. It is also responsible for the co-ordination of small business strategies pursued by the provincial governments within the national policy framework.*"(DTI, 1995, p. 40). The White Paper furthermore articulated the governments rationale for the promotion of smaller enterprises as follows, "*With millions of South Africans unemployed and underemployed, the Government has no option but to give its full attention to the fundamental task of job creation, and to generating sustainable and equitable growth. Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. Throughout the world, one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. We are of the view that – with the appropriate enabling environment – SMMEs in this country can follow these examples and make an indelible mark on this economy. The stimulation of SMMEs must be seen as part of an integrated strategy to take this economy onto a higher road – one in which our economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes*"(DTI, 2005, p. 7).



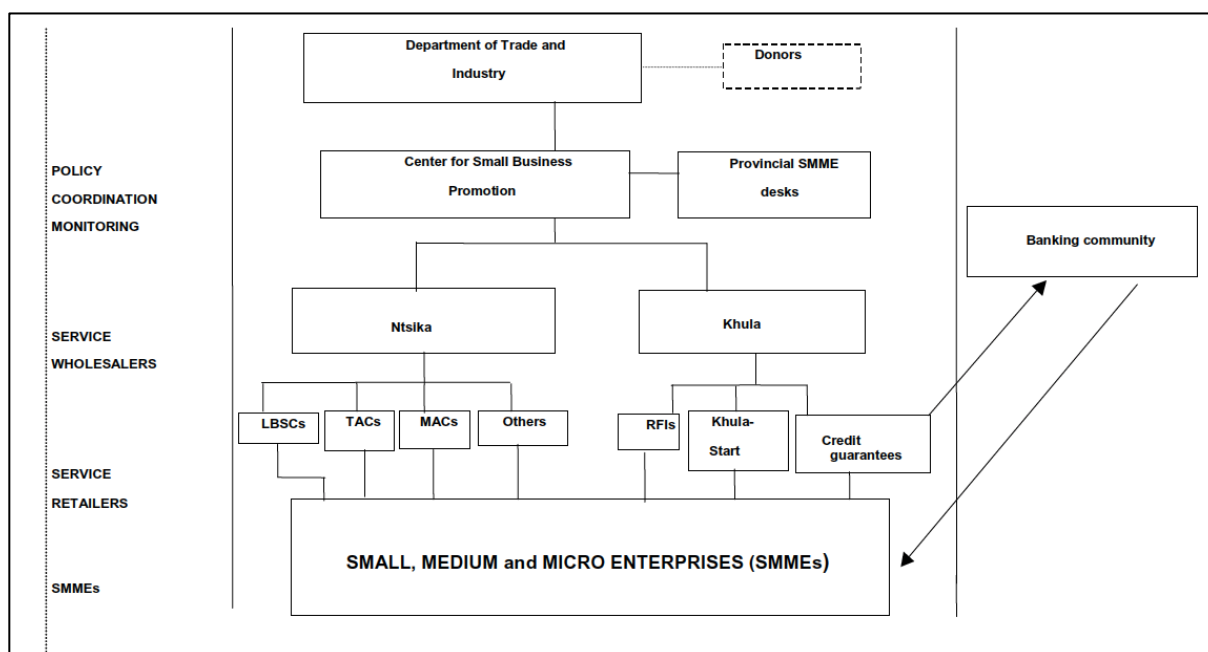
The White Paper was the result of an intensive process of consultation with key SMME stakeholders during the historical period leading up to South Africa's transition to democracy (1992-1994). Prior to the White Paper, a Discussion Paper was developed in October 1994, which formed the basis of the wide-ranging consultative process on the new government's thinking on small, medium and microenterprises. During this period, consultations, workshops and conferences were held in each province that brought together small business entrepreneurs, representatives from small business associations and organisations, trade unions, corporate business, support institutions and small business development practitioners as well as international SME development experts invited from around the world. The White Paper sought to include the aspirations of the small business people in South Africa. Consultations culminated in the President's Conference on Small Business in March 1995 (following the democratic elections of 1994) where the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa was presented for public discussion and debate. The White paper was then tabled in South Africa's first democratically elected parliament on 20 March 1995.

The approach taken by the White Paper was based on the idea that the large enterprise sector would be able to take the envisaged growth path with relatively limited support from government, while the small-enterprise sector required concerted policies and "*the deliberate creation of an enabling environment*". Small businesses therefore were purposefully singled out as a vector for domestic private sector growth and importantly as a source for the expansion of new jobs, being absorbed by the growth and expansion of SMMEs. In fact, in launching this strategy, the White Paper raised the small, micro and medium sized business sector to a level of strategic importance previously unheralded in South Africa. The White Paper importantly identified a number of constraints facing small enterprises, many of which still abound today, which related to the legal and regulatory environment, access to markets, access to finance and affordable business premises, the acquisition of skills and managerial expertise, access to appropriate technology, the tax burden, and access to quality business infrastructure in poor areas or poverty nodes. It emphasised that various key players in the South African economy share the importance of investing in stimulating small business. Highlighting that the development of small business, SMMEs, is a challenge for all actors in society. Therefore, the growing and widespread commitments needed in order to foster entrepreneurship and promote small enterprises goes beyond government and its institutions. It extends to other actors in the economy, such as large corporations, the media, non-governmental organisations (NGOs), chambers of commerce and commercial banks (DTI, 2005, p. 7). While the development of the White Paper is widely acknowledged to have been consultative and inclusive of a broad representation of stakeholders, the same cannot be said of *the Integrated Small-Enterprise-Development Strategy (ISED)* and *the subsequent Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (ISPESE)*, which reads more as a operational plan for a departmental unit rather than an overarching national strategy, which is discussed in later sections of this report.

Following the White Paper and the National Small Business Act of 1996, several policy-making and implementation structures were created. These included the Department of Science and Technology (DST), but in the main the Centre for Small Business Promotion (CSBP) – structured as a Chief Directorate and established in 1996 – was designed to be the central policy-making, co-ordinating and performance monitoring agency within the DTI. It was intended to be responsible for all matters related to the government's support for small, medium, micro and emergent enterprises. A National Small Business Council was established in 1996, then dissolved in 1997 and later reconstituted in 2006 as the National Small Business Advisory Council, to represent and promote the interests of small business and to advise the different spheres of government on small business development (Trade and Industry Portfolio Committee, 2007). Figure 1 highlights the frameworks that were developed following the White

Paper on the National Strategy for the Development and Promotion of Small Business in South Africa.

**Figure 4: Institutional Framework created by the National Strategy (White Paper)**



Source:(Carana Corporation, 1999)

Ntsika Enterprise Promotion Agency (NEPA), established by the Small Business Development Act of 1996 and Khula Enterprise Finance Limited, established by DTI in 1996, were designed as support organisations. In addition to these DTI structures, inter-departmental teams were created in 1995 to co-ordinate and promote interaction between ministries and between ministries and stakeholders. In conjunction with its developmental mandate and non-financial service offerings, Ntsika Enterprise Promotion Agency was furthermore, according to the Act, mandated to annually compile a review, called the Annual Review of Small Business. The primary focus of this review are highlighted in Box 1.

**Box 1: Contents of the Annual Review of Small Business in South Africa**

- [...] summaries of any findings or recommendations to the Director General on respect of legislation, proposed legislation and administrative practices which restrict the small business sector,
- an outline of new developments and trends in regard to the small business sector in South Africa,
- reports on the growth and decline of small business according to sector, size and region,
- a statistical analysis of the contribution of the small business to the economy, to export promotion, to rural development and to the level of incorporation of marginalised groups into the economy” (The Republic of South Africa, 1996, p. 16).

The Small Enterprise Development Agency (SEDA) established in December 2004, through the enactment of the National Small Business Act of 1996, as amended, incorporated Ntsika Enterprise Promotion Agency (Ntsika), among other programs. Since then, the Annual Review of Small Business in South Africa has not been consistent, with only two reports conducted, one in 2008 by the DTI and another in 2015 by SEDA. The National Small Business

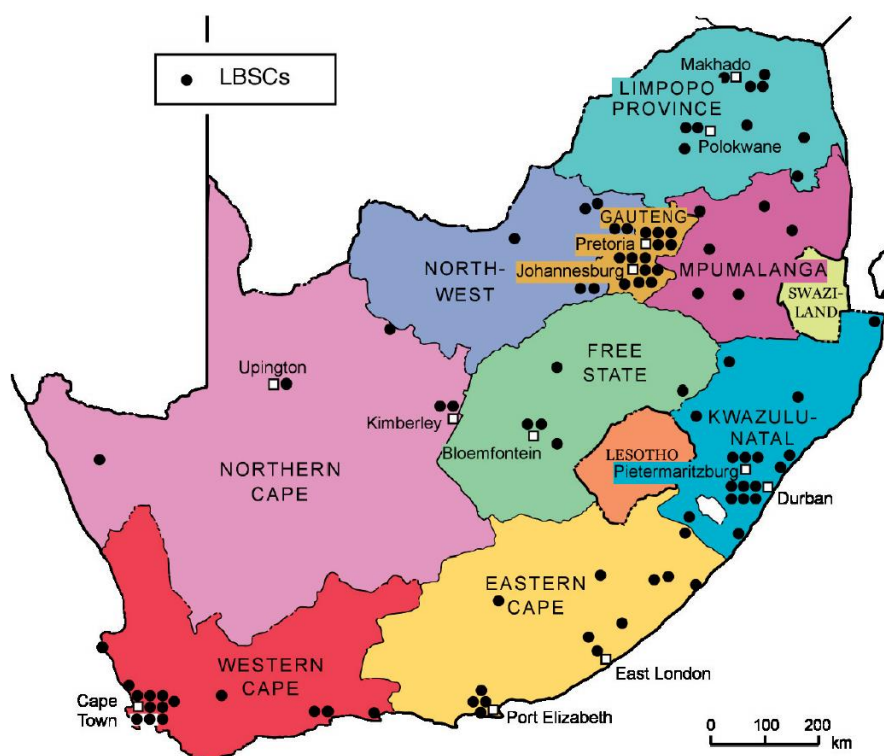
Amendment Act, 2003, made amendments to the above requirements (Box 1), which subsequently relegated section 19 of the Act to a report to parliament on the work of the advisory council/body at the discretion of the Minister. Consequently, there has been no legislative mandate for government to compile an up to date annual review on the progress achieved and the state of small business in the country - this has therefore made the review of the 2005 to 2014 strategy difficult.

Under the National Strategy and White Paper, the Ntsika Enterprise Promotion Agency was given the mandate to provide a wide range of non-financial services to local service delivery groups on a “wholesale” basis. This envisaged delivery of resources to local providers (the Local Business Service Centres – LBSCs) who would work directly with SMMEs. These services included institution-building, training programmes for entrepreneurs, mentoring of individual firms, marketing and procurement advice and technology assistance, among others. Figure 2 provides reference to the regional distribution of the LBSCs in South Africa as of 2003.

According to the Carana Corporation’s Report (2009), Ntsika’s task had been a daunting one, one conducted without the benefit of a clear focus or prioritisation, either by the National Strategy or any other government body. At the time, The Carana Corporation’s findings showed that:

- Ntsika’s centralised mode of operation has made adaptation of training to diverse local groups and needs very difficult,
- Ntsika had been measuring its results primarily on quantitative rather than qualitative factors,
- Ntsika has not effectively linked training programmes (both business and technical) with aftercare and mentoring of the trainee, and market opportunities, and
- Ntsika has been largely unsuccessful in marketing services to target groups.

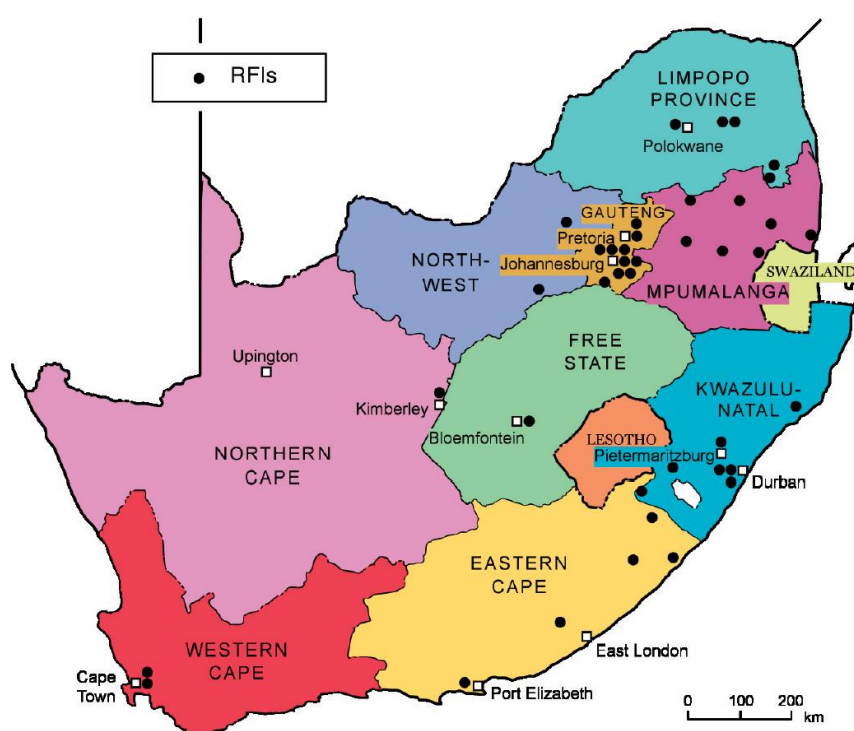
**Figure 5: Local Business Service Centres regional distribution**



Source: Annual Review of Small Business in South Africa -2003, presentation. (Trade and Industry Portfolio Committee, 2005)

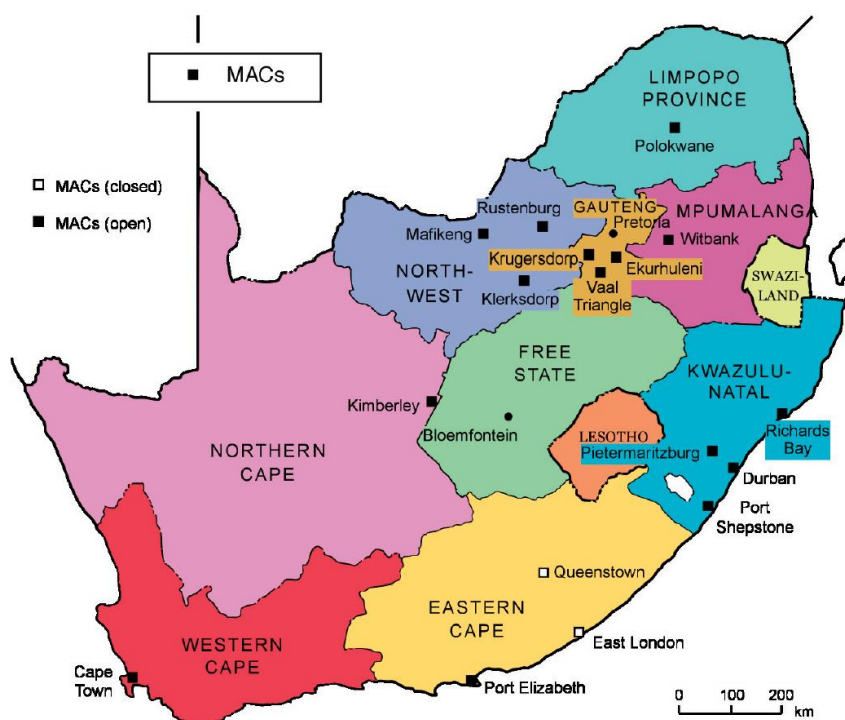
Khula Enterprise Finance Limited was established in terms of a DTI initiative, as an independent limited liability company with its own board of directors. Khula, at its establishment, intended to be a self-sustaining institution designed to make business credit more accessible to the SMME sector. However, the reality of small business lending, whether in South Africa or any other developing country, made Khula's objectives difficult to attain, jockeying commercial needs with developmental objectives. (Carana Corporation, 1999). On the one hand, Khula's mandate was to stimulate and promote commercial bank lending to the small business sector (as distinguished from the micro-survivalist category) by offering guarantees of upwards of 80% of the loan amount. On the other hand, it served micro-survivalist enterprises through Retail Financial Intermediaries (RFIs). Therefore, Khula required that those institutions be self-sustaining but their clients were largely un-bankable. Figure 3 provides reference to the regional distribution of the RFIs in South Africa as of 2003.

**Figure 6: Retail Financial Intermediaries regional distribution**



Source: Annual Review of Small Business in South Africa -2003, presentation. (Trade and Industry Portfolio Committee, 2005)

Another key institution established after the White Paper was the National Manufacturing Advisory Centre Trust (NAMAC). NAMAC was established in July 1997 with the Department of Trade and Industry as its custodian. NAMAC's main partners were the CSIR, Ntsika and the National Productivity Institute (NPI) and that its core programmes were to establish Manufacturing Advisory Centres (MAC), Business Referral & Information Network (BRAIN) and the Franchise Advise and Information Network (FRAIN). NAMAC's primary contribution to the SMME objectives, as laid out in the White Paper, was to assist in growing SMMEs in order to help them enter the mainstream economy and become sustainable exporters. NAMAC was developed to equip SMMEs with tools and techniques to become globally competitive. Furthermore, NAMAC's services were emphasised to assist SMMEs for the purpose of assisting in saving existing and creating new jobs. Figure 4 provides reference to the regional distribution of the MACs in South Africa as of 2003.

**Figure 7: Manufacturing Advisory Centres regional distribution**

Source: Annual Review of Small Business in South Africa -2003, presentation. (Trade and Industry Portfolio Committee, 2005)

A study conducted by Bannock, Gamser, Mariell, Mcann, & SBP (2002) noted that the implementation of the National Strategy and the White Paper had not been smooth. It reported that even in the DTI's own view, service delivery to the private sector was inadequate. In response to this failing the department started an internal restructuring processes in January 2000. The aim was to "increase the flexibility of structures to maintain high levels of delivery". The department described changes as both conceptual and structural. The study reported that the process involved a regrouping of functions performed by the department and a new layer of top management. As a result, the Centre for Small Business Promotion, which was reported to have little leverage over other parts of government other than requesting consultation through interdepartmental committees, had been integrated in 2001 into a new division. Subsequently new changes were made to the institutional framework, which required a legislative overhaul to the structure of the SMME governmental support agencies.

#### 5.4. SMME advisory and support structures (2004 to current)

The National Small Business Act of 1996 was revised by the National Small Business Amendment Act of 2003 and 2004, which subsequently modified the mandate of the independent National Small Business Council to that of an Advisory Body<sup>5</sup> constituted by the Minister. This advisory body was to perform much of what was outlined in Box 1, however this function was diluted, and the amendments further reframed governments mandate to annually record and report on what was being done for Small Business. This hampered the ability of all stakeholders involved to coordinate and reflect on the progress of the National Strategy. Subsequent to the dissolution of the National Small Business Council and the formation of the

<sup>5</sup> At a briefing held on the Draft Strategy, the DTI reported in 2005 to the Trade and Industry portfolio committee that it would like to set up a non-statutory National Small Business Advisory Council (Trade and Industry Portfolio Committee, 2005).

Advisory Body through the amendment Acts, there has been little evidence published of the working and outcomes of the Advisory Body to date. The amendments furthermore constituted the Small Enterprise Development Agency (Seda) and outlined the institutional guidelines to its operation and reporting. Seda was established in December 2004 as an agency under the Department of Trade and Industry. The establishment was done by merging three organisations; Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (NAMAC) and the Community Public Private Partnership Programme (CPPP), these were integrated into Seda in April 2006. Some of the key national departments and support institutions, including some programmes, dedicated to small business development - those with significant small business activities as part of their portfolio – are highlighted in Table 2.

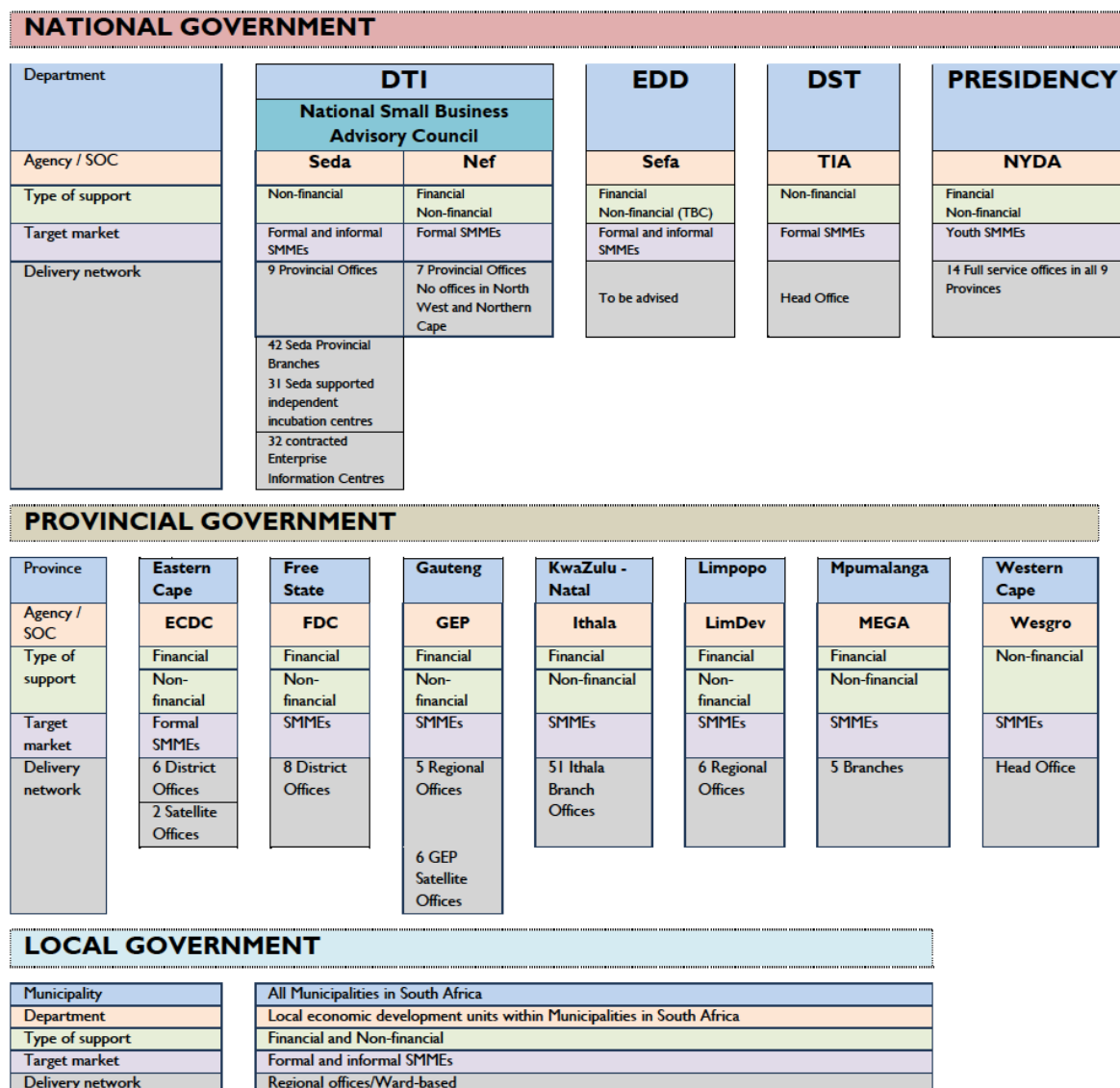
**Table 2: Key national small business development institutions and programmes**

Institution	Involvement in small business development
<b>Department of trade &amp; industry</b>	Various incentive programmes dedicated to small business development ( e.g. Black business supplier development programme) or open to small business though not exclusively dedicated to them (e.g. Technology and Human Resources for Industry Programme)
<b>Department of Tourism &amp; Business Trust</b>	Tourism Enterprise Partnership, focused on developing tourism small businesses
<b>Small Enterprise Development Agency (Seda)</b>	Fully dedicated to small business development, providing non - financial support, including business incubation
<b>Khula Enterprise Finance Limited</b>	Fully dedicated to small business development, providing financial support, mentorship and business premises
<b>Technology Innovation Agency (Department of Science &amp; Technology)</b>	Technology Stations Programme – facilitates technology transfer to small businesses
<b>National Empowerment Fund</b>	Has a significant small business financing portfolio

Source: Rethinking small business in South Africa. (Bukula et al., 2011)

Following from the changes to the National Small Business Act, according to Dajo Associates (2012), p. 42, the institutional framework is still disjointed with overlapping and support structures largely uncoordinated. Thus, the country seems to be unable to leverage its SMME support infrastructure to yield the expected results. This is largely attributed to the interdependence and autonomy of the three spheres of government (See Figure 5).

Figure 8: Structure of South Africa institutional framework - SMME development (2012)



Source: (Dajo Associates, 2012, p. 43)

As can be seen in the figure above there are numerous agencies at national and local level, all dedicated to supporting small business. However, the National Small Business Act requires Seda to coordinate small business support nationally, a role Seda has found difficult to fulfil as it would amount to it giving directives to other SMME support agencies and therefore creating unnecessary tensions between institutions. Likewise, as discussed earlier, the role of SMME research has been confused. The National Small Business Act allocates this role to Seda but small business research is carried out intermittently by the DTI (Bukula et al., 2011, p. 40). According to the Strategy, “the DTI will work with Statistics SA and academia to undertake this type of research. The department, DTI, will ensure ongoing research and the publication of the Annual Small Business Review” (DTI, 2005, p. 40).

More recently, a new Ministry and the Department of Small Business Development have been established to champion the interests of the small business community and to coordinate all of the activities of the relevant departments and their agencies, particularly within the economics cluster of Government.

## 5.5. The development and objectives of the integrated strategy

The strategic approach undertaken in the 2005 strategy was based on an investigatory study compiled by the DTI and published in 2004, titled; *Review of Ten Years of Small Business Support in South Africa 1994 – 2004 (the study)*. Two documents have subsequently been reviewed for this section; the *Integrated Small-Enterprise-Development Strategy (ISEDS)* and the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (ISPESE)*. These two strategies were premised on three core pillars, which are deviating in their strategic thrust (Box 2).

**Box 2: ISEDS & ISPESE three pillars to the Integrated Strategy**

Pillars to the Strategy (Draft and Final)	
<b>ISEDS</b>	<ol style="list-style-type: none"> <li>1. Promoting entrepreneurship through campaigns, leadership training and awards</li> <li>2. Strengthening the enabling environment through more flexible regulations, better access to finance and markets, improved infrastructure facilities and business support,</li> <li>3. Enhancing competitiveness and capacity at the enterprise level through skills training, more focused quality-, productivity- and competitiveness-support and the facilitation of technology transfer and commercialisation of incubation</li> </ol>
<b>ISPESE</b>	<ol style="list-style-type: none"> <li>1 Increase supply for financial and non-financial support services</li> <li>2 Create demand for small enterprise products and services</li> <li>3 Reduce small enterprise regulatory constraints</li> </ol>

**Source:** (DTI, 2005, 2005) *Integrated Small-Enterprise-Development Strategy, summarized version & Integrated strategy on the promotion of entrepreneurship and small enterprises, final version.*

According to the study conducted, ten-year review 1994 to 2004, 2 key developments stood out;

1. The SMME sector grew significantly (1994-2004) and probably doubled in size.
2. Small enterprises and the informal sector were recognised to have become increasingly sector-differentiated; and their needs in terms of activities, operational requirements, technical and market challenges differ significantly (DTI, 2004b, p. 7).

Importantly, the DTI highlighted that standardised or generic support strategies and programmes had become increasingly insufficient. Therefore, sector focused or adapted programmes were needed to be developed and implemented. Much of this would be in alignment with what the DTI was currently doing. Therefore, the new strategy would need to plan for differentiating support along sectoral needs which would broaden the range of opportunities for emerging and start-up entrepreneurs so as to expand the range of small enterprises. This would be underpinned by three main forces:

- a) black economic empowerment (BEE)
- b) economic growth



c) market differentiation<sup>6</sup>.

The study further emphasised that the diversified approach to supporting smaller entrepreneurs along sectoral groupings would strengthen information assembly on the full range of challenges and opportunities, across existing and evolving sectors with a strong small enterprise presence. Furthermore, this diversified approach would need to be reinforced by public-private-partnerships (PPPs) to give due attention to all the details and characteristics of new niches or sub-sectors emerging. As such there would be a need for government to decentralise its support efforts in order to adapt them fully to the sub-sector requirements, which often differ substantially in different places or parts of the country (DTI, 2004b, p. 8).

The study acknowledged that supporting small enterprises in their entirety is a huge task (then and now). In order to appreciate the size, scope and scale of the enterprises involved, an understanding of their operations in differing sector structures, at different life cycle stages (start-up to established) and different operational sizes was required. Therefore, the study highlighted that public-sector involvement can at best play a catalytic role in the support for small enterprises and there was a need for private-sector to respond in-turn and provide momentum and widen support initiatives.

The review suggested that this catalytic role envisioned of public support programmes (foreseeing a much broader-based private sector involvement with new initiatives, including business development services) had already made progress in improving access to finance and markets and the provision of training. However, it noted that a fuller understanding was required to appreciate the vast and increasingly diversified structure of the small business sector. Therefore, the study advocated that an integrated and co-operative approach, inclusive of private and the NGO sector, was needed for the delivery of services to small enterprises with public-sector support essential.

Drawing on the findings of the 1994-2004 review, the strategy developed in 2005 aimed to address governments special development goals to improve equity in terms of race, gender and geographical location (DTI, 2005, p. 4) .

## 5.6. The Integrated Small-Enterprise-Strategy

The draft strategy, titled the *Integrated Small-Enterprise-Development Strategy (ISEDS)*, was presented to the Trade and Industrial Portfolio Committee of Parliament on the 4<sup>th</sup> of February in 2005 (Trade and Industry Portfolio Committee, 2005). There are material differences between the “draft strategy” and the “final strategy”, titled the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (ISPESE)*, published by the DTI<sup>7</sup>. The earliest reference to the ISPESE identified by the research team was a portfolio committee meeting of the Trade and Industrial Committee held on the 8<sup>th</sup> of September 2009 on the policy

<sup>6</sup> The study noted that the small business sector had become increasingly sector-differentiated. This included virtually all sectors of the economy with service establishments experiencing the greatest relative increase and the highest degree of sub-sector or niche differentiation. Even in sub-sectors with traditionally strong small enterprise representation, such as agriculture, trade and construction, the differentiation of activities had continued, with the focus of individual enterprises becoming more and more diverse. This trend had also spread into informal sector and survivalist activities, with the operational, technical and market challenges of each niche differing significantly from others.

<sup>7</sup> The research team was supplied with two divergent strategy documents, the *Integrated Small-Enterprise-Development Strategy* version dated 10 January 2005 and the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (ISPESE)* not dated but noted “cabinet approval 2005”. However, when checking the publishing date of the Final Strategy, with google inurl: [www.example.com"&as\\_qdr=y15](http://www.example.com) service, the research team identified that this strategy was only published on the 9<sup>th</sup> of November 2007 on the web. Therefore, there is still uncertainty as to when the 2005 earlier document was changed and for what reasons.

for small enterprises & national small business advisory council (Trade and Industry Portfolio Committee, 2009). The research team therefore has undertaken to incorporate a brief, separated section, to this document review of the draft strategy here for the purpose of the evaluation, as this was the strategy that was presented to Parliament in 2005.

The three pillars underpinning the *Integrated Small-Enterprise-Development Strategy* (Box 2) cover a wide range of actions intended to increase the size, scale and competitiveness of South Africa's entrepreneurial base. As can be identified there are material differences to that of the final published strategy. Further to this, the *Integrated Small-Enterprise-Development Strategy* emphasised that an integrated approach be applied given the diversity of small enterprises and the multitude of sectors where these small enterprises play a significant role. Moreover, Government understood that a wide range of tools and instruments were available to influence business behaviour via either the public or the private sector, and foresaw the need to integrate, co-ordinate and synchronise their efforts in the implementation of a strategy from 2005 to 2014. This process is represented in Figure 6.

**Figure 9: Dimensions of the integration process Integrated Small-Enterprise-Development Strategy**



Source: Adapted from the *Integrated Small-Enterprise-Development Strategy*. Unlocking the potential of South African entrepreneurs: (DTI, 2005a, p. 12)

According to the *Integrated Small-Enterprise-Development Strategy* (ISED), "Box 3" summarises the three pillars of support for small enterprise and an understanding that entrepreneurs are the carriers of small-business action (pillar 1), with the environment for small-business activities and development equally critical in order to get new enterprises off the ground or growing (pillar 2), and with efforts to strengthen the productivity, efficiency and

competitiveness of enterprises important for their longer-run growth and survival (pillar 3). Virtually all the different support areas can be fitted into these three pillars, with the exception of a few cross-cutting services, which include information, research, progress reporting and monitoring as well as evaluation of programmes.”(DTI, 2005a, p. 13)

**Box 3: Summarised pillars to the Integrated Small-Enterprise-Development Strategy 2005-2014**

<b>PILLAR 1 Promoting entrepreneurship</b>	<b>PILLAR 2 Creating enabling environments</b>	<b>PILLAR 3 Enhancing competitiveness and capabilities at enterprise level</b>
Strengthen national awareness about the critical role of entrepreneurship	Maintain small- business-sensitive business regulations	Strengthen managerial, business and technical skills
Promote alternative focus on ownership	Improve access to finance	Facilitate improved quality, productivity and competitiveness
Expand franchise opportunities	Strengthen access to markets via procurement, exports and business linkages	Support technology transfer, incubation and the commercialisation of business services
Strengthen business associations and networks	Facilitate the availability of business infrastructure and premises	Expand SMME- focused sector- support strategies
	Increase the effectiveness of enterprise support	
	Localise support infrastructures	
<b>4. Cross-cutting foundation services</b>	Information, research, monitoring and evaluation	

The *Integrated Small-Enterprise-Development Strategy* (ISED) outlined a number of activities to be bolstered or considered along these pillars in order to achieve the vision for 2014; “South Africa becomes an entrepreneurial nation that rewards and recognises those who see a business opportunity and pursue it, a South Africa with a vibrant and competitive small-enterprise sector with enterprises that grow in both turnover and employment. Those who were once excluded from full participation in the economy will have access to support and development services, and be fully integrated into the different sectors of the South African economy, with access to local, national, African and other international markets. That process should significantly help South Africa to sustainably meet the material needs of all its people.”(DTI, 2005a, p. 9) This vision was further supported by the following objectives (See Box 4).

