



**NCPT**

# Policy Brief:

## Unlocking the Potential of SMMEs

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## **1. Introduction**

The Northern Cape is committed to the promotion and unlocking the potential of small, medium and micro enterprises (SMMEs) as highlighted in the Nine-Point Plan announced by the Honourable President Jacob Zuma (SONA, 2015). In the 2017 State of the Province Address (SOPA, 2017), the Honourable Premier Sylvia Lucas stated that the Northern Cape is continuing its efforts to unlock the potential of SMMEs, cooperatives, township and rural enterprises. It is against this background that a need for this policy brief was identified.

This Policy Brief looks at the support given to SMMEs. Firstly, a background is provided, focussing on the importance of SMMEs as well as policies and legislation that supports SMME development. In the section thereafter, the definition of SMMEs is provided. Section 4 provides an analysis on the financial and non-financial support available to SMMEs. The final three sections consider the challenges, recommendations and conclusion.

## **2. Background**

SMMEs can play a significant role in stimulating economic growth and transformation, innovation and employment creation in any region. Kongolo (2010) found that in South Africa, small and medium enterprises (SMEs) account for about 91 per cent of the formal business entities, and contributes to about 51 and 57 per cent of GDP and provides almost 60 per cent of employment. The promotion of small enterprises can also be used as a tool to reduce inequality by contributing towards inclusive growth. This presents an economic opportunity for small enterprises to share in the wealth of the country, thereby reducing the gap between the poor and the rich. The importance of SMMEs in South Africa was highlighted in the country's first democratic economic policy, the Reconstruction and Development Programme (RDP) and reiterated more recently in the National Development Plan (NDP).

The RDP highlights the importance of small enterprises to stimulate economic growth, to create employment and for income redistribution. It also recognised that small enterprises were under developed and proper support was needed so that these enterprises can play a larger part in economic activity. The RDP further stated that the trade policy should have programmes designed to enable SMMEs to realise their exporting potential.

The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (1995) reiterates the importance of small enterprises as economic and employment catalysts. It identified the role of SMMEs in reducing inequality and ensuring that economic opportunities are shared. There was an emphasis on the need for government to boost procurement from small businesses and to improve access to finance. In 1996, South African Government passed the National Small Business Act of 1996. This Act was aimed at providing for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency; to provide guidelines for organs of state in order to

promote small business in South Africa; and to provide for matters incidental thereto. Following the passing of the Act as well as its amendment in 2004, there were many programmes and policies that were developed to support SMMEs. There are support institutions such as Small Enterprise Development Agency (SEDA) and Small Enterprise Finance Agency (SEFA) which were established to assist small enterprises with both financial and non-financial needs. Private institutions also play a role in supporting SMMEs as part of their corporate social responsibility. The NDP (2011) also envisions an economy where SMMEs play a large role in both output as well as employment creation.

### **3. Defining SMMEs**

There is no universal definition of SMMEs. According to Berry *et al.* (2002), an SMME refers to a comprehensive range of companies including established traditional family businesses hiring over a hundred people, which is medium-sized enterprises, down to survivalist self-employed coming from the poor, also seen as informal microenterprises.

The National Small Business Act of 1996 defines a small business as “a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy”. The National Small Business Amendment Act substitutes this definition as “‘small [business] enterprise’ means a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises [and non-governmental organisations], managed by one owner or more [which, including its branches or subsidiaries, if any, is] predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and [which can be] 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 Schedule [opposite the smallest relevant size or class as mentioned in column 2 of the Schedule]” (refer to Table 1 below). The thresholds as set out in the Schedule in the National Small Business Act of 1996 provide in columns 2 and 3 for micro enterprises to have fewer than 5 employees, very small businesses to have 6 to 20, small businesses to have 21 to 50, and medium businesses to have 51 to 100 or 200 employees depending on the industry. In columns 4 and 5, the Act also makes reference to the total annual turnover and the total gross asset value (fixed property excluded) as thresholds.

**Table 1: Schedule Defining SMMEs**

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value (fixed property excluded)
		Less than:	Less than:	Less than:
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R 5.00 m
	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R 8.00 m
	Small	50	R25.00 m	R 4.00 m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Finance and Business Services	Medium	100	R20.00 m	R 4.00 m
	Small	50	R10.00 m	R 2.00 m
	Very small	10	R 2.00 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R 5.00 m
	Small	50	R 5.00 m	R 2.50 m
	Very small	10	R 1.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

Source: National Small Business Act of 1996

## 4. Financial and Non-Financial Support to SMMEs

This section focusses on the financial and non-financial support that is available to SMMEs in South Africa. Financial and non-financial assistance is a major concern faced by many people who want to start or expand their businesses. Financial support can be the provision of grants or loans while non-financial support can be for instance assistance in developing a business plan, registering a company or developing a marketing strategy. To signify the value of SMMEs to South Africa's economy, government established a Department of Small Business Development (DSBD) to facilitate the promotion of small businesses together with the Department of Economic Development (DED) and the Department of Trade and Industry (DTI). Furthermore, agencies such as SEDA and SEFA also support the promotion of SMMEs.

SEDA's role is to provide non-financial support to businesses in order to implement government's small business strategy, to design and implement a standard and common national delivery network for small enterprise development and to integrate government-funded small enterprise support agencies across all tiers of government. Its objective is to develop, support and promote small enterprises, thus ensuring their growth and sustainability together with various role players (SEDA, n.d.).

The mission of SEFA is to provide SMMEs and cooperatives with access to finance in an efficient and sustainable manner by providing them with loan and credit facilities and credit guarantees; by supporting the institutional strengthening of financial intermediaries so that they can be effective in assisting them; through creating strategic partnerships with a range of institutions for sustainable SMME and cooperative development and support as well as other functions (SEFA, n.d.(b)). SEFA provides financial products and services to SMMEs and cooperatives through a range of wholesale and direct lending channels (SEFA, n.d.(a)).

To help with youth specific entrepreneurial challenges, the National Youth Development Agency (NYDA) was established by an Act of Parliament, Act no 54 of 2008. The NYDA is tasked with designing and implementing programmes that are aimed at the youth – to improve their lives and the opportunities available to them. The programmes can be clustered into individual (micro), community (meso) and provincial and national (macro) level. The NYDA provides direct services to youth through information provision; career guidance services; mentorship; skills development and training; entrepreneurial development and support; health awareness programmes and involvement in sport at an individual level. At a community level, the youth are encouraged to be catalysts for change in their communities by getting involved in community development activities, social cohesion activities, national youth service programmes and dialogues. The NYDA facilitates the participation of youth in developing key policy inputs which shape the socio-economic landscape of South Africa through its policy development, partnerships and research programmes at a provincial and national level (NYDA, n.d.(a)). Two of the programmes of the NYDA are the Business Consultancy Services Voucher Programme and the Volunteer Enterprise Mentorship Programme (NYDA, n.d.(b) & (c)).



## 4.1 Provincial Support to SMMEs

Looking at provincial government departments, one of the main supporting departments to SMMEs in the Northern Cape is DEDAT. In Programme 2 (Small Business Development), there is a sub-programme SMME Development.

DEDAT (2013) reported that in the 2011/12 financial year, 49 existing SMMEs accessed support for business planning, funding applications, business due diligence and market opportunities, while an additional 750 small businesses were targeted for information dissemination, business registrations and assessment, funding applications, etc during the Provincial SMME Pilgrimage. In the 2012/13 financial year, 45 existing SMMEs were supported. With regards to new SMMEs, DEDAT (2013) reported that 46 small businesses were provided with funding facilitation and due diligence in the 2011/12 financial year, while 46 new SMMEs were also developed in the 2012/13 financial year. In the 2013/14 financial year, DEDAT (2014) reported that 99 existing SMMEs were given support, and that 60 new SMMEs were developed and supported. The table below provides the type of assistance that the department provided to existing and new SMMEs over the 2014/15 and 2015/16 financial years.

**Table 2: Existing and New SMMEs Supported in the Northern Cape, 2014/15 and 2015/16**

Description of Assistance	2014/15		2015/16	
	Existing SMMEs	New SMMEs	Existing SMMEs	New SMMEs
Facilitated funding applications	20	19	28	25
Assistance with development of business plans	4	6	11	17
Payments made through NC SMME Trust	—	—	2	—
Assistance with marketing materials	1	—	3	1
Provided with business advice	3	24	35	43
Assisted with grant funding	10	1	9	1
Assisted with development of business profile	—	—	1	1
Assisted with BBBEE certifications	8	3	23	—
Assisted with company registrations	2	13	—	9
Assistance with due diligence study	—	—	—	1
Provided with training	2	2	—	—
Project site visit to inspect premises, verify assets and conduct due diligence	1	—	—	—
Assisted to access incubation space and facilities through NC SMME Trust	1	2	—	—
<b>Total</b>	<b>52</b>	<b>70</b>	<b>112</b>	<b>98</b>

Source: DEDAT, Annual Reports 2014/15 and 2015/16

Some assistance to SMMEs was provided in conjunction with or referred to other bodies like SEDA and the Northern Cape (NC) SMME Trust.

In 2014/15, most SMME assistance to existing SMMEs was given in the form of facilitation of funding applications, whereas new SMMEs received the most assistance with business

advice. The second most frequent type of assistance given to existing SMMEs was with grant funding, while for new SMMEs it was in the form of the facilitation of funding applications.