**Box 4: Objectives of the Integrated Small-Enterprise-Development Strategy 2005-2014**

<ol style="list-style-type: none"> <li>1. Increase the contribution of small enterprises to the growth of the South African economy</li> <li>2. Create an enabling environment for small enterprises with a level playing field between big business and small enterprises, that reduces the disparities between urban and rural enterprises and is conducive to entrepreneurship</li> <li>3. Create sustainable long-term jobs in the small enterprise sector</li> <li>4. Ensure equitable access and participation in term of race, gender, disability, age, geographical location and sector</li> <li>5. Increase the competitiveness of the small-enterprise sector and its enabling environment so that it is better able to take advantage of opportunities emerging in national, African and international markets</li> </ol>
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Source: *Integrated Small-Enterprise-Development Strategy*. Unlocking the potential of South African entrepreneurs: (DTI, 2005a, p. 10)

## 5.7. The Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises

The pillars underpinning the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises* (ISPESE) is based on three strategic actions; (pillar 1) increasing the supply for financial and non-financial support services, (pillar 2) creating demand for small enterprises products and services and (pillar 3) reduce small enterprise regulatory constraints. These strategic actions were to be underpinned by efforts to improve the quality of business information and knowledge through the expansion of research and communication outreach (DTI, 2005, p. 4). Box 5 outlines a summary of the pillars and the strategys' key thrusts.

**Box 5: Summarised pillars to the ISPESE strategy**

<b>PILLAR 1</b> <b>Increasing the supply for financial and non-financial support services</b>	<b>PILLAR 2</b> <b>Creating demand for small enterprises products and services</b>	<b>PILLAR 3</b> <b>Reduce small enterprise regulatory constraints</b>
<ul style="list-style-type: none"> <li>• Collaborative Approaches</li> <li>• Streamline resources from the public sector and crowd-in private sector resources</li> </ul>	<ul style="list-style-type: none"> <li>• New Policy Directives</li> <li>• Public sector procurement strategy and BEE codes of good practice as a lever for increased demand</li> </ul>	<ul style="list-style-type: none"> <li>• Enabling Environment</li> <li>• Establish a regulatory impact assessment framework and</li> <li>• Business Environment monitoring mechanism</li> </ul>

Source: Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises: Unlocking the Potential of South African Entrepreneurs (DTI, 2005, p. 4).

The ISPESE acknowledged that there was a need to focus support to designated target groups and priority geographical areas and sectors. Furthermore, support for fostering different enterprise organisation forms (e.g. cooperatives), and the development of special institutional arrangements were required. Central to the strategic actions and institutional arrangements was to shift from uncoordinated implementation to an integrated service delivery approach. Thus, the ISPESE took to broadening support programmes and the streamlining of support institutions. This was the fundamental guiding principle of the new "integrated strategy. Encapsulated in this fundamental guiding principle was the need to enhance resourcing of support and the monitoring and evaluation so as to report on the progress of implementation of the strategy (DTI, 2005, p. 5). The DTI further elaborated that cutting across all activities set out in the ISPESE "ongoing profiling of the small business sector, improving access to small business support and information, strengthening small business advocacy, delivering effective service and monitoring impact" would be a core thrust of the strategy's framework. Thus, aligning the strategy with the White Paper.

The ISPESE further highlighted that a review of the impact of the strategy would be conducted every five years, "while the yearly reviews of the state of the small business sector in South Africa will provide constant feedback and monitoring of the implementation of the strategy" (DTI, 2005, p. 5).

The aim of the ISPESE as articulated in the strategy was "to ensure that the overall task of fostering entrepreneurship and promoting small enterprises, as articulated in various government policies and strategies, is carried out adequately and effectively, and that a high level of performance and success is achieved across all policy and action areas" (DTI, 2005, p. 24).

The ISPESE was premised on a decentralised approach, in that the department would play a pivotal coordinator role in ensuring that the integrated strategy was implemented across government as well as coordinated amongst the wider actors in society. Therefore, the ISPESE emphasised the “Think Synergy First” mantra with the following guiding principles in relation to the programmes and any new initiatives developed;

- “How the new initiative adds to existing support or delivery mechanisms, and how its introduction will close gaps that cannot be closed by existing offerings (inside and outside the initiative’s sponsoring institution)
- How the new initiative ensures that duplication of existing support and delivery mechanisms – across the spectrum of role players – is avoided at all costs
- How the new initiative complements/reinforces/adds value to existing support and delivery mechanisms in a manner that ensures “seamless” delivery across all role players and offerings
- How the resources deployed to the initiative will be accounted for in the national small enterprise service-delivery report.” (DTI, 2005, p. 25)

In summary the ISPESE would be implemented and monitored through set targets and achievements made, as set out in chapter 6, against the following listed areas.

- Fostering entrepreneurship culture and increasing enterprise creation rate
- Establish a dedicated network of SMME finance
- Create demand for Small Enterprise products and services
- Strengthening local network for small business development support services
- Improving small enterprise competencies and delivery capacity
- Strengthening Enterprise Networks
- Providing necessary support incentives
- Improving regulatory environment
- Entrepreneurship and small business research (DTI, 2005, pp. 38–40).

## 5.8. Conclusion

The key documents reviewed in this section have been done so as to provide the evaluation team with insight as to the development of the strategy for 2004 to 2015, as well as a brief overview of the main points contained in the strategy. What emerged in the document analysis is that there were two distinctly different strategies developed by the DTI, the *Integrated Small-Enterprise-Development Strategy (ISEDS)* and the *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (ISPESE)*. The review team identified that the ISSE was drafted in conjunction with the *Review of Ten Years of Small Business Support in South Africa 1994 – 2004*. The two documents are congruent to the approach they take and the programmes they envisioned. The *Integrated Small-Enterprise-Development Strategy (ISEDS)* was drafted as a document that would incorporate many actors into its strategic objectives as laid out in Box 3. However, the ISPESE, which appears to have been developed at a later stage to 2005, reads as a coordination document for an internal unit of the DTI. Its main objective as stated was “to ensure that the overall task of fostering entrepreneurship and promoting small enterprises, as articulated in various government policies and strategies, is carried out adequately and effectively, and that a high level of performance and success is achieved across all policy and action areas” (DTI, 2005, p. 24).

## 6. SMME Performance From 2004 to 2015

The Strategy sets out 5 core objectives (Box 4), which in turn, reflect the main challenges which the government sought to address through the implementation of the Strategy. This section considers the extent to which these objectives have been met over the implementation period; and identifies the challenges that remain.

### 6.1. Increase the contribution of small enterprises to the growth of the South African economy

Over recent years, firms of all sizes in South Africa have reported an inhospitable economic environment, lack of skills and labour regulations in South Africa as obstacles to their growth (SBP as cited by NDP, 2011, p. 142). This has manifested in reduced demand for business products, and a choke on profit margins. Although this is a general problem, SMMEs – with smaller reserves, less access to credit and with fewer options in general available to them to deal with these conditions – have been particularly vulnerable.

Data from Statistics South Africa show declining investment in growth orientated SMMEs; it is estimated that SMMEs accounted only 8.5% of the total investment by non-financial corporations in 2012 compared with 12.9% in 2010 (Davis Tax Committee, 2014, p. 10). Investment declined mostly in the trade and manufacturing sectors over this period. Not all small firms in South Africa are growth orientated (Hashi & Krasniqi, 2011) and many are survivalist enterprises with little potential for growth (DTI, 2008a). Ligthelm (2013) uses a 5-year longitudinal study to show that informal business owners should not be the focus of government strategies to grow the SMME sector. On the whole, Ligthelm's findings show that informal businesses demonstrate very little in the way of business growth and job creation, compared to formal small businesses. The paper concludes that informal businesses largely exist due to a lack of jobs in the formal sector as survivalist enterprises, instead of as opportunity driven entrepreneurial enterprises.

These findings are supported by the World Bank (2011) which found that in South Africa “the most viable micro-enterprises are likely to be those run by owners who are in business as a matter of active choice, and not because they have no other alternatives ... fewer than one in five micro-enterprises belong to this group”. Ligthelm (2013) suggests that if the formal sector were to grow, many of these informal businesses would abandon their trade to join the formal labour force.

According to the DTI, micro, very small and small business<sup>8</sup> (small & micro business) accounted for 27-34% of total GDP in 2006. This contribution remained relatively constant across the period 2001-2006. Furthermore, the 2004 annual review for small businesses in South Africa estimate SMMEs (small, micro & medium business)<sup>9</sup> total contribution to GDP was between 39% and 45% (DTI, 2008b, p. i, 16). The annual review in 2015 of small business in South Africa for SEDA, estimates that the contribution of small and medium sized businesses to GDP at 33% in 2010 growing to 42% in 2015 (Bureau for Economic Research, 2016, p. 31).

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<sup>8</sup> According to Schedule 1 of the National Small Business Act of 1996, as revised by the National Small Business Act as amended in 2003 and 2004, Small = less than 50 employees, Very Small = less than 20 employees, Micro = less than 5 employees. This classification as to employee numbers is uniform across industry sectors (DTI, 2008b, p. 3).

<sup>9</sup> This calculation included that of medium size business.

However, these estimations are calculated using the Quarterly Financial Survey (QFS) - which identify SMMEs by a lower bound cut-off for the approximate size, in turnover, for the various sectors – and not strictly in accordance with the schedule as attached to the National Small Business Act, Act No. 26, 2003. Furthermore, in reading the two studies, which largely comprise the period of review, 2004 to 2014, (DTI, 2008 & BER, 2015), there seems to be estimation and methodology inconsistencies in the calculations between these two reports. This then creates some confusion on the progress in terms of the actual contributions to GDP from the micro (including informal), small and medium businesses to the country's growth.

Table 3 and 4 represent a count and percentage growth by province of the SMMEs and the informal sector enterprises for South Africa. These numbers have been raised from different reports and methodological changes could have been introduced between the periods of counting<sup>10</sup>. However, they can be viewed as an indicative estimate of the changes to the quantity in numbers of SMMEs in the provinces across South Africa over the period of review (2004-2014). According to the statistics, the net number of SMMEs - formal and informal – has declined by approximately 550 000 between the period 2004 to 2015, with the largest loss in the informal sector, with a net loss of 795 000, whilst formal sector SMMEs grew by approximately 245 000.

**Table 3: Number of SMMEs from 2004 to 2015**

Province	DTI (2004)		DTI (2008)		BER (2015)		BER (2015)	
	Formal (2004)	Informal (2004)	Formal (2007)	Informal (2005)	Formal 2008 (Q1)	Informal 2008 (Q1)	Formal 2015 Q2	Informal 2015 Q2
Eastern Cape	21772	209000	26992	234443	56579	154631	50670	141739
Free State	12524	129000	16480	115687	31040	76127	26224	60816
Gauteng	196715	616000	247316	429515	270093	405180	306231	465100
Kw aZulu-Natal	53045	580000	66389	328210	102591	289347	74976	283165
Limpopo	9493	266000	14748	249615	24193	155001	28054	207512
Mpumalanga	14879	191000	20784	134948	29760	156814	35208	141129
North West	10971	175000	16226	139472	25817	76855	27430	79153
Northern Cape	4759	17000	6352	12471	11450	11768	8534	9058
Western Cape	76876	111000	97231	103217	114976	95212	110107	110188
Unspecified province	20610		23722					
<b>Total</b>	<b>421644</b>	<b>2294000</b>	<b>536240</b>	<b>1747578</b>	<b>666501</b>	<b>1420935</b>	<b>667433</b>	<b>1497860</b>

Source: Multiple sources, (Bureau for Economic Research, 2016; DTI, 2004a, 2008a)

<sup>10</sup> Between the period of 2007 to 2015 no annual review was conducted for SMMEs by Stats SA nor the DTI therefore the BER had to employ a proxy for the figures calculated from 2008 in the 2015 annual review. This was due to differences in the Labour Force Surveys that they utilised to account for the 2015 calculations. See (Bureau for Economic Research, 2016, p. 11) for the methodological discrepancies and error percentages. Figures reported in the 2008 (Q1) and 2015 (Q2) may be slightly higher than that of the 2007 annual review.

In terms of numbers counted for the period under review formal SMMEs have grown from approximately 422 000 in 2004 to 667 000 in 2015. However, a review conducted by the Davis Tax Committee in 2014 highlighted that there are only about 165 000 entrepreneurial businesses in South Africa that have the potential to grow, they contribute 36% toward the corporate tax collected in the country (Davis Tax Committee, 2014, p. 9). This would suggest that the numbers of small businesses that have the ability to actively contribute and accelerate the countries growth is *one in four* of that reported as formal business in South Africa. Likewise, their report suggests that there were only 45 670 Small Business Corporations<sup>11</sup> (SBC) reporting taxable income of less than R1 million, that were liable for taxation in 2012 (Davis Tax Committee, 2014, p. 12). Furthermore, there has been a marked reduction in the activities of the informal sector coupled with high unemployment rates, estimated at 26.4% in January of 2015 (Statistics South Africa, 2015). This is a worrying trend as according to Cassim, Lilenstein, Oosthuizen, & Steenkamp, (2016) the informal sector promotes inclusive growth by providing an alternative to unemployment, particularly for those with low skills as well as women and young people. However, the adoption of the South African Social Security Agency Act, (2004) and the amendment of the Social Assistance Act, (2004), which paved the way for a more professional and focused service delivery to social grant beneficiaries, could have affected the number of active participants in the informal economy from 2004 onwards. This then points to an increase in reliance on the state to buttress the effects of poverty. It is reported that Social grant expenditure reached 16.9 million recipients at a cost of R128 billion in 2015 and is expected to increase reach to 17.2 million recipients at a cost of R149 billion by 2018 (ILO, 2016).

**Table 4: Number and percentage growth of SMMEs by province 2004-2015**

Province	Net Growth Formal	Percentage Growth Formal	Net Loss Informal	Percentage Loss Informal	Net Growth Combined	Percentage Growth Combined
Eastern Cape	28898	133%	-67261	-32%	-38363	-17%
Free State	13700	109%	-68184	-53%	-54484	-38%
Gauteng	109516	56%	-150900	-24%	-41384	-5%
KwaZulu-Natal	21931	41%	-296835	-51%	-274904	-43%
Limpopo	18561	196%	-58488	-22%	-39927	-14%
Mpumalanga	20329	137%	-49871	-26%	-29542	-14%
North West	16459	150%	-95847	-55%	-79388	-43%
Northern Cape	3775	79%	-7942	-47%	-4167	-19%
Western Cape	33231	43%	-812	-1%	32419	17%

Source: Own calculations based on (Bureau for Economic Research, 2016; DTI, 2004a, 2008a)

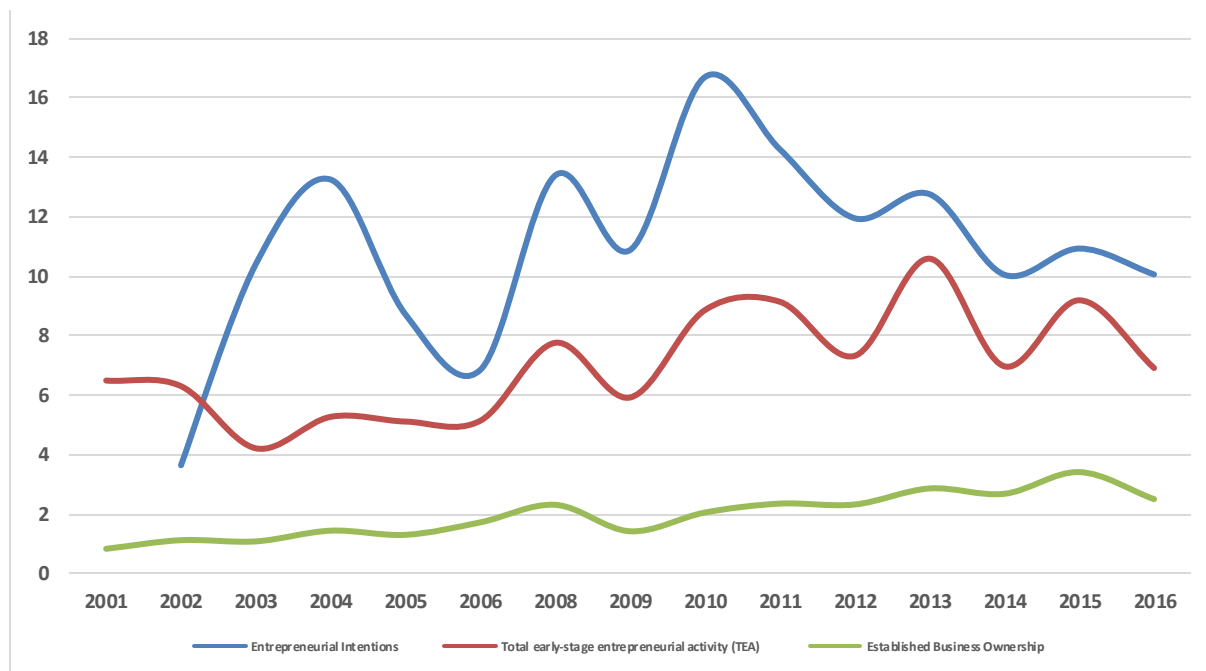
Another measurement that identifies the entrepreneurial activities of South Africa is the annual Global Entrepreneurship Monitor (GEM) study. This can be used as a benchmark, or indicative indicator, as to whether the activities undertaken by government have borne fruit in terms of entrepreneurial intentions, early stage entrepreneurial activity (TEA) and business ownership

<sup>11</sup> SARS has been revising the definition of a Small Business Corporation (SBC) to revise section 12E of the Income Tax Act. This is in line with their attempt since 2001 to incentivise the "missing middle". See SARS for further details.



rates<sup>12</sup>. According to the study entrepreneurial intentions, percentage of population, for South Africa were at 13,3% in 2004 which reduced to 10% in 2014. The early stage entrepreneurial (TEA) rate was 5,3% in 2004 and almost 7% in 2014. Established business ownership rates were 1,4% in 2004 and 2,7% in 2014. While there is a slight improvement in early stage activity and business ownership, the GEM study consistently highlights that South Africa has very low levels of entrepreneurial activity (Herrington, Kew, & Kew, 2014).

**Figure 10: GEM Entrepreneurship Indicators 2001 to 2016**

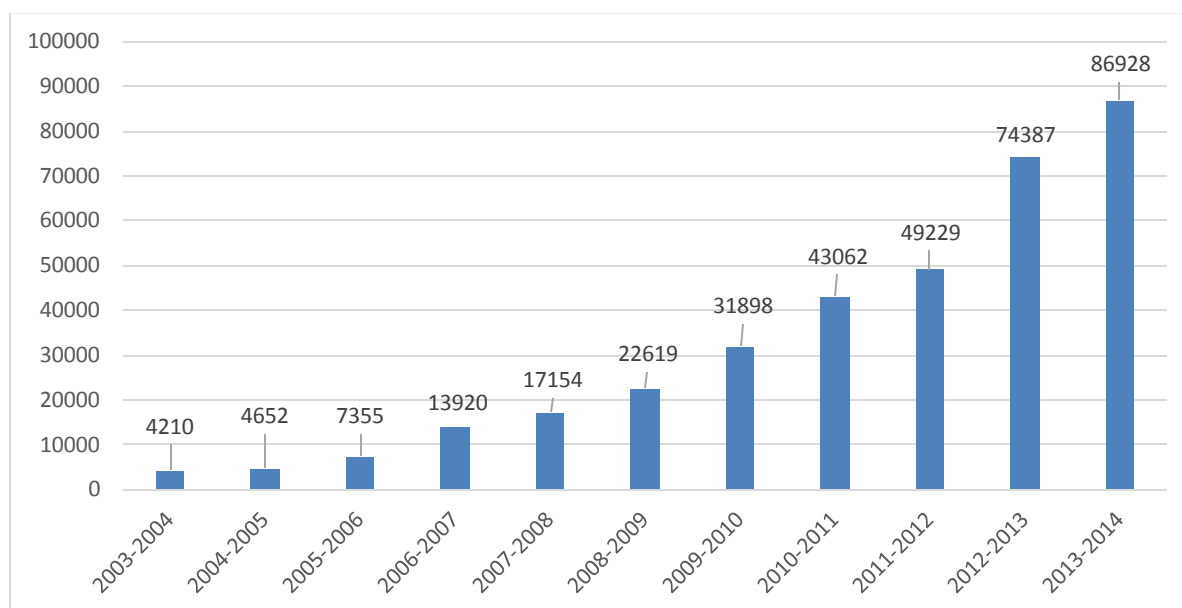


Source: Global Entrepreneurship Monitor. (GEM, 2016), <http://www.gemconsortium.org/data/key-aps>

SMMEs in South Africa can form under a number of incorporation models, co-operatives being an important component to them. They have been a popular mechanism of government to stimulate job creation and enterprise development in the country (Godfrey, Muswema, Strydom, Mamafa, & Mapako, 2015). Subsequent to a number of legislative changes, there has been a huge increase in cooperative incorporation.

Figure 8 outlines the trend in cooperative incorporations from 2004 to 2014. As can be seen there has been a substantial amount of activity in registering cooperatives in the country. However, a review of the status of all co-operatives showed that as at 2009, there were 22 619 registered co-operatives in the CIPRO database, however only 2 398 of these were economically active (89.4% mortality rate) (Godfrey et al., 2015, p. 1). Furthermore, research conducted on behalf of the ILO identified that in 2015 the Companies and Intellectual Properties Commission (CIPC) reported that there were over 120 000 active cooperatives in South Africa. However, the numbers of cooperatives who file their annual financial statements (and would therefore appear to be active) is less than 1 000 (Darroll & ILO, 2016).

<sup>12</sup> **Entrepreneurial intentions** record the percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who are latent entrepreneurs and who intend to start a business within three years, **Early stage entrepreneurial activity (TEA)** record the percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business and **Business ownership rates** record the percentage of 18-64 population who are currently an owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.

**Figure 11: Trend in all co-operative registrations**

Source: (Godfrey et al., 2015, p. 10)

## Main findings

The contribution of SMMEs to investment and economic growth has been stagnant at best for the period 2004-2015. However, it should be noted that existing calculations are measured using the 'Aberdian method', which is based on estimations of SMMEs GVA contribution, and are not a robust reflection of the economic activity of the whole sector (DTI, 2008a, p. 16). Without appropriate baseline data, the measurement of SMME activity in terms of numbers and contribution are at best estimations and cannot be regarded as a true reflection of the overall health and growth of the sector. Likewise, data gaps on the activity of SMMEs in townships and the rural economic sector, do not allow for a comprehensive and textured picture of the SMMEs in the country. With regard to cooperative activity, the sector seems to experience rapid growth over the period. However, this has not translated into financially viable and autonomous entities, with most (90%) registered cooperatives reportedly inactive.

### 6.2. Create an enabling environment for small enterprises with a level playing field between big business and small enterprises

It has long been acknowledged that the enabling environment for SMMEs - business registration, licensing requirements, taxation, competitiveness conditions and labour conditions – must be improved. Part four of the White Paper on National Strategy for the Development and Promotion of Small Business South Africa, emphasises that by creating an enabling environment, using the national policy framework, small businesses will themselves accept responsibility for the operations, growth and progress of their respective enterprises. The White Paper understood that inappropriate or unduly restrictive regulatory conditions are a critical constraint on the progression of small enterprises into the formal business sector and are an obstacle to their growth (DTI, 1995).

The appropriate balance between social and economic imperatives comes into sharp relief in examining an economy's regulatory system. While few dispute the necessity of regulation, the compliance burden it places on firms needs to be proportionate to the goals it is meant to

achieve. This presupposes that the costs to business must be rationally related to the importance of the outcomes that they seek to enforce.

South Africa's regulatory environment has been a matter of concern for years. In 1994, the Reconstruction and Development (RDP) White Paper promised "favourable amendments to legislative and regulatory conditions" for SMMEs' development. However little has been done to assuage unfavourable conditions to the sector over the years. Furthermore, changes to the governing act, with regard to the reporting of barriers to SMMEs, regulatory and otherwise, has inevitably created a fragmented picture of practical steps to alleviate complexities.

A key issue commonly cited as a challenge to the SMME sector is the administrative burden of bureaucracy – the so-called 'red tape' cost. Dealing with red tape costs smaller firms a much higher proportion of their turnover than larger ones. In a 2004 study, SBP found that compliance costs represent 8.3% of turnover for enterprises with annual sales of less than R1 million, and 0.2% of turnover for corporations with sales of R1 billion or more. Cumulatively, the study concluded that red tape cost South African businesses R79 billion in 2004, or 6.5% of GDP in that year (SBP, 2004).

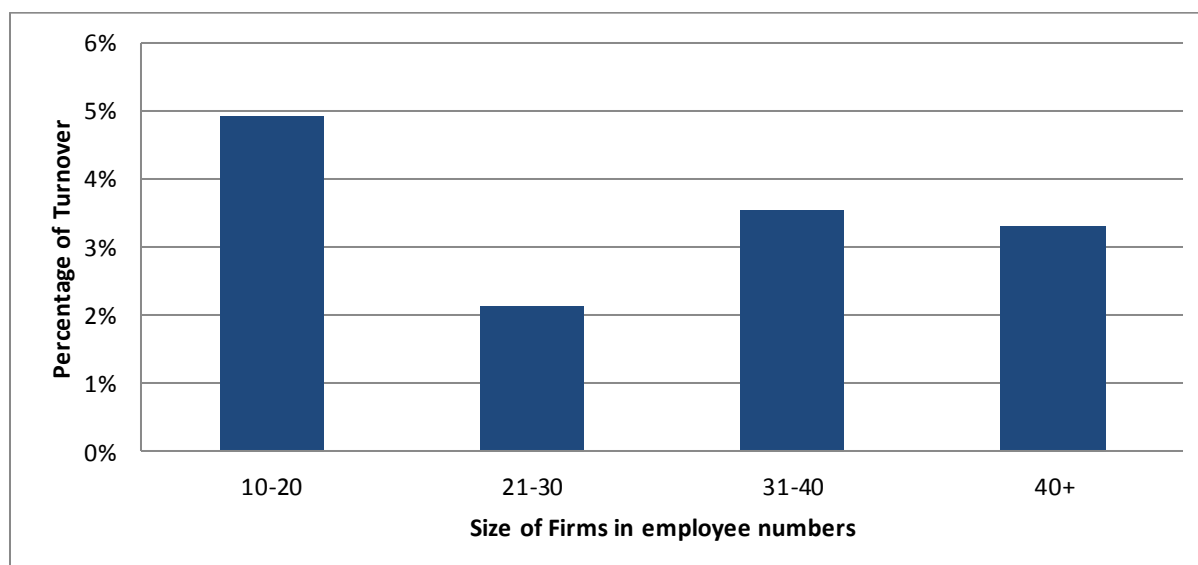
A common complaint discussed by researchers who track red tape is that bigger businesses can afford to hire specific individuals whose sole job is to deal with the various bureaucratic issues, while in smaller firms it is often the owner or manager that has to do this (Christensen, Hegazy, & van Zyl, 2014). This takes time away from more productive tasks. It reduces profit margins and makes the firm less competitive.

The cost of navigating the regulatory burden and administrative inefficiencies is high for South African firms, especially SMMEs. Estimates by the ILO suggest that in the Free State regulatory costs borne by SMMEs is equivalent to just under 3% to GDP (Christensen et al., 2014, p. 7). Despite talk of reform, and the central role that regulatory reform has been given since the White Paper, SMMEs have not reported that the regulatory burden is easing.

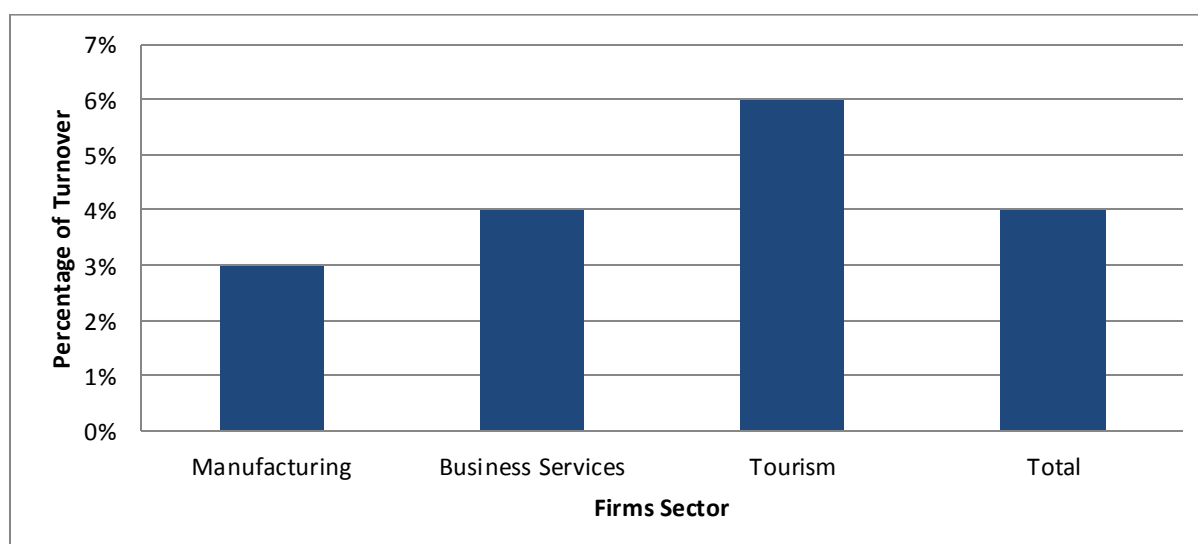
Panellists on the SME Growth Index<sup>13</sup> expressed spending, on average 4% of their turnovers, on regulatory compliance costs in 2012 (SBP, 2013). The trend showed that smaller firms (those employing fewer than 21 people) were hardest hit by red tape. At this level, some 5% of turnover was being committed to compliance measures. For those employing more than 40 people, red tape compliance costs accounted for 3% of turnover. Seen from a sector perspective, tourism firms carried the greatest burden (partially due to their need to comply disproportionately with local municipalities), committing some 6% of their turnover to red tape, while those in business services committed 4% and manufacturers 3%. See (Figure 9 and 10).

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<sup>13</sup> SBP's SME Growth Index, a study based on an annual survey tracking a randomly selected panel of 500 established firms employing fewer than 50 people and operating in three key sectors prioritised by government (manufacturing, business services and tourism). This study, the only one of its kind in South Africa, yields important longitudinal insights and interrogates the firm-level experiences and dynamics of South Africa's SMME community. It offers the solid, empirical evidence that has so far eluded much of the national conversation around SMMEs in South Africa. For more information see [www.SMMEgrowthisindex.co.za](http://www.SMMEgrowthisindex.co.za)

**Figure 12: % of turnover dedicated to red tape by firm size (SMEGI 2013)**

Source: (SBP, 2013)

**Figure 13: % of turnover dedicated to red tape by sector (SMEGI 2013)**

Source: (SBP, 2013)

Firms were also asked one year later how much time they spent on compliance measures and in 2013, each firm on the panel reported spending an average of 75 hours a month dealing with red tape – the equivalent of 8 working days. The highest overall time commitment was by business services firms, at an average of 99 working hours per month (SBP, 2014). In addition, of the firms participating in the SME Growth Index, over 60% stated that the burden of red tape had increased year on year (SBP, 2013, 2014).

Business concerns regarding the compliance burden relate not only to the volume of regulatory requirements and poor administration, but also the frequency of regulatory change. Disturbingly, only two firms in five surveyed in the third iteration of the SME Growth Index were confident that they knew all the regulations they needed to comply with (SBP, 2013). These findings show that SMMEs strongly believe that the burden of red tape is increasing year on year. Furthermore, “Neil Rankin contends, pursuant to his research, that there are significant costs associated with regulation. Of particular importance are the costs of staff time spent dealing with regulations and the cost of paying for outside consultants. The cost of regulation

falls disproportionately on smaller firms, particularly with respect to tax costs. Smaller firms have similar levels of tax costs compared to the larger firms but these costs comprise a larger proportion of the total regulatory costs. According to Rankin, tax compliance costs in respect of employees are much higher for smaller firms as are the costs associated with complying with local authority regulations. Additionally, 80% of firms in his sample reported that regulatory costs had increased in the two years immediately preceding his study” (Rankin as cited by Davis Tax Committee, 2014). Furthermore an empirical study conducted by Smulders & Stiglingh in 2008 identified that tax practitioners cost on average R7 030 per annum in average fee charges to their small business clients. Their findings further suggest that it was evident that, overall, the compliance costs are regressive i.e. smaller business have a heavier burden than larger ones.

In their review of the incentives granted to SBCs and calculations based on the 2014 Budget Review, the Davis Tax Committee identified that of the active SBC<sup>14</sup> 86 333 population 47%, 40 633, firms would have no taxable income. They further concluded that there are fundamental challenges to the very objectives of South Africa’s SMME incentives as the tax compliance burden is a factor of the size of the business and not the actual tax liability (Davis Tax Committee, 2014, pp. 16, 17).

Looking at the ease of doing business more broadly, the World Bank conducted a sub-national study in 2015 to identify the ease of doing business in South Africa using their global methodology. Their report measured regulations relevant to 6 stages in the life of a small to medium sized firm, namely; starting a business, dealing with construction permits, getting electricity, registering property, enforcing contracts, and trading across borders (see Figure 11 and 12). They outline that South African entrepreneurs face different regulatory hurdles depending on where they establish their businesses. This is due to varying efficiency levels of public agencies in charge of the six areas benchmarked, and discrepancies in the interpretation of national legislation. They further highlight that there is not only legislative change that is required, but local policy makers can achieve tangible improvements to business compliance measures by replicating good practices that have been already successfully implemented in other cities in South Africa. These small administrative improvements not requiring legislative changes can make a difference for a small or medium sized firms. They further highlight that by implementing these improvements South Africa could hypothetically surpass the average performance of OECD high income economies in construction permits, getting electricity and enforcing contracts (World Bank, 2015a).

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<sup>14</sup> An SBC is defined in section 12E as any close corporation or co-operative or any private company as defined in the Companies Act, 2008 (thus excluding trusts, sole proprietors and partnerships), all shareholders of which are at all times during the year of assessment natural persons where the gross income for the year of assessment does not exceed R20 million per annum (with effect from the 2014 year of assessment).

**Figure 14: Doing Business in South Africa (Sub-regional index 2015)**

Municipality	Starting a business*		Dealing with construction)		Getting electricity		Registering property		Enforcing contracts	
	Ranking (1-9)	DTF score (100 = best result)	Ranking (1-9)	DTF score (100 = best result)	Ranking (1-9)	DTF score (100 = best result)	Ranking (1-9)	DTF score (100 = best result)	Ranking (1-9)	DTF score (100 = best result)
Buffalo City	4	78.67	3	77.50	4	75.32	4	62.84	9	62.54
East London										
Cape Town	4	78.67	1	78.08	2	81.81	8	59.23	6	67.53
Cape Town										
Ekurhuleni	1	81.18	4	76.84	5	71.83	3	64.23	4	68.26
Germiston										
eThekweni	4	78.67	5	76.15	3	75.73	6	62.05	3	69.27
Durban										
Johannesburg	1	81.18	8	68.52	8	55.74	1	65.82	8	66.14
Johannesburg										
Mangaung	4	78.67	9	68.22	1	83.88	9	58.41	1	71.04
Bloemfontein										
Msunduzi	4	78.67	6	74.07	7	63.00	7	59.49	2	70.81
Pietermaritzburg										
Nelson Mandela Bay	4	78.67	2	78.05	9	53.14	5	62.69	7	66.89
Nelson Mandela Bay										
Tshwane	1	81.18	7	69.88	6	68.51	2	64.71	5	68.17
Pretoria										

Source: (World Bank, 2015a, p. 4) Notes: \*On starting a business, each city is ranked either 1 or 4 because the only difference between cities is their proximity to the office of the Compensation Fund (Department of Labour) in Pretoria. Entrepreneurs from Ekurhuleni, Johannesburg and Tshwane conduct the registration of their employees at the Pretoria office and these cities rank equally at the top. In the other cities, the process takes longer as the applications are first submitted to the local labour centers, then forwarded to the provincial offices and then to Pretoria. The distance to frontier (DTF) score shows how far on average an economy is at any given point in time from the best performance achieved by any economy on each Doing Business indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the frontier of best practices (the higher the score, the better). For details, see the About Doing Business and Doing Business in South Africa 2015 section.

**Figure 15: Export and Import: Trading across borders**

Port	Export			Import		
	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)
Durban	5	16	1,830	6	21	2,080
Port Elizabeth	5	16	1,984	6	20	2,193
Ngqura	5	16	1,979	6	20	2,222
Cape Town	5	17	2,078	6	19	2,267

Source: (World Bank, 2015a)

Beyond general legislative, compliance and tax conditions in the country, SMMEs face a number of internal and external barriers that limit their growth. The table below (Table 5) summarises the past decade's studies on the internal and external barriers limiting the growth of SMMEs in South Africa. Although the findings vary, as is to be expected, some barriers appear again and again.

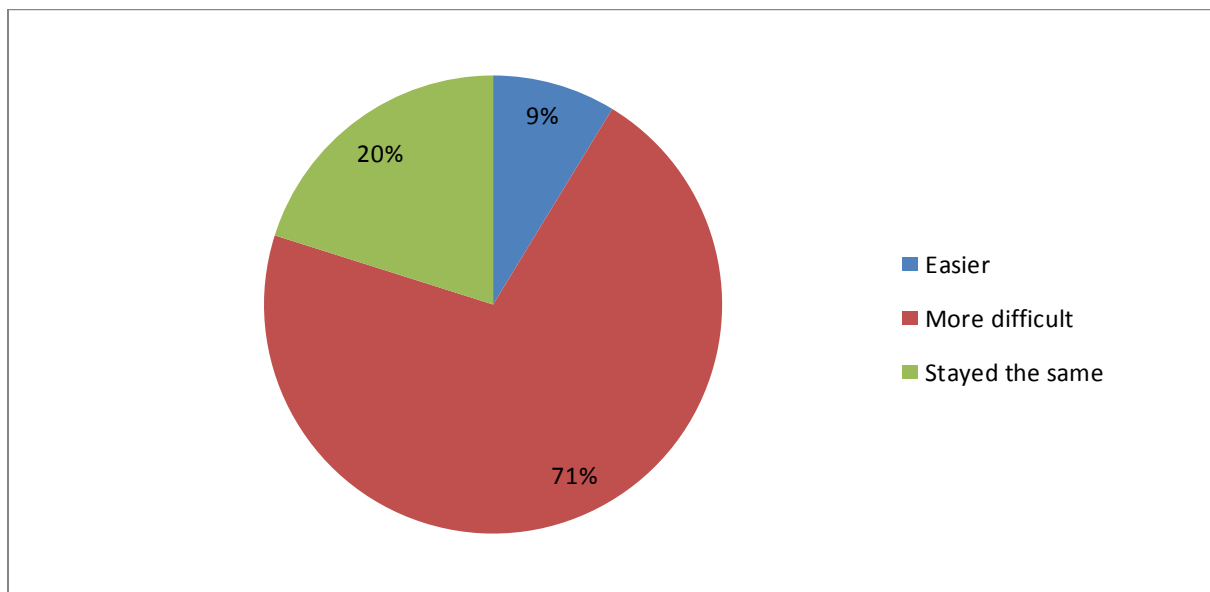
**Table 3: Tabulation of the literature on barriers to SMME growth**

Authors	Barriers to growth identified	Dataset	Characteristics
<b>Chandra, Moorty, Nganou, Rajaratnam &amp; Schaefer (2001)</b>	<ul style="list-style-type: none"> <li>Lack of skilled staff.</li> <li>Lack of access to finance</li> <li>Insufficient government support</li> </ul>	Independent Survey	<ul style="list-style-type: none"> <li>792 observations of registered firms employing 1-49 employees</li> <li>Location: Johannesburg</li> <li>Sectors included:               <ol style="list-style-type: none"> <li>1) Manufacturing: Clothing, metals, furniture, food products.</li> <li>2) Services: Tourism, construction, retail, information technology</li> </ol> </li> </ul>
<b>Berry, Blottnitz, Cassim, Kesep, Rajaratnam &amp; van Seventer (2002)</b>	<ul style="list-style-type: none"> <li>Labour regulations.</li> <li>High wage requirements.</li> <li>Lack of skilled staff.</li> <li>High interest rates.</li> <li>Lack of access to finance.</li> </ul>	None.	<ul style="list-style-type: none"> <li>Drew on 78 pieces of literature to establish arguments as to what the paper believes the greatest barriers to growth are.</li> </ul>
<b>Brink &amp; Cant (2003)</b>	<ul style="list-style-type: none"> <li>High inflation and high interest rates.</li> <li>Increasing competition.</li> <li>Crime.</li> <li>Technological change.</li> <li>Burdensome debt.</li> </ul>	Independent Survey	<ul style="list-style-type: none"> <li>301 observations.</li> <li>Used firms considered "sophisticated". *</li> <li>1-50 employees.</li> <li>Data was collected provincially. No further detail is offered.</li> </ul>
<b>FinMark Trust (2006)</b>	<ul style="list-style-type: none"> <li>Lack of skilled staff.</li> <li>Little awareness of SMME support initiatives.</li> <li>Regulations and red tape.</li> <li>Lack of access to finance.</li> </ul>	FinScope dataset (2006)	<ul style="list-style-type: none"> <li>2000 observations.</li> <li>Less than 200 employees.</li> <li>Firms are mostly micro in nature.</li> </ul>
<b>Martin &amp; Staines (2008)</b>	<ul style="list-style-type: none"> <li>Managerial inefficiency</li> </ul>	None.	<ul style="list-style-type: none"> <li>No further details given.</li> </ul>
<b>Survey of Employers and the Self-employed (2009)</b>	<ul style="list-style-type: none"> <li>Lack of access to alternative sites for business operation.</li> <li>Lack of access to finance.</li> <li>Lack of marketing skills.</li> </ul>	Quarterly Labour Force Survey	<ul style="list-style-type: none"> <li>Firms are not VAT registered.</li> <li>Micro enterprises</li> </ul>
<b>Abor &amp; Quartey (2010)</b>	<ul style="list-style-type: none"> <li>Lack of access to finance.</li> <li>Lack of skilled staff.</li> <li>Regulations and red tape.</li> <li>Lack of access to international markets.</li> </ul>	None. (Critical literature review).	<ul style="list-style-type: none"> <li>Drew on 49 pieces of literature to establish arguments as to what the paper believes the greatest barriers to growth are.</li> </ul>
<b>FinMark Trust (2010)</b>	<ul style="list-style-type: none"> <li>Space to operate.</li> <li>Increasing competition.</li> <li>Lack of access to finance.</li> <li>Crime.</li> </ul>	FinScope dataset (2010)	<ul style="list-style-type: none"> <li>1075 observations.</li> <li>Less than 200 employees.</li> </ul>
<b>Olawale &amp; Garwe (2010)</b>	<ul style="list-style-type: none"> <li>Lack of access to finance</li> <li>Lack of collateral</li> <li>Insufficient owners equity contribution</li> <li>Crime</li> <li>Insufficient government support</li> </ul>	Independent Survey	<ul style="list-style-type: none"> <li>361 observations</li> <li>Newly registered firms.</li> <li>Locations covering East London, King Williams Town and Queenstown.</li> </ul>
<b>SBP(2011)</b>	<ul style="list-style-type: none"> <li>Lack of skilled staff.</li> <li>Labour regulations.</li> <li>Lack of access to finance.</li> <li>Poor global economic conditions.</li> <li>Regulations and red tape.</li> </ul>	SME Growth Index (2011)	<ul style="list-style-type: none"> <li>500 observations.</li> <li>10-49 employees (not strictly adhered to)</li> <li>Sectors included:               <ul style="list-style-type: none"> <li>-Manufacturing</li> <li>Business Services</li> <li>Tourism</li> </ul> </li> <li>Firm must have been in existence for over 2 years</li> </ul>

Source: (Flowerday, 2013)

Data taken from the SME Growth Index Panel may also provide further detail to illustrate additionally some of the common barriers underscored in the table above. Since the panel closely matches Statistics South Africa data on employers through the Quarterly Labour Force Surveys (SBP, 2011). To get a sense of how firms perceive the overall business environment, the SME Growth Index asked its panellists whether it had 'become easier or harder to operate a business in 2013'. The broad impression of the business environment held by the respondents was deeply negative. As illustrated in the figure below, 71% said that it became harder to operate a SMME in South Africa in 2013. Only 9% said it had become easier and one in five believed it had not changed from the previous year (SBP, 2013).

**Figure 16: Firms perception on doing business in South Africa (SMEGI 2013)**

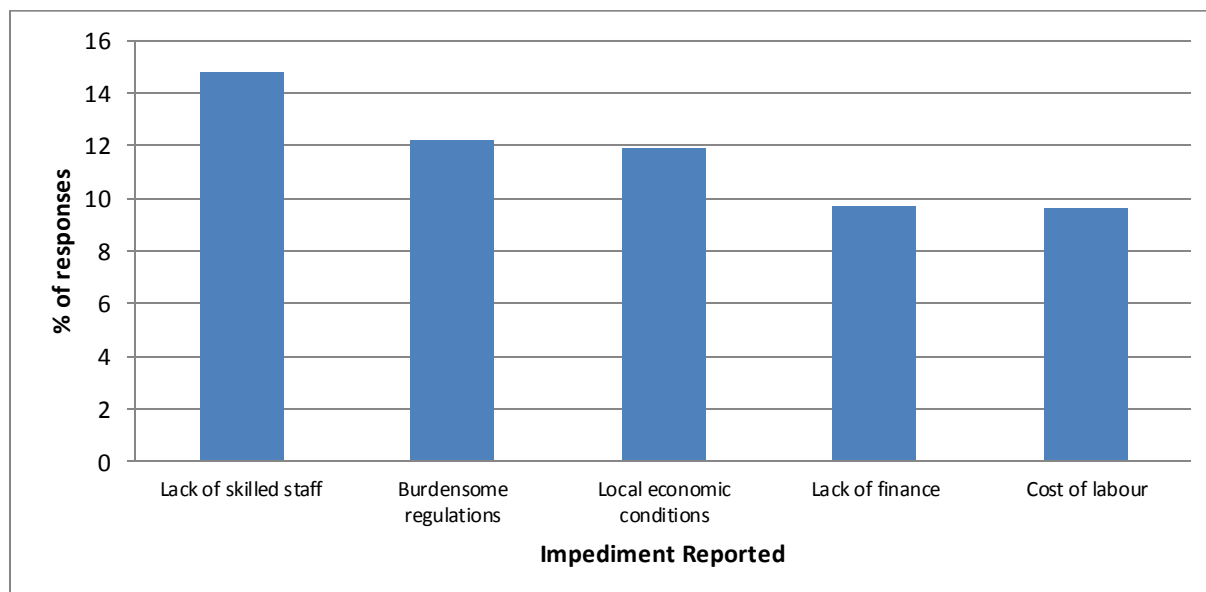


Source: (SBP, 2013)

Broken down by sector, nearly three in four manufacturers and business services firms said that it had become harder to operate a business in 2013 (SBP, 2013). Disaggregating these findings against firms that were growing, the study found that the sense that doing business had become more difficult was widely held across the spectrum of firm growth. This was most pronounced among firms that had experienced a decrease or stagnation in turnover, but was also evident among growing firms. Some 62% of firms in the survey who reported high-growth in turnover, felt that it had become more difficult to run a business in South Africa and firms with a more positive outlook tended to say that things had remained the same, rather than that they had become easier.

Beyond general economic conditions, SMMEs experience a number of obstacles to their profitability, growth and competitiveness, and which have direct and indirect bearings on their demand for labour. Respondents to the SME Growth Index in 2013 cited lack of skills as the top barrier, followed by burdensome regulations, local economic conditions, lack of finance and the cost of labour. Together these accounted for well over half (58%) of the panel's responses (See Figure 14).



**Figure 17: Chief Impediments to firm growth, (SMEGI 2013)**

Source: (SBP, 2013)

The impediments identified by firms in different sectors varied. Shortage of skills was the dominant concern for firms in manufacturing and business services, and also ranked highly among tourism firms. Tourism firms however cited a lack of finance as their most common barrier – probably reflecting the presence of a large proportion of smaller, younger firms in this sector with fewer financial resources – while it did not pose a major problem for manufacturing and business service firms.

### Main findings

The environment in which SMMEs operate has become increasingly challenging and there is an ongoing need for business environment reform. In some instances, there may be an argument for deregulation. The problems that were highlighted in 2004 seem to remain, and more worryingly, there seems to be increasing business environment concerns cited by SMMEs. SMMEs also appear to be more burdened than that of their larger counterparts. Evidence from SBPs SME Growth Index and the Davis Tax Committee confirm this.

There is a remarkable degree of consensus in South Africa on the desirability and importance of SMMEs to the country's economic growth and employment prospects. The actual trajectory is, however, distinctly discouraging. The evidence collected in this section points to an SMME community that is struggling with prevailing conditions. For SMMEs to thrive, South Africa needs better regulation: better in its design, more efficient in its application and less demanding on the time and resources of those subject to it.

Finally, there is insufficient information on the extent to which regulations impact on SMMEs and how. Transversal and interdepartmental coordination on the collection of information has made it difficult to identify cross cutting issues and to guide business environment reform. Central to this is an understanding of the conditions that SMMEs require to function and grow. It is also important to recognise that not all SMMEs are alike; different regulations impact on different SMMEs in different ways. This raises the need for more detailed information and more sophisticated regulatory impact analysis.

### **6.3. Create sustainable long-term jobs in the small enterprise sector and ensure equitable access and participation**

The National Development Plan envisions that the majority of the jobs South Africa will create in the future will be in small and medium enterprises. This is not a novel idea. A vast body of research agrees that in today's economy, small and medium sized firms are the primary producers of jobs; often jobs that provide a crucial entry into the formal market for job seekers (Haltiwanger, Jarmin, & Miranda, 2013). However, it is widely acknowledged that South Africa faces a severe shortage of skills, and especially "hard" artisanal skills and high-end professional skills (GEMS, 2014). This raises the cost of these particular skills.

Small firms generally cannot afford to pay the wages which larger firms pay and thus struggle to recruit skilled people. Even training their own staff might be a fleeting investment, since they may find it difficult to retain them as the upskilling opens up better paid options elsewhere (SBP, 2014). Furthermore, Amra, Hlatshwayo, & Mcmillan in (2013) show that SMMEs who employ less than 50 but more than 10 employees are highly skills intensive, requiring educational factors that are transferable to the multiplicity of tasks required in a small business. Therefore, South Africa's absorption rate of employment in smaller firms may be hampered by poor education and work-place readiness.

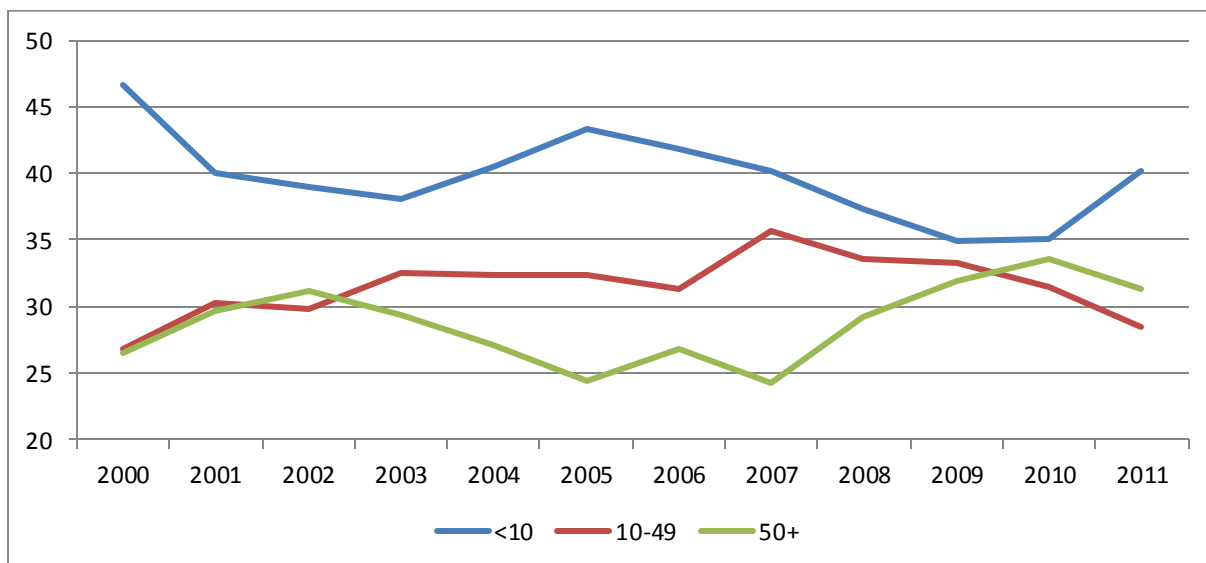
In contradiction to international experience, broader trends in the South African economy indicate that smaller firms employing less than 50 people are becoming less important as job creators, not more. Data from Statistics South Africa Labour Force Surveys suggest that the proportion of people working in firms employing fewer than 50 people has been declining since 2000 (See Figure 15). Since the economic crisis in 2008, it seems that the share of employment among firms employing fewer than 10 employees, and those employing between 10-49 employees has been shrinking. Therefore, larger firms are becoming a more important source of job creation and the role of smaller firms as job creators in the South African economy is being reduced. This is in contrast to much of the international evidence, where SMMEs account for growing proportions of the employment created (Rankin & SBP, 2013).

As illustrated in Figure 15 (taken from data provided by Stats SA demonstrating the overall trend in the distribution of employment over the past decade)<sup>15</sup>, the greatest change has been in the contributions made by the smaller firms, which saw an overall decline from 46.6% in 2000 to 40.2% in 2011. Firms with between 10 and 49 employees, and those with 50 or more began the decade contributing more or less the same proportion of employment (27% each). Subsequently, the small group outpaced the large, and in 2007 firms in the 10-49 employee range employed over 10% points more of the workforce than those employing 50 and more. From that point, there was a gradual change to this with the contributions made by the 10-49 employee group falling sharply, and being overtaken in proportional trends by firms employing 50 or more people.

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<sup>15</sup> Dividing employment into three broad categories (i.e. firms employing fewer than 10 people; firms employing between 10 and 49 people, the group predominantly and firms employing 50 and more people) highlights the increasing role played by larger businesses.

**Figure 18: Proportion of people employed by firm size category (2000 – 2011)**

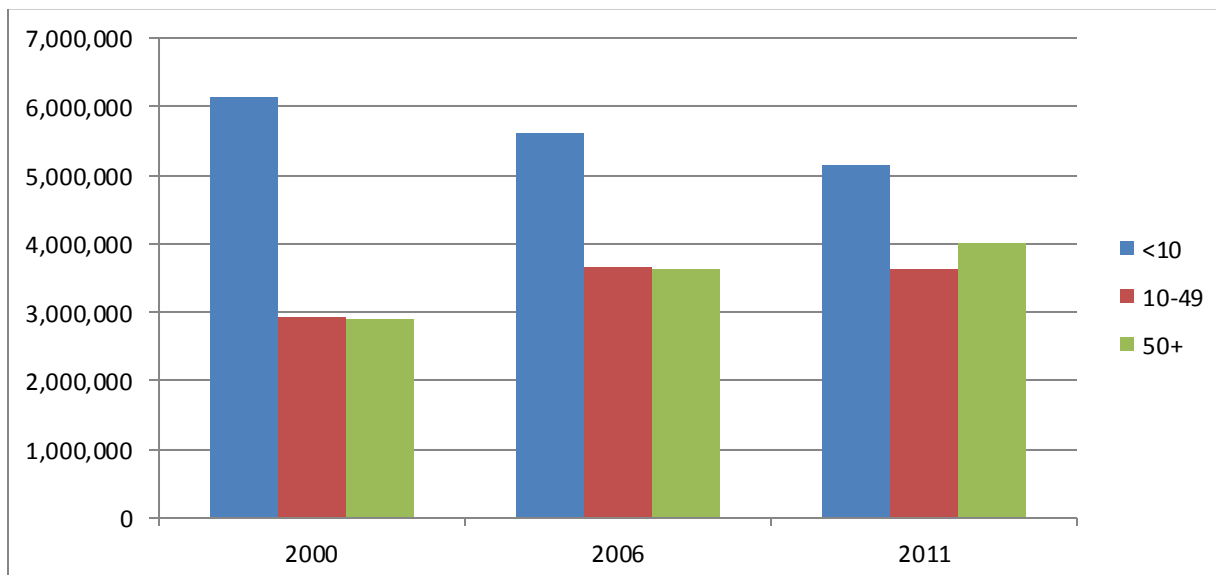


Source: (Rankin & SBP, 2013)

Notes: Calculated from Statistics South Africa’s Labour Force Survey (prior to 2008) and Quarterly Labour Force Survey (post 2008). Those who did not report a firm size category, because they did not know it, are excluded.

In actual numbers (See figure 16), there were a third more people working in firms with more than 50 employees in 2011 than in 2000. Employment in firms with less than 10 workers dropped by 1 million over the period. Actual numbers of those employed in firms in the size group 10-49 increased initially between 2000 and 2006 but since then have fallen marginally to 3.6 million people (Rankin & SBP, 2013).

**Figure 19: Actual number of people employed by firm size category**



Source: (Rankin & SBP, 2013)

Notes: Calculated from Statistics South Africa’s Labour Force Survey (prior to 2008) and Quarterly Labour Force Survey (post 2008). Those who did not report a firm size category, because they did not know it, are excluded

The decline in the employment share of SMMEs and to a limited degree in the overall numbers employed by SMMEs with between 10-49 employees, poses the subsidiary question as to the fate of small firms in South Africa. At present, no mechanism of which we are aware track the growth or decline in the number of firms operating in the economy, and therefore any comment

on this must be speculative<sup>16</sup>. However, the decline in the workforce employed by SMMEs suggests that there has been a corresponding decline, of some magnitude, in the number of firms (See section on contribution to growth). This in turn implies a smaller potential SMME base on which employment can be expected to grow, and a declining entrepreneurial stock. Indeed, as SBP (2011) noted in their SME Growth Index the advancing age of both the firms and firm owners in their sample, and the relative trickle of new firms and younger entrepreneurs into the economy. Likewise, Kerr et al., (2014) indicate this trend. Their findings indicate that the net employment growth in South Africa is not forthcoming from smaller firms as envisioned, but from larger firms.

In order to identify the employment trends as they relate to small, micro (and informal) and medium sized business for the period of this review (2004 to 2014) the Survey of Employers and the Self-employed (SESE), conducted by Stats SA, provide some informative findings. The highlights of their report indicate that,

- "...in 2013 of the 1,5 million persons running non-VAT registered businesses, as many as 1,4 million were in the informal sector.
- The number of persons running informal businesses declined from 2,3 million in 2001 to 1,1 million in 2009 before increasing to 1,5 million in 2013. And over 95% of the owners of such businesses had only one business.
- Informal businesses are predominantly run by black Africans, persons aged 35–44 years, and those with the lowest levels of education.
- In 2013, the proportions of the working-age population involved in running informal businesses were highest in Limpopo (6,3%), Mpumalanga (6,1%), Gauteng (5,0%) and KwaZulu-Natal (4,7%).
- More than one out of four persons (28,3%) running informal businesses had no electricity at their business; 10,1% had a flush toilet off site, 33,2% only had a pit latrine while as many as 8,0% had no toilet facilities available for their business. This suggests that many are survivalist in nature.
- Most businesses were in the Trade industry – ranging from 1,6 million (69,6%) in 2001 to 821 000 (54,4%) in 2013.
- The main reason why people decided to start an informal business was due to unemployment and having no alternative source of income. This was reported by 60,6% of persons who ran informal businesses in 2001 and by 69,2% of persons in 2013. The second main reason stated in 2001 was inadequate income from their other source (12,3%). In 2013 this changed and instead the second most frequently stated reason was that people had the skills for the business they were operating (7,1%).
- In every province, except Gauteng and Northern Cape, and reflecting the effects of the global recession – over the period 2001 to 2013, there was an increase in the proportion of people who stated unemployment as the main reason for being involved in informal businesses.
- The vast majority of people who started informal businesses used their own money to do so (over 70,0%).

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<sup>16</sup> The CIPC do not automatically deregister firms when they do not file their annual returns, there is a considerable grace period, up to 5 years, before a firm is deregistered from the company's database.

- Among those who operated informal businesses and did not use their own money to start their businesses, most borrowed the money from friends and relatives. However, the proportion who did so declined from 82,9% in 2001 to 73,3% in 2013 and this was accompanied by an increase in the proportion who were able to get loans from commercial banks over the same period (from 4,0% to 16,6%).
- As many as 79,1% of persons running informal businesses did not have a bank account. And over 90% had no credit facilities, no asset finance or mortgage loans for their business operations.
- The type of assistance most informal business operators required was with marketing - the proportion needing this type of assistance rose from 27,4% in 2001 to 40,5% in 2013. In addition, as many as 21,5% wanted an easing of Government regulations – up from 9,6% in 2001.
- Turnover levels and profit margins are relatively small for most informal businesses. In 2013 as many as 52,3% had a turnover of R1 500 or below in the month prior to the survey and only 14,6% had sales above R6 000. Net profits for 64,9% of businesses were also low - R1 500 or lower in the month prior to the survey - and only 9,2% of businesses made net profits above R6 000.”(Statistics South Africa, 2014)

The highlights of the SESE provide clear evidence that the current unemployment rates and lack of opportunities in the formal sector leave little alternatives for those that cannot get a job. Lack of skills and education has left a vast majority of the population with little other alternatives than to find income through alternative (informal) means. A study conducted by Amra, Hlatshwayo, & Mcmillan in (2013) highlight that approximately 70% of individuals employed in the informal sector have lower than a matric with less than 4% attaining higher. Therefore, in line with international literature, South Africa’s informal economy provides employment for those excluded from the formal economy due to factors such as education and skills. Their study further suggested that labour market rigidities, due to inflexible labour laws, may be constraining SMMEs in hiring additional employees. This too has been frequently cited as a major constraint on South Africa’s employment trend, and as a consequence, the high prevalence of inequality in the country (Anand, Kothari, & Kumar, 2016; SBP, 2014; World Bank, 2015b).

Table 6 shows that the number of persons who ran non-VAT registered businesses (informal businesses) in South Africa. There was a decline from 2,3 million in 2001 to 1,1 million in 2009 before increasing to 1,5 million in 2013 of such businesses. The vast majority of people running these businesses (over 95,0%) had only one business and in 2001 and 2005 they were predominantly women owned but in 2009 and 2013 this reversed with more than half of those who ran businesses reported to be male (Statistics South Africa, 2014).

**Table 4: Individuals running non-VAT registered businesses, 2001 -2003 (SESE)**

	2001	2005*	2009	2013	2001	2005	2009	2013
	In Thousands				By %			
<b>By sex</b>								
Women	1 370	925	557	677	60,7	55,5	48,7	44,6
Men	888	743	587	840	39,3	44,5	51,3	55,4
<b>Total</b>	<b>2 258</b>	<b>1 668</b>	<b>1 144</b>	<b>1 517</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>By number of business</b>								
1 business	2 217	1 610	1 125	1 490	98,2	96,5	98,3	98,3
2 businesses	38	56	7	26	1,7	3,4	0,6	1,7
3 businesses	3	1	12	-	0,1	0,1	1,0	0,0
<b>Total</b>	<b>2 258</b>	<b>1 668</b>	<b>1 144</b>	<b>1 517</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>Start of business operations</b>								
Less than a year ago	559	299	244	308	24,8	17,9	21,3	20,3
1 but less than 3 years ago	749	560	290	358	33,2	33,6	25,3	23,6
3 but less than 5 years ago	403	352	187	268	17,8	21,1	16,3	17,7
5 but less than 10 years ago	288	249	214	278	12,8	14,9	18,7	18,3
10 or more years ago	249	207	208	298	11,0	12,4	18,2	19,6
Don't know	9	2	1	6	0,4	0,1	0,1	0,4
<b>Total</b>	<b>2258</b>	<b>1668</b>	<b>1144</b>	<b>1517</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: (Statistics South Africa, 2014, p. 4)

Table 7 outlines the percentage of individuals running non-VAT registered businesses by their reported population group, age group and province for the period from 2001 to 2013. It shows that the vast majority of informal sector business operations were dominated by black Africans, persons aged 35 to 44 years' operating from Gauteng, KwaZulu-Natal, Limpopo, and Mpumalanga (Statistics South Africa, 2014).

**Table 5: Percentage of individuals running non-VAT registered businesses by population group, age group and province, 2001–2013**

Demographic	2001	2005	2009	2013
<b>By population group</b>	<b>% of owners</b>			
Black African	89,4	92,4	89,9	88,7
Coloured	3,7	3,1	3,8	3,1
Indian/Asian	2,2	1,0	1,1	2,6
White	4,7	3,5	5,1	5,5
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>By age</b>				
15-24 yrs	9,4	7,8	6,0	4,9
25-34 yrs	29,2	27,7	25,6	25,3
35-44 yrs	27,9	28,7	33,6	31,6
45-54 yrs	21,3	24,8	24,0	26,0
55-64 yrs	12,1	11,0	10,8	12,1
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>
<b>By province</b>				
Western Cape	5,3	5,6	6,8	6,0
Eastern Cape	10,1	12,4	12,2	9,5
Northern Cape	1,2	0,7	0,7	0,8
Free State	5,9	6,4	5,2	4,0
KwaZulu-Natal	25,4	20,0	20,6	20,0
North West	7,5	7,4	6,0	4,9
Gauteng	24,8	25,5	24,1	29,9
Mpumalanga	9,8	8,1	11,0	10,6
Limpopo	10,0	14,0	13,3	14,2
<b>South Africa</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

Source: (Statistics South Africa, 2014, p. 5)

## Main findings

The findings above indicate a disturbing message: the very firms that are expected to drive employment growth in South Africa are precisely the ones that have lost the greatest traction over recent years. In contradiction to international experience, broader trends in the South African economy indicate that smaller firms employing less than 50 people are becoming less important as job creators, not more. Moreover, the decline in the workforce employed by SMMEs suggests that there has been a corresponding decline, of some magnitude, in the number of firms. This in turn implies a smaller potential SMME base on which employment can be expected to grow, and a declining entrepreneurial stock.