In 2015/16, 35 existing SMMEs were assisted with business advice, while 43 new SMMEs were assisted for the same period. DEDAT facilitated funding application for 28 existing and 25 new SMMEs through National Empowerment Fund (NEF), SEFA, ABSA, EGDF and Anglo American Zimele Hub. The number of SMMEs assisted to acquire grant funding were 9 existing and 1 new.

DEDAT (2015) also assisted SMMEs in the 2014/15 financial year through the support and attendance of 3 exhibitions as well as assisting 37 SMMEs to access public procurement opportunities. In the 2015/16 financial year, DEDAT (2016) further assisted SMMEs through the identification of 2 companies for product development through SABS, conducted training on business and financial management skills and provided 83 informal traders with training in partnership with W&R SETA.

## 5. Challenges

Despite the noticeable effort to promote SMMEs, there are still challenges that are restricting them from achieving their full potential. The promotion of small businesses is not a new phenomenon, as it has been at the heart of South Africa's economic policy since 1994; however, there are still recurring challenges that the sector faces even today.

Small Business Project (SBP, 2015) found that established small firms in South Africa are showing a decline in employment, turnover and a majority are struggling to survive. These findings are from the SBP's 2015 SME Growth Index. SBP further found that the top factors impeding the growth of small and medium enterprises (SME) in South Africa are burdensome regulations, lack of skills, local economic conditions, cost of labour, lack of finance and increased competition. External shocks found to also have had an impact on SMEs in 2015 was a contraction in the market, a rise in input prices, increased competition, increased electricity costs, currency volatility and increased transport costs.

Some of the general barriers to entry and challenges faced by SMEs in South Africa in the agriculture, manufacturing, information and communication technology (ICT) and tourism industries are found by SEDA (2012) to be a lack of business planning during start-up; difficulty to access finance; difficulty to access markets or meeting industry requirements or standards; a lack of experience among the owners and managers; a lack of sector-specific expertise; inconsistencies in cash flow; a lack of entrepreneurial skills and mind-set as well as business acumen; a lack of capacity to undertake market research, which results in a lack of understanding of market needs and characteristics; shortages of skills, especially with respect to technical skills and business management skills; fragmented and uncoordinated support from entities tasked with providing assistance; a lack of innovation and creativity; difficulty accessing land or securing operating premises; and red tape and cumbersome regulatory processes and procedures. In general, SEDA found that the key areas that SMEs in these



industries need additional or improved support include industry-specific incubation and mentorship; assistance to improve the quality of their products and services so as to meet the recognised industry standards; support to improve their understanding of existing markets; assistance to develop new, innovative product and service offerings to meet the needs of the market; as well as support to build or strengthen relationships and supply chain linkages with large enterprises. SEDA (2016) provides more challenges faced by SMMEs which are poor infrastructure, as poor infrastructure adds significantly to the cost of doing business; low levels of research and development; labour laws that can discourage SMMEs to employ workers; high crime levels leading to increased spending on security that increases the overall cost of doing business; and a lack of access to markets where more rural areas lack market access.

## **6. Recommendations**

A rich and comprehensive analysis of the SMME sector of the Northern Cape should be done to understand the dynamics facing small businesses specific to the province. With the Northern Cape facing challenges that are unique such as extremely long travel distances that increase the transport costs of inputs as well as outputs, province specific solutions should be crafted. Government should identify ways in which to combat the challenges that the Northern Cape SMMEs face in an effective manner. This will in turn create an enabling environment for these businesses to grow and to bring with that economic and employment growth.

SMME policies should be developed with the background of a clear understanding of the complexity and diversity of the SMME sector. Policies should be developed based on robust partnerships and collaboration with the industry. Different firms have different needs and will respond to different incentives. Policy and regulatory proposals need to recognise that SMMEs are operating at very different stages of development and levels of sophistication. There can be no “one size fits all” approach to the small firm.

Cutting the red tape and the stringent regulatory requirements should be the number one priority as many firms miss opportunities due to these requirements. The institutions and departments responsible for SMME development and promotion should direct their efforts towards improving the accessibility of information and finance. There should also be an increased focus on mentorship to start-up companies especially to youth entrepreneurs.

## **7. Conclusion**

SMMEs should continuously be supported and their progress monitored to identify any challenges experienced by these businesses early so as to avoid young businesses dissolving due to avoidable circumstances. In the Northern Cape, SMMEs have the potential to play a significant role in stimulating economic growth and transformation, innovation and employment creation. The development of SMMEs has been a common feature in South

African economic policy since 1994. Since then, National government have established many Acts and Agencies to further provide support to SMMEs to assist them to build their businesses. Provincially, there has also been a lot of support provided to SMMEs. It is thus critical that more is done in the Northern Cape so as to realise the objectives of the RDP as well as the more recent NDP to improve the livelihood of the people of the province.

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