All these factors underline the importance of understanding the dynamics of established, scalable SMMEs. A vast body of international research indicates that it is these firms - those that have already established a form of market traction, rather than start-ups - that drive economic growth and employment creation. However, skills shortages, coupled with strict labour laws, have limited the ability of these firms, in South Africa, to raise competitiveness and employment (Anand et al., 2016; Herrington et al., 2014). Moreover, the lack of

opportunities in the formal SMME sector has left a vast majority of the population with little other alternatives than to find income through alternative (informal) means.

#### **6.4. Increase the competitiveness of the small-enterprise sector and its enabling environment so that it is better able to take advantage of opportunities emerging in national, African and international markets**

South Africa has identified the export sector as an engine for higher, more inclusive and job intensive growth; with the NDP aiming for export volume growth of 6% a year to achieve an annual increase in real GDP growth of about 5.5% (NDP, 2011). The Industrial Policy Action Plan (IPAP), now in its fifth iteration, is based on the need for sustainable, long-term development that is underpinned by higher growth, exports and labour-intensive, value-adding economic activity in the production sectors; led by manufacturing, and focussing on mineral beneficiation, regional integration, providing incentives to promote innovation and technology, as well as infrastructure development (The Department of Trade and Industry, 2013). Despite some successes, South Africa's economy contracted and has not reached expected growth targets (Saville, Firth, & Madinginye, 2015). The overall weakness in South Africa's industrial output reflects a wide range of factors including problems with low productivity, regular labour market disruptions and infrastructure bottlenecks, especially electricity (OECD, 2015).

As identified in a number of economic strategies, South Africa seeks to promote regional integration at three levels: the South African Customs Union (SACU), the South African Development Community (SADC) and the Tripartite Free Trade Area (T-FTA) between SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), which covers 26 countries with a population of 626 million and a combined GDP of USD 1 trillion (AfDB, OECD, & UNDP, 2015). Moreover, deeper regional trade has been identified as a means to ignite export-led growth for South African goods and services, enabling entry for new and more productive firms - especially small and medium enterprises. The *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises between the period 2005 and 2014* and the National Development Plan therefore envisages small and medium firms participating more actively in the export market, and by so doing, to be a driving mechanism of job creation in South Africa. Exporting is, however, a rare and specialised activity, and much of it is concentrated among a relatively small number of companies. There are potentially significant gains to be made if a greater export orientation can be achieved. Nevertheless, research conducted by Farole, Naughtin, & Rankin, (2014) indicate that fewer than 200 firms now account for almost 90% of manufactured exports. Therefore, if South Africa is to expand the export base, and more specifically, if some sort of policy intervention can be harnessed to encourage this to happen, it is important to understand the existing dynamics concerning SMMEs engaging in import and export trade.

At present, South Africa's economy is not demonstrating widespread export potential. Rather, its export markets are dominated by a small group of firms, and South African exporting is relatively more concentrated than it is among its peers. Research by the World Bank (Cebeci, Tolga; Fernandes, Ana M.; Freund, Caroline; Pierola, 2012) shows that the top one percent of South African exporters account for almost 80% of exports by value. For developing countries, the average is 54%. This concentration is partially explained by the high share of primary products, including minerals, in the country's export basket but is exacerbated by a number of policies and inefficiencies which disadvantage smaller firms in particular. At the same time, goods from low- skilled and labour-intensive manufacturing industries (such as textiles and leather) have been exposed to more intense competition, despite relatively high effective import tariffs (Edwards & Jenkins, 2013; Edwards & Rankin, 2015). Furthermore, these high tariffs enabled relatively fast wage growth in the manufacturing sectors, reducing their cost competitiveness and ability to participate in global value chains (Edwards & Rankin, 2015). Bargaining councils and the legal extension of their wage agreements to all firms in an industry

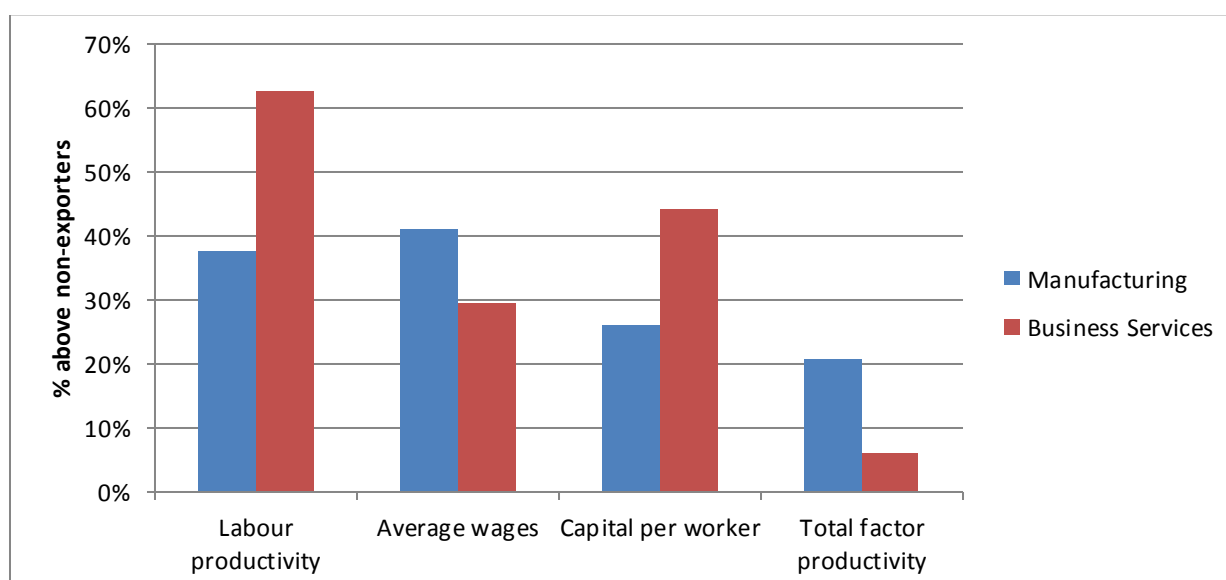


may have played a role in this development, as they seem to have led to relatively fast wage growth for low-skilled workers, putting smaller firms, which often use relatively labour-intensive and low-wage production techniques, at a disadvantage (Bhorat, Van der Westhuizen, & Goga, 2009; Edwards & Rankin, 2015; OECD, 2015) .

In many senses exporters share particular characteristics - they tend to be larger, more productive and pay higher wages. In order for South Africa to create jobs through exports the country needs to move away from the concentration of exports among a few firms and create more firms who are able to export and increase the amount exported by those firms which already participate in the export market (Rankin, Darroll, Corrigan, & SBP, 2013). South Africa has identified that it needs to create an environment where more firms have the characteristics of exporter, with especially higher levels of productivity. This is particularly the case for smaller firms since there is a natural bias which favours bigger companies in the export market. Larger companies already have many of the characteristics that make successful exporters. They may have grown larger since they were more productive than their competitors. As Haltiwanger et al., (2013) confirms it those smaller firms who can leverage their competitive advantage and flexibility, who have the potential to grow.

Larger firms, who dominate South Africa's export activity, have the administrative structures in place which make it easier to track exports. They also are better able to bear the risk of non-payment, exchange rate variability and other uncertainties which come with exporting. They have existing relationships with financial institutions which allow them to finance exports. Data from the SME Growth Index provides a unique insight in tracking how small and medium companies are faring in the global market. There is abundant evidence from both South Africa, and more broadly, that exporting firms are different from non-exporters. These differences are present in the SME Growth Index too. Figure 17 captures the differences of those firms who reported to be exporting from those who didn't in the SME Growth Index.

**Figure 20: Percentage difference between exporters and non-exporters**



Source: (Rankin et al., 2013) Note: Total factor productivity is measured as the coefficient estimate of the export variable in a Cobb-Douglas production function which imposes constant returns to scale. It is measured in revenue terms.

As can be seen in the figure above, exporters have higher levels of labour productivity (63% higher for business services and 38% for manufacturing), they pay, on average, higher wages (41% higher for manufacturing and 29% for business services) and are more capital intensive (26% for manufacturing and 44% for business services) than that of non-exporters. In terms of total factor productivity (TFP), a measure of overall competitiveness, exporters perform

better than non-exporters, particularly in manufacturing. Exporters in the manufacturing sector have TFP levels which are more than 20% higher than non-exporters (Rankin et al., 2013).

Under the right conditions, a robust SMME sector can enhance competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation and poverty alleviation (World Bank, 2007). However, South Africa has not performed in accordance with its policy objectives. For example, the Global Competitiveness Report, highlights a shortage of skills in the workforce and restrictive labour regulations as the “most problematic factors for doing business” in the country. The report singles out the state of education as a cause for major concern (World Economic Forum, 2015). Obtaining the right skills is vitally important for SMME survival and competitiveness, and the difficulties that SMME owners face in complying with South Africa’s complex and stringent labour laws needs to be acknowledged. South Africa ranks last in the world in terms of co-operation between labour and employers in the World Economic Forum’s Global Competitiveness Report (OECD, 2015), and in terms of overall country competitiveness South Africa has slipped as measured by the Global Competitiveness Index (See Table 8).

**Table 6: South Africa Global Competitiveness Scores 2006 to 2015**

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Global Competitiveness Scores (Overall Country Ranking)	35	44	45	45	54	50	52	53	56

*Source: Datasheet provided by World Economic Forum: GCI\_Dataset\_2006-07-2014-15*

Another factor impacting on the overall international competitiveness of the SMME sector are high input costs, which in turn have a direct bearing on firms’ profit margins and indeed, the ability of small firms to survive. Complex tax legislation exacerbates this situation (Davis Tax Committee, 2014). In this regard, the SME Growth Index, in its 2013 report, shows some alarming results. Taking selected costs such as material inputs, electricity, fuel, permanent labour, temporary labour, crime and costs associated with non-productive spending (see section of enabling environment), the average firm was found to have spent up to 72% of its turnover on these costs. It is important to note that certain costs were excluded in the survey, such as rent and interest on capital; hence the reported costs do not represent all costs borne by business (SBP, 2014).

As noted in the section on the enabling environment, smaller businesses and entrepreneurs that seek to create employment and expand their operations are faced with numerous barriers across a wide range of areas, including extensive business regulation and insufficient infrastructure. These are relatively more costly for these smaller firms, as they lack the administrative capacity and internal flexibility of large firms. In particular, high levels of regulation and labour market institutions that tend to focus on addressing the concerns of large unions and large firms limit smaller firms flexibility in terms of wage costs (OECD, 2015).

### **Main findings**

The South African Government is pursuing multiple trade initiatives and in doing so, is looking to raise the number of businesses participating in exporting. Moreover, the NDP sets a strong export growth target for the economy. There is however little available data on the export activities of smaller firms. Rather, the findings detailed above show that South Africa’s exports are dominated by a relatively small number of large; and smaller firms have been generally unable to overcome the high costs associated with exporting.

Importantly, small firms that do export, pay higher wages, are more capital intensive and have greater productivity than those that do not export. Therefore, South Africa has much to gain

from expanding its exports, particularly among established SMMEs. To do so, more will need to be done to raise the international competitiveness of small businesses in South Africa; and the evidence suggests that this will require improvements in the education system and labour markets, as well as some reductions in key input and regulatory costs.

## **6.5. Conclusion**

SMMEs form a vital part of South Africa's economy and the government has invested extensively in developing a wide-ranging institutional framework to provide support to small business, and has established a number of programmes and initiatives over the years. Most recently with the establishment of the Ministry and Department of Small Business Development in South Africa.

Despite these efforts, there is still insufficient knowledge about the dynamics of SMMEs in South Africa and their characteristics, and how these change at different points in their growth cycles. However, the available evidence points to a situation that is troubling; the outcomes intended in the 2005 strategy have not been achieved. In fact, the SMME sector is not growing in terms of its contribution to economic growth nor the employment targets as identified in the strategy or the NDP.

## 7. Benchmarking Study

Because every country and society is unique, it is never possible to choose a perfect international comparator. The countries chosen for comparison in this study were decided on the basis of their overall similarities to the South African market; and the availability of accessible documentation. Specifically, the following three countries were selected for this benchmarking analysis:

- Brazil
- Malaysia
- Turkey

As indicated in the table below, these countries display similar economic and demographic characteristics; are known for their innovative SMME policies and practices; and are confronted by similar social challenges to South Africa.

**Table 7: Country characteristics**

Country	GDP/capita (2015) – current US\$	Population (2015)
South Africa	5 692	55 mn
Brazil	8 539	208 mn
Malaysia	9 766	30 mn
Turkey	9 130	79 mn

Source: World Bank

The country studies are based largely on a desk-top review. The extent of information varies significantly by country, and in the case of Turkey, the researchers were impeded by language barriers. For these reasons, the studies differ somewhat in length and focus. Nevertheless, together they provide interesting lessons for South Africa in reviewing past policies and developing new programmes and strategies. These lessons are summarised in the best practice scan.

### 7.1. Brazil

Brazil has made incredible strides in reducing inequality and advancing economic inclusion. A key strategy in this regard has been to focus on facilitating formalisation of previously informal enterprises. Formal levels of employment have increased as a result, for example. More recently, the focus has been on fostering innovation and crowding in investment in information and technology. Inequality remains high and so it is still a key pillar of focus on the policy agenda. Unfortunately, the current economic and political climate in the country are difficult and pose a challenge to making further strides in advancing social objectives.

South Africa is facing similar challenges, but it would seem that it could draw on Brazil's experience to enrich its ability to address these. For example, Brazil's achievements tend to be the result of an integrated set of policies that combine enterprise development promotion with access to credit and a more favourable regulatory environment. The effectiveness of efforts to formalize the informal economy in recent years cannot be attributed to any single

policy initiative, but rather to their interconnectedness and to synergies created with other policy areas. The economic context within which these policies are implemented is also an important consideration. In Brazil, the economic context characterized by economic growth and greater income distribution that enabled formalization policies to flourish during the period 2000-2010, required public policy formulation and coordination in multiple spheres, including macroeconomic development, trade, credit, education, science and technology.<sup>17</sup>

## 7.2. Malaysia

The support that the SME sector receives in Malaysia comes from the highest levels. The Prime Minister is the chair of the National SME Development Council – the highest policy making body in the country. He notes in his foreword to the Annual Report of SME Corp. that “SMEs create jobs, uplift incomes, change the lives of communities and form essential building blocks for larger corporations”. Malaysia is on track to realising its target of becoming a high income country by 2020. SMEs are considered to be the key catalyst for achieving this, and to ensure this, the government commits approximately R15bn annually to fund SME development programmes. The government’s focus has been on creating innovative, resilient and export-oriented SMEs. This has been confirmed by the fact that SMEs are currently growing at a rate faster than the overall national economic growth rate. SMEs are also considered a key tool for fostering inclusive growth and reducing income inequality, with specific programmes focused on the ‘B40’ (the bottom 40% of households), in rural areas and underdeveloped states, and in support of the Bumiputra<sup>18</sup>.

The government also remains focused on understanding the emerging international landscape and the advent of ‘megatrends’ that will transform and impact local and international firms alike. Integrating into the global supply chain, meeting global standards and adopting sound governance and best practices are objectives that keep pushing the vision of Malaysia forward. Creating a responsive public sector and a conducive business ecosystems form a key commitment of government (SME Corp., 2016). Their goal of SMEs contributing 41% to GDP and 23% of exports by 2020 is an entirely realistic one, especially based on their track record so far. The singular focus, high prioritisation and actual delivery on promises made by the government of Malaysia serve as a relevant and important demonstration to South Africa of what can be achieved.

## 7.3. Turkey

Although Turkey’s developmental context differs from South Africa, there are some insights that can be gained from how the government has responded to supporting this sector. Firstly it is clear that Turkey’s work in aligning itself with the EU and preparing for accession has brought a great deal of benefit to the country. The Small Business Act has pushed the country to more sharply define the role of SMEs and consider the various mechanisms through which the state can support and grow SMEs. The annual review mechanism and the objective measures including in this appraisal makes it clear which areas require attention and improvement. South Africa could do well to closely review this piece of legislation and consider a hypothetical situation of what the country would be required to change and adopt, should our SMEs wish to compete at EU standards.

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<sup>17</sup> [http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms\\_318209.pdf](http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/publication/wcms_318209.pdf) (p18-19) Accessed 15 Feb 2017

<sup>18</sup> Indigenous and Muslim Malays are collectively referred to as the ‘Bumiputra’, and have been the targeted beneficiaries of prolonged affirmative action policies by the Malay government.

The government of Turkey offers a broad range of support mechanisms for SMEs, although it is hampered by some regulatory systems that are burdensome and require streamlining. The country has clearly articulated priority support for SMEs that operate in the fields of technology and innovation, and have identified universities and research institutions as important partners in this process. They have also identified that at the lower level – especially towards micro entrepreneurs and family-owned firms, that productivity is too low. If the country wishes to be taken seriously as a global competitor, this needs to be addressed. Adopting a country-wide ‘entrepreneurial culture’ has also be prioritised and all levels of the education system will be co-opted for this exercise.

#### **7.4. African countries**

Whereas the benchmarking study did not include any specific African countries, the DSBD has itself undertaken a comparative review of SMME legislation from a number of selected countries, including Nigeria and Kenya (DSBD, 2017). Some specific innovations emerging from these African studies include:

- Kenya’s legislation provides for the licensing of SMME business development service providers. This enables the government to regulate and monitor the quality of services offered by these organisations. The Act also establishes the Registrar of Micro and Small Enterprises for the registration of micro and small enterprises and their associations and umbrella organisations.
- The boards of the small business development agencies in both Kenya and Nigeria include representatives from various government departments as well as business associations and civil society. For example, the governing board of the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), includes key federal government ministries and institutions, private sector bodies, and representatives of the country’s six geopolitical zones. This serves to improve oversight and coordination.
- In Kenya, the Micro and Small Enterprise Development Fund, which has been established to support SMME development, is not only available to enterprises, but can be accessed by community-based organisations, nongovernmental organisations, associations or umbrella organisations, or any other institution involved in the promotion and development of the micro and small enterprise sector activities.
- Legislation in both Kenya and Nigeria provides extensive powers to the relevant small business agencies. In Nigeria, for example, the Act gives SMEDAN the authority to “demand and obtain relevant information, data and reports on activities relating to the promotion and development of small and medium scale industries from banks, research and development institutions and other support organisations”. In Kenya, the Act establishes a Micro and Small Enterprises Tribunal to handle disputes involving micro and small enterprise Association members and the Micro and Small Enterprise Authority.

#### **7.5. Conclusion and best practice scan**

The three benchmarking countries present different experiences in the development and support of SMMEs. Nevertheless, across all three economies, SMMEs account for the vast majority of enterprises and employment. It is therefore unsurprising that SMME policies and programmes receive significant priority and funding; and that substantive and stand-alone small business support organisations have been established in all three countries.

Many of the institutions and initiatives pursued in these three countries are mirrored in some form in South Africa. There are however a number of common lessons and principles that emerge from these country case studies, which should be further considered in the review of South Africa's past SMME strategies, and in the design of new interventions. There are also some possible gaps or shortcomings in the South African SMME framework, when compared to what countries elsewhere are doing. The following table highlights the main lessons and some of the potential gaps, based only on the benchmarking analysis.

**Table 8: Best practice scan (B = Brazil; M = Malaysia; T = Turkey)**

Country	Lessons	RSA practice (2004 to 2014)	Performance
1a.	B, M A common vision for small business development / entrepreneurship should be set and agreed to at the highest level of Government.	SMMEs have had a high priority setting at national through to Local Government. However common vision not directly articulated, with different interpretations and mixed signals on priorities and targets.	Average, better articulation of Vision was required
1b.	B, M Policies and planning must be underpinned by reliable and disaggregated statistics, and rigorous research.	No baseline statistics demonstrating clear evidence on annual performance of growth in size and contribution to GDP exists.	Poor, needed to be more regular.
1c.	B, M, T Small business policies must be backed by measurable targets and performance must be monitored and reviewed regularly.	In accordance with the amended Small Business Act 2004, M&E and regular review on SMME performance was intermittent and not widely circulated or published. Stats SA conducted intermittent reviews on informal and formal demographics. No clear delineation of responsibilities for the regular performance review.	Poor, required committed responsibility and coordination.
1d.	B, M, T There must be a commitment to improving the ease of doing business (reducing red-tape) at the highest level of Government.	There was a high level commitment to reducing red tape. But studies have shown red tape burden for SMMEs is increasing.	Poor, required better implementation of commitment.
2a.	B The government's architecture for small business support must be simple, smart and well-coordinated (ideally provided through a single agency).	Complex structure with several agencies at national level, with multiple overlapping support programmes. Delineation unclear. Concomitantly, provincial and local economic development agencies unclear on how they fit-in with the national strategy.	Average, required better coordination and simplification.
2b.	B, M Small business support organisations need to be well-capacitated in terms of skills and budgets.	SEDA and SEFA relatively well capacitated at national level. However disparities at local and provincial level.	Average, needed specific improvement at local level.
2c.	B Small business agencies should be insulated from government influence or interference.	Government agencies autonomous.	Good
3a.	B, M, T Strong partnerships between the private and public sector, including working groups, networks and the development of a "national consensus".	NSBC and subsequent Small Business Advisory Body established had intermittent meetings. Publication of their outcomes not widely published or circulated.	Poor, required better dissemination of results
3b.	B Small business agencies should make use of private sector consultants, with direct business experience, rather than in-house advisors.	Parallel development for SMME support in private sector and Government programmes. Not necessarily coordinated.	Average, but required coordination.
4a.	B, M, T Dedicated and substantive entrepreneurship campaigns (e.g. entrepreneurship week) should be implemented.	Uncoordinated, but many initiatives conducted by both Government and Private Sector. Yearly	Good, but needed specific improvement



Country	Lessons	RSA practice (2004 to 2014)	Performance	
		entrepreneurship week in line with global timetable.		
4b.	B	Multiple channels must be used to access entrepreneurs. This includes television, radio, blogs and events and seminars.	Uncoordinated, but many initiatives conducted by both Government and Private Sector.	Good, coordination could have been better
5a.	M, T	The use of technology, and ensuring that small businesses are able to use and access ICT/e-commerce, is increasingly important.	The strategy did not emphasise ICT given its period. But subsequent growth in ICT from private sector has led to greater access to e-commerce and other ICT information and support for SMMEs.	Good, largely market driven.
5b.	B, M, T	Grant funding to incubators and accelerators should be used to support early stage growth and innovation amongst small businesses.	Incubation and grant funding services expensive with mixed outcomes. Government policies through B-BBEE encouraged private sector incubators and enterprise development services.	Good, but specific improvement required.
5c.	B, M, T	Government should work closely with universities and tertiary institutions, and the research arms of large companies, especially in supporting incubation.	Different departments at national level supporting divergent incubation services are encouraged and well researched. These initiatives are focused more to the technically skilled industrial development support programmes.	Good, but required better coordination and dissemination of outcomes.
6a.	B, M, T	Government departments and agencies should be required to establish supplier development programmes.	Government at National, Provincial and Local level have established supplier development programmes.	Average, mixed results.
6b.	M	Interventions that make use of government procurement should include a graduation and exit policy to reduce dependence on government	No sunset clause provided to include graduation and exit policy for Government procurement.	Average, but specific graduation targets required.
6c.	B	Training and advice should be provided to municipalities to enable them to provide appropriate support to small business, including through regulatory reforms and procurement.	Regular/annual advisory support conducted by multiple agencies (international and national) do exist to provide support to local authorities. Mixed implementation of procurement targets and regulatory reform at local Government level.	Average, needed specific improvement
7a.	M, T	The curricula of schools, universities and technical colleges should be reviewed and revised to generate the 'right' skills and to encourage a culture of entrepreneurship.	South Africa rates very poorly in terms of Maths and Science skills. While curricular includes entrepreneurship, comparatively South Africa again ranks poorly in terms of entrepreneurship culture.	Poor, required specific improvements on technical skills development
8a.	M, T	The "internationalisation" of SMMEs is increasingly important and attention should be given to ensuring that SMMEs achieve the standards and competitiveness necessary to access global value chains.	Low base of export ready SMMEs, however a number of support initiatives created. Prioritisation of high growth SMMEs is low.	Average, but with mixed results

Country	Lessons	RSA practice (2004 to 2014)	Performance	
8b.	M, T	Priority should be given to creating 'home grown champions' - selected SMMEs that can demonstrate high potential growth and can compete in regional and international markets.	Many entrepreneur competitions.	Good, largely private sector led
8c.	B, M	Cluster support should be used to target groups of companies in specific geographical location that are linked by a common specialised form of production.	At national level Government did put emphasis on cluster support development but with mixed results. B-BBEE policy individualises company support for supply chain development, but not interlinkages between companies to boost cluster development.	Average, policy implementation produced mixed results
8d.	M, T	Initiatives are needed to provide failed but honest entrepreneurs with a 'second chance' – including appropriate insolvency processes.	Business rescue clause in the companies act provides for second chance/ assistance. However, not well communicated to the SMME sector which has resulted in a low uptake. Practitioners of business rescue are in the early stage of development with capacity shortages.	Good, but in early stage of development.

## 8. Provincial Case Studies

In conducting consultations as part of this evaluation, a large number of the respondents highlighted the importance of institutional arrangements in general, and the level of coordination between National, Provincial and Local Government departments and agencies, as critical to understanding the implementation of the Strategy. For this reason, the evaluation was revised to include 4 provincial case studies.

The main purpose of these case studies is to describe the structures and relations in place in each of the four Provinces, to explore how well the inter-governmental system functions in practice and the extent to which the ISPESE has been considered and implemented in the four case study provinces; and to draw lessons from how the Province interacts with national government to implement SMME interventions. These case studies are not evaluations of Provincial entities and their programmes.

### 8.1. Methodology

The case study included desktop analysis of economic trends and policies; consultations with national, provincial and local government officials in each province, and a focus group discussion with small businesses in one provincial district. The total number of individuals consulted in each Province, by stakeholder group, is summarised in the table below.

**Table 9: Sample size**

Stakeholder group	Gauteng	Free State	Limpopo	Western Cape
National departments / national agencies	3	1	2	1
Provincial and local government officials	4	14	2	25
SMMEs	4	7	2	8

It is important to highlight that the case studies were based largely on a once-off and short visit to each of the identified Provinces. As such, it was not possible to meet with a broad and representative range of stakeholders in each Province, and the views expressed here are limited to the officials and businesses that could be consulted with over this period. Moreover, in some Provinces, it was difficult to secure meetings with all of the relevant officials within the project timeframe. Likewise, the focus group discussions were facilitated in just one district in each Province, and with a limited number of companies and sectors.

The complete case studies are provided in a separate report; with the main findings summarised below.

### 8.2. Free State

The Free State Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTE) is responsible for the delivery of SMME policies and programmes in the Province. Of note, DESTE is a relatively new department which only incorporated the SMME development function into its mandate in 2014. This was done to align the department's functions with the Department of Small Business Development (DSBD) at the national level.

Policy and institutional alignment in the Free State is a challenge. The Province has no coordinating *integrated* provincial strategic plan in place. The different departments are largely tasked to develop their own plans with a coordinating function provided by the Premiers Office. However, without a published overarching provincial policy guiding document, many of the departments operate in silos and little integrated planning occurs.

During the interviews DESTEA highlighted that whilst many of the support programmes are aligned to the NDP, budgetary constraints hamper the provinces ability to allocate meaningful resources to the different activities they undertake. Furthermore, respondents highlighted that many of the national agencies operating in the province do not support SMMEs in the Free State. Much of their support is professed to be focused on the larger provinces who have more established economic clusters and sectors.

### **8.3. Gauteng**

The key institution that provides SMME support in various forms at the provincial level is the Gauteng Department of Economic Development (GDED). The GDED has formulated its own provincial iteration of the ISPESE. While the department has attempted to align provincial policy and strategy with the national ISPESE to as great an extent as possible, provincial SMME policy and strategy does differ from the national ISPESE in a number of ways. These differences arise as a result of the province's application of emphasis on specific issues based on the unique characteristics and competitive advantages of the province.

The Gauteng SMME Policy Framework, for example, puts significant focus on the transformation of township economies, as well as additional emphasis on certain geographic areas and previously disadvantaged populations (such as women, youth, and veterans). The policy further differentiates between and focuses on small business, cooperatives, and informal businesses.

In terms of content, Gauteng officials assert that the ISPESE has not been effective in defining what constitutes an SMME (in terms of revenue and / or employment thresholds); providing sector-specific guidance; or driving a transformation agenda. It has further been asserted that the ISPESE provides insufficient guidance with respect to identifying high potential businesses, monitoring the role of SMMEs in the economy, and measuring the extent to which SMME support objectives are being achieved.

Moreover, it is suggested that the ISPESE provides only a broad framework, and does not clarify the respective roles of the various provincial departments and municipalities in implementing SMME programmes. In particular, respective departmental responsibilities, specific approaches to SMME support, and the definition of impact in the context of SMME development is thought to require further explanation by the ISPESE.

In terms of institutions, it is asserted that there are too many DFIs at the national level and that there is significant duplication of efforts at the provincial and local levels. For example, the GDED and GDARD each have their own enterprise developments units that do not collaborate with one another. The absence of an overall coordinating authority has resulted in challenges with respect to translating the business support provided at the national level into programmes at the provincial and local levels.

## 8.4. Limpopo

Limpopo's Department of Economic Development, Environment & Tourism (LEDET) is the provincial department that is primarily tasked with the development and monitoring of SMME and cooperative interventions in the province. There is a general awareness and sense of understanding of the ISPESE among Limpopo's provincial and agency officials. Indeed, Limpopo's SMME strategy was informed and shaped by the National Small Business Act as well as policy directives such as the ISPESE. At the same time, the provincial strategy has been customised, taking into account the provincial growth and development strategy, and Limpopo's comparative advantages – both provincially and per district.

Challenges in implementation at the provincial and local levels continue to arise due to the fact that provincial and local departments are not always structurally aligned with national departments. Furthermore, interviewees suggested that national and provincial SMME agencies often appear to work in competition with one another, which results in a high degree of duplication. At the same time, district and local municipalities tend to incorporate SMME development proposals into their local economic and integrated development plans with very little consideration of how this links with broader provincial and national objectives and support programmes.

## 8.5. Western Cape

The primary department responsible for economic development in general, and SMME support in particular, is the Western Cape Department of Economic Development and Tourism (DEDAT). Policy and institutional alignment remain challenges in the province. National government departments are active in the province alongside provincial departments and agencies. This has in some cases led to duplication and uncoordinated interventions which has created conflict in the province. Respondents indicate that an integrated approach to the development of Small Business as outlined in the ISPESE remains weak.

While DEDAT has interpreted, and operationalised many of the activities outlined in the ISPESE, they are guided by the provincial strategic plan, the PSP, which has been updated to align with the Medium Term Strategic Framework (MTSF) and the National Development Plan (NDP). These two national planning documents outline many of the focus areas undertaken by the provincial government department/agencies, as prioritised by the PSP. Coordinating the policy and activity plans in this regard has created several conflicts, which has increased more recently with the creation of the DSBD.

The general sense identified by the different respondents is that there are a number of policy areas that need to be clarified at a national level which would give the provincial strategies better direction. One key area identified was the relationship between SEDA and SEFA in the province. Respondents questioned the clarity of the mandate between these two national agencies, which leads to different agencies doing similar activities. They highlighted the need for a closer working relationship between them within the province.

Local government respondents indicated that they had only recently been engaged by the DSBD, and this delay has hampered their understanding of what priorities national government is focusing on. Where they do interact with national government, the local government respondents note that coordination is generally weak, especially with regards to the agricultural incentives programmes. Likewise, SEDA respondents identify that there are concerns about the DSBD's incentive programmes in the provincial space.

## **8.6. General findings**

The four Provinces visited present different features, challenges and institutional structures. Nevertheless, there are a number of common issue that emerge across all of these Provinces, relating to the 6 core components of the ISPESE.

### **Intergovernmental coordination (including M&E)**

The majority of the government and agency officials interviewed agree that intergovernmental coordination is weak. This has led to duplication and uncoordinated interventions, a high risk of “double-dipping”, and in some Provinces, conflict between institutions. All four Provinces have attempted to mitigate these risk through the establishment of forums comprising officials from different government departments, municipalities and agencies. Whereas this has served to bring together relevant entities within the province, these fora largely serve a reporting purpose, and a stronger coordination mechanism is needed to effectively implement SMME programmes in the Provinces. Moreover, there is a need for clarity around the mandates and responsibilities of different institutions, and stronger policy guidance from the national level. Likewise, monitoring and evaluation systems are patchy and inconsistent across the Provinces.

### **Research, information and communications**

There is little evidence of SMME-focused research across the four provinces. Rather, the research undertaken by provincial agencies tends to be retrospective (undertaken for monitoring purposes) and directed at sector issues. This is partly because there is insufficient budget available within Provincial Departments for research purposes. This has an impact on the ability of the Provinces to understand what is required at a local level to boost SMME development and support. The National Government may have an important role to play in facilitating and funding SMME-related research that can be used to prioritise, plan and coordinate interventions.

### **Legislative and regulatory interventions**

Zoning by-laws, complex compliance requirements and administrative inefficiencies at the municipal level give rise to burdensome red tape burden; while the high cost of municipal rates and service charges are a considerable disincentive for SMME growth and investment. Whereas the primary responsibility for SMME development falls with the Provincial departments of economic development; they are generally unable to influence local procedures and regulations, and local authorities have reportedly done little substantive work on red tape reduction.

### **Business development services and training**

While there are a large number of BDS providers and programmes for SMMEs across all four Provinces, respondents claim that these are generic, and not designed to meet the real-time and specific needs of SMME owners. Moreover, there is a low level of coordination between these different providers, and in general, they are not well linked with specialists and other government programmes. There is a need to distinguish between “real entrepreneurs” (i.e. individuals with entrepreneurial instinct and high potential ideas), and individuals who simply have no other work opportunities, and provide more targeted support to those that are most ready and deserving.

## Provision of finance

Despite the existence of numerous agencies and DFIs, cash-flow and finance constraints continue to constitute a key challenge to SMMEs in all four provinces. SEFA is the main provider of financial products and services to qualifying SMMEs and co-ops SEFA. However, the high costs, complicated compliance requirements and time delays associated with accessing finance from SEFA, have impeded its effectiveness. There is also a perception that SEFA does not focus on SMME support in the more rural and small town areas. More needs to be done to clarify and improve the relationship between SEDA and SEFA in the Provinces.

## Infrastructure development

Most of the respondents interviewed reported little development on infrastructure projects related specifically to SMMEs. While large scale infrastructure projects are undertaken e.g. Agri-parks and Special Economic Zone, these are driven by National Government Programmes. Whereas some Provincial agencies do rent out commercial and industrial space to SMMEs and cooperatives, a lack of quality facilities for SMMEs remains a problem, especially outside of the main economic nodes.

### 8.7. Specific innovations

In addition to these general findings, there are a number of specific interventions and innovations arising from these studies, which are worth noting. These include:

- Gauteng has established a number of infrastructure initiatives through GDED and GGDA, including ten fabrication labs, eight industrial parks, several business development centres, and Wi-Fi hotspots in townships. Likewise, the Western Cape's DEDAT set up several kiosks in Long Street (Cape Town) for the use entrepreneurs, and to encourage them to transition from informal to formal businesses. The George municipality invested in a mobile Gazebo, which is used on a rotational basis in the different township areas it services.
- The Free State's DESTEA works closely with the Department of Agriculture to deliver targeted materials and training to agricultural SMMEs and cooperatives. Likewise, the Free State Department of Social Development, in conjunction with the International Labour Organization (ILO), has presented training programmes targeted at the youth to facilitate the establishment of socially based enterprises.
- SEDA Limpopo has partnered with a number of retailers (including Food Lovers Market, Spar, Transnet, Woolworths, Pick n' Pay) in the establishment of a supplier development programme. SEDA Limpopo further assists in raising SMME product quality standards, and has an agreement with SABS to offer discounted quality assurance tests. In some cases, where affordability is an issue, they subsidise this cost by up to 90%.
- Limpopo's LEDET has undertaken new research on the contribution of the Limpopo Tourism Industry to the Limpopo provincial economy, as well as the economic impact of festivals in Limpopo. These reports played an important role in the development of Limpopo's economic development strategies, and helped to determine a role of small business within these strategies.
- Limpopo's LEDA has also partnered with the Cape Craft and Design Institute (CCDI), to assist Limpopo artists, designers and crafters to register on Peek – an e-portal that

enables SMMEs to upload their products online and access online transaction platforms such as Helo Pretty and Etsy.com.

- Casidra in the Western Cape has used a small grant from DEDAT to establish a revolving loan facility to provide SMMEs with bridging finance (small amounts) at a reduced interest rate (prime minus 2) for short periods. This enables the facility to reach more SMMEs in smaller towns, and in the more rural areas in which they operate.
- In Gauteng, GEP is involved in setting up a SMME and Co-op Ombudsman, which will provide SMMEs and Co-ops with independent investigative, arbitration and negotiation support for situations where they experience unfair treatment and injustices that directly effects the growth and sustainability of their businesses.

### **8.8. Insights from the focus group discussions**

As part of the provincial case studies, focus group discussions were conducted with SMMEs in the following districts:

- Mangaung (Free State)
- Johannesburg (Gauteng)
- Eden (Western Cape)
- Capricorn (Limpopo)

Although the SMMEs were drawn from different sectors and operating environments, a number of common insights emerged from these discussions:

- SMMEs indicated that government support programmes can be slow or unresponsive, and entail many forms and requirements. While they are generally appreciative of government's commitment, the SMMEs emphasised that government entities should provide clearer and quicker feedback on the applications they put forward. Furthermore, there is a perception that support is often only available to SMMEs who operate in the larger cities.
- The SMMEs highlighted a number of gaps in the support services currently provided by Government in general and SEDA in particular. These include the need for support in obtaining accreditation in some sectors; training on financial management, book-keeping and marketing; and programmes that factor in the time constraint on SMMEs (i.e. the inability of business owners to spend time away from their businesses for training purposes).
- Access to finance remains a challenge for many SMMEs. High interest rates make accessing finance extremely expensive for SMMEs, while complex compliance requirements result in long and tedious application processes (from both public and private sector institutions). Furthermore, the structure of available financial products is described as problematic.
- SMMEs who operate in township areas, highlighted that spatial planning and zoning is particularly problematic. A lack of industrial zones or facilities hampers the ability of these businesses to attract formal clients and access new markets and finance. Many of the participants noted that there is a need to establish sector incubation and support hubs, focused on SMMEs, in different locations, especially in townships, rural areas and small towns.



- Government needs to play a stronger role in helping the SMMEs access market opportunities. While government procurement was mentioned as a starting point, many of the SMMEs felt that dealing with government was prohibitive due to the requirements necessary to tender or provide quotations. Many also expressed difficulties in relying on government, as a client, as they often utilise services on a rotational basis.
- SMME owners pointed to the absence of a SMME ombudsman or a provincial / national oversight body, as well as to the lack of coordination between SEFA and SEDA. In addition, it was suggested that there is a lack of awareness among SMMEs regarding the various types of government support that exists.
- Labour legislation was mentioned by many SMMEs as being especially problematic. It was suggested that labour laws provide too much protection to employees, who tend to exploit the protection that they are granted. In addition, CCMA expenses, minimum wage issues and the perceived inconsistent application of the law across businesses were identified as challenges. SMME owners further asserted that there is a lack of accessible information regarding how labour laws work and are applied in practice.

## 9. Key Evaluation Findings

### 9.1. The ISPESE was an appropriate response to the underlying problems confronted by SMMEs in South Africa

The ISPESE responded to the commonly accepted challenges that relate to SMME development in South Africa, and internationally, such as access to finance, access to markets, regulatory and administrative constraints (the burden of red-tape) and structural inequalities. In design, the Strategy therefore compares well to the accepted approach to SMME development internationally. In addition, the Strategy highlighted a number of additional, South African-specific concerns. These include:

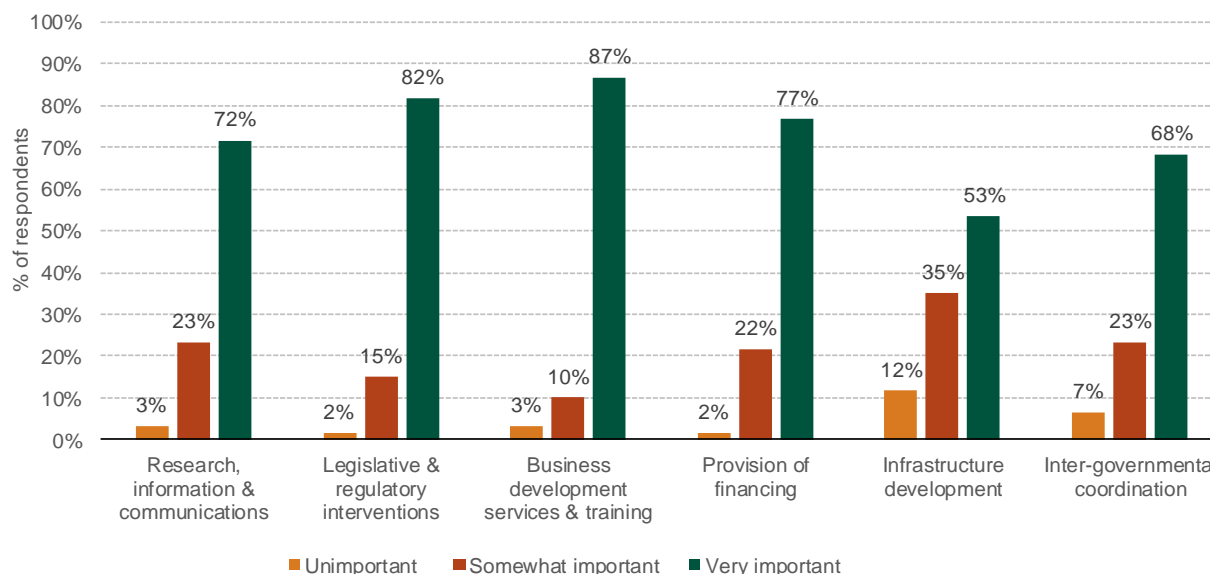
- the diversity of SMMEs that is not well recognised;
- a lack of understanding of the range of support suppliers operating in South Africa;
- the reach of government support, and especially, the disparity of support provided in rural and peri-urban areas from those existing in urban settings;
- a recognition that support services only tackle symptoms and not the underlying problems;
- the inadequate representation of small business interest groups (such as inclusive demographically representative chambers);
- substantive challenges in the capacity of the different provinces to establish and operate small enterprise support programmes;
- the inability of the DTI to coordinate with other national departments activities; and
- the lack of a comprehensive monitoring and evaluation system measuring government's SMME development and support activities (ISPESE, page 22).

The stakeholder consultations, and the provincial case studies, clearly indicate that these concerns were valid at the time of implementation; but more importantly, remain relevant today. This is also reflected in the importance given to SMME development in more recent Government strategies and plans, most notably the National Development Plan.

In response to these concerns, the Strategy focused on three key pillars: (1) a supply-side intervention pillar (finance and non-financial support); (2) a demand-side intervention pillar (public sector procurement and BBB-EE), and (3) the reduction of business regulatory constraints (business environment reform). The document review, and the international benchmarking studies, confirm that these pillars reflect an appropriate response to the challenges confronted by SMMEs. The desktop analysis also reinforces the importance of small, medium and micro enterprises for employment creation and poverty alleviation, especially in developing countries.

The overall importance of these interventions, for the respondents, is outlined in Figure 21 **Error! Reference source not found.** Whereas all pillars and areas of intervention are identified as very important, Business Development Services (BDS) and training is rated as most important. Conversely, infrastructure development was rated as the least important, with more than 10% of respondents indicating that it was not important.

**Figure 21: Overall importance of key programmatic areas in supporting SMME growth and development**



Source: Key informant interviews  
Where n=60 responses

Responses differed significantly between government and business. Interestingly, 86% of government responses rated legislative and regulatory interventions as having been very important compared to 69% of business responses. Similarly, 73% of government responses identified inter-governmental coordination as having been a very important area compared to 56% of business responses. Business development services and training was rated most important by both groups.

## 9.2. Because of the decentralised approach of the ISPESE, the Strategy lacked clear implementation guidelines, formal coordination structures, and rigorous monitoring and evaluation mechanisms

Given the ambitious goals of the Strategy, the number of different parties (public and private) involved in its delivery, and the complex inter-governmental structure in place in South Africa, it would seem that the Strategy lacked detail in two important ways:

- Firstly, as an integrated strategy which aims to coordinate various actors - public and private - the Strategy failed to present a clear *problem statement* for the intended areas of intervention, that would inform appropriate actions to effect change among all relevant stakeholders involved in SMME development. The recommendations contained in the Strategy are therefore generic and in cases unclear. As a result, beneficiaries complain that Government's interventions are not able to address their specific needs.
- Secondly, insufficient attention was given to how the Strategy would be implemented and coordinated in practice. This limitation represents the greatest shortcoming in the conceptualisation of the Strategy. Without coherent implementation guidelines, a well-structured coordination mechanism and clear measurement criteria, SMME support executed by government at national, provincial and local levels suffers from overlaps and inconsistencies. This was highlighted in all consultations.

The Government acknowledged the challenges associated with co-ordinating SMME support programmes in the design of the Strategy; and the importance of achieving synergies across a diverse range of public and private sector institutions. But the decentralised approach pursued through the Strategy has not served to improve the institutional environment for SMMEs in South Africa. Stronger implementation guidelines, formal coordination structures, and more rigorous monitoring and evaluation mechanisms may have been more appropriate in this context.

Additionally it is worth noting that the Strategy, while noting “reduction of business regulatory constraints” (business environment reform), is silent on the question of the structure of the South African economy – specifically, the dominance of large integrated firms in many key sectors.

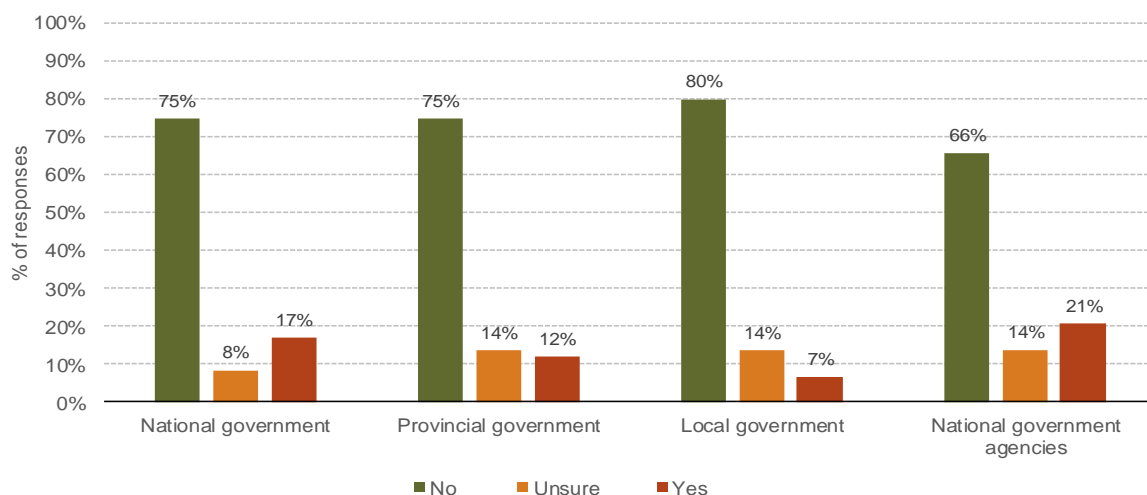
### **9.3. Interventions were biased towards some of the pillars in the Strategy and were not applied consistently across the three levels of government**

A key strategic shift introduced in the White Paper, was the *integration* of the resources available across the diverse groups and institutions involved in the development of small enterprises in South Africa. This change was echoed in the Strategy, where cooperation amongst organisations – both inside and outside government - was integral to the Strategy’s approach. As such, the Strategy relies on the integration of programmes within the public sector (across national, provincial and local government), between the public and private sectors, as well as the integration of the activities of various entrepreneurship and small enterprise promotion institutions in the private sector and civil society.

To drive this integration, the Strategy proposed that all new interventions should be subjected to a “*think synergy first*” test; counteracting the risk of duplication and reinforcing existing activities. This assessment would, according to the Strategy, be presented in a “*national small enterprise service-delivery report*”. No such report was prepared during - or at the end of - the implementation of the Strategy. To the contrary, according to most interview respondents at both the provincial and national level, including SMME owners, inter-governmental coordination was weak (or focused on reporting rather than collaboration), and there was widespread duplication and “double-dipping” across different agencies and service providers.

As depicted in Figure 22, most respondents indicated that government’s programmes and policies to support SMMEs were not applied and/or implemented consistently across the three spheres of government (including national government agencies). Coordination with local government was ranked most poorly across all respondents as well as across government and business responses separately.

**Figure 22: Consistency of implementation across the three spheres of government over last 10 years**



Source: Key informant interviews  
Where n=59

In addition, the results from the document and data review, suggest that implementation was skewed towards certain pillars or activities in the Strategy, whereas others were largely neglected. Specifically, significant attention was given to the establishment of business development and small business finance agencies and services at both the national and provincial level (although the outputs of these agencies are relatively modest); whereas there was much less focus on stimulating entrepreneurship, improving the regulatory environment and undertaking research or monitoring and evaluative activities. These shortcomings are reflected in the revised theory of change.

Together, the absence of a strong coordination and monitoring mechanism, and a bias towards some of the pillars in the Strategy, suggests that the internal coherence of the Strategy did not hold during implementation. Rather, the multiple players involved in small business development continued to roll-out overlapping business development services, in an environment that remained generally unfavourable to SMMEs and entrepreneurship. Moreover, according to most respondents, government's SMME policies and interventions were not applied consistently across the three levels of Government. As such, the institutional arrangements in place did not support the performance of the Strategy.

#### **9.4. Recent policies, most notably the NDP, highlight the same challenges to SMME development that were reflected in the White Paper and the Strategy**

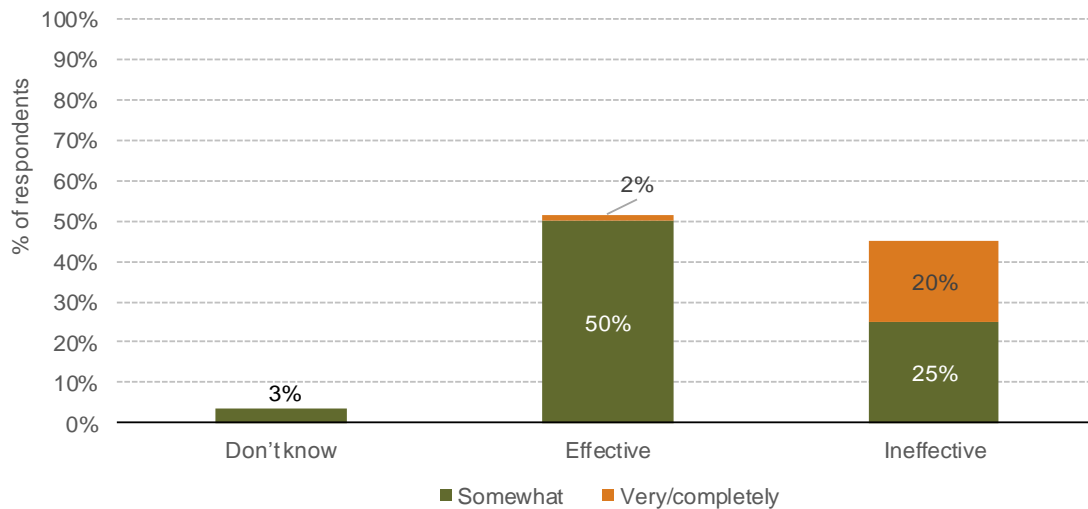
SMME issues received priority policy attention throughout the implementation period. The New Growth Path, the National Development Plan, the Integrated Youth Development Strategy (IYDS) and the National Informal Business Upliftment Strategy (NIBUS), all of which were developed before 2014, include SMME development as central components to achieving their strategic objectives. It would therefore seem that current policy initiatives, such as the NDP, continue to focus on the development challenges that were described in the White Paper and the Strategy. However, whereas the Strategy's focus was on a decentralised approach, the

NDP and the White Paper propose a more coordinated and consolidated approach to SMME development <sup>19</sup>.

**9.5. Government has been most effective in its efforts to provide non-financial services to SMMES; and less effective in other areas of the Strategy**

The overall aim of the ISPESE was to increase the contribution of small enterprises to growth and development in South Africa. It is evident from Figure 23 that a slim majority of respondents indicated that government’s activities, policies and programmes have been effective, and just 2% indicated that they were very/completely effective. On the other hand, 25% of respondents indicated that these programmes were, on the whole, very ineffective. These negative perceptions differ markedly between government and business, with around 70% of business respondents seeing government policies as ineffective (and 50% very ineffective). Still, more than a third of Government respondents also see these policies and programmes as ineffective.

**Figure 23: Effectiveness of government’s overall activities, policies and programmes in developing and growing SMMES between 2004 – 2014**



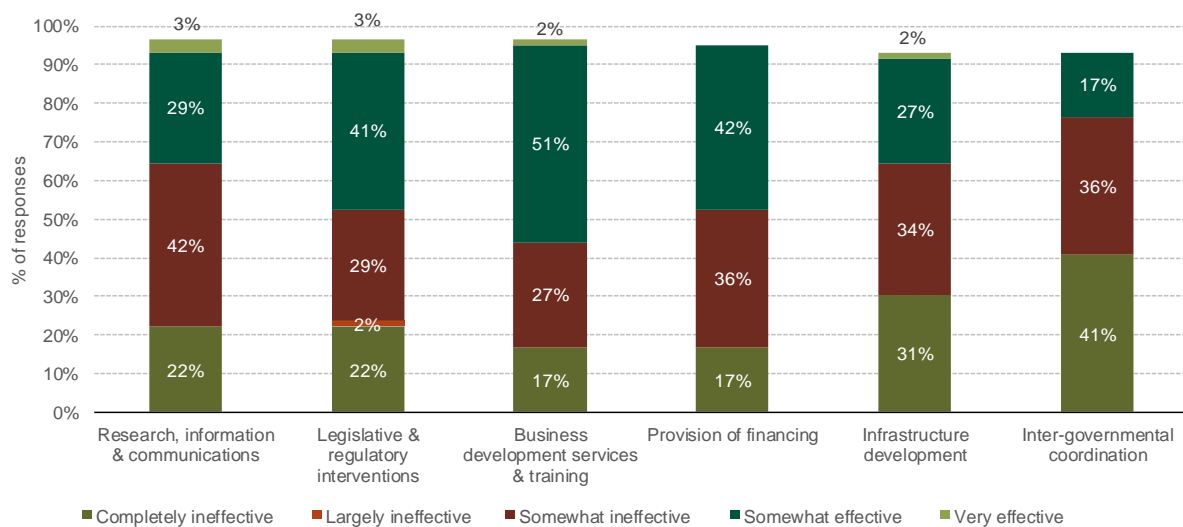
Source: Key informant interviews  
Where n=60

Generally, the main concerns highlighted were related to the paucity of research conducted by government on the SMME sector and the distribution thereof, regulatory barriers and red-tape, and the weak graduation of informal businesses. Better procurement and access to market opportunities as well as the diversification of finance packages for different groups of SMMES were noted. Furthermore, there was a general view that coordination needs to be improved both internally within government as well as with external role-players; and programmes need to be designed and evaluated better.

<sup>19</sup> NDP, (pg 119). ““Small business support services will be consolidated and strengthened. Action has already been taken to create a unified small business service delivery agency. Public-private partnership can be considered, where the private sector is incentivised to provide small business with support, with increased payment contingent on success.”

Turning to the specific programmatic activities, BDS and training was rated as the most effective (53% of responses) government intervention in supporting the growth and development of SMMEs over the implementation period (see Figure 24). On the other hand, 41% of respondents identified inter-governmental coordination as completely ineffective over the implementation of the ISPESE, making it the least effective programmatic area. Whereas Government respondents also saw legislative and regulatory interventions and the provision of financing as effective, business respondents did not rate any areas of intervention as effective overall.

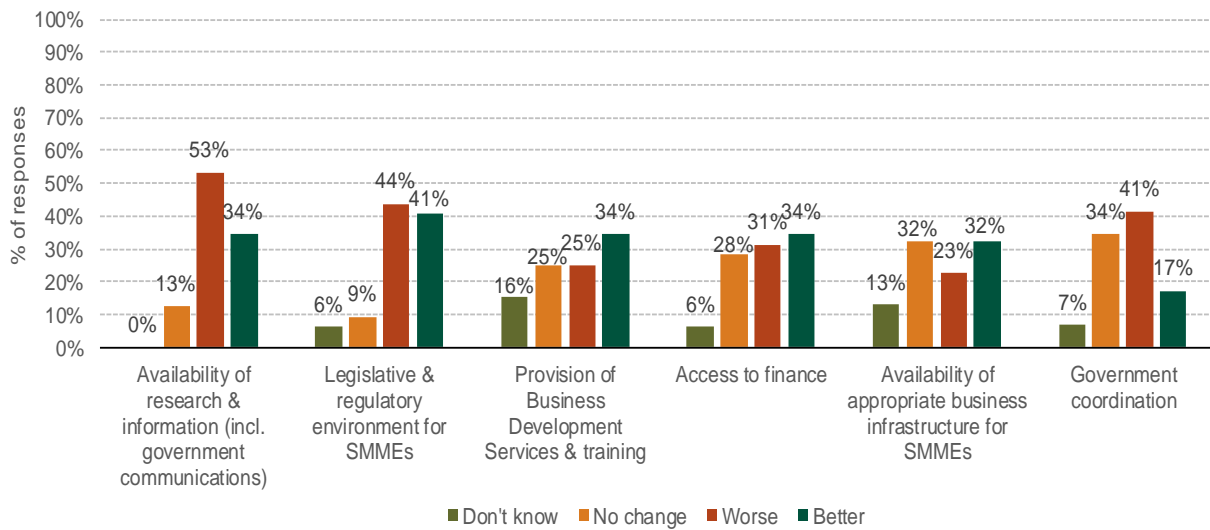
**Figure 24: Overall effectiveness of key programmatic interventions and programmes**



Source: Key informant interviews  
Where n=59

With reference to the broader SMME policy environment, a consistent picture emerges from the consultations (see Figure 25 **Error! Reference source not found.**). Three key areas namely, (i) the availability of research and information, (ii) the legislative and regulatory environment for SMMEs and (iii) government coordination were identified as having worsened by 53%, 44% and 42% of respondents respectively over the implementation period. The provision of BDS and training as well as access to finance were identified as having improved over the 2004-2014 period, with 34% of responses supporting this claim. Even though the legislative and regulatory environment for SMMEs was identified as having worsened over time by 44% of respondents, 41% of respondents indicated that there had been some improvement in this policy area.

**Figure 25: Overall perceived change in the SMME policy environment between 2004-2014**



Source: Key informant interviews  
Where n=32 responses

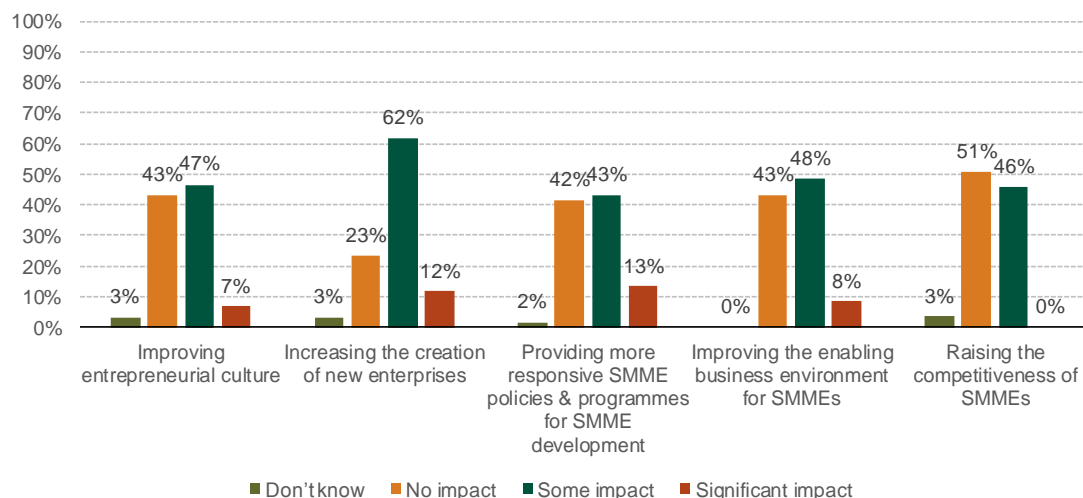
### 9.6. The strategy has not achieved its intended outcomes

Ultimately, the Strategy aimed to raise the contribution of SMMEs to the South African economy. The evidence presented in this evaluation shows that both capital formation and investment by SMMEs declined during the period 2005 to 2014. Likewise, the available literature and data shows that there has been a decline in SMME creation and employment over this period. Business environment indicators tracked by international organisations have likewise shown a fall in South Africa’s rankings, and the available indicators of national entrepreneurship have deteriorated.

Despite these apparent shortcoming, 72% of respondents believe that government’s policies had an impact on increasing the creation of new enterprises (see Figure 26). Across all other outcomes of the Strategy, almost half of all respondents believe that Government has had no impact.



**Figure 26: Perceptions of the impact of government’s SMME policies, programmes and interventions**



Source: Key informant interviews  
Where n=60

The apparent failure of the Strategy to deliver on these outcomes can be attributed to three sets of factors:

- Firstly, it appears that many of the activities set out in the Strategy were not implemented as planned (or what was implemented was not sufficient given the nature and scale of the problem). As a result, a large proportion of the outputs identified in the evaluation log-frame were not achieved over the life of the Strategy. Specifically, based on the available evidence from government reports and the consultations, very few of the outputs in the second and third pillars of the Strategy were delivered. Where progress was made – such as in the areas of business development and the provision of finance – the volume of outputs is relatively small. For example, in 2014, 3 000 firms received business performance assistance from SEDA and 294 SMMEs qualified for direct loan finance from SEFA. It follows, that many of the challenges identified in the Strategy have not been effectively confronted and addressed.
- Secondly, many of the economic assumptions underlying the Strategy changed dramatically during the period of implementation. The Strategy was formulated during a period of relatively strong economic growth and policy stability. In the wake of the global financial crisis, and the collapse of the commodity super-cycle, South Africa’s GDP growth slowed dramatically: between 2004 and 2008, South Africa’s GDP growth averaged 4.8%; for the next five years, it fell to an annual average of 1.9%<sup>20</sup>. The net impact on job creation has been equally dramatic – South Africa’s official unemployment rate has risen from 23.2% in 2008 to 27.7% in 2017<sup>21</sup>. Yet despite these extraordinary economic circumstances, the Strategy was not revised or strengthened to address the resulting impact on small and therefore more vulnerable businesses.

<sup>20</sup> SARB, <https://www.resbank.co.za/Research/Statistics>

<sup>21</sup> StatsSA, Quarterly Labour Force Survey (QLFS), 3rd Quarter 2017

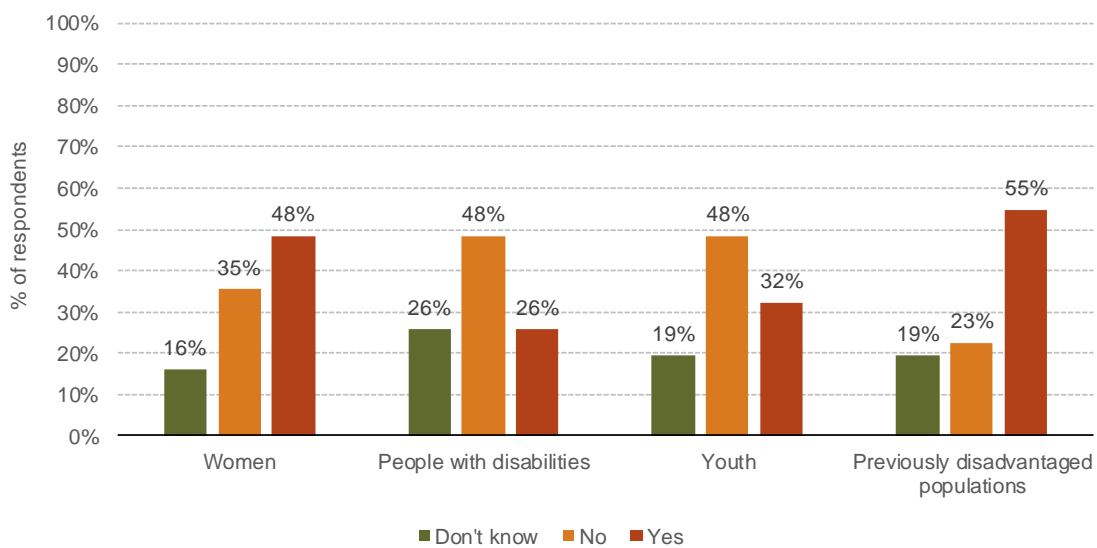
Numerous stakeholders therefore commented on the inability of the Strategy to counteract the adverse effects of the “global financial crisis”.

- Likewise, institutional changes in government, such as the creation of the Economic Development Department (EDD) mid-way through the Strategy’s implementation period, and the shifting of SEDA from the DTI, all served to hamper – and fragment - the delivery of the Strategy. The general administrative and governance challenges confronting South Africa at the time were highlighted as problematic by many respondents.

**9.7. There is mixed evidence available on whether the Strategy was effective in responding to the needs of vulnerable groups**

Based on the consultations, more than half (55%) of the respondents indicated that they believed that government’s SMME programmes and interventions were targeted at previously disadvantaged populations, and 48% of respondents indicated that they were well targeted at women. On the other hand, just 26% and 32% of respondents believed these programmes are well targeted at people with disabilities and the youth, respectively. These responses were broadly consistent across government and business.

**Figure 27: SMME programmes and interventions targeting at specified groups**



Source: Key informant interviews  
Where n=31

These perceptions are consistent with the available data from SEDA and SEFA Annual Reports. In 2010/11, SEDA reported that more than 90% of its clients were black-owned and around 50% women- or youth-owned; these shares remained relatively stable over the following few years. In 2011/12, just 2% of SEDA’s clients were reportedly disabled<sup>22</sup>.

<sup>22</sup> <http://www.seda.org.za/Publications/Pages/AnnualReports.aspx>

Similarly, in 2012/13, 76% of the loans disbursed SEFA went to black-owned businesses; 40% to women-owned businesses; and 16% to youth-owned businesses (SEFA, 2013).

On the other hand, data from StatsSA shows that the number of women, running non-VAT registered businesses, has declined from 60% of the total in 2001 to 45% in 2013, with the total number of woman-run informal businesses halving over this period. The percentage of black South Africans running non-VAT registered business has remained relatively constant over this period, whereas there has been a stark drop in the share of informal businesses run by young South Africans.

### **9.8. Whereas government has invested heavily in BDS and financial services, insufficient resources have been put to other areas of the strategy, and the efficiency of this expenditure is uncertain**

The Strategy does not quantify the amount of resources or inputs required for its implementation, or how they should be allocated. Whereas the national budget for Pillar 1, financial and non-financial support, can be partially derived from the budgets of SEFA and SEDA, there are many other institutions involved in the delivery of SMME programmes. This includes the provincial agencies described in the case studies, but also other national departments, such as Agriculture, Science and Technology, Tourism and Mineral Resources, which support small businesses in their specific sectors, and multiple private sector incubators and enterprise development programmes. There is no consolidated information available on the total value of support and the outputs across all of these entities.

Pillar 2 of the strategy identifies B-BBEE and preferential procurement as key mechanisms to drive additional demand for goods and services from SMMEs. Data from the 2015/16 National Treasury Supplier Survey indicates that 84% of government suppliers are micro enterprises (total annual revenue of less than R5 mn), but no baseline data is available, so this apparent success cannot be linked to the implementation timeframe of the Strategy. Both public and private informants indicated that preferential procurement and B-BBEE legislation have not translated into a meaningful increase in demand from SMMEs, and in some cases, have increased the compliance burden to SMMEs. The net impact on the cost of goods and services provided to Government is also unknown.

Based on the provincial case studies, it would seem that very little effort and resources were expended on Pillar 3 - business environment reform. Likewise, there is little evidence of any meaningful results. To the contrary, there are indications that in some jurisdictions, compliance and licensing requirements and the associated costs of "red-tape" have increased. This was highlighted in both the literature review as well as the focus groups with SMMEs. The World Bank Ease of doing business, a key metric on business environment reform, shows a marked decline in South Africa's overall ranking from 32 in 2008 to 72 in 2015, and a further decline to 82 in 2017.

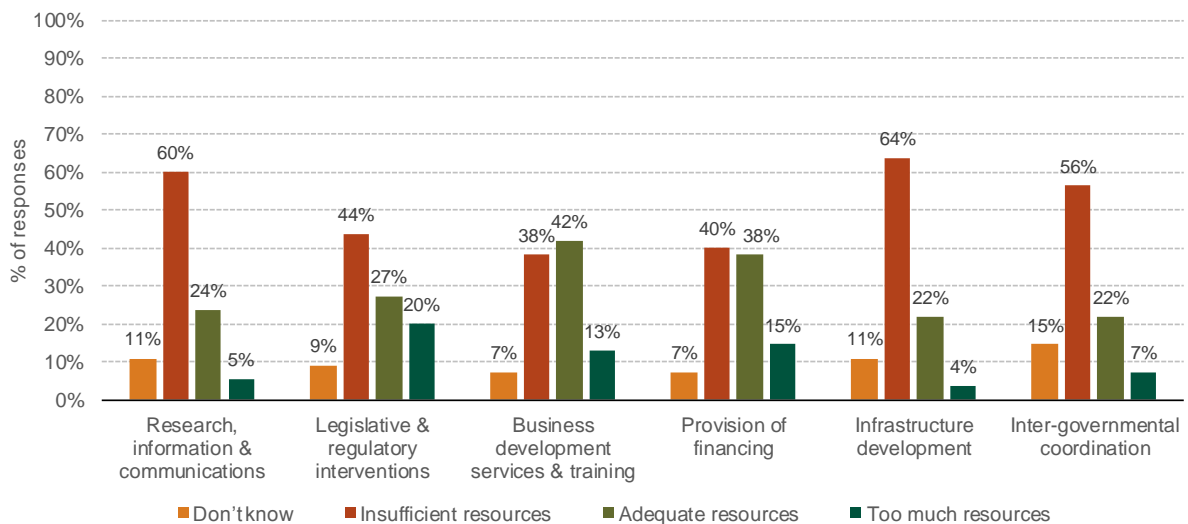
These observations were confirmed by the consultations. Overall, respondents indicated that Government does not put sufficient resources to SMME policies and programmes, with the research space and monitoring activities highlighted as especially under-resourced. Moreover, many respondents indicated that there is a need to expand the reach of government interventions, with remote areas and local government in most need of support and additional resources.

When asked whether private sector has provided enough resources, most of the respondents suggested that this could be better. This largely related to access to market opportunities and

the inclusion of SMMEs in corporate value chains. Many respondents, both business and government, shared the perception, that larger businesses were generally ticking boxes and following a necessary compliance approach to BBB-EE, whereas SMMEs, the intended beneficiaries, were saddled with additional complicated compliance requirements, for BBB-EE certification (during the implementation period).

Figure 28 illustrates that overall, respondents believed that government contributed insufficient financial and human resources to the implementation of the key programmatic activities of the strategy. Specifically, respondents indicated that insufficient resources were allocated to infrastructure development (64%), research, information and communications (60%), and inter-governmental coordination (56%). On the other hand, 42% of respondents indicated that adequate resources were allocated to BDS and training; again confirming that this is the one programmatic area that has received significant attention. This perspective was shared by both government and business respondents: SMMEs consulted in the various provinces were largely satisfied with the services and support they had received having been accepted by SEDA

**Figure 28: Human/financial resource allocation by government**



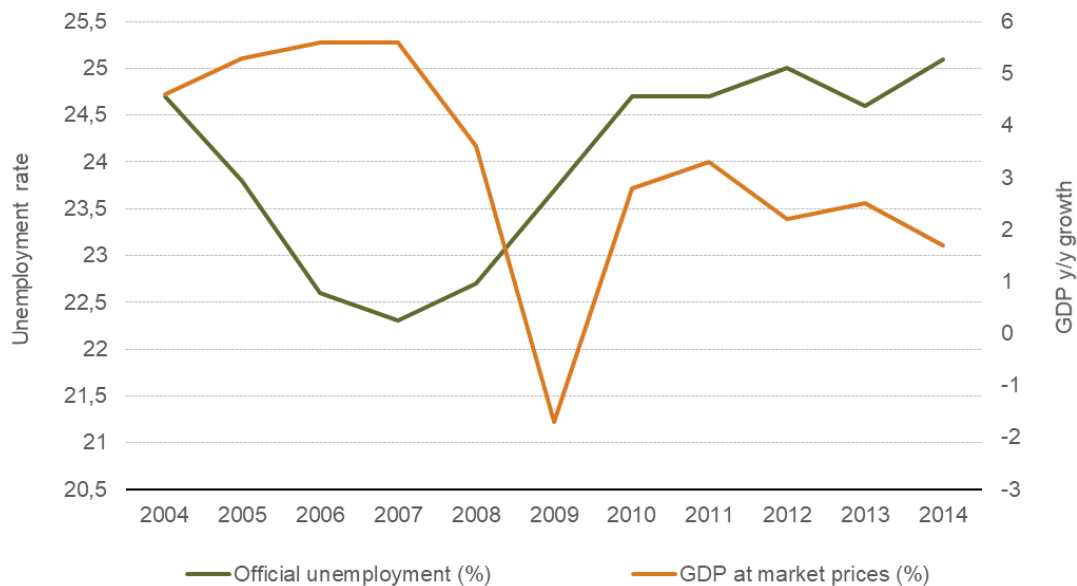
Source: Key informant interviews  
Where n=55

Given the lack of information on expenditure and other inputs, it is difficult for the evaluation to come to a definitive conclusion on the cost-effectiveness and efficiency of Government spending on all or any one of the main pillars of support. It is also important to reiterate that the ISPESE is not a programme, but a strategy, that outlines the roles and responsibilities of many different actors involved in the development and support of SMMEs. To this end, the Strategy confirms that there are many actors and providers of support for SMMEs, which are meant to be coordinated through the various structures of government. In reality, many of the intended programmes identified in the strategy have not been implemented, or where they have, implementation has been partial or patchy. It is therefore impossible to derive clear results from the Strategy, or attribute these directly to government expenditure.

**9.9. In the absence of strong institutional arrangements and a supportive economic environment, the outcomes of the Strategy are unlikely to be sustainable**

As noted above, the Strategy was designed at a time when the South African economy was growing at close to 5% per annum, and the global and domestic environment was favourable for investment and trade. Economic conditions deteriorated rapidly and severely mid-way through the Strategy, threatening existing businesses and employment, and making it much more difficult for new enterprises to emerge and thrive. This is illustrated in Figure 29 below. Moreover, many of the actions put forward in the Strategy, were never implemented, and coordination across Government and other stakeholders was weak. As a result, the Strategy did not deliver wide-ranging reforms and benefits to SMMEs, and many of the challenges described in the Strategy are as prevalent, if not more so, that they were in 2004.

**Figure 29: SA growth and unemployment (2004 – 2014)**



Source: StatsSA

Moreover, the design of the Strategy, and the institutional arrangements in place, were not conducive to sustainable change. Specifically, whereas the Strategy describes a comprehensive set of actions for SMME support and development in South Africa, it did not provide detailed implementation plans, a strong coordinating mechanism, and an appropriate monitoring and evaluation framework. Without these elements in place, the likelihood of the Strategy achieving and sustaining meaningful results was greatly reduced.

Likewise, compared to the countries evaluated in the benchmarking studies, South Africa does not have a single and substantive SMME agency in place to deliver on all components of the Strategy. Rather, the Strategy adopted a decentralised approach, and the implementation of SMME policies and programmes in South Africa is spread across numerous departments and agencies and all levels of Government. As a result, resources are spread thinly and inconsistently across multiple different entities, and it is difficult to achieve and sustain substantive results.

Finally, for SMME interventions to be sustainable, it is important that the overall business environment is supportive for new and emerging enterprises. It was for this reason that the reduction of regulatory constraints formed a core pillar of the Strategy. The evidence collected from the document and data review, as well as the consultations, indicates that the Strategy was largely ineffective in this area. Compared to our peers, the regulatory framework in South Africa is considerably regressive, to the extent that smaller enterprises struggle to meet the demands – and absorb the cost of compliance – associated with such regulation. It follows that new firm establishment (early stage entrepreneurial activity) is less prevalent in South Africa than in countries with similar levels of per capita income and only 3% of South Africa's adult population operate firms that are older than 3 years compared with 15% in Brazil, for example. The message from these studies and the consultations is that the business and economic environment in South Africa is not conducive for sustainable SMME development.

## 10. Assessing the Theory of Change

Set out below and in Figure 3 is an assessment of the theory of change based on the evidence gathered during this evaluation. The purpose of this assessment is threefold:

- To assess to what extent intended output of the Strategy were delivered / achieved.
- To assess the achievement of or likely achievement of intended outcomes given the achievement of the various outputs.
- To review the importance of key assumptions and to assess the extent to which these have held.

On the basis of this assessment we provide an overall commentary on the overall ToC and proposed modifications (if any).

### 10.1. Overall findings on the ToC

At the overall level, the evaluation, based on the available evidence, finds that the theory of change is working and remains appropriate. As evident below this is not to say that all outputs and outcomes have been achieved.

Broadly the evaluation indicates that the overall theory of change in its original formulation is sound. Specifically the ToC articulates the critical point that all of the strategic outputs need to be delivered in order for any meaningful change to be effected in the SMME ecosystem. The evidence suggests that in many areas there are key gaps which have undermined the effectiveness of the ISPESE. Additionally a number of critical assumptions with respect to the policy context, effective inter-governmental coordination as well as broader economic environment have not held and undermined the strategy's achievement of its outcomes.

### 10.2. Findings in respect of key assumptions

A critical area the analysis of the ToC in relation to the available evidence highlights is the key assumptions that need to hold if the anticipated change is to be realised.

The most critical assumptions that have not held and consequently undermined the ISPESE's effectiveness are the following:

- Effective and conducive national economic planning and policy framework exists
- Effective Intergovernmental System is in place and functional
- Macro-economic environment conducive to investment and economic growth

It should also be noted that the analysis has highlighted the need to include an additional assumption in respect of a conducive economic / industrial structure. What is meant by this is that the development of a viable SMME ecosystem requires high levels of industry concentration etc. to be effectively dealt with.

### 10.3. Findings in respect of inputs

At the level of inputs the evaluation reveals that broadly there is sufficient funding for the implementation of the strategy and that that sufficient support institutions (both public and private) exist and are willing to support SMMEs. However the evidence suggests that there are insufficient skilled and professional personnel (especially in the public sector system).

Furthermore the broad range of objectives and policies across government and the private sector means that alignment of partner's objectives is not as strong as it should be. In respect of adequate infrastructure the evidence suggest that while some infrastructure exists much of this is outdated with little renewal or investment having taken place during the period of the strategy.

From the perspective of inputs the evaluation notes that the most critical weakness is an effective and coherent national economic plan and policy – as noted elsewhere this severely hampers any coherent response to the challenges of entrepreneurship and SMME development.

### 10.4. Findings in respect of activities

In respect of activities – which occur across the sector through various programmes and initiatives – it is noted that while there is a significant amount of business development services and training being provided as well as notable progress in the provision of financing, many other activities are being partially implemented.

In particular is noted that there is little evidence of any substantive and effective legislative and regulatory intervention in support of the Strategy. Research, information and communication in support of the Strategy and the promotion of its needs and impact is weak. The development of new infrastructure also has not been adequate to meet the requirements of the ISPESE's objectives.

Most critically – noting that this is also a key assumption underpinning the ISPESE – overall inter-governmental coordination of these activities has been very weak. This severely undermines the effectiveness of the Strategy and diminishes its potential impact.

### 10.5. Findings in respect of strategic outputs

At the heart of the ISPESE are a number of strategic outputs. As noted at the inception of this evaluation the primary focus of the ISPESE is the delivery of a number of outputs (which may be programmes or other initiatives across government). Given that these are programmatic outputs they have been termed "strategic outputs".

The evaluation finds that the theory of change is correct in assuming that all of these strategic outputs are relevant and need to be delivered effectively in order for any of the outcomes to be achieved. Importantly these strategic outputs are all required if the necessary change is to occur which will result in the outcomes desires.

Summarised below is the accesses of the extent to which these strategic outputs have been delivered. The detail is contained in Appendix 5.

- **Entrepreneurship Culture and Enterprise Creation Promotion Campaign:** Key components of this output have not been delivered. While there have been limited



outputs in respect the DTI and State Owned Entities as well as within some Provincial and Local Governments the overall level of entrepreneurship and enterprise creation campaigns remains limited.

- **Dedicated network of SMME Finance:** During the tenure of the Strategy the Small Enterprise Agency (SEFA) was established through the merger of Khula, SAMAF and IDC Small Business. By 2015 SEFA had increased lending (loans and advancements) from R479 million to R652 million, with impairments increasing (SEFA Annual Report 2015). In addition there is significant private sector (both banks and other financial institution) involvement. However the overall SMME finance network remains limited, and more recently bank and MFI involvement appears to have declined. The leverage achieved on public resources is also limited. Consultations with the banking association indicated that there was limited uptake on the guarantee schemes implemented by government and the private sector.
- **Demand for Small Enterprise Products & Services:** While there has been some traction on Preferential Procurement, core elements of the National Procurement Programme have only become effective post the ISPESE. With respect to the B-BBEE Codes, wide scale reports of ineffectual implementation within private sector have been reported, resulting in revised codes
- **Strengthened Local Network for Small Business Development Support Services:** SEDA and SEFA have established a broad network across the country through a network of co-locations and offices. SEFA does not report how much funding was applied for, only that which was approved. While there are a large number of facilitates and access points (e.g. SEDA and most municipalities), participation / utilisation rates appear to be low. It is also noted that some municipalities and development institutions leverage property portfolios for SMME support (not universal)
- **SMME Business Development Services:** There has been significant achievement in this regard – notably via SEDA however more is required. In respect of private agencies there is no data while for provincial agencies there is limited data, and uneven reporting. In addition there has been support provided through Corporate ED programmes (under the BEE Codes). SEDA Tech Incubators have reported a 60-70% success on participants in incubators, however sustainability is not measured.
- **Strengthened Enterprise Networks:** There is little evidence of strengthened networks, as well as little data in the strategy on what constitutes a network i.e. the criteria for a network. Most networks are through local chambers of commerce which are weak and private sector led. Furthermore private sector participation – which has filled some gaps – is primarily driven by the need for Enterprise Development points in terms of the B-BEE scorecards. These scorecards have increased corporates activities aligned to SMMEs however, evidence of increased participation of the target groups identified in the strategy remain elusive in their reporting.
- **SMME Support Incentives:** A significant number of incentives have been developed but most target specific sectors, not SMMEs.
- **Improved Regulatory Environment:** The impact of the Company's Act is noted, but beyond this there has been very little achieved. Red-Tape is generally accepted as

increasing in the provincial setting. Several Regulatory Impact Assessments have been concluded, but not aware of any that focus specifically on the interests of SMMEs, and the RIA process has largely been discontinued.

- **Entrepreneurship and Small Business Research:** One DTI commissioned review of SMMEs was published at the outset of the ISPESE's development, in 2008. An annual review was conducted in 2014 but never published. Moreover, there has been very little comprehensive entrepreneurship and small business research conducted or commissioned by government.
- **Capacity building throughout the public-sector enterprise support system:** Based on the evidence there has been no systematic capacity building programme undertaken within government.
- **Partnerships with national business organisations and individual corporations:** There has been limited progress in establishing partnerships. Consultations highlighted that some had been undertaken such as the TEP programme, but these were hap hazard. Some key partnerships include President's Business Forum, the Business Trust and initiatives of the AHL.
- **Over-arching monitoring Framework:** No systematic monitoring framework or programme was established.

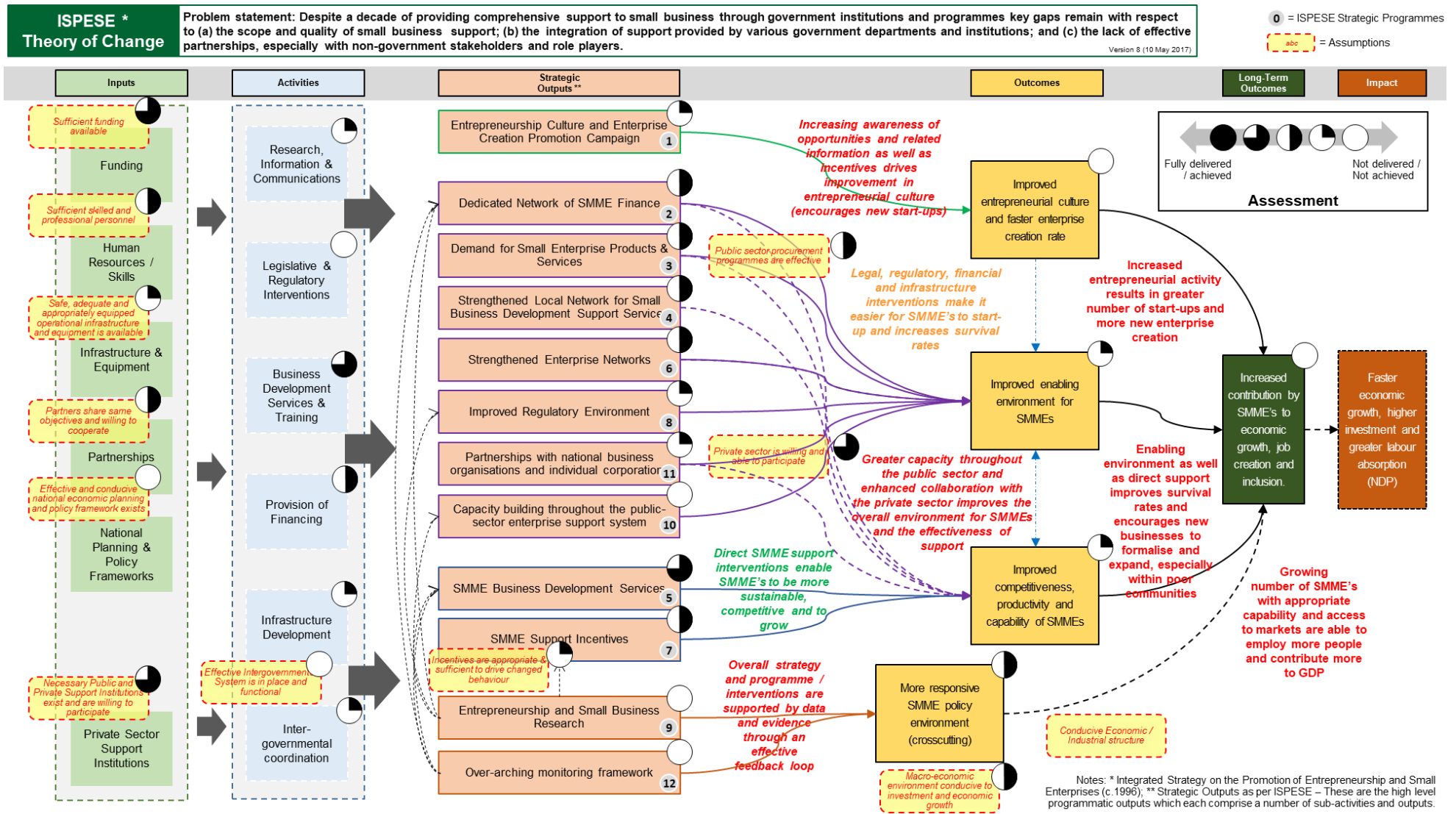
## 10.6. Findings in respect of outcomes

Summarised below is the accesses of the extent to which outcomes have been achieved. Given that a large number of strategic outputs have not been delivered it is unlikely that the outcomes will be realised. The detail is contained in Appendix 5. Specifically it is noted that:

- **Increased contribution by SMMEs to economic growth, job creation and inclusion (LTO) has not occurred during the period of this strategy.** Given that key strategic outputs have not been delivered and that intermediate outcomes have not been achieved the achievement of the long-term outcomes is unlikely. The available evidence indicates that South Africa ranks poorly globally on TEA rates – in the lowest quintile – and on established ownership rates ranks in the bottom decile.
- **Improved entrepreneurial culture and faster enterprise creation rate (IO):** While Entrepreneurship as a career is perceived highly and a good career choice, there is limited evidence of any improved entrepreneurial culture and faster enterprise creation.
- **Improved enabling environment for SMMEs (IO):** There is limited evidence of any improved enabling environment for SMME's. Overall Business environment is ranked as declining.
- **Improved competitiveness, productivity and capability of SMMEs (IO):** SMME share of exports is limited and not tracked. There is not sufficient information, nor baseline comparatives to identify if SMMEs are more innovative.

- **More responsive SMME policy environment (crosscutting) (IO):** More attention is being paid to SMMEs concerns (increased policy priority), but this has mostly occurred towards the end or after the implementation of the Strategy.

Figure 30: Assessment of the theory of change



## 11. Conclusion

The purpose of the evaluation was to assess (1) the design and coherence of the strategy, and the extent to which it was likely to contribute to its stated outcomes, and (2) whether the strategy was been implemented as planned, reached its intended beneficiaries, and achieved its intended outcomes. The main findings are summarised against the project evaluation criteria below.

### 11.1. Relevance

*Relevance examines the extent to which the ISPESE was the right response to an identified set of problems.*

A reconstruction of the Strategy revealed that the Strategy aimed to achieve one long-term outcome (LTO) and four immediate outcomes (IO):

- Increased contribution by SMMEs to economic growth, job creation and inclusion (LTO)
- Improved entrepreneurial culture and faster enterprise creation rate (IO)
- Improved enabling environment for SMMEs (IO)
- Improved competitiveness, productivity and capability of SMMEs (IO)
- More responsive SMME policy environment (crosscutting) (IO)

With these intended outcomes, the Strategy responded to the underlying problems and commonly accepted challenges that relate to SMME development, such as: a weak entrepreneurial culture; access to finance; access to markets; access to adequate business support services; regulatory and administrative constraints (the burden of red-tape); and structural inequalities.

### 11.2. Coherence

*Coherence evaluates whether the various aspects of the ISPESE work well together and with other interventions.*

The theory of change developed as part of this evaluation demonstrates how, in design, the Strategy brings together all of the core components of a comprehensive and integrated approach to SMME development. Moreover, the theory of change describes how all of these interventions, if implemented fully and consistently, are likely to contribute towards an improved entrepreneurial culture, a more responsible policy and enabling environment for SMMEs, and more productive and competitive small businesses in the country. However, this theory of change rests on a number of core assumptions. Specifically, for the Strategy to work, it is critical that there is an effective and functional inter-governmental system in place, and a high degree of collaboration and coordination between decision makers and implementing agencies across the public and private sectors.

In practice, insufficient attention was given to how the Strategy would be implemented and coordinated. This limitation represents the greatest shortcoming in the conceptualisation of the Strategy. Without coherent implementation guidelines, formal coordination structures and rigorous monitoring and evaluation mechanisms, SMME support executed by government at national, provincial and local levels suffered from overlaps and inconsistencies. As a result, the multiple players involved in small business development continued to roll-out overlapping business development services, in an environment that remained generally unfavourable to SMMEs and entrepreneurship. Moreover, according to most respondents, government's

SMME policies and interventions were not applied consistently across the three levels of Government.

### 11.3. Effectiveness

*Effectiveness assesses the extent to which the ISPSE achieved its intended objectives and whether it was implemented fully and as planned.*

The overall aim of the ISPESE was to increase the contribution of small enterprises to growth and development in South Africa. The evidence reviewed in this evaluation indicates that neither this overall aim nor the intended immediate outcomes have been achieved. For example, at the outcome level, capital formation and investment by SMMEs has declined, there has been a contraction in SMME creation and employment over this period, and the available indicators on the business environment have deteriorated. There has however been some improvements in the national entrepreneurial levels and rates as measured by the Global Entrepreneurship Monitor.

At the output level the results on the provision of business development services and, to a lesser extent, improving access to finance are somewhat positive, but other outputs were not, or only to a very limited extent, achieved (such as an improved entrepreneurial culture, research and those related to government capacity and coordination). The table below sets out a summary perspective of the achievement of the Strategy outputs. Further detail is provided in Table 18 in Annex 5.

**Table 10: Overall achievement of outputs**

Outputs	Not achieved	Partially achieved	Achieved
1. Entrepreneurship Culture and Enterprise Creation Promotion Campaign	Not achieved		
2. Dedicated network of SMME Finance		Partially achieved	
3. Demand for Small Enterprise Products & Services		Partially achieved	
4. Strengthened Local Network for Small Business Development Support Services		Partially achieved	
5. SMME Business Development Services		Partially achieved	
6. Strengthened Enterprise Networks			Achieved
7. SMME Support Incentives		Partially achieved	
8. Improved Regulatory Environment		Partially achieved	
9. Entrepreneurship and Small Business Research	Not achieved		
10. Capacity building throughout the public-sector enterprise support system	Not achieved		
11. Partnerships with national business organisations and individual corporations	Not achieved		
12. Over-arching monitoring Framework	Not achieved		

The failure of the Strategy to deliver on all these outcomes and outputs can be attributed to three sets of factors:

- Firstly, it appears that many of the activities set out in the Strategy were not implemented (or what was implemented was not sufficient given the nature and scale of the problem).
- Secondly, the Strategy was not revised or strengthened to address worsening economic conditions over this period and to counteract the adverse effects of the “global financial crisis”.
- Likewise, institutional changes in government, such as the creation of the EDD mid-way through the Strategy’s implementation period, and the shifting of SEDA from the DTI, all served to hamper – and fragment - the delivery of the Strategy.

#### **11.4. Efficiency**

*Efficiency measures whether ISPESE programmes and results were delivered in an optimal and cost-effective manner.*

The ISPESE is not a programme, but a strategy. As such, it does not quantify the amount of resources or inputs required for its implementation, or how they should be allocated. Moreover, there is no consolidated information available on the total value of support and the outputs across all public and private entities involved in SMME support. It is therefore difficult for the evaluation to come to a definitive conclusion on the efficiency of Government spending on all or any one of the main pillars of support, and to attribute outcomes directly to government expenditure. That said, the fact that SMME support is executed by multiple entities of government at national, provincial and local levels; and that coordination across these entities was generally weak; is likely to impact negatively on efficiency.

#### **11.5. Sustainability**

*Sustainability establishes whether the capacity and programmes developed and the results achieved by the ISPESE are likely to be sustainable.*

The Strategy was designed at a time when the South African economy was growing at close to 5% per annum. Economic conditions deteriorated rapidly and severely mid-way through the Strategy, threatening existing businesses and employment, and making it much more difficult for new enterprises to emerge and thrive. Moreover, the design of the Strategy, and the institutional arrangements in place, were not conducive to sustainable change. Specifically, whereas the Strategy describes a comprehensive set of actions for SMME support and development in South Africa, it did not provide detailed implementation plans, a strong coordinating mechanism, and an appropriate monitoring and evaluation framework. Finally, for SMME interventions to be sustainable, it is important that the overall business environment is supportive for new and emerging enterprises. The evidence indicates that the Strategy was largely ineffective in improving the regulatory environment for SMMEs.

On the other hand, it is important to recognise some of the significant institutional changes that have taken place over recent year, which are likely to improve coordination and contribute towards the sustainability of future policy initiatives. This includes, for example, the establishment of the Department of Small Business Development in 2014, dedicated SMME capacity and services at SARS, and more stream-lined services for business registration at CIPC, and the revised B-BBEE codes of good practice. There are also some indications that more small businesses are becoming formalised – for example, SMMEs contribution to domestic VAT has risen from R127.5 billion in 2012/13 to R187.4 billion in 2016/17; while

SMME provisional corporate income tax payments have increased from R48.9 billion to R73.5 billion over this same period<sup>23</sup>.

## 12. Recommendations

The *Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises* was a necessary response to the challenges confronted by SMMEs in South Africa at the time. If the Strategy had been implemented fully and consistently, it is likely that the SMME environment in South Africa would have improved, and the number of firms and jobs created by business could have been significantly higher. The success of the Strategy was however impeded by adverse economic conditions, the partial implementation of many planned activities, and weak coordination and monitoring structures across Government. As a result, the evidence collected over the course of this evaluation suggests that the objectives of the Strategy have not been achieved.

The Strategy concluded in 2014. Looking forward, the development of entrepreneurship and the sustainability of SMMEs in South Africa depends on innovative and decisive policy change and a more supportive and enabling environment for existing small firms and start-ups. Specifically, to achieve the ambitious goals for SMME development and employment that are set out in the NDP will require the coordinated implementation of well-focused programmes with clear guidelines and targets; carefully constructed institutional mandates and responsibilities; and rigorous research, monitoring and evaluation. Some specific recommendations on how this might be achieved include:

- R1** The DSBD should promote the establishment of a high-level SMME policy and programme coordination mechanism (potentially as a sub-structure of the President's Coordinating Council). This would serve to signal the importance of the SMME community in achieving government's wider economic objectives, and improve coordination and information-sharing across all relevant departments and spheres of government.
- R2** The DSBD should engage with the Treasury in the allocation and evaluation of funding to SMME programmes across government. More specifically, DSBD should develop a mechanism with the National Treasury that consolidates and tracks all government expenditure and performance information on SMME's through the public finance management system<sup>24</sup>.
- R3** The DSBD should work with the DTI and the National Treasury to ensure that there is alignment in definitions, indicators and outcomes across the government's SMME, B-BBEE and government procurement policy interventions.
- R4** The DSBD should assume a primary role in guiding, coordinating and where necessary consolidating SMME interventions across existing implementing agencies (i.e. it should not be involved in the direct implementation of SMME support programmes). In doing

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<sup>23</sup> Speech by SARS Commissioner to the 2017 SMME Colloquium

<sup>24</sup> For instance, in the same way that Treasury tracks governments Infrastructure Programme in the Budget and Estimates of National Expenditure.



so, the DSBD should strengthen its capacity to undertake research, collect and disseminate data and monitor and evaluate the impact of national and provincial SMME programmes and interventions.

- R5** The DSBD should review the links and possible overlaps between the product offerings of SEDA and SEFA, and improve coordination across these agencies. This may involve some consolidation or rationalisation of specific business support and financing services, and should serve to reduce the turnaround time and transaction cost for end-beneficiaries.
- R6** The DSBD should develop and issue regulations and best-practice notes that provide guidelines and standards for the implementation, monitoring and reporting of all government-led SMME programmes.
- R7** The Minister should give effect to all provisions contained in Section 18 of the National Small Business Act. Specifically, the issuance of guidelines to government on the promotion of small business, including: the publication of an updated Small Business Support Strategy; procedures for the review of the effect of existing legislation and their effect on small business and the application of the Small Business Support Strategy; and procedures for the consultation with stakeholders (government, business and labour) on new or proposed legislation affecting small business.
- R8** The DPME should review the Socio-Economic Impact Assessment System (SEIAS) methodology to consider the inclusion of assessment criteria that reflect the impact of policies, laws and regulations on SMMEs (including cooperatives). The DSBD should be provided with a seat on the SEIAS oversight committee.
- R9** The DSBD should engage with BDS providers and associations in order to support the organisation, accreditation and professionalization of the industry.
- R10** The DSBD should consider further research on support programmes by the private sector, with the aim of strengthening public/private sector partnerships and ultimately, the achievement of national objectives in the SMME and corporative development sectors.

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## Annexure 2: Evaluation Framework

### Strategy overview

The *Integrated Strategy on the Promotion of Entrepreneurship and Small Business: Unlocking the Potential of South African Entrepreneurs* (dti, 2006?) (hereafter “Strategy”) sets out government’s strategic framework for the promotion of entrepreneurship and small business development.

The purpose of the Strategy is to ensure that small businesses progressively increase their contribution to growth and performance of the South African economy in critical areas such as job creation, equity and access to markets.

The Strategy notes that since the March 1995 *White Paper on National Strategy for the Development and Promotion of Small Business in South Arica*, government institutions and programmes have evolved in all three spheres of government (national, provincial and local). The aim of these institutions and programmes is to provide comprehensive support to small business. The Strategy acknowledges that while progress in delivering a wide range of support services has been made, critical gaps remain. These gaps require government to improve the scope and quality of small business support and ensure better integration of support provided by various government departments and institutions.

The Strategy is based on **three strategic actions or pillars**:

- **Strategic Pillar 1: Increase supply for financial and non-financial support services.** This involves promoting *collaborative approaches* and streamlining resources from the public sector and crowding-in private sector resources.
- **Strategic Pillar 2: Creating demand for small enterprise products and services.** This involves *new policy directives* and *a public sector procurement strategy* and BEE codes of good practice as a lever for increased demand.
- **Strategic Pillar 3: Reduce small enterprise regulatory constraints.** This involves *creating an enabling environment* and establishing a regulatory impact assessment framework and business environment monitoring mechanism.

These strategic actions are to be underpinned by improved availability of quality business information and knowledge through expanded research and communications outreach. The Strategy sets out a number of strategic actions and programmes. These are summarised in the below.

### Strategic Actions:

1. Improve co-ordination within government
  - Inter-departmental Committee
  - Advisory Councils for B-BBEE, Co-operatives and Small Business
2. Improve co-ordination among support agencies
  - Guidelines for the design and implementation of support programmes and delivery mechanism

- Review all current programmes, products and services and delivery mechanisms across all spheres of government
3. Establish Small Enterprise Agencies Forum
  4. Establish integrated access points at local (municipal) level
  5. Encourage increased corporate-sector participation
  6. Commission on entrepreneurship education
  7. Establish an Entrepreneurship Promotion Directorate within the **dti** to develop and implement a national entrepreneurship strategy
  8. Create an informal Entrepreneurship Ambassadors Network
  9. Encourage / support new business start-ups
    - Research on disincentives to starting businesses
    - Eliminate barriers to entry
    - Create start-up incentives
    - Communications campaign
    - Strategy on business incubators
    - Support programmes:
      - Managerial, technical and personal ability
      - Motivation and commitment
      - Developing business idea from raw idea to valid idea
      - Identifying and acquiring the necessary physical and financial resources
    - Access to finance
    - Stimulate start-ups through franchising and co-operatives
  10. Increase number of business that survive and progress to growth and expansion
    - Continuous assessment of existing support measures
    - Foster increased collaboration between agencies to ensure integration
    - Increase demand for products and services leveraging public and private sector procurement through the BEE codes
    - Reduce business failure by assisting businesses in distress
      - Training programmes and advisory services
      - Capacity building programmes for the development of business turnaround skills of business advisors through technical co-operation programmes with other countries
      - Develop and implement an accreditation system for business turnaround professionals
      - Review incentives programmes to support businesses in distress
  12. Supporting Youth and Women

- Umsobomvu Youth Fund
  - Dti strategy on gender and women's economic empowerment
  - Dti co-operatives strategy
  - Dti strategy on the development and support of franchising
13. Focusing on special geographic areas
- Retail service-delivery approach – Khula and Samaf
  - Work with other government programmes targeting special geographic areas
14. Focusing on priority sectors
- Support programmes for small enterprises in priority sectors
  - Link donor support to government priorities for small business development

### **Strategic Programmes:**

- |  |   |
|--|---|
| 1) Fostering entrepreneurship culture and increasing enterprise creation rate  | 7) Providing necessary support incentives   |
| 2) Establish a dedicated network of SMME Finance                               | 8) Improving regulatory environment   |
| 3) Create Demand for Small Enterprise Products & Services                      | 9) Entrepreneurship and small business research   |
| 4) Strengthening local network for small business development support services | 10) Capacity building throughout the public-sector enterprise support system              |
| 5) Improving small enterprise competencies and delivery capacity               | 11) Develop partnerships with national business organisations and individual corporations |
| 6) Strengthening Enterprise Networks   | 12) Over-arching monitoring framework developed and implemented                           |

### **Theory of change**

The theory of change is a conceptual technique that demonstrates how an intervention contributes to the intended outcomes. In evaluations, the theory of change is used widely to determine the pathways through which an intervention contributes to outcomes. These

theories are built on evidence, research or an intuitive understanding of how a programme works.<sup>25</sup>

Importantly, in this instance the **theory of change has been developed retrospectively in respect of a strategy rather than a programme**. The strategy as such – as already outlined above – comprises a number of programmes (12 programmes as indicated above).

In this case, the theory of change has been developed around the activities and outputs that are outlined in the *Integrated Strategy on the Promotion of Entrepreneurship and Small Business* (dti, 2006 ?), or ISPESE. These outputs are then mapped to the higher level objectives or outcomes of the strategy, as well as the NDP growth and development targets (i.e. the impact). A number of high-level assumptions are also described.

The ISPESE's starting assumption is that SMME's offer the possibility to address the economic and social wellbeing of poor communities in South Africa through bringing in people from survivalist, lower level and informal economies into the economic mainstream (addressing the challenges of job creation, economic growth and equity).

In order to achieve this potential there is a need to encourage and support the continued creation of new start-up firms. This requires unblocking constraints to new entrants through the provision of adequate support to improve business survival rates – this requires:

- Effective networking, adequate skilling, mentoring, developing good business acumen and practices etc. (effective support institutions and mechanism)
- A favourable legislative environment
- Access to markets including export markets
- Access to technology

Critical is also integration – of different socio-economic policy areas; programmes within the public sector and between public and private sectors and of different entrepreneurship and small enterprise promotion institutions.

Furthermore achieving the potential of SMMEs also requires focused support to designated target groups and priority geographic areas and sectors, as well as support for fostering enterprise firms (co-operatives) and special institutional arrangements.

There is also the need for the ongoing profiling of the small business sector, improving access to small business support and information, strengthening small business advocacy, delivering effective service and monitoring impact.

The ISPESE takes as its starting point the problem statement that despite a decade of providing comprehensive support to small business through government institutions and programmes key gaps remain with respect to:

- d) the scope and quality of small business support;

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<sup>25</sup> Funnel, S. and P. Rogers (2011) *Purposeful Program Theory: Effective use of theories of change and logic model*. John Wiley & Son. San Francisco.



- e) the integration of support provided by various government departments and institutions; and
- f) the lack of effective partnerships, especially with non-government stakeholders and role players.

The ISPESE aims to address this in the following manner.

At the level of inputs the Strategy aims to mobilise and deploy funding, human resources, infrastructure and equipment as well as partnerships in a range of activities across government as identified in the IPSE (see detailed Strategic Activities above). Additionally key inputs that need to be in place include national planning and policy frameworks as well as public and private sector support institutions. All of these inputs are necessary, but not sufficient to undertake the activities required in respect of the ISPESE.

The generic activities that are indicated in the theory of change include research, information and communication; legislative and regulatory interventions; business development services and training; the provision of financing; infrastructure development and inter-governmental coordination. These activities occur across a number of government programmes and institutions. A key assumption here is that an effective inter-governmental system is in place and functions which can be utilised to achieve improved integration and coordination.

In respect of Strategic Outputs, these comprise the core Strategic Programmes as envisaged in ISPESE. Importantly these are not programmes in the strict sense undertaken in a single department etc., but rather a set of strategic intentions that are aligned to specific objectives. In terms of the Strategy the actual location of such outputs is also cross-cutting in respect of government departments and the three spheres.

The Strategic Outputs can be broadly grouped into four clusters of Outputs that support four key Outcomes under the ISPESE:

- **Societal level outputs**, comprising Entrepreneurship culture and Enterprise Creation programmes. The intent is to increase the awareness of opportunities and related information as well as incentives with respect to entrepreneurship and small business. Through such awareness and information the IPSESE hopes to drive an improvement in entrepreneurial culture and specifically encourages new start-ups. **At an Outcome level these outputs should result, and be evidenced in, a greater entrepreneurial culture / awareness and a faster enterprise creation rate.**
- **SMME Environment level outputs**, that comprise a number of Strategic Outputs including a network of SMME finance, public sector procurement programmes; strengthened business support services and enterprise networks, an improved regulatory environment and capacity building throughout the public-sector enterprise support system. The achievement of these strategic outputs – comprising legal, regulatory, financial, infrastructure and capacity building interventions - make it easier for SMME's to start-up and increase their survival rates. Additionally the greater capacity throughout the public sector and the enhanced collaboration with the private sector improve the overall environment for SMMEs and the effectiveness of support that is provided to SMMEs. **At an Outcome level these strategic outputs contribute directly to an improved enabling environment for SMME's, and indirectly to the improved competitiveness, productivity and capability of SMME's** (through better coordinated and effective support).
- **Firm-Level (SMME) outputs**, which comprise SMME business development services and SMME support incentives. Direct SMME support interventions enable SMME's to be more sustainable,

competitive and to grow and contribute the **outcome of improved competitiveness, productivity and capability of SMMEs.**

- **Strategy level outputs** that include entrepreneurship and small business research and an overarching monitoring framework. These strategic outputs enable the overall strategy and its programmes / interventions to be monitored, supported / influenced by data and evidence through an effect feedback loop into the design of specific Strategic Outputs and activities. These outputs contribute to the **creation of a more responsive SMME Policy environment outcome.**

The theory of change therefore envisages that the achievement of the strategic outputs will result in **four key Outcomes** that are inter-related and mutually reinforcing. The first **improved entrepreneurial culture and faster enterprise creation rate** should result in increased entrepreneurial activity and in a greater number of start-ups and more new enterprise creation, i.e. more people willing to take up enterprise creation opportunities. The second outcome, **improved enabling environment for SMMEs**, ensures that there is an enabling environment (for instance regulatory framework) as well as direct support which improves the survival rates of start-ups and SMMEs, and encourages new businesses to formalise and expand, especially within poor communities. The third outcome, **improved competitiveness, productivity and capability of SMMEs**, if achieved should see a growing number of SMME's with the appropriate capability and access to markets that are able to employ more people and contribute more to GDP. Finally the last outcome, a **more responsive SMME policy environment**, provides ongoing support to appropriate policy and programme design and interventions in support of the SMME ecosystem.

If achieved, the outcomes will result in faster SMME creation, higher survival rates and growth and expansion of such SMME's in respect of markets, employment and contribution to GDP as their competitiveness, productivity and capability is enhanced through business development, technical and financial support within a regulatory and broader enterprise system that is enabling and supportive of SMME's. The **long-term outcome of the aggregate growth and development of SMME's is the increased contribution by SMME's to economic growth, job creation and inclusion.**

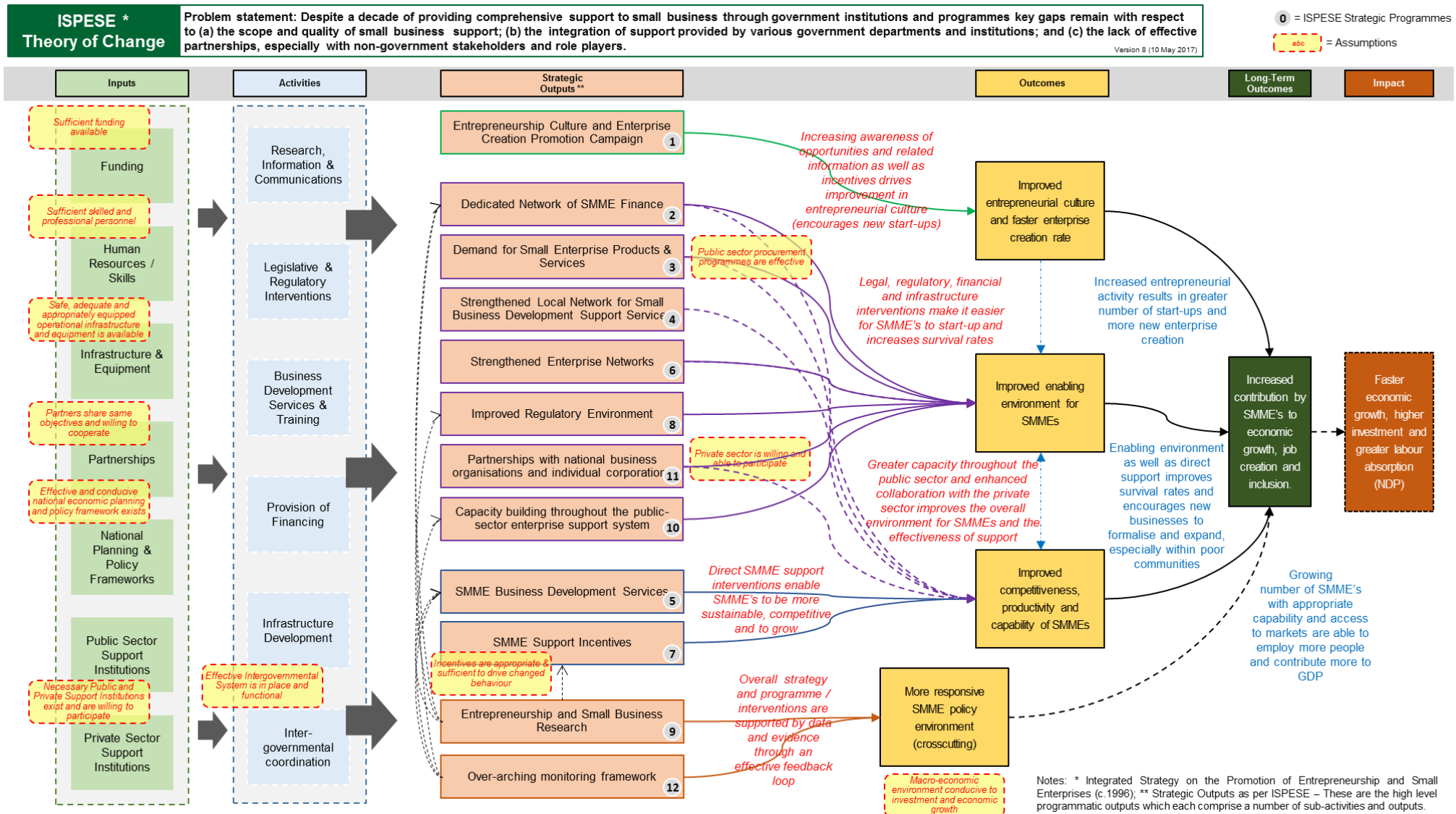
Finally, as noted in the NDP, the increased contribution by SMME's to economic growth, job creation and inclusion, will **contribute to faster economic growth, higher investment and greater labour absorption.**

#### **Underlying the theory of change is a number of key assumptions:**

- At the inputs level the key assumptions are that the necessary financial and human resources, infrastructure, planning and policy frameworks as well as public and private sector support institutions are available and /or effective. The ISPESE importantly assumes that much of this is in place (for instance the operations and effectiveness of institutions such as SEDA), and forms a key starting point.
- At the activity level a critical assumption is that inter-governmental systems are in place and function. The ISPESE is clear that better and more effective coordination of activities and outputs across government (line departments and the three spheres) is critical. However such improved integration, alignment and coordination can only occur if the necessary system to do so is operational and effective.

- In respect of strategic outputs the ISPESE assumes that public sector programmes are effective (especially with respect to procurement related activities), that the private sector is willing and able to participate in the strategy and that appropriately designed incentives are sufficient to drive changed behaviour at SMME level.
- The overall outcomes are heavily dependent on the broader macroeconomic environment that is conducive to investment and economic growth.

Figure 31: ISPESE Theory of change



## **Logical framework and indicator table**

The logical framework lists all of the outputs that were to be delivered through the implementation of the strategy as well as their intended results (outcomes and impacts). A fundamental component of this logical framework is the inclusion of a long-list of performance indicators which could be used to measure and monitor the success of the strategy. An important first-step in this evaluation will be to assess whether these indicators exist; and for this reason, the next phase of the project will also serve to verify the existence and usefulness of all of these indicators.

**Table 11: Logical framework and indicators table**

	Summary	Indicator(s)	Currently measured	Source of data	Means of verification	Assumptions
<b>IMPACT</b>	<b>Faster economic growth, higher investment and greater labour absorption</b>	Average annual GDP growth	Yes	South African Reserve Bank		
		Gross fixed capital formation / GDP	Yes	South African Reserve Bank		
		Unemployment rate	Yes	Statistics South Africa		
<b>LONG TERM OUTCOMES</b>	<b>Increased contribution by SMMEs to economic growth, job creation and inclusion.</b>	SMME's economic contribution (share of GVA)	?	Stats SA (QFS ?)	StatsSA	Increased entrepreneurial activity results in greater number of start-ups and more new enterprise creation
		Cooperatives economic contribution (share of GVA)	No		DTI	
		Average survival rate of SMMEs/cooperatives (any measures available?)	?	CIPC (Yearly Fin statements)	CIPC	Enabling environment as well as direct support improves survival rates and encourages new businesses to formalise and
		Total early-stage Entrepreneurial Activity (TEA) Rate	Yes	Global Entrepreneurship Monitor (GEM)		

		Established Business Ownership Rate	Yes	Global Entrepreneurship Monitor (GEM)		expand, especially within poor communities
		Female/Male TEA Ratio	Yes	Global Entrepreneurship Monitor (GEM)		Growing number of SMME's with appropriate capability and access to markets are able to employ more people and contribute more to GDP
		Additional indicators based on other data sources to be explored as part of this evaluation.	?	<ul style="list-style-type: none"> <li>• GEDI data</li> <li>• SARS, CIPC</li> <li>• DoL data</li> <li>• BER Research Reports</li> <li>• StatsSA Census</li> </ul>	Consultations	
<b>INTERMEDIATE OUTCOMES</b>	<b>Improved entrepreneurial culture and faster enterprise creation rate</b>	Entrepreneurial Employee Activity Rate	Yes	Global Entrepreneurship Monitor (GEM)		Increasing awareness of opportunities and related information as well as incentives drives improvement in entrepreneurial culture (encourages new start-ups)
		Perceived Opportunities Rate	Yes	Global Entrepreneurship Monitor (GEM)		Legal, regulatory, financial and infrastructure interventions make it easier for SMME's to start-up and increases survival rates
		Perceived Capabilities Rate	Yes	Global Entrepreneurship Monitor (GEM)		
		Fear of Failure Rate	Yes	Global Entrepreneurship Monitor (GEM)		
		Entrepreneurial Intentions Rate	Yes	Global Entrepreneurship Monitor (GEM)		

	High Status to Successful Entrepreneurs Rate	Yes	Global Entrepreneurship Monitor (GEM)		
	Entrepreneurship as a Good Career Choice Rate	Yes	Global Entrepreneurship Monitor (GEM)		
	Additional indicators based on other data sources to be explored as part of this evaluation.	Yes	Global Entrepreneurship Development Institute (GEDI)		
<b>Improved enabling environment for SMMEs</b>	Comparative time and cost of starting a business	Yes	WB Doing Business Ranking		Greater capacity throughout the public sector and enhanced collaboration with the private sector improves the overall environment for SMMEs and the effectiveness of support
	Overall doing business ranking	Yes	WB Doing Business Ranking		
	Additional indicators based on other data sources to be explored as part of this evaluation	?	<ul style="list-style-type: none"> <li>• StatsSA SESE</li> <li>• SARS Online Survey Data</li> <li>• SARS registration data</li> <li>• CIPC registration data</li> </ul>	Consultations	
<b>Improved competitiveness, productivity and capability of SMMEs</b>	Exports by SMMEs as a % of total South African exports	?		Consultations	Direct SMME support interventions enable SMME's to be more sustainable, competitive and to grow
	Number of patents registered by SMMEs	?	CIPC	CIPC	
	Total contribution of SMMEs to economic output in targeted sectors	?	SPII, THRIP & STP-SEDA	Consultations	
	Innovation rate	Yes	Global Entrepreneurship Monitor (GEM)		
	Innovation Index	Yes	Insead		
	Additional indicators based on other data sources to be explored as part of this evaluation	?	<ul style="list-style-type: none"> <li>• ProductivitySA</li> <li>• TIA</li> <li>• UNIDO</li> <li>• SANAS</li> <li>• CSIR</li> </ul>	Consultations	



	<b>More responsive SMME policy environment (crosscutting)</b>	No of government departments/SETAs with dedicated SMME programmes	?	Government Department / SETA Annual Reports (SPII, STP (SEDA), THRIP)	Document review	Overall programme and interventions are supported by data and evidence through an effective feedback loop
		Total government-wide budget for SMME programmes	?	National Treasury (SPII, STP & THRIP)	Document review	
<b>OUPUTS</b>	<b>Entrepreneurship Culture and Enterprise Creation Promotion Campaign</b>	IEA Network established and operational	?		Consultations	
		Levels of awareness of / participation in network	?		Consultations	
		National Entrepreneurship Strategy implemented	?		Consultations	
		Level of awareness of strategy (public/media response)	No		Case studies	
		Entrepreneurship Promotion Directorate established and operational	No		Consultations	
		Additional indicators based on other data sources to be explored as part of this evaluation	?	DSBD Survey data	DSBD	
	<b>Dedicated network of SMME Finance</b>	The total number of loans issued to SMMEs by Government development finance institutions	Yes	SEFA, DSBD and DTI		
		The total value of loans issued to SMMEs as a % of all loans issued by Government development finance institutions	?	Bank SETA, and Government departments	Consultations	
		Default/repayment rates on loans issued to SMMEs by Government	?	Bank SETA, DTI	Consultations	
		Establishment of a Small Business Bank	?		Consultations	
		Non-government finance leverage rates		Bank SETA (GTAC)	Consultations	
	<b>Demand for Small Enterprise Products &amp; Services</b>	Establishment of a National Procurement Programme	?		Consultations	
		BEE Codes in operation	?		Consultations	
		Compliance levels (% of government departments and firms complying with Codes)	?		Consultations	
		Amount of public procurement (ZAR value and % of total procurement) to SMMEs	?		Consultations	

		Additional indicators based on other data sources to be explored as part of this evaluation	?	Information on private sector/ corporate procurement from SMMEs	Consultations
<b>Strengthened Local Network for Small Business Development Support Services</b>		Availability / extent of standardised national network of service access points that integrate government-funded support measures across all spheres of government	?	Qualitative Assessment through interviews	Consultations
		Level of utilisation of access points (no. of SMMEs) and nature of support (also data on utilisation rates pre and post “one-stop shop”)	?	Qualitative Assessment through interviews	Case studies
		Data in respect of survival, growth rates of supported SMMEs	?	GTAC	Consultations Case studies
		Availability of business facilities in municipalities	?		Consultations
		Investment and operating cost of business facilities	?		Consultations
		Utilisation rates of facilities	?		Consultations
		Survival / growth rates of SMME’s in facilities	?		Consultations Case studies
		Additional indicators based on other data sources to be explored as part of this evaluation	?	<ul style="list-style-type: none"> <li>• DPLG</li> <li>• DBSA</li> </ul>	Consultations
	<b>Strengthened Enterprise Networks</b>		Cooperatives development policy and strategy	?	DTI
		Value of funding directed towards Cooperatives strategy	?	DTI	Consultations
		Number of cooperatives established	?	CIPC	Consultations
		Number of business associations supported	?	DTI	Consultations
		Total SMME membership of business associations supported	?	DTI	Consultations
		Number of business networks supported	?	DTI	Consultations
		Total SMME membership of networks supported	?	DTI	Consultations
		No. of corporations introducing SMME support initiatives	?	DTI	Consultations

	No. of SMMEs supported by Corporates	?	DTI	Consultations
	Number of SMMEs participating in cooperatives	?	DTI	Consultations
	Survival / growth rates of cooperatives	?	DTI	Consultations
<b>Improved Regulatory Environment</b>	DPLG (DCoG) Recommendations on improving regulatory environment in municipalities	?	GIZ, ILO, DTI, DSBD	Consultations
	No. of municipalities introducing regulatory review / red tape reduction initiatives	?	GIZ, ILO, DTI, DSBD	Consultations
	Number and outcome of Regulatory Impact Assessments	?	DTI, DPME	Consultations
	Ranking on doing business (National & Regional)	Yes	WEF (World Bank)	Consultations
<b>Partnerships with national business organisations and individual corporations</b>	Number of partnership arrangements concluded with national business organisations	?	DTI / DSBD	Consultations
	Number of partnership arrangements concluded with individual corporations	?	DTI / DSBD	Consultations
	Programme to strengthen internal capacity of organised business formations developed and implemented	?	DTI / DSBD	Consultations
<b>Capacity building throughout the public-sector enterprise support system</b>	Capacity-building needs assessment undertaken	?	DTI / DSBD	Consultations
	Capacity building initiatives implemented—no of Departments, municipalities and officials capacitated	?		Consultations
	Inter-Departmental Committee on Entrepreneurship and Small Business Promotion strengthened	?	DTI / DSBD	Consultations
	Guidelines for the design and implementation of support programmes and delivery mechanism developed and implemented	?	DTI / DSBD	Consultations
	“Think Small First” programme implemented	?	DTI / DSBD	Consultations
	The total number of SMMEs that have received managerial, business or technical	?	SETA	Consultations

<b>SMME Business Development Services</b>	skills training from through government-funded programmes				
	Number of SMME's supported by Enterprise Programmes	?	SETA, DTI, SEDA		Consultations
	Survival and growth rates of SMME's undergoing Enterprise Support	?			Consultations Case studies
	New business start-up support available	?			Consultations
	Number of participants in government new business start-up support	?			Consultations
	Level of funding available for new business start-ups	?			Consultations
	Number of incubators, participation and survival / success rates	?	GTAC (Report as above)		Consultations Case studies
<b>SMME Support Incentives</b>	Number of existing incentive schemes reviewed.	?	DTI / DSBD		Consultations
	Number of new incentive schemes developed.	?	DTI / DSBD		Consultations
	Number of enterprises benefiting from incentive schemes (in priority sectors)	?	DTI / DSBD		Document review
<b>Entrepreneurship and Small Business Research</b>	Annual small business reviews completed and disseminated	Yes	SEDA (BER), DTI		Document review
	Amount of funding mobilised for SMME research	No	DST, DTI, Qualitative Assessment through interviews		Consultations
	Growth in SMME research outputs	?	DTI / DSBD		Document review
	Baseline database on structure and performance of the SMME sector completed	No	No Data (DSBD is only starting this year)		Consultations
	Number of research papers (journal articles) in which Government data is used and cited	?	Science direct, Etc		Document review
	Number of research studies commissioned by Government	?	DTI / DSBD		Consultations
	Number of SMME research programmes or chairs at Universities	?	DTI / DSBD		Document review
<b>Other indicators to be considered</b>	Review of gaps in support environment (together with National Small Business Advisory Council)	?	DTI / DSBD		Consultations

<b>over the course of the evaluation</b>	Implementation of Programme Identification Notes	?	DTI / DSBD	Consultations
	Register of funded programmes	?	DTI / DSBD	Consultations
	“Think Small First” programme implemented	?	DTI / DSBD	Consultations
	Number of women/youth owned SMMEs participating in programmes	?	DTI / DSBD	Consultations
	Number of women/youth registered as Directors of SMMEs	?	CIPC	Consultations
	Average age of SMME owners/directors	?	CIPC	Consultations
	Any measure of output/performances of women/youth owned SMMEs	?	DTI / DSBD	Consultations
	No. of SMME business in distress supported (survival rates etc.)	?	DTI / DSBD	Consultations

## Evaluation matrix

All evaluations are guided by a set of evaluation questions that provide guidance to evaluators on how to assess, validate and test the theory of change. The evaluation matrix is a structured approach that allows evaluators to elucidate the main evaluation questions, identify the reasoned assessment criteria, the sources of data and the methods of analysis. The table also relates the evaluation questions that have been developed by the evaluation team to the evaluation questions that were specified in the project terms of reference ('ToR EQ').

## Evaluation criteria

Evaluation criteria are objective principles or yardsticks against which government programmes should be measured. When done well, evaluation can yield significant amounts of data and information. Evaluation criteria are used to organise the analysis and findings to provide useful information to government on the extent to which the intervention was relevant, appropriate, efficient, effective and achieved sustainable results. These evaluation criteria can be found in the National Evaluation Policy Framework (2011) and set the overall analytical framework for all evaluations conducted in South Africa.

These analytical frameworks however need to be customised to each evaluation. In the context of the evaluation of the ISPESE, they refer to the following:

- **Relevance** examines the extent to which the ISPESE was the right response to an identified set of problems.
- **Coherence** evaluates whether the various aspects of the ISPESE work together and with other interventions
- **Efficiency** measures whether ISPESE programmes and results were delivered in an optimal and cost-effective manner.
- **Effectiveness** assesses the extent to which the ISPESE achieved its intended objectives and whether it was implemented fully and as planned.
- **Sustainability** establishes whether the capacity and programmes developed and the results achieved by the ISPESE are likely to be sustainable.

Moreover, throughout the evaluation, the team will consider whether the outcomes that are observed, including any changes to the environment in which SMMEs operate, would have taken place without the intervention of Government as outlined in the Strategy. In other words, has the Strategy contributed directly or indirect to any additional benefits over and above what would likely have occurred without it? The principle of '**additionality**' is therefore indicated as a secondary evaluation criteria across many of the questions presented in the matrix below.

**Table 12: Evaluation matrix**

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
<b>Overarching questions: To be decided upon upfront by the team in collaboration with the client.</b>					
O.1.	What is the counterfactual? (What would have happened in absence of the ISPESE, and if there was not strategy?)		Effectiveness; Additionality	10 Year Review	Discussion with client Document review
O.2	What are the assumptions underlying the theory of change?		Effectiveness; Additionality	10 Year Review	Theory of change analysis; Document review; Discussion with client
<b>EQ1</b>	<b>To what extent is the ISPESE an appropriate response to the underlying problems?</b>				
S.1.1	What is the problem analysis?		Relevance	White Paper; 10 Year Review	Document review / content analysis
S.1.2	Do the objectives of the ISPESE correspond to the problems identified in the problem analysis?		Relevance	White Paper; 10 Year Review	Document review / content analysis
S.1.3	Has the problem analysis changed over time and do the current objectives correspond to the updated problem analysis?		Relevance	White Paper; 10 Year Review Various drafts of the ISPESE	Document review / content analysis; Key informant interviews (KIIs)
S.1.4	Has there been a need to reformulate the objectives of the strategy?		Relevance		Document review / content analysis; Key informant interviews (KIIs)
<b>EQ2</b>	<b>How well do the various aspects of the ISPESE work together and with other interventions?</b>				
S.2.1	Is the SMME strategy internally consistent? Are there any critical gaps?	4.1	Coherence	ToC ISPESE	Data triangulation Document review / content analysis

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
S.2.1.1	To what extent are the elements of the strategy logic [theory of change] complementary, mutually supportive and non-contradictory?		Coherence	ToC	Document review / content analysis
S.2.1.2	Are the activities and outputs of the ISPESE consistent with the Strategy's overall goals and objectives?	1.	Coherence	ISPESE	Document review / content analysis
S.2.2	Is the ISPESE externally consistent? Are there any critical gaps?	4.1	Coherence	ISPESE NDP Other ?	Data triangulation Document review / content analysis; Key informant interviews (KIIs)
S.2.2.1	To what extent was the ISPESE underlying theory of change consistent with the policy statements of its key stakeholders when it was designed?		Coherence	ToC ISPESE Policy Statements	Document review / content analysis; Key informant interviews (KIIs)
S.2.2.2	Is the ISPESE consistent in its application through different organs of state (National, Provincial, Local & various agencies SEDA- SEFA) ?	7.1	Coherence	Strategic Plans & APPs Provincial / Local Policies & Programme Information	Document review / content analysis; Key informant interviews (KIIs)
S.2.2.3	To what extent is the ISPESE underlying theory of change consistent with the objectives of the White Paper and the NDP?	9.	Coherence	White Paper NDP ISPESE ToC	Document review / content analysis
S.2.2.4	Are there potential overlaps between the ISPESE and other existing strategies / interventions (Provincial and Local)?	4.3	Coherence	Strategic Plans & APPs Provincial / Local Policies & Programme Information	Document review / content analysis
S.2.2.5	Do the objectives and activities of the ISPESE (or specific measures) support or contradict those of other strategies / public interventions?	9.	Coherence	Strategic Plans & APPs Provincial / Local Policies &	Document review / content analysis



No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
				Programme Information Game Changers Document IPAP Integrative Youth Strategy	
S.2.2.6	What sort of impact have other existing policies (supportive and contradictory) had on the strategy?		Coherence	Annual Reports APPs Other?	Document review / content analysis; Key informant interviews (KIs)
<b>EQ3</b>	<b>To what extent has the ISPESE been an effective strategy?</b>				
S.3.1	Has the strategy been implemented as planned? If not, why not?	1.	Effectiveness		Data triangulation
S.3.1.1.	What identified programmes in the ISPESE have actually been implemented?	1.	Effectiveness	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports Portfolio Committee Briefings	Document review; Key informant interviews (KIs)
S.3.1.2	What programmes of the ISPESE have not, or have only to a minor extent, been implemented?	1.	Effectiveness	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports	Document review; Key informant interviews (KIs)

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
				Portfolio Committee Briefings	
S.3.1.3	Why have certain aspects of the ISPESE not yet been implemented?	1.	Effectiveness	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports Portfolio Committee Briefings	Document review; Key informant interviews (KIIs)
S.3.1.4	What were the challenges experienced during the implementation of the ISPESE, and how could these be overcome?	4.	Effectiveness	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports Portfolio Committee Briefings	Document review; Key informant interviews (KIIs)
S.3.1.5	What are the measurable results at the output level to date?		Effectiveness, Additionality		Document review; Key informant interviews (KIIs)
S.3.1.6	Did the underlying assumptions relating to the conversion of activities into outputs hold?		Effectiveness, Additionality	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports Portfolio Committee Briefings	Document review; Key informant interviews (KIIs)

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
S.3.1.7	If these assumptions did not hold, what were the implications for the strategy's ability to convert activities into outputs?		Effectiveness, Additionality	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports Portfolio Committee Briefings	Document review; Key informant interviews (KIIs)
S.3.2	What has been the capability of the strategy to deliver the envisioned intermediate outcomes?	2.	Effectiveness		Data triangulation
S.3.2.1	Is there evidence of an improved entrepreneurial culture and faster enterprise creation?	2.2	Effectiveness	GEMS GEDI	Document review; Key informant interviews (KIIs); Quantitative analysis
S.3.2.2	Is there evidence of an improved enabling environment for SMMEs? (including a simplified regulatory environment)	2.3	Effectiveness	WB Doing Business StatsSA SESE SARS Online Survey Data SARS registration data CIPC registration data	Document review; Key informant interviews (KIIs); Quantitative analysis
S.3.2.3	Is there evidence of improved competitiveness, productivity and capability of SMMEs?		Effectiveness		Document review; Key informant interviews (KIIs); Quantitative analysis
S.3.2.4	Is there evidence of a more responsive SMME policy?		Effectiveness	GEMS GEDI WB Doing Business	Document review; Key informant interviews (KIIs)

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
S.3.2.5	To what extent did external economic and political developments contribute to these outcomes (or the absence thereof)?		Effectiveness	StatsSA Quantec	Document review; Key informant interviews (KIs)
S.3.2.6	To what extent did the ISPESE contribute to the emergence of the aforementioned outcomes/benefits?		Effectiveness, Additionality		Document review; Key informant interviews (KIs)
S.3.2.7	Did the underlying assumptions relating to the conversion of outputs into intermediate outcomes hold?		Effectiveness, Additionality		Document review; Key informant interviews (KIs)
S.3.2.8	If these assumptions did not hold, what were the implications for the strategy's ability to convert outputs into intermediate outcomes?		Effectiveness, Additionality		Document review; Key informant interviews (KIs)
S.3.3	Have the envisioned long-term outcomes of the ISPESE been achieved?	2.	Effectiveness		Data triangulation
S.3.3.1	Is there evidence of a thriving and inclusive SMME sector contributing to economic growth and job creation? (including an increase in the number of small businesses in diverse sectors)	2.1	Effectiveness	StatsSA Quantec CIPC	Document review; Quantitative analysis
S.3.3.2	If so, to what extent could this be attributed to the ISPESE?		Effectiveness, Additionality		Document review; Key informant interviews (KIs); Data triangulation
S.3.3.3	If not, what are the reasons for this envisioned failure, and how could they be overcome?		Effectiveness		Document review; Key informant interviews (KIs)
S.3.3.4	Is there evidence that the targeted beneficiaries were reached? If not, why not?	5.	Effectiveness, Additionality	StatsSA	Document review; Key informant interviews (KIs); Quantitative analysis
S.3.3.5	Has the strategy been responsive to vulnerable groups, namely: women, disabled individuals, youth and previously disadvantaged populations?	5.1	Effectiveness	StatsSA	Document review; Key informant interviews (KIs); Quantitative analysis

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
S.3.3.6	Did the underlying assumptions relating to the conversion of intermediate outcomes into long-term outcomes hold?		Effectiveness, Additionality		Document review; Key informant interviews (KIIs)
S. 3.3.7	If these assumptions were not valid, what have the implications been for the long-term outcomes of the strategy?	2.	Effectiveness		Document review; Key informant interviews (KIIs)
S.3.3.8	Have any unexpected long-term outcomes (both positive and negative) occurred?		Effectiveness, Additionality		Document review; Key informant interviews (KIIs)
S.3.4	To what extent do the institutional arrangements support the performance of the strategy, with specific reference to coordination, administration and management arrangements?	7.	Effectiveness		Data triangulation
S.3.4.1	To what extent is the intergovernmental relation functional in the areas of SMME development?	7.1	Effectiveness		Document review; Key informant interviews (KIIs)
S.3.4.2	To what extent has the strategy guided the three spheres of government in supporting SMME development?	7.2	Effectiveness	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports Portfolio Committee Briefings	Document review; Key informant interviews (KIIs)
S.3.4.3	To what extent has the implementation of the strategy achieved the integration of business development support services to SMMEs nationwide?	7.3	Effectiveness, Additionality	Strategic Plans & APPs Provincial / Local Policies & Programme Information Annual Reports Portfolio Committee Briefings	Document review; Key informant interviews (KIIs)

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
<b>EQ4</b>	<b>Have the resources of the ISPESE been converted into results in an optimal manner?</b>				
S4.1	How was the budget for the ISPESE allocated to specific programmes / interventions?		Efficiency	Strategic Plans & APPs Provincial / Local Programme Information Annual Reports Portfolio Committee Briefings NT BAS data ENE	Budget and expenditure analysis
S4.2	Was this allocation of budget appropriate and sufficient?		Efficiency		Budget and expenditure analysis; Data triangulation
S4.3	How cost effective are the ISPESE components?	6.	Efficiency	APPs Annual Reports ENE PER Reports	Budget and expenditure analysis
S4.4	How economically have the resources used been converted into direct outputs and into effects, respectively? Could this be improved (and how)?	6.	Efficiency	APPs Annual Reports ENE PER Reports	Budget and expenditure analysis; Key informant interviews (KIIs)
S4.5	Have all stakeholders (Nat, Prov, Loc) as well as Private sector demonstrated the capacity and interest to play the envisioned role in the ISPESE?	7.	Efficiency	Provincial growth and development strategies; IDPs.	Key informant interviews (KIIs)
S.4.6	Do, in general, the prerequisites for the efficient implementation of the ISPESE exist, or are there any assumptions underlying the theory of change that require attention/ action?		Efficiency		Document review; Key informant interviews (KIIs)

No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
S4.7	What system is used to monitor and evaluate the various aspects of the ISPESE and has it been effective in this regard?		Efficiency	DSBD Systems (M&E)	Document review; Key informant interviews (KIIs)
<b>EQ5</b>	<b>What is the likelihood that the ISPESE will obtain sustainable, long-term benefits?</b>				
S.5.1	Are the outcomes that the ISPESE has achieved to date likely to be sustainable going forward?	2.	Sustainability		Document review; Key informant interviews (KIIs)
S.5.2	To what extent is the design of the institutions supporting the ISPESE appropriate to ensuring its sustainability?	4.3	Sustainability		Document review; Key informant interviews (KIIs)
S.5.3	Does the strategy seem appropriate and sustainable based on external policy, economic, and political trends?	9.	Sustainability		Document review; Key informant interviews (KIIs)
<b>EQ6</b>	<b>What are the conclusions and recommendations of the evaluation?</b>				
S.6.1	Overall, what have been the main strengths and weaknesses of the ISPESE, and what are the reasons for these?	3. and 4.			Analysis of findings with respect to the evaluation criteria
S.6.2	What are the main lessons that have been learnt with respect to the ISPESE?	3.			
S.6.3	What are the successes of the ISPESE that should be replicated nationally?	3.			
S.6.4	What should the Department do differently or better in the future to address similar challenges?	4.3			
S.6.5	What can South Africa learn from the experiences of other countries?	8.			
S.6.5	How do the ToC and logframe/results framework need to be revised based on the findings of the evaluation?				

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No	Secondary evaluation questions	ToR EQ	Evaluation Criteria	Sources of data	Analytical methods
S.6.6	What specific recommendations are offered to improve the strategy's performance with a view on the future direction(s) of the ISPESE?	4.3 and 9.			



## Annexure 3: Evaluation Instruments

### Stakeholder questionnaire

An initial questionnaire was developed based on the evaluation matrix above. This questionnaire was then revised based on a number of pilot interviews to simplify and shorten its delivery. The final questionnaire is provided below. Whereas the same questionnaire will be used for all consultations (to ensure that a consistent set of data is collected); the actual questions asked of these stakeholders may differ depending on their knowledge and affiliation.

#### SECTION 1: INTRODUCTION

1. **Name:**
2. **Organisation/department:**
3. **Position/role within organisation/department:**
4. **Time in current position/role within organisation/department** (*length of time in years*):
5. **Are you aware of the 2014-2014 National Strategy for the development and growth of the SMME Sector in South Africa?** (*if "Yes" proceed to Q6. If "No" proceed to Q11*)
6. **In your view, what were the top (up to 3) most important proposals contained in the 2004 – 2014 National SMME Strategy?**
7. **How involved were you in the development of the 2004 – 2014 National Strategy?**
8. **Who were the (other) key stakeholders involved in the development of the 2004-2014 Strategy?**
9. **What was your position at the time (2004)?** (*Government? Business? Labour? Other?*)
10. **In your view what were the most important (no more than 3) proposals contained in this Strategy?**

#### SECTION 2: APPROPRIATENESS OF ISPESE TO UNDERLYING PROBLEMS

11. **In support of the development and growth of SMMEs in South Africa, the National Strategy aims to promote certain activities (outlined in the table). Please rate the importance of each of these activities in supporting the development and growth of the SMME sector in South Africa.**

*(Scale of 0 to 3 for each activity. Where: 0=Don't know/cannot answer; 1=Unimportant; 2=Somewhat important; 3=Very important)*

Activity area	Rating
---------------	--------

Research, information & communications	
Legislative & regulatory interventions	
Business development services & training	
Provision of financing	
Infrastructure development	
Inter-governmental coordination	

**12. In your view, have the challenges faced by SMMEs worsened or improved over the last 10 years in relation to the following:**

Activity area	Worse/better/no change	If changed, please elaborate
Research, information & communications		
Legislative & regulatory interventions		
Business development services & training		
Provision of financing		
Infrastructure development		
Inter-governmental coordination		

**13. In the wake of these changes, is there need to reformulate the objectives of the National Strategy in relation to the programmatic activities outlined in the Strategy?**

Activity area	Yes/No	If "Yes", in what way should the Strategy be reformulated?
Research, information & communications		
Legislative & regulatory interventions		
Business development services & training		
Provision of financing		
Infrastructure development		
Inter-governmental coordination		

**14. In what other areas is there a need for improved government intervention in growing and developing SMMEs in South Africa?**

**SECTION 3: CONSISTENCY OF ISPESE WITH OTHER INTERVENTIONS**

**15. What were the key economic policies and programmes at the time of developing the National Strategy (2003-2005) that did/may have informed the design of the Strategy?**

**16. In your view, are Government's SMME programmes and interventions consistent with the broader government policies and programmes?**

**17. What other (current) economic policies or programmes should inform the design of new SMME interventions or future strategies?**

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**18. In your view, are government’s SMME programmes and interventions responsive to each of these specified groups?**

Group	Yes/No/don’t know	If “No”, please elaborate
Women		
Disabled individuals		
Youth		
Previously disadvantage populations		

**SECTION 4: EFFECTIVENESS OF ISPESE**

**19. In your view, on a scale of 1 to 4, have government’s overall activities, policies and programmes been effective in developing and growing SMMEs in South Africa over the last decade?**

Don’t know (0)	
Completely ineffective (1)	
Largely ineffective (2)	
Somewhat effective (3)	
Very effective (4)	

**20. In your view, in which of the following programmatic areas have government interventions or programmes been effective over the implementation period?**

*(Scale of 0 to 4 where: 0=Don’t know/cannot answer; 1=Completely ineffective; 2=Largely ineffective; 3= Somewhat effective and 4=Very effective)*

Activity area	Rating
Research, information & communications	
Legislative & regulatory interventions	
Business development services & training	
Provision of financing	
Infrastructure development	
Inter-governmental coordination	

**21. In those areas where you have indicated that government activities were ineffective, please explain why?**

--

**22. Are there any other economic, sector or policy factors that may have impeded the implementation and effectiveness of government policies and strategies for the growth and development of SMMEs over this period?**

--

23. In your view, are there any areas where government interventions or programmes to support SMMEs in South Africa have had a negative or unintended effect on SMMEs or the wider economy?

24. How could government have been more effective in addressing the challenges to growing and developing the SMME sector in the last decade?

**SECTION 5: OPTIMAL RESOURCE CONVERSION INTO RESULTS**

25. In your view, did government contribute sufficient resources (financial and/or human) to the implementation of the following programmatic activities of the strategy?

*(Scale of 0 to 3 where: 0=Don't know/cannot answer; 1=Insufficient resources; 2=Adequate resources and 3=Too much resources)*

Activity area	Rating
Research, information & communications	
Legislative & regulatory interventions	
Business development services & training	
Provision of financing	
Infrastructure development	
Inter-governmental coordination	

26. In which areas would you have liked government to provide more resources and why?

27. In your view, has the private sector provided sufficient resources (financial and/or human) to SMME development and support over the last ten year?

28. In which areas would you have liked the private sector to provide more resources and how?

29. Are you aware of any systems that are used to monitor and evaluate the implementation of the governments/private sector's SMME interventions and programmes?

30. If yes, are these systems effective? If not why not?

**SECTION 6: INTERGOVERNMENTAL RELATIONS**

31. In your view, were the government's programmes and policies to support SMMEs applied/implemented consistently across all three (3) spheres of government?

Spheres of government	National government	Provincial government	Local government	National government Agencies
Yes/No/unsure				

**32. What intergovernmental relations structures/relations exist to support SMME development planning and co-ordination?**

**33. Are these intergovernmental structures/relations effective in supporting and co-ordinating SMME development? (Yes/No) If not, how could these relations be strengthened?**

**SECTION 7: LIKELIHOOD OF OBTAINING SUSTAINABLE, LONG-TERM BENEFITS**

**34. In your view, what impact, if any, have government’s SMME policies, programmes and interventions had on the following factors:**

*(Scale of 0 to 3 where: 0=Don’t know/cannot answer; 1=No impact; 2=Some impact; 3=Significant impact)*

Impacts	Rating
Improving entrepreneurial culture	
Increasing the creation of new enterprises	
Providing a more responsive SMME policy environment	
Improving the enabling business environment for SMMEs	
Raising the competitiveness of SMMEs	

**35. What other outcomes or impacts, if any, have government’s SMME policies, programmes and interventions contributed towards?**

**36. Are these outcomes and impacts likely to be sustainable going forward? If not, why not?**

**37. Is the existing institutional framework for SMME development and support likely to contribute towards the sustainability of outcomes and impacts you identified before? If not, how could this be improved?**

**38. What other economic, institutional or political factors are likely to influence the sustainability of these outcomes and impacts?**

## Focus group guide and questionnaire

All focus group sessions will be recorded to allow for quality control and/or data integrity checking.

The information listed below will be captured in an Excel spreadsheet.

### Introductions (5 mins)

1. Introduction to project and project team (and any government officials present)
2. Show outline of focus group on projector (or describe)
3. Ask participants to introduce themselves (who they are, what sectors/products they represent, and where they are located)
4. Highlight confidentiality of all responses

### Short questionnaire (25 mins)

1. Introduce and explain purpose of the short questionnaire
2. Reiterate confidentiality

### Focus Group Q1: Challenges (30 mins)

1. What are the main challenges/constraints/difficulties for SMMES in the Province?
  - a. Ask each participant write down their top 3 “challenges”, ideally on stick cards.
  - b. Group challenges (cards) on board into themes as they are collected.
  - c. Record all themes on whiteboard/projected screen.
  - d. Ask whether themes are applicable to all sectors/regions in the Province or only to specific commodity groupings or locations.

#### Guidance:

Make sure to clarify each challenge to be able to distinguish whether it is a new theme or not.

Record each instance or challenge so that it is possible to see how many times each issue was highlighted.

Photograph all boards once done.

After each focus group session, the challenges will be standardised and coded.

Standardised phrasing should be used in focus groups to ensure consistency should similar themes be raised again in other Provinces.

### Focus Group Q2: Access to SMME programmes (30 mins)

1. What SMME services/support is available within the Province?
  - a. Ask each participant which SMME support agencies they are aware of; and which programmes they have made use of.
  - b. Record (map) agencies and their programmes on whiteboard/projected screen.
  - c. Discuss and rank the presence/accessibility of the different agencies identified
  - d. Discuss and rank the usefulness/effectiveness of the different programmes identified

#### Guidance:

Aim for consensus, but revert to voting by hand on ranking if consensus cannot be achieved

### **Focus Group Q3: Improvements (30 mins)**

1. Ask each participant to write down two recommendations on sticky cards:
  - a. How can government programmes/agencies be improved/strengthened?
  - b. What else can government do to make it easier for SMMEs in the Province to grow/operate?
2. Group recommendations into themes as they are collected.
3. Record recommendations on whiteboard/projected screen.
4. Discuss and rank the recommendations.

**Guidance:**

Recommendations must be realistic.

Suggestions originally captured as phrased during the focus group session.

Take a photograph of all boards once done.

After each focus group session, the suggestions will be standardised and coded.

**SECTION 1: Introduction**

39. Is your business a Close Corporation (CC), Private Company (PTY), Cooperative or a Sole Proprietorship?

--

40. Is your business based in a rural area, urban area or a township?

--

41. In which district is your business based?

--

42. For how long has your business been in operation (in years)?

--

43. Which sector does your business operate in?

--

44. Describe the main activities of your business?

--

45. Currently, how many employees does your business have?

--

46. In the last year of operation, what was your turnover range? **(please tick one box)**

R 0 – R 100 000	
R 100 000 – R 500 000	
R 500 000 – R 1 000 000	
R 1 000 000– R 5 000 000	
R 5 000 000 – R 10 000 000	
R 10 000 000 – R 50 000 000	

**SECTION 2: SMME constraints and programme offerings**

47. Thinking back over the past 10 years has it become easier or more difficult or stayed the same to operate a business in South Africa. **(please tick one box)**

Easier	
More difficult	
Same	
Don't know	

48. From the following list, which of these factors (if any) have made it difficult for you to grow or operate your business.



Please rate them from 1 to 5. Where:

1 = no problem

5 = serious problem

0 = don't know

Factor	Rating 1 to 5
<b>Research, Information and Communications</b>	
Lack of information on how to grow the business	
Lack of information on the market in which you want to expand the business	
Lack of information on the regulations and legislation you need to comply with	
<b>Legislative and Regulatory Environment</b>	
Regulatory compliance with regard to general company registration and returns (CIPC)	
Regulatory compliance with regards to tax legislation	
Regulatory compliance with regards to labour legislation	
Regulatory compliance with municipal laws and regulations	
Regulatory compliance with sector specific regulations (e.g. Tourism, Chemicals, Construction)	
Regulatory compliance with banking legislation (FICA)	
Regulatory compliance with BBB-EE laws and codes	
Regulatory compliance with SETA rules and processes	
<b>Business Development Services</b>	
Lack of skilled staff to grow the business	
Lack of market opportunities to expand the business	
Lack of training services for yourself	
Lack of training services for your staff	
Lack of learning networks with other businesses who operate in your sector	
Lack of industry organisations (e.g. Business Chambers) to help with business support and information	
<b>Business Environment</b>	
Cost of hiring staff	
Cost of firing staff	
High municipal service costs	
Poor municipal services	
Increasing competition	
Unfavourable local economic conditions	
Unfavourable global economic conditions	
Policy uncertainty	
Access to finance	
Cost of finance	
Cost of electricity	
Cost of water	
Cost of land	
Cost of appropriate office/business infrastructure	
Crime	

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Corruption	
<i>Other (describe):</i>	
<i>Other (describe):</i>	

## Annexure 4: Interviewees

The following table shows all of the one-on-one respondents that were interviewed as part of the national consultation phase of the evaluation.

**Table 13: Completed interviews (national stakeholders)**

	Name of Interviewee	Designation
1	Andrew Bam	SEDA
2	Godfrey Phetla	DSBD
3	Shaheen Buckus	DSBD: Researcher
4	Yonela Solomon	DSBD: Monitoring and Evaluation
5	Craig Appel	DSBD: Deputy Director
6	Dominique Vincent	DSBD: Director
7	Alroy Dirks	SEFA: Head of Strategy
8	Bob Currin	Africa Scope: CEO
9	Hlonela Lupuwana-Pemba	Anglo American Zimele: Managing Director
10	Jabu Hlongwane	Black Management Forum: Chairperson (Mpumalanga)
11	Jocelyn Vass	DTI: Chief Director – Skills for the economy
12	Kershni Maharaj	Afri Grow: Chief Operating Officer
13	Mzwanele Memani	Director: Programme Design (Co-operatives)
14	Nokwazi Moyo	UNIDO: National Project Manager
15	Sipho Zikode	DTI: DDG – Special Economic Zones and Economic Transformation
16	Sizeka Rensburg	IDC: Board Member and former Khula, Chairperson SEFA
17	Neil Rankin	Stellenbosch University: Microeconomics Professor
18	Tanya Cohen	BUSA: CEO
19	Sifiso Lukelele	Human Resource Board: Chairman CCMA (Business Representative)
20	Brian Whittaker	Jobs Fund Investment Committee: Chairman (ExTEP Chairperson and Business Trust)
21	Septi Bukula	Advisor to the DSBD
22	Bernard Swanepoel	AHI: President
23	Ashraf Kariem	DPME Planning Commission: Sector Expert on Economy
24	Muzi Mhlambi	BASA: Head Finance and Inclusion Division
25	Nick Janse van Rensburg	Ex CEO of Anglo Zimele
26	Gabriel Davel	Former National Credit Regulator
27	Chris Darroll	SBP
28	Thami Mazwai	Advisor to Minister (DSBD)
29	Vukile Nkabinde	DSBD (Chamber and Informal Economy DG)
30	Thakani Makhuvha	SEFA: CEO
31	Mojalefa Mohoto	DSBD: Acting DDG DSBD
32	Neren Rau	Former CEO of SACCI
33	Jeffrey Ndumo	DSBD: Acting DDG Co-operatives

The following table show all of the respondents that were interviewed as part of the Provincial case studies.

**Table 14: Western Cape interview schedule**

Province	Date of interview	Interviewer(s)	Institution	Interviewee	Position/Division
Western Cape	13 September 2017	Brendon Darroll	Casidra	Michael Brinkhuis	CEO
				Thembeke Mlonyeni	Chief officer: Projects
				Leon Faro	Senior manager: Small Business and Entrepreneurial Development
				Simozana Mdala	Business Advisor
	14 September 2017	Brendon Darroll	DEDAT	Pat September	
				Fay Dharsey	
				Joshua Wolmarans	Director: Enterprise Development
				Deon Damons	
				Michelle Ellis	Red tape division
				John Peters	Chief Director: Economic Enablement
				Mark Lakay	
			SEDA Provincial	Alex Qunta	Provincial Manager
				Kiewit Mhlongo	Branch Manager
				Zaida Jackson	Branch Manager
				Ivor Hendricks	Training Specialist
				Quinton Coetzee	Branch Manager
	15 September 2017	Brendon Darroll	Wesgro	Nadine Smith-Clark	Export Advancement Program
				Denan Kuni	Head Export Investment
				Tim Harris	CEO
	20 September 2017	Mmamoletji Thosago & Brendon Darroll	George District Municipality	Desmond Carolus	LED Officer
26 September 2017	Brendon Darroll	Eden District Municipality	Natalie Reubenheimer	Senior Economic Development Services	

**Table 15: Gauteng interview schedule**

Province	Date of interview	Interviewer(s)	Institution	Interviewee	Position/Division
Gauteng	18 September 2017	Nadia Kruger-Levy & Rodney Kukubo	GDARD	Silumko Mfene	Deputy Director: Broad Based Black Economic Empowerment
	19 September 2017	Nadia Kruger-Levy	SEDA	Thabo Sibeko	Johannesburg Branch Manager
	26 September 2017	Nadia Kruger-Levy	GDED	Mathopane Masha	Director: Inclusive Economy

	27 September 2017	Nadia Kruger-Levy	City of Tshwane	Sunday Mahlangu	Business Development Unit
				Lefuno Tshikovi	Business Development Unit
	11 October 2017	Keith Lockwood	GEP	Thulani Guliwe	Senior Manager
			GDED	Jayson Mofokeng	Economist

**Table 16: Free State interview schedule**

Province	Date of interview	Interviewer(s)	Institution	Interviewee	Position/Division
Free State	02 October 2017	Mmamoletji Thosago & Brendon Darroll	DESTEA	Modise Sehularo	Director: Small Business Development
				Moipone Mohono	Director: Small Business Development
				Kelebogile Phapane	Free State Development Corporation
				Thabo Mokoena	
				Keketso Ntsala	Small Business Development
				D.G. Hagen	
	03 October 2017	Mmamoletji Thosago & Brendon Darroll	Lejweleputswa District Municipality	T. Sekele	LED officer
			Department of Social Development	Winkie Direko	Chief Director: Community Development & Non-profit Organisations
	04 October 2017	Mmamoletji Thosago & Brendon Darroll	Free State Development Corporation	Frank Tihomelang	Manager: Trade, Investment and R&D
			Department of Agriculture and Rural Development	Matau Matee	District Manager: Mangaung and Xhariep Districts
	05 October 2017	Mmamoletji Thosago & Brendon Darroll	SEDA Mangaung Branch	Andrew Setho	Branch manager

**Table 17: Limpopo interview schedule**

Province	Date of interview	Interviewer(s)	Institution	Interviewee	Position/Division
Limpopo	11 October 2017	Rodney Kukubo	LEDET	Lily Maja	Chief Director: Trade & Sector Development
	12 October 2017	Rodney Kukubo & Keith Lockwood	LEDA	Humphrey Maphutha	Acting Executive Manager LEDA
			SEDA Capricorn Branch	Martin Rafferty	Acting Provincial Manager
13 October 2017	Rodney Kukubo & Keith Lockwood	LEDET	Mike Lusunzi	Director: Integration & Coordination	

## Appendix 5: Achievement of Outputs and Outcomes

Table 18: Achievement of Outputs

Outputs	Indicator(s)	Assessment	
<b>1. Entrepreneurship Culture and Enterprise Creation Promotion Campaign</b>	IEA Network established and operational	●	Not achieved
	Levels of awareness of / participation in network	●	Limited
	National Entrepreneurship Strategy implemented	●	Not achieved
	Level of awareness of strategy (public/media response)	●	Not achieved
	Entrepreneurship Promotion Directorate established and operational	●	Not achieved
<b>2. Dedicated network of SMME Finance</b>	Increase the total number of loans issued to SMMEs by Government development finance institutions	●	Limited (finance available and increasing but from a low base)
	Increase the total value of loans issued to SMMEs as a % of all loans issued by Government development finance institutions	●	Limited (not enough information to asses)
	Reduce default/repayment rates on loans issued to SMMEs by Government	●	Not Achieved (default rates increased up to 2014)
	Establishment of a Small Business Finance Institute	●	Achieved
	Non-government finance leverage rates	●	Limited
<b>3. Demand for Small Enterprise Products &amp; Services</b>	Establishment of a National Procurement Programme	●	Not achieved
	BEE Codes in operation	●	Achieved
	Increasing compliance levels (% of government departments and firms complying with Codes)	●	Limited
	Increased amount of public procurement (ZAR value and % of total procurement) to SMMEs	●	No data or baseline information to asses
<b>4. Strengthened Local Network for Small Business Development Support Services</b>	Increased Availability / extent of standardised national network of service access points that integrate government-funded support measures across all spheres of government	●	Achieved
	Increase Level of utilisation of access points (no. of SMMES) and nature of support (also data on utilisation rates pre and post "one-stop shop")	●	Limited (no baseline for pre assessment)
	Data in respect of survival, growth rates of supported SMMEs	●	No Data or baseline information to make assessment
	Availability of business facilities in municipalities	●	Limited (each municipality has an LED officer assigned)

Outputs	Indicator(s)	Assessment	
			however facilities are not universal)
	Increased Investment in business facilities reducing operating costs of SMMEs	●	Limited
	Utilisation rates of facilities	●	No data
	Survival / growth rates of SMME's in facilities	●	No data
<b>5. SMME Business Development Services</b>	Increased total number of SMMEs that have received managerial, business or technical skills training from through government-funded programmes	●	Achieved (10 697 SMMEs reportedly reached by SEDA in 2014, and 3 016 assisted with 'business performance')
	Increased number of SMME's supported by Enterprise Development Programmes	●	Limited data available and no aggregated statistics available
	Survival and growth rates of SMME's undergoing Enterprise Support	●	No data (no impact measurements undertaken to measure this criteria)
	New business start-up support available	●	Achieved
	Number of participants in government new business start-up support	●	Limited (no available consolidated data)
	Increased Level of funding available for new business start-ups	●	Limited (no available data disaggregating start-up funding)
	Number of incubators, participation and survival / success rates	●	Limited (assessment limited to GTAC SEDA Tech Incubators)
<b>6. Strengthened Enterprise Networks</b>	Cooperatives development policy and strategy	●	Achieved (Act promulgated 2005 and amended in 2013)
	Increased value of funding directed towards Cooperatives strategy	●	Achieved
	Number of cooperatives established	●	Limited (See literature review) establishment high number, however low survivability
	Number of business associations supported	●	Limited (Hap hazard support of chambers and associations through SOE's) no direct government support
	Total SMME membership of business associations supported	●	Limited data (registrar of SMMEs in Associations not reported on)

Outputs	Indicator(s)	Assessment	
	Number of business networks supported	●	No data (definition challenge – what constitutes a network)
	Total SMME membership of networks supported	●	No data (definition challenge)
	Increase No. of corporations introducing SMME support initiatives	●	Achieved (BBB-EE codes and compliance)
	Increase No. of SMMEs supported by Corporates	●	Achieved (BBB-EE codes and compliance)
	Increase number of SMMEs participating in cooperatives	●	No data
	Increase Survival / growth rates of cooperatives	●	Not achieved (see literature review)
<b>7. SMME Support Incentives</b>	Increase the number of existing incentive schemes reviewed.	●	Incentives are generally reviewed, but not specifically for SMME involvement
	Increased number of new incentive schemes developed.	●	Limited (a wide range of incentives are available for business, but until recently, surprisingly few explicitly targeted SMMEs)
	Increased number of enterprises benefiting from incentive schemes (in priority sectors)	●	Limited (evaluation on some incentives show high degree of SMME participation)
<b>8. Improved Regulatory Environment</b>	DPLG (DCoG) Recommendations on improving regulatory environment in municipalities	●	Not achieved
	No. of municipalities introducing regulatory review / red tape reduction initiatives	●	Limited (Guidelines published in 2013/14) local municipal training on Red Tape reduction pilots on 12 municipalities.)
	Number and outcome of Regulatory Impact Assessments	●	Limited
	Ranking on doing business (National & Regional)	●	Declining
<b>9. Entrepreneurship and Small Business Research</b>	Annual small business reviews completed and disseminated	●	Not achieved
	Increased amount of funding mobilised for SMME research	●	No data
	Growth in SMME research outputs	●	Limited (research not directed by a clear national research agenda)



Outputs	Indicator(s)	Assessment	
	Baseline database on structure and performance of the SMME sector completed	●	Not achieved (no base-line data for SMMEs)
	Number of research papers (journal articles) in which Government data is used and cited	●	No data (not consolidated or tracked)
	Number of research studies commissioned by Government	●	Limited (SMME related research not disaggregated and tracked)
	Number of SMME research programmes or chairs at Universities	●	Not achieved (limited or none)
<b>10. Capacity building throughout the public-sector enterprise support system</b>	Capacity-building needs assessment undertaken	●	Limited (insufficient data on SMME capacity building)
	Capacity building initiatives implemented—no of Departments, municipalities and officials capacitated	●	Limited (Red Tape Reduction by DTI)
	Inter-Departmental Committee on Entrepreneurship and Small Business Promotion strengthened	●	Not achieved
	Guidelines for the design and implementation of support programmes and delivery mechanism developed and implemented	●	Not achieved (no guidelines published for departments)
	“Think Small First” programme implemented	●	Not achieved (synergistic programmes not achieved at implementation)
<b>11. Partnerships with national business organisations and individual corporations</b>	Increased number of partnership arrangements concluded with national business organisations	●	Limited
	Increased number of partnership arrangements concluded with individual corporations	●	Not achieved (most partnerships established post 2014)
	Programme to strengthen internal capacity of organised business formations developed and implemented	●	Not achieved (no programme identified)
<b>12. Over-arching monitoring Framework</b>	Indicators to be agreed	●	Not achieved

Table 19: Achievement of Outcomes

Outcomes	Indicator(s)	Assessment
<b>Increased contribution by SMMEs to economic growth, job creation and inclusion (LTO).</b>	Increased SMME's economic contribution (share of GVA)	Not achieved (see literature review)
	Cooperatives economic contribution (share of GVA)	No data (not disaggregated in national accounts)
	Increased Average survival rate of SMMEs/cooperatives	Not achieved (see literature review)
	Increased Total early-stage Entrepreneurial Activity (TEA) Rate	Limited (increased from 5,27% to 6,97%)
	Increased Established Business Ownership Rate	Limited (increased from 1,44% to 2,68%)
	Increased Female/Male TEA Ratio	Limited (0,84 in 2004 and 0,81 in 2014)
<b>Improved entrepreneurial culture and faster enterprise creation rate (IO)</b>	Entrepreneurial Employee Activity Rate	Declined (2011 = 0,41 & 2014 = 0,26)
	Perceived Opportunities Rate	Limited (2004 = 32,29% 2014 = 37%)
	Perceived Capabilities Rate	Limited (2004 = 35,36% 2014 = 37,645%)
	Fear of Failure Rate	Declined (2004 = 35,43% 2014 = 25,37%)
	Entrepreneurial Intentions Rate	Declined (2004 = 13,25% 2014 = 10,05%)
	High Status to Successful Entrepreneurs Rate	Increased (2004 = 59,08% 2014 = 72,92%)
	Entrepreneurship as a Good Career Choice Rate	Increased (2004 = 59% 2014 = 69,58%)
<b>Improved enabling environment for SMMEs (IO)</b>	Comparative time and cost of starting a business	Limited data for period under review
	Overall doing business ranking	Declined - ranked 32 in 2008 and 69 in 2014
<b>Improved competitiveness, productivity and capability of SMMEs (IO)</b>	Exports by SMMEs as a % of total South African exports	No available data, not disaggregated
	Number of patents registered by SMMEs	No available data, not disaggregated
	Total contribution of SMMEs to economic output in targeted sectors	No available data, not disaggregated
	Innovation rate	Declined (36,28% in 2011 & 32,46% in 2014)
	Innovation Index	Limited (no baseline, SA ranked 53 out of 127 in 2014)
<b>More responsive SMME policy environment (crosscutting) (IO)</b>	No of government departments/SETAs with dedicated SMME programmes	Limited (sporadic reporting, difficult to monitor)
	Total government-wide budget for SMME programmes	No data (not reported on and aggregated until very recently